# ETHANOL PROCUREMENT POLICY ON A LONG TERM BASIS UNDER ETHANOL BLENDED PETROL (EBP) PROGRAMME

## 1. Background

1.1 Ethanol Blended Petrol (EBP) Programme is aimed at achieving multiple outcomes such as; addressing environmental concerns, reducing import dependency and providing boost to agriculture sector.

1.2 To increase indigenous production of ethanol, Government since 2014 took multiple interventions including, administered price mechanism, opening alternate route for ethanol production, amendment to Industries (Development & Regulation) Act, 1951 which legislates exclusive control of denatured ethanol by the Central Government, reduction in Goods & Service Tax (GST) from 18% to 5%, Notification of National Policy on Biofuels – 2018, increasing scope of raw material for ethanol procurement, interest subvention scheme for enhancement and augmentation of the ethanol production capacity and extension of EBP Programme to whole of India except islands of Andaman Nicobar & Lakshadweep wef 01st April, 2019.

1.3 The aforesaid actions helped to increase ethanol procurement by PSU OMCs from 38 crore litres during Ethanol Supply Year (ESY) 2013-14 (December, 2013 to November, 2014) to 164.75 crore litres in the ongoing ESY 2018-19 up to 17.09.2019 thereby achieving average blend percentage of 5.50%. Ethanol blending target for ESY 2021-22 is 10% and which is to progressively increase to 20% by ESY 2029-30.

1.4 Several representations/suggestions have been received from the stake holders of ethanol industry to explore the possibility of long term procurement contracts between OMCs and ethanol suppliers. Accordingly, MoP&NG has prepared the “Long Term Ethanol Procurement Policy under EBP Programme”.

## 2. Present Mechanism for Ethanol Procurement by Public Sector OMCs

2.1 The National Policy on Biofuel (NPB) – 2018 provides an indicative target of 20% ethanol blending in petrol by 2030.As a step in this direction, OMCs are to procure ethanol derived from C heavy molasses, B heavy molasses, sugarcane Juice, sugar, sugar syrup, damaged food grains unfit for human consumption, surplus food grains as decided by National Biofuel Coordination Committee (NBCC) under the ambit of NPB-2018, including fruit and vegetable wastes. Under the EBP Programme, OMCs procure and blend up to 10% ethanol in petrol.

2.2 Government, since 2014 has decided to administer ethanol price for EBP Programme. While ethanol procurement prices for sugarcane based raw materials viz. C heavy molasses, B heavy molasses, sugarcane Juice, sugar, sugar syrup has been fixed by the Government for an Ethanol Supply Year (ESY – period from December to November), it has been decided that the price of ethanol derived from damaged and surplus food grains has to be fixed by OMCs. Based on the estimated petrol demand for an OMC location and ethanol prices as fixed for an ESY, OMCs estimate the ethanol demand and float tender/Expression of Interest (EOI). The salient features of this annual tender / EOI are as under:

a) The tender is floated every year in the month of August-September for the upcoming ESY. This is followed by three cycles of three rounds each leading to quarter-wise allocation of ethanol quantities.
b) Bidders quote the quantity of ethanol they wish to supply feedstock-wise, quarter-wise and location-wise.
c) Allocation to successful bidders for a particular location of the OMC is done on the basis of economical linkages calculated as per the distance of the distillery / sugar mill to the OMC location.
d) After mapping the ethanol quantity offers, from suppliers, with procurement demand of the OMC location, ethanol quantity gets allocated to the eligible suppliers
e) Legally binding contract is signed between the ethanol supplier and OMCs after collecting five percent of the purchase order amount as the Bank Guarantee (BG) amount.

f) For ethanol manufactured from any new category of the product, DFPD issues the guidelines which form basis for the competent authority in a State to certify the ethanol manufactured from that particular category.
g) The main tender is followed by two to three EOI floated every two /three months to garner additional ethanol volumes and give chance to new entrants or capacity additions.
h) There is a provision for raising penalty under the Price Reduction Clause (PRC) of the tender document, if the supplies are less than 80% in a month or 95% in a quarter whichever is higher.

