SIIS MUN

ALL INDIA POLITICAL PARTIES' MEET

BACKGROUND GUIDE

AGENDA: Deliberating the statutory execution of the E20 Program and its implications on the automotive industry and the ethanol supply chain, with special emphasis on the Industries (Development and Regulation) Act, 1951, and its subsequent amendment, the Industries (Development and Regulation) Amendment Act, 2016.

Letter From Executive Board:

Greetings Members!

It gives us immense pleasure to welcome you to this simulation of the All India Political Parties' Meet at Sadhana Infinity International School MUN 2.0. We look forward to an enriching and rewarding experience.

This study guide is by no means the end of research, and we would very much appreciate it if the leaders are able to find new realms in the agenda and bring it forth in the committee. Such research, combined with good argumentation and a solid representation of facts, is what makes an excellent performance.

This topic focuses on how the government's new rule to mix 20% ethanol into petrol (E20) is affecting everyone. While it helps the environment and saves foreign exchange, it has created big problems for car companies, fuel suppliers, and everyday vehicle owners who face lower mileage and engine damage. At the same time, changes made to the Industries (Development and Regulation) Act in 2016 gave the central government full control over this fuel, sparking a big debate with state governments over their rights and tax revenues.

We are certain that we will be learning from you immensely and we also hope that you all will have an equally enriching experience. In case of any queries, feel free to contact us. We will try our best to answer the questions to the best of our abilities.

We look forward to an exciting and interesting committee, which should certainly be helped by the all-pervasive nature of the issue.

Yours Sincerely,

Lakshita Chelikani	*Dhrithi Batchali*	*Bahiti Gouru*
Chairperson	*Vice-Chair*	*Rappoteur*

1. Background of the Agenda

1.1 Context and Current Crisis

The E20 mandate is a major structural shift in India's energy and automotive landscape. Under the Ethanol Blended Petrol (EBP) Programme, the Central Government has made it mandatory to sell petrol containing 20% ethanol and 80% fossil-fuel petrol across all retail outlets.

While the policy aims to slash carbon emissions and reduce reliance on crude oil imports, its rapid execution has caused severe disruptions:

- The Fleet Mismatch: Over 70% of active vehicles on Indian roads are "legacy fleets" built before 2023. These older engines were designed for pure petrol or low 5% blends.
- Chemical Engine Damage: Ethanol is highly corrosive to standard rubber seals, plastic fuel lines, and aluminum components used in older models. Furthermore, ethanol absorbs water from the air, causing "phase separation." This creates a water-alcohol layer at the bottom of fuel tanks that causes engines to misfire, rust internally, or stall.
- The Mileage Deficit: Ethanol has a lower energy density than pure gasoline. Moving to E20 causes a verified *6% to 10% drop in fuel mileage*, forcing everyday motorists and commercial operators to pay standard petrol prices for less driving distance.
- The Liability Vacuum: Car manufacturers blame the fuel, Oil Marketing Companies (OMCs) deny structural fault, and insurance companies reject claims for fuel-related degradation. This leaves consumers to absorb all engine repair costs.

1.2 Historic Milestones

To track how India reached the current mandatory rollout, delegates must evaluate the following timeline:

- 2001–2003: The Ministry of Petroleum and Natural Gas launches pilot projects mixing 5% ethanol (E5) in select districts of Uttar Pradesh and Andhra Pradesh, establishing the formal EBP Programme.

