Stabilising Onion Price

What is the issue?

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- Recently, retail prices of onion touched Rs 50/kg in several markets and the wholesale prices touched Rs 30/kg.
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- This is in the backdrop of a bumper crop year earlier this year, that forced farmers to sell onions at as low as Rs 2/Kg in May.
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- This stresses the urgent need for “scientific storage facilities and a judicious trade policy”.
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How was the price crash handled?

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- While the boom and bust in onion prices happens almost every alternate year, 2017 is interesting as it saw record low prices.
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- The situation became precarious when farmers protested and police fired at them, resulting in some unfortunate deaths.
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- Madhya Pradesh CM realised the sensitivity of the incident and quickly announced a decision for massive procurement.
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- Onions were bought at Rs 800/quintal and state agencies procured around 8.76 lakh tonnes.
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- But in the absence of ample storage capacity, onions had to be quickly sold through PDS & open markets.
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- Notably, onions were disposed at almost one-fifth the cost and the whole operation caused a loss of Rs 785 crores.
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What is the recent price trend?

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- In August, prices started shooting up, which gave rise to speculations of hoarding by traders.
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- Consequently, inspections by the Ministry of Consumer Affairs, IT raids on traders were conducted.
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- Trade was also suspended in the Lasalgaon APMC for a month.
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- Despite these actions, the prices kept rising, prompting the government to announce import of onions to bring down prices.
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- Notably, such random government actions are common every year.
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- Last year too, government fixed a minimum export price, banned exports for a while.
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How does the Onion Production calendar look?

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- India produced 21.7 MMT of onions annually, which is about 20% of global production in 2016-17, next only to China.
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- Of this, 2.4 MMT was exported in 2016-17, which was up from 1.2 MMT in 2014-15.
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- **Rabi Crop -** About 60% of onion production is in the rabi season, sown in December-January and harvested in April-May.
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- This onion is stored by farmers and traders and it meets export as well as domestic demand till the arrival of the kharif onion.
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- **Kharif Crop -** Kharif onion is sown in May-June and harvested in October-November.
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- A late kharif crop is also sown in August-September and harvested in

January-February.
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- Both produce about 20% each of the total annual production but both are of poor quality and can’t be stored for long.
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What are the reasons for high price volatility?

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- Prices tend to rise in October-November, when rabi stocks are almost depleted and kharif onion is yet to hit the markets or if the crop fails.
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- High price volatility also stems from a lack of storage facilities that have not kept pace with rising production.
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- Also, the traditional storage practices incur losses as high as 40%.
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- Notably, Maharashtra used the Rashtriya Krishi Vikas Yojana and National Horticulture Mission and created 42,282 low-cost onion storage structures with a capacity of 9.65 lakh tonnes.
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- But, there is hardly any storage facility in MP, which is reflective of why MP farmers suffered most in this year’s bumper onion crop.
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What can be done?

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- **Storage -** Modern cold storages, as being set up by companies like ‘Allround India’ can bring down wastage within the 10-15% range.
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- Hence, promoting modern cold storages and developing a system akin to that of the warehouse receipt system for farmers is needed.
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- While encouraging the private sector to take the lead, the state can do some stocking under a ‘Price Stabilisation Fund – PSF’.
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- **Trade Policy -** An effective trade policy that is responsive to production realities is necessary for price stabilisation.
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- Promoting exports in case of a bumper crop and encouraging imports in case of deficits should be primary to any trade policy.
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- This has to be done well in advance — as soon as one comes to know the advance estimates of production.
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- **Processing -** Encourage the setting up of onion dehydrating units and promote demand for dehydrated onions can be considered.
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- Currently, Gujarat has already emerged as the main centre for dehydration units with 85 out of 100 units located there.
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- Dehydrated onions are being exported to Japan, Europe, Russia, US and some African countries.
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- Ministry of Food Processing and state governments should encourage entrepreneurs to setting up onion processing units.
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- While a subsidy of up to 35% with a cap of Rs 5 crore is currently being provided, the budget of the scheme is just Rs 95 crore.
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- This needs to go up manifold if we are serious about encouraging food processing and stabilising prices.
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Source: Indian Express

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