



# AGRI MAGAZINE

(International E-Magazine for Agricultural Articles)

Volume: 03, Issue: 04 (April, 2026)

Available online at <http://www.agrimagazine.in>

© Agri Magazine, ISSN: 3048-8656

## Economics of Bio Fuel Crop

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As of 2026, India has positioned itself as a global leader in the bio-economy, moving beyond simple environmental compliance toward a robust "Energy Agriculture" model. The economics of biofuel crops in India is no longer just a peripheral agricultural topic; it is a core pillar of the national security and fiscal strategy.

### The Strategic Mandate

The primary driver behind this economic shift is India's massive energy import bill. By aggressively scaling the **National Policy on Biofuels**, India aims to insulate its economy from the volatility of the Brent crude market. The 2026 fiscal year marks a turning point where the target of **20% Ethanol Blending (E20)** has been successfully stabilized nationwide, and the infrastructure for **E27** and **Sustainable Aviation Fuel (SAF)** is being incentivized.

### The Socio-Economic Vision

The transition is designed to address three systemic challenges:

- 1. Low Farm Income:** Providing farmers with a secondary, guaranteed market for their produce and "waste."
- 2. Environmental Externalities:** Reducing the trillions of rupees lost annually due to health costs and productivity drops linked to air pollution (stubble burning).
- 3. Foreign Exchange Outflow:** Keeping capital within the domestic rural economy rather than exporting it to oil-producing nations.

### Brief Description: The Biofuel Economic Ecosystem

#### 1. The Hierarchy of Feedstock Economics

The Indian biofuel market is segmented by "generations" of technology, each with distinct cost/benefit profiles and government support mechanisms.

#### First Generation (1G): Food-to-Fuel

1G biofuels rely on edible parts of plants. This is currently the most commercially viable segment.

- **Sugarcane:** The "Sugar-Ethanol" balance is managed by the government via the **Fair and Remunerative Price (FRP)**. To prevent sugar gluts that crash market prices, mills are paid higher rates to produce ethanol from B-Heavy molasses and Sugarcane juice.
- **Maize (Corn):** Maize has seen a **15% year-on-year increase** in acreage dedicated to fuel. With an MSP of **₹2,400/quintal**, maize provides a higher return on investment (ROI) for farmers in rain-fed areas compared to traditional millets or pulses.

#### Second Generation (2G): Waste-to-Fuel

2G biofuels utilize non-edible agricultural residues like rice straw, wheat stalks, and cotton stalks.

- **The "Parali" Solution:** By creating a market for crop residue, the economics of 2G fuels turn a "liability" (smoke/pollution) into an "asset."

- **Economic Bottlenecks:** High collection and transportation costs (logistics) currently make 2G ethanol more expensive than 1G. However, government Viability Gap Funding (VGF) under the **PM-JIVAN scheme** offsets these costs for refinery operators.

## 2. Revenue Streams and Micro-Economics

The profitability of a biofuel crop is not determined solely by the fuel output, but by the "Refinery Model" which extracts value from every part of the plant.

- **DDGS (Distillers Dried Grains with Solubles):** For every liter of ethanol produced from grain, approximately 0.8 kg of DDGS is created. This high-protein animal feed is sold to the poultry and dairy industries, often accounting for **25% of a distillery's operational profit**.
- **Carbon Credits:** Under the new **Green Credit Program (GCP)**, farmers and biofuel plants can trade credits generated by carbon sequestration and emission reductions, adding a digital revenue stream to the physical crop.
- **Fermented Organic Manure (FOM):** A byproduct of Compressed Bio-Gas (CBG) plants that reduces the farmer's expenditure on chemical urea and DAP by up to **30%**.

## 3. Government Fiscal Interventions (2025-2026)

The economic viability of these crops is heavily underpinned by state and central support:

- **Interest Subvention:** The government provides a **6% interest subvention** or 50% of the interest charged by banks for five years on loans taken to set up or expand distilleries.
- **Tax Incentives:** GST on ethanol meant for blending was slashed to **5%**, and there are ongoing 2026 proposals to provide tax holidays for CBG plants integrated with organic farming clusters.
- **Long-Term Off-take Agreements (LTOA):** Oil Marketing Companies (OMCs) sign 10-year purchase agreements, giving banks the confidence to lend to biofuel projects, which was previously a major hurdle.

## 4. Structural Challenges & Risk Analysis

The "Economics of Biofuel" is not without significant risks that require careful management:

- **The Food-Fuel Conflict:** As more maize and rice are diverted to ethanol, the price of poultry feed and starch has risen. This "agri-inflation" can neutralize the gains made in energy savings.
- **Water Stress:** Sugarcane is a water-guzzler. The "Hidden Cost" of groundwater depletion in states like Maharashtra and Karnataka is a long-term economic threat that could make sugarcane-based ethanol unsustainable without a shift to micro-irrigation.
- **Logistical Fragmentation:** India's farms are small and fragmented. The cost of aggregating biomass from millions of smallholders remains the single largest barrier to the 2G biofuel economy.

## References

Category	Authority / Document	Key Metric Tracked
National Policy	<i>National Policy on Biofuels - 2018 (Amended 2022/2024)</i>	Targets for blending and feedstock expansion.
Financial Data	<i>Economic Survey of India (2025-26)</i>	Import bill savings and agricultural GDP contribution.
Energy Outlook	<i>IEA India Energy Outlook 2026</i>	Global competitiveness and SAF potential.
Agricultural Pricing	<i>Commission for Agricultural Costs and Prices (CACP) Reports</i>	MSP for maize and FRP for sugarcane.
Statistical Reports	<i>NITI Aayog: Roadmap for Ethanol Blending 2020-2025/2030</i>	Infrastructure growth and distillery capacity.
Technical Standards	<i>Bureau of Indian Standards (BIS) - IS 15464</i>	Quality parameters for anhydrous ethanol.
Biomass Data	<i>MNRE: National Bioenergy Programme</i>	Availability of non-food biomass by state.