- 2006–2013: The national blending average stalls at a miserable 1.5%. Sugar mills refuse to supply OMCs because government-set procurement prices are too low, preferring to sell alcohol to lucrative liquor and chemical industries.
- 2014: The Central Government de-links ethanol pricing from open-market sugar dynamics. They introduce fixed, attractive administered prices for ethanol procurement, making supply highly profitable for mills.
- 2018: The Union Government notifies the *National Policy on Biofuels 2018,* establishing a definitive target of reaching 20% ethanol blending (E20) by the year 2030.
- 2019: To prevent supply shocks, the law is altered to allow ethanol production from food grains, including maize, corn, and damaged rice from the Food Corporation of India (FCI), sparking a multi-state grain distillery boom.
- 2022: India hits a 10% nationwide blending average early. Encouraged by this, the government officially amends the National Policy on Biofuels, *moving the E20 deadline forward by five full years* to the 2025–2026 timeline.
- 2023: Phase 1 of the E20 rollout begins. The government mandates that all new vehicles manufactured after April 1, 2023, must be "E20 material-compliant" to resist immediate engine corrosion.
- 2026 : The transition peaks as the government makes E20 fuel *compulsory at every single retail petrol pump across India*, rendering unblended petrol completely unavailable to the public.

2. Statutory and Constitutional Context

2.1 The Seventh Schedule Split

The legal conflict behind the E20 mandate lies within the Seventh Schedule of the Indian Constitution, which splits legislative powers between the Centre and the States. Entry 8 of the State List gives State Governments the exclusive right to regulate and tax alcohol production, transport, and sale. Conversely, Entry 52 of the Union List gives the Central Government the power to control any industry declared by Parliament to be of public interest. This created a massive legal conflict over industrial alcohol used for fuel versus potable alcohol used for drinking liquor, as states historically controlled both to secure local excise tax revenues.

2.2 Mechanics of the IDRA, 1951

The Industries (Development and Regulation) Act, 1951 is the primary tool used by the Central Government to centralise industrial control over local resistance. Section 2 of this Act allows Parliament to take control of specific industries listed in the First Schedule in the name of the public interest. Because the First Schedule explicitly lists fermentation industries, which includes alcohol distilleries, the Centre has the statutory power to dictate nationwide licensing, production quotas, and supply distribution over these facilities.

2.3 The IDRA Amendment Act, 2016

To end decades of court battles over who holds authority over industrial alcohol, Parliament passed the Industries (Development and Regulation) Amendment Act, 2016. This amendment altered the First Schedule to give the Central Government exclusive regulatory control over industrial alcohol. By legally defining alcohol intended for biofuel blending as a Union subject, the Centre gained the power to bypass state laws and directly mandate that distilleries divert alcohol to Oil Marketing Companies for the E20 rollout.

2.4 Cooperative Federalism and Revenue Friction

The 2016 Amendment streamlined the fuel rollout but triggered severe federal friction across the country. States cannot impose local excise duties or high transit fees on fuel-grade ethanol, stripping them of massive local tax revenues that fund state budgets. Furthermore, non-sugar-producing states frequently use local environmental and police checkpoints to delay inter-state ethanol trucks, creating artificial fuel shortages. While the Centre controls fuel-grade ethanol under the IDRA, the Supreme Court has ruled that states retain the right to intervene if that industrial alcohol is illegally diverted to make potable liquor.

3. Understanding the E20 Program & Supply Chain Architecture

3.1 Technical Mechanics

The technical foundation of the E20 mandate relies on expanding ethanol production through feedstock diversification. Originally, India produced ethanol almost entirely from sugarcane byproducts, specifically heavy molasses. To meet the massive volume demands of a nationwide 20% blend, the government altered the law to allow the use of starch-rich food grains. Distilleries now use maize, corn, and broken rice to produce fuel-grade alcohol. This diversification requires multi-feedstock processing facilities that can switch between grain fermentation and sugar fermentation, reducing seasonal production drops.

3.2 The Ethanol Supply Chain

The physical architecture of the E20 supply chain depends on close coordination between rural distilleries, transport logistics, and Public Sector Oil Marketing Companies (OMCs). Because sugarcane and maize production is concentrated in states like Uttar Pradesh, Maharashtra, and Karnataka, ethanol must be transported over long distances to reach fuel depots in non-producing regions. OMCs manage this through long-term allocation contracts and fixed Tripartite Agreements with distilleries and banks to fund infrastructure. However, transport relies heavily on road tankers, which creates major logistics bottlenecks, high transit costs, and storage challenges at local oil depots.

