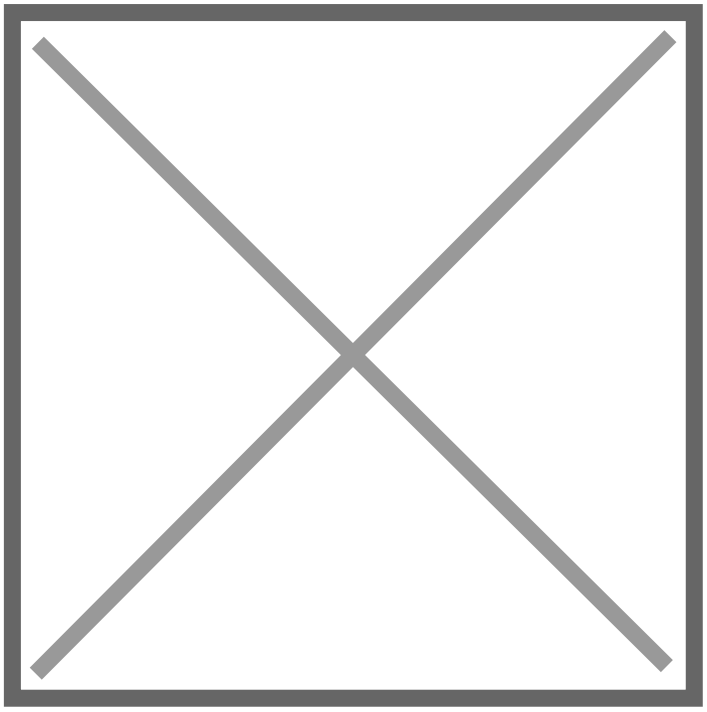
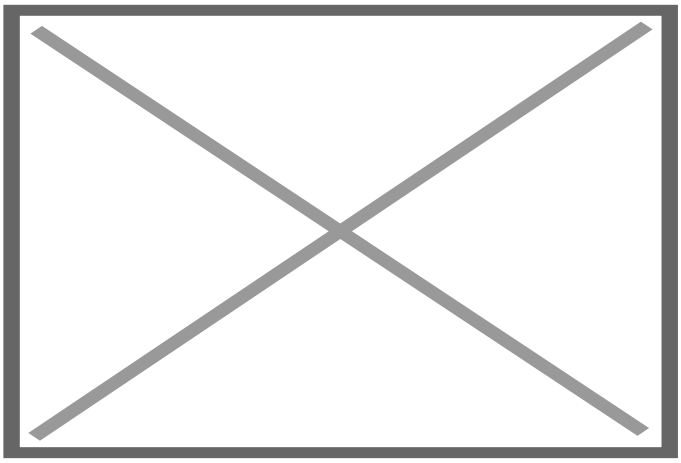
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Biofuel policy gets legislative nod

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After much wrangling between vested interests, India has finally negotiated a national biofuel policy. An industry perspective...

The growth of biofuels around the globe is spurred largely by energy security and environmental concerns. A wide range of market mechanisms, incentives and subsidies have been put in place by several countries to facilitate biofuel's growth. Developing countries also view biofuels as a potential means to stimulate rural development and create employment opportunities.

The Indian approach to biofuels is somewhat different from the current international approaches, which could lead to conflict with food security. Indian approach is solely based on non-food feed stocks to be raised on degraded or wastelands that are not suitable for agriculture, thus avoiding a possible conflict of fuel versus food security.

In the context of the international perspectives and national imperatives, the Ministry of New and Renewable Energy (MNRE) has announced the National Policy on Biofuels on December 23, 2009. The policy, approved by the cabinet envisages development of the next generation of more efficient biofuel conversion technologies based on new feed stocks. It sets out the vision, medium term goals, strategy and approach to biofuel development, and proposes a framework of technological, financial and institutional interventions and enabling mechanisms.

The goal of the policy is to ensure that a minimum level of biofuels become readily available in the market to meet the demand at any given time. An indicative target of 20 percent blending of biofuels, both for bio-diesel and bio-ethanol, by 2017 is proposed. Blending levels prescribed in regard to bio-diesel are intended to be recommendatory in the near term.

The policy document focuses on multi-sphere development both at the national and state level by promoting the biofuel plantation and processing. Business houses and corporates shall find the policy favorable in most of the aspects and the industry as such shall face a positive transformation by having a clear policy in hand to operate. CS Jadhav, director — marketing, Nandan Biomatrix, Hyderabad, says,"One vital aspect is that the policy document addresses all the issues across the entire value chain from feed stock research to marketing of the end fuel. Broadly, the indicative targets of 20 percent blending, community development through energy plantations, incentivizing the operations across the value chain, and regulating the marketing and distribution of the biofuels, offer a level playing field for all the stakeholders involved."

Analyzing the policy component wise, a major thrust is given through this policy to innovation, research and development, and demonstration in the field of biofuels. R&D will focus on plantations, biofuel processing and production technologies, also on maximizing efficiencies of different end-use applications and utilization of by-products. High priority will be accorded to indigenous R&D and technology development based on local feed stocks and needs, which would be benchmarked with international efforts and patents would be registered, wherever possible.