2.3 To summarize, annual ethanol procurement quantity **(i.e. off take assurance)**is worked out by the OMCs along with ethanol procurement price derived from damaged and surplus food grains (if applicable), whereas, ethanol procurement price derived from sugarcane based raw materials is fixed by the Government taking into account sugar sector scenario. Government directs OMCs to accord prioritization of raw material for ethanol procurement, guidance on transportation rate (which is fixed by OMCs), payment of GST and other administrative requirements to take forward the EBP Programme.

## 3. Long Term Procurement

3.1 OMCs have been entering into long term service contracts with Petroleum, Oil and Lubricants (POL) as well as LPG transporters, Private LPG Bottlers, Lube C&F, Warehousing, Drum supplies etc. Several suggestions / representations have been received from the ethanol industry members to explore the possibility of long term procurement contracts between OMCs and ethanol suppliers. Long term contracts for ethanol supply for a period of five-years will have following advantages:

a) The vendors get an assured supply requirement in advance which would help them in investment decision.
b) Reduction in number of tenders and time in finalization of tenders

## 4. Proposed Mechanism for Long Term Procurement Contracts.

### 4.1 Ethanol Procurement Quantity

a) The period of long term ethanol procurement will begin as per Ethanol Supply Year (ESY) – i.e. period from 1stDecember to 30thNovember.
b) OMCs would estimate the location-wise, quarter-wise, annual ethanol procurement quantity for a period of five years and this will form a part of the procurement tender/Expression of Interest (EOI).
c) The annual procurement quantity as estimated by OMCs in the EOI shall remain firm for an ESY.
d) The location-wise quantity for the subsequent ESYs can be amended in the annual EOI floated by OMCs before the start of next ESY and shall remain firm for that ESY.
e) OMCs to make provisions for long term supply of ethanol quantities from the likely ethanol suppliers along with mapping of the distilleries and OMC locations for allocation of quantities.
f) A mechanism to be made by OMCs to account for change in transportation rates with the change in fuel prices over this long term contract period, such that, suppliers get realistic payment for transportation and are not disincentivized for supplying ethanol over long distances.
g) Any new category of raw material for ethanol procurement may be introduced by the Government during the block of five years. Quantities of ethanol from such new categories would be sought and allocation of quantities will be done by OMCs as per the order of priority declared by the Government from the following ESY.

### 4.2 Entry and Exit of New / Existing Supplier / Distillery during the Contract Period:

4.2.1 OMCs to develop a mechanism for induction of a new distillery /sugar mill or additional quantity offers by an existing ethanol supplier at the beginning of each ESY during the long term contract period.

4.2.2 Similarly, OMCs to make provision for exit by an existing / participating distillery / sugar mill as per ESY in the tender.

4.3 <u>Price Reduction Clause (PRC) applicability:</u>

OMCs to work out the modalities of PRC applicability as per ESY and on a long term basis.

## 5 **<u>Pricing Methodology</u>**

5.1 The ex-mill price of ethanol derived from damaged food grains unfit for human consumption will be decided by OMCs. A single ethanol price will be declared for all the varieties of damaged food grains, unfit for human consumption category.

5.2 After the approval of NBCC for utilization of surplus food grains, the price of ethanol derived from such surplus food grains [excluding sugar] will be decided by OMCs. A single ethanol price will be declared for all the varieties of surplus food grains category.

5.3 The annual ex-mill price of ethanol for an ESY, derived from sugarcane based raw materials viz. C heavy molasses, B heavy molasses, Sugarcane juice / Sugar / Sugar syrup shall be declared by Government.

5.4 Additionally, GST as applicable and transportation charges as decided by OMCs shall be payable to the ethanol suppliers.

## **6. <u>Implementation of the policy</u>**

OMCs shall devise appropriate mechanisms/issue detailed procedure/guidelines for procurement of ethanol on long term basis in accordance with the provisions of this policy.

****