3.3 The Food vs. Fuel Dilemma

Diverting agricultural crops to meet fuel mandates has sparked a major national debate regarding food security and inflation. Allocating millions of tonnes of maize and broken rice to ethanol distilleries reduces the supply available for human consumption and the poultry feed industry. This supply crunch drives up the prices of essential food items, contributing to food inflation. While the government uses surplus grain stocks from the Food Corporation of India (FCI) to balance the market, bad monsoon cycles threaten this strategy, forcing policymakers to choose between maintaining the E20 fuel supply and protecting national food security.

4. Points of Conflict

4.1 Feedstock Competition

The pivot toward grain-based ethanol production has introduced direct competition between two feedstock industries that previously operated with limited overlap. For ESY 2025–26, the Government capped sugar-based ethanol procurement at approximately 28% of total volume, redirecting the majority of demand toward maize and rice. This has left sugar mills, which invested substantially in distillery capacity during the 2018–2023 expansion, with underutilised assets. A December directive further restricting the use of cane juice and syrup for ethanol production, intended to safeguard domestic sugar stocks, has compounded the strain on mills already facing reduced procurement, resulting in depressed sugar prices and delayed payments to cane farmers. Concurrently, grain-based producers have offered supply volumes nearly 70% in excess of current OMC requirements, indicating that installed capacity has already outpaced demand and that a further increase in the blending mandate would be required to absorb it.

4.2 Allocation of Cost for Legacy Vehicle Owners

A parallel conflict concerns the disproportionate burden placed on consumers who purchased vehicles prior to the E20 mandate. Owners of legacy-fleet vehicles bear reduced fuel efficiency, component corrosion, and stalling caused by phase separation, despite having no role in the policy decision. In the absence of accepted liability, manufacturers, Oil Marketing Companies, and insurers each decline responsibility for resulting damage, leaving consumers to absorb repair costs without recourse to compensation or a retrofit subsidy mechanism.

4.3 Compounding Effect of Federal Friction

This dynamic is compounded by the Centre-state tension discussed in Section 2. States that no longer derive excise revenue from industrial alcohol have a diminished fiscal incentive to expedite interstate ethanol logistics, including the clearance of checkpoints and transit delays. This friction contributes to supply-chain unpredictability that ultimately manifests as inconsistent fuel availability for consumers.

4.4 Interaction with Food Security

The food-versus-fuel dilemma outlined in Section 3.3 further compounds this burden. Diversion of maize and rice to ethanol production increases input costs for poultry feed and food manufacturing, contributing to food inflation that affects the same consumer base already bearing the costs described above.

5. Judicial Interpretations and Key Precedents

5.1 Ch. Tika Ramji v. State of Uttar Pradesh (1956)

This early precedent established that state legislation enacted under the Concurrent List (Entry 33) regulating sugarcane supply did not encroach upon Union authority over scheduled industries (Entry 52), affirming that Central and State legislative competence could coexist absent direct conflict.

5.2 Synthetics and Chemicals Ltd. v. State of U.P. (1990)

This seven-judge bench ruling governed the field for over three decades. It held that "intoxicating liquor" under Entry 8 of the State List referred exclusively to potable alcohol, thereby placing industrial alcohol under the exclusive regulatory authority of the Union pursuant to the Industries (Development and Regulation) Act, 1951. This ruling constitutes the doctrinal basis for the Centre's exclusive control asserted through the 2016 IDRA Amendment discussed in Section 2.3.

5.3 State of U.P. v. Lalta Prasad Vaish and Sons (2024)

In October 2024, a nine-judge Constitution Bench overruled Synthetics and Chemicals by an 8:1 majority, with the majority opinion authored by Chief Justice Chandrachud and a dissent by Justice Nagarathna. The Court held that "intoxicating liquor" under Entry 8 extends to industrial alcohol, including denatured and rectified spirit, on the basis of its potential for diversion into potable use. This ruling restores substantive state regulatory authority over industrial alcohol and materially complicates the Centre's exclusive-control framework under the 2016 IDRA Amendment. Justice Nagarathna's dissent cautioned that this holding risks fragmenting a nationally uniform ethanol supply chain into disparate state-level regulatory regimes.

6. Data and Market Trends

6.1 Blending Trajectory

The national blending average increased from approximately 1.5% in ESY 2013–14 to 10% by mid-2022, and subsequently to the full 20% target by late 2025 to early 2026, approximately five years ahead of the original 2030 timeline. The mandate became compulsory nationwide effective April 1, 2026.

6.2 Production Capacity

Distillation capacity expanded from 518 crore litres in 2017–18 to 1,623 crore litres in 2023–24. Current industry supply offers for ESY 2025–26 (approximately 17,760 million litres) substantially exceed OMC requirements (approximately 10,500 million litres), indicating capacity in excess of present demand.

6.3 Anticipated Policy Developments

Discussions are underway regarding an E22 mandate, with an E30 target anticipated between 2028 and 2030. In April 2026, the Ministry of Road Transport and Highways issued a draft notification recognising E85 and E100 flex-fuel vehicles, with a limited pilot rollout of E85 at approximately 48 OMC retail outlets by June 2026. Existing E20-compliant vehicles are not equipped to operate on these higher blends without further modification.

6.4 Economic Impact

The programme is estimated to have generated foreign exchange savings of approximately ₹1.67 lakh crore through the displacement of roughly 283 lakh metric tonnes of crude oil imports, alongside an estimated reduction of 851 lakh tonnes of CO_2 emissions. Farmer payments through OMC ethanol procurement were projected at approximately ₹40,000 crore in 2025, supporting the establishment of over 200 distilleries across Uttar Pradesh, Maharashtra, Bihar, and Punjab.

6.5 Structural Risks

Maize-based ethanol prices rose at an average annual rate of approximately 11.7% between 2022 and 2025, incentivising a shift of cultivated area away from pulses and oilseeds, with implications for import dependence. Feedstock choice also carries significant water-resource implications, with sugarcane and maize requiring approximately 210 and 500 litres of water per kilogram respectively, a concern for water-stressed states such as Punjab and Haryana. Projections by the Council on Energy, Environment and Water indicate that ethanol demand could increase from approximately 1,016 crore litres in 2025 to 1,600 crore litres by 2028 should flex-fuel vehicles constitute 20% of new registrations, representing a demand increase in excess of 50% that current planning frameworks have yet to fully address, particularly in light of anticipated electric vehicle adoption reducing petrol demand.

7. Portfolio Matrix & Political Blocs

7.1 Ruling Alliance (NDA)

Delegates representing the ruling alliance are expected to frame the E20 programme as a strategic achievement in national energy security, emphasising the reduction in crude oil import dependence and the associated foreign exchange savings detailed in Section 6.4. This bloc should foreground the programme's contribution to reduced carbon emissions and India's international climate commitments, while positioning ethanol procurement as a direct mechanism for rural income generation. Delegates in this bloc are expected to advocate for continuity of the current mandate, resist calls for compensation schemes that would implicate the Centre in liability admissions, and characterise consumer-side grievances as transitional costs of a broader structural achievement.

7.2 Opposition Coalition (INDIA)

Delegates representing the opposition coalition should centre their position on the material harm borne by consumers, framing the mandate's rapid rollout as having outpaced vehicle-compatibility infrastructure and regulatory safeguards. This bloc is expected to highlight the absence of a liability framework (Section 4.2), the inflationary pressure on food staples arising from feedstock diversion (Section 4.4), and the erosion of state fiscal and regulatory authority under the 2016 IDRA Amendment, particularly in light of the Lalta Prasad Vaish ruling (Section 5.3), which this bloc may cite as vindication of long-standing federalism objections.

