Dealing with Onion Price Rise

What is the issue?

- With huge spike in onion prices, government responded by banning exports, placing import orders and altering stock holding limits of traders.
- Resultantly, there is expected to be a glut effect on the price soon.

What happened?

- In November 2019, retail prices of onion in several places touched Rs 200 a kg.
- The central government took several measures such as:

i. fixing stock holding limits for the traders
ii. ordering onion imports from Turkey and Egypt
iii. selling subsidised stored onions through few retail channels

- The government had stopped onion exports on September 30, 2019.

What is the concern now?

- The government's own assessment says, there is expected to be a glut effect on the onion price by March 2020.
- Significant decline in price is expected from February onwards when late kharif and early rabi arrivals start picking up pace.

What led to the price rise?

- The key cause behind the huge spike in onion prices is the close-to-a-million-tonne reduction in kharif and late-kharif output in Maharashtra.
- Maharashtra, notably, produces around one-third of the country's onion output.
- The reduction was because of prolonged monsoon last year resulting in crop damages.
- Even Karnataka and Gujarat have witnessed significant rain-related crop damages.
- Rajasthan's Alwar district, which is an onion producing hub, was affected by dry conditions resulting in lower area and yield.
- Delayed monsoon (up to first week of November) has had an impact on the output.

- Overall kharif and late-kharif output is estimated to have declined by more than 27%.
- The rains during September-October also affected transportation of the crop from these regions to consuming areas.
- This led to limited availability of kharif onion in the market and put pressure on its prices.

What could bring down the prices now?

- The forthcoming rabi or winter crop is likely to be much better due to better water availability.
- There is also increased sowing by farmers owing to high prevailing prices.
- Rabi onion acreage is set to increase by 5% to 10% in key producing states, including Maharashtra.

How are onion stocks maintained?

- About 30% of the total onion output is during kharif and late kharif season, and the rest is during rabi season.
- This ensures onion availability throughout the year.
- The harvesting of kharif and late-kharif is carried out during November-January.
- Rabi crops arrives in the market during January-May.
- The rabi crops are stored, which takes care of supplies till the kharif harvests arrive in the market.
- The stored rabi onion lasts till kharif crop arrivals in November.
- However, even a fortnight of delay creates supply constraints in the market, and leads to a spike in prices.
- A decline of 27% in kharif output could not have been replaced with imports from Egypt and Turkey.

- **Shortfalls** - Market structure of onion is unilaterally dictated by the traders, not farmers.
- The reason is that farmers play a minimal role in price discovery.
- This is due to the low size of average farm holdings (1.15 to 1.3 acres) and unfavourable weather conditions and price risk.

What is the way forward?

- There is a need for a better system for forecasting total production considering economic and meteorological events, at least in major onion producing area.
- This would help in taking appropriate decisions about onion export.
- The government must promote usage of dehydrated onions (flakes or

powder) in the domestic market as well as the institutional buyers such as hotels and army.
- Instead of reacting to spike in prices, the government agencies must provide some advance information on the stock available and the likely impact on the prices.

Source: Financial Express

SHANKAR IAS PARLIAMENT
Information is Empowering