Addressing Spikes in Onion Prices

Why in news?

Onion prices are consistently rising in recent times.

What is the status of rising onion prices?

- India has emerged as the largest exporter of onions in the world, having exported about 2.4 million ton in 2018-19 out of a production of 23.5 million tons.
- But Onion retail prices in Delhi is crossing Rs 40/kg in mid-September, and even higher in Mumbai.
- Onion price rise in September is not new. Prices rise in September almost every year due to seasonality, but every alternate year there is an accelerated spike due to “some other factors”.
- While onion price spikes make the government hyperactive now, during January to May 2019, the late kharif and rabi onions were sold, in Lasalgaon (India’s largest wholesale market for onion in Maharstra) between Rs 4-10/kg and on some days even touched Rs 2/kg.
- This is against a cost of Rs 9-10/kg in Maharashtra, as estimated by the National Horticulture Research and Development Foundation (NHRDF).
- This means farmers incurred massive losses in 2019 from sales of onions, running into hundreds of crores of rupees.

What is the measure taken by government in this regard?

- Recently government imposed a minimum export price (MEP) of $850/ton, followed by a central team of bureaucrats visiting Lasalgaon, India’s largest wholesale market of onions, to assess the situation.
- It won’t be a surprise if they come up blaming onion traders for speculation and recommend stocking limits.
- The standard response is imposition of MEP, stocking limits on traders, and sometimes even income tax raids on onion traders.

What are adverse effects of government’s measure?

- **Curtailing Exports -** Government agencies import onions and “dumps” at below their import parity prices to “tame” domestic prices.

- This is likely to happen in late October-November, when the kharif crop will start arriving in the market.
- This led to restricting exports through high MEP and dumping imported onions at below cost are not only anti-farmer, but also anti-Agri-exports.
- **Aggressive MEP -** Whenever high MEP is imposed, such as $850/tons, which translates to roughly Rs.60/kg, exports dropped sharply.
- The export parity price from October 2018 till date has remained below $300/tons, so this MEP of $850/tons will deprive farmers of whatever little benefits they were getting from onion exports.
- It takes years to build export markets but with such abrupt export restrictions, India becomes an unreliable exporter, which adversely hits its unit value of exports.
- This damage is far greater compared to the short-term gains the government is eyeing.
- **Issues in APMCs -** Onion farmers get a mere 29 per cent share of the consumer's rupee, the rest constitutes costs and margins of middlemen, with retailers apportioning the highest share.
- With the majority of onions traded through the APMC markets, the auctioning procedure is controlled by powerful traders and commission agents with much less bargaining power for farmers.
- Layers of mandi fees and commissions escalate prices further without much value addition or benefit to farmers.

What measures are needed?

- **Price Stabilization -** National Agricultural Cooperative Marketing Federation of India (NAFED), which is entrusted with price stabilization, should procure at least 2-3 lakh tons at the rabi harvest time (April-May), ensuring that farmers get at least Rs 12-15/kg, when they were getting Rs 4-8/kg.
- This will save onion farmers from a price-crash and give them reasonable profits, incentivizing production and exports, but these stored onions will incur storage costs.
- **Providing better Storage -** Storages at farm level suffer losses of about 20-25 per cent, which can be brought down to 5-10 per cent with modern cold storages. But cold stores will cost about Rs 1.5/kg/month.
- **Promotion of Dehydrated Onions -** Currently, India exports 85 per cent of its dehydrated onions, and is the largest exporter of dehydrated onions in the world.
- Ministry of Food Processing Industries (MoFPI) should be at the forefront

to extensively promote the use of dehydrated onions (flakes, powder, granules) among domestic households and institutions like the armed forces, hospitals, restaurants and schools (mid-day meals).
- This will take the pressure off fresh onions during the lean season.
- Dehydrