

INDIAN SUGAR SECTOR

**Relief offered by OMCs to partly
absorb margin pressure caused by
FCI's decision to halt rice supply**

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As of August 13, 2023, 171.4 crore litres of grain-based ethanol has been contracted by distilleries. Of this, 72.5 crore litres has already been supplied to OMCs. The remaining 98.9 crore litres remains crucial to meet the required blending target for ESY2023, with rice supply halted by the FCI since July 2023.

The OMCs provided compensation as 'relief' for ethanol produced from damaged foodgrains and maize for the remaining three months of ESY2023 to distilleries.



Rice supply under Open Market Sale Scheme (OMSS) – In March 2020, the Government of India (GOI) decided to supply surplus rice from the stock of Food Corporation of India (FCI) to distilleries for ethanol production at a price of Rs. 22.50/kg under the OMSS scheme. The price was later reduced to Rs. 20/kg in December 2020 and has remained unchanged ever since. The rice supplied by the FCI was at a subsidised rate compared to the cost incurred by it on procurement and storage operations.



Supply of rice for ethanol – The rice supplied by the FCI ramped up sharply from 0.49 lakh MT in ESY2021, to 10.68 lakh MT in ESY2022 and further to 13.05 lakh MT in ESY2023 (till June 2023). The total rice supplied by the FCI to distilleries for ethanol production stands at 24.22 lakh MT since December 2020. The monthly supply of rice in June 2023 was at a record high of 2.77 lakh MT (a YoY expansion of 216%).



Current scenario – The FCI has stopped allocation of surplus rice for ethanol production to distilleries since July 2023. This was mainly led by the 20% YoY decline in the central pool stock of rice as on July 01, 2023 to 253.49 lakh MT from 317.07 lakh MT as on July 01, 2022, coupled with the El Nino risk as feared by the India Meteorological Department (IMD), which may affect kharif crop production. Therefore, to maintain adequate stock levels ensuring food security for the nation as well as to control crop prices, the supply of surplus rice for ethanol production to distilleries has been currently halted until further notice.



Impact on distilleries – The distilleries, which do not have sufficient stock in hand are relying on broken rice and maize, that are available in the market at a higher price, although the ban on rice exports has led to some softness in broken rice prices. Furthermore, the starch content in FCI rice is much higher compared to broken rice and maize, resulting in lower yield and higher cost of production for distilleries. The realisation of ethanol produced from broken rice/maize remained lower compared to FCI rice-based ethanol. The OMCs thus provided a relief amount to distilleries for ethanol produced from damaged food grain (DFG) and maize for the remaining period of ESY2023 ending October 31, 2023 to support the ethanol blending target.



Conclusion – The sugar mills with multi-feed distilleries will relook at their input mix, while grain-based distilleries will be dependent on broken rice/maize to produce ethanol. Higher rice supply for ethanol production shows a positive move towards sustainable energy solutions in India. However, striking a balance between ethanol production and food security for the nation remains the key monitorable, going forward.



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