Securing quality feed stock in right quantities is the biggest challenge for the bio-diesel processors in India. The policy encourages contract farming in the degraded/forest/non-forest lands involving farmers/landless laborers. Also, the most encouraging clause is that the employment wages in jatropha plantations are linked to the NREGP. Financing of biofuel plantation and processing being categorized as priority sector by the financial institutions and banks is again a positive section.

Import-export regulations in the policy protect the interests of the domestic players by putting appropriate checks on the imports of bio-diesel. These shall trigger huge growth in the domestic plantation development and processing since the import of free fatty acids for bio-diesel production is not allowed.
With a huge capital outlay and uncertainties on the pricing of the end product, the industry is less operational and also the new entrants do not find the segment lucrative. Infrastructure development facilitation across the entire value chain, encouraging innovative and cost-effective technologies, 100 percent foreign equity in the real assets of technologies and projects, and tax sops for import of required processing machinery shall boost the industry by attracting new entrepreneurs. Moreover, MPP of bio-diesel is linked to the retail price of the diesel and the price fluctuations do not have any bearing on the processors and is compensated by the government to the OMC. Such policy initiatives make the projects financially more viable and overall industry shall be foreseen to be well-established and healthy.

According to CS Bhaskar, MD, Naturol Bioenergy, Hyderabad, the pricing benchmark proposed by the government is appropriate and anything more than that would not be possible. However, he notes that the policy still lacks clarity on percentage blend for bio-diesel. He shares, "In the long-term, the biggest challenge for this industry may be the ability of the feed stock supply to keep up with growing demand. The supply of soybeans, rapeseeds and other feed stocks available for bio-diesel production will be limited by competition from other uses and land constraints."

He suggests that the key to the future of biodiesel is finding inexpensive feed stocks that can be imported from other countries. And once the domestic market gets stabilized, government can look at putting cap on imports.

Overall, the policy has kept the bars low for the industrialists and corporate houses, thus widening the scope and promoting biofuel projects in the country. Though the policy has given a direction to the industrialists, there are few concern areas still to be addressed by the policy makers and the committees constituted. Clarity on the MSP of jatropha seeds and also the MPP of bio-diesel shall assist the players in planning their projects, assessing financial feasibility and ultimately to commercialize the industry as such.

Biofuel policy at a glance

Positive shots:

- Corporates are encouraged to take up contract farming through minimum support price (MSP) mechanism
- Plantations are encouraged in government/community wasteland, degraded or fallow land in forest and non-forest areas – gives clarity on forest lands being used for bio-diesel plantations
- Employment provided in the plantations will be made eligible for coverage under the National Rural Employment Guarantee Program (NREGP)
- The minimum purchase price (MPP) for bio-diesel by the pil marketing companies(OMCs) will be linked to the prevailing retail diesel price. In the event of diesel or petrol price falling below the MPP for bio-diesel and bio-ethanol, OMCs will be duly compensated by the government - MPP is linked to MRP of the diesel, this would be the top line figures purely based on production. Market price fluctuations do not affect bio-diesel producers at all

- Plantations and also the entire processing infrastructure are financed under priority sector for the purposes of lending by financial institutions and banks. Hence it is easy to source funds
- Thrust on R&D and innovative second generation technologies by promoting demo projects through public-private partnership (PPP)
- The 100 percent FDI in technologies and projects, provided the fuel is for domestic use – Since the companies do not have much choice on export, this statement shall be taken as 100 percent FDI being allowed
- Protection of interests of domestic players by putting checks on import of biofuels and banning the import of free fatty acid (FFA) for production of bio-diesel

Critical shots:

- Analyzing the techno-economic viability of 400 species of tree bearing oilseeds (TBOs), production and distribution of plantlets by nurseries of certified institutions/ organizations identified by the state governments – Does this mean that companies approach the state governments and get their NPCs certified/ recognized? — debatable
- The responsibility of storage, distribution and marketing of biofuels would rest with OMCs — No other option other than to sell biofuels to OMCs
- Export of bio-diesel is not allowed until the domestic blending requirements are fulfilled — India can lose out on the huge demand in European Countries? If crude jatropha oil (CJO) is exempted from the definition of biofuels, it will benefit the industry

Not so clear shots:

- Lack of clarity in the very definition of biofuels — whether CJO is a part or not
- MSP will be decided in due course of time
- SMP mechanism similar to sugarcane shall also be considered — Current statutory minimum price (SMP) mechanism and the state advised price (SAP) for a commercial crop like sugarcane works in India since the processors /mill owners have their profits based on byproducts and their processing units like distilleries
- If the same pricing formula is adopted by the steering committee for biofuels, should the processors focus on marketing of byproducts/go for downstream processing? One more catch is that the policy does not make a mention on the marketing of the seed cake/glycerin
- MPP linked to retail price of diesel — is it linked directly? Are there any other factors considered? If the retail price of diesel becomes lesser than the per liter cost of production of bio-diesel, will the processor be compensated? Why the normal/basic cost plus pricing was not considered?