7.3 Regional and State-Centric Blocs

Delegates aligned with regional parties are expected to prioritise state-specific economic concerns, including the loss of excise revenue on industrial alcohol prior to the 2024 judgment, and the degradation of state-owned public transport fleets operating older vehicles incompatible with E20 specifications. This bloc should advocate for enhanced state consultation in ethanol allocation and pricing mechanisms, and may seek to leverage the Lalta Prasad Vaish precedent to press for expanded regulatory and fiscal authority over industrial alcohol within their respective states.

8. Procedure Brief: Running the AIPPM Debate

8.1 Moderated Caucus Themes

Delegates should anticipate moderated caucus sessions structured around three principal themes. The first, statutory boundaries, will address the ongoing constitutional ambiguity between Central and State authority over industrial alcohol, particularly the practical implications of the 2024 Supreme Court ruling for the existing IDRA framework. The second, supply bottlenecks, will examine the logistical and infrastructural constraints described in Section 3.2, including transport capacity, storage limitations, and interstate coordination failures. The third, consumer safety nets, will consider mechanisms for addressing engine damage, warranty disputes, and the broader liability vacuum outlined in Section 4.2.

8.2 Actionable Reform Menu

Delegates should prepare to engage with a defined menu of reform options during the drafting stage. This includes the formulation of draft resolution guidelines addressing feedstock allocation transparency, consumer compensation mechanisms, and inter-agency liability clarification. Delegates should further be prepared to propose legislative amendments to the IDRA framework or the

National Policy on Biofuels that reconcile the Centre's mandate authority with the expanded state regulatory competence affirmed in Lalta Prasad Vaish, with particular attention to maintaining supply-chain uniformity while accommodating legitimate state interests.

9. Glossary of Key Terms and Technical Vocabulary

•E20 / EBP Programme: The Ethanol Blended Petrol Programme mandating the sale of petrol containing 20% ethanol and 80% fossil-fuel petrol across retail outlets in India.

•OMC (Oil Marketing Company): A public-sector entity, such as IOC, BPCL, or HPCL, responsible for procuring, blending, and distributing ethanol-blended fuel.

•IDRA, 1951: The Industries (Development and Regulation) Act, the primary Central legislation governing scheduled industries, including fermentation and alcohol production.

•Entry 8 (State List): The constitutional provision granting states exclusive authority to regulate "intoxicating liquors," the scope of which was central to the Synthetics and Chemicals and Lalta Prasad Vaish rulings.

•Entry 52 (Union List): The constitutional provision granting Parliament authority to regulate industries declared to be of public interest.

•ESY (Ethanol Supply Year): The annual cycle, running November to October, used to measure and report national ethanol blending performance.

•FCI (Food Corporation of India): The Central agency responsible for grain procurement and storage, whose surplus stocks have been allocated for ethanol production.

•Phase Separation: A chemical process in which ethanol absorbs atmospheric moisture, forming a water-alcohol layer within fuel tanks that can cause engine misfiring or stalling.

•Rectified Spirit / Extra Neutral Alcohol (ENA) / Absolute Alcohol: Distinct grades of processed ethanol distinguished by purity and intended industrial, pharmaceutical, or potable use.

•2G Ethanol (Second-Generation Ethanol): Ethanol produced from non-food cellulosic biomass, such as agricultural residue, as opposed to food-grain feedstock.

•Flex-Fuel Vehicle: A vehicle engineered to operate on variable ethanol-petrol blend ratios, including higher blends such as E85 or E100.

•Tripartite Agreement: A contractual arrangement among distilleries, financial institutions, and Oil Marketing Companies used to fund and formalise ethanol supply infrastructure.

•Global Biofuels Alliance (GBA): An international coalition launched under India’s G20 presidency to promote cooperation on sustainable biofuel development and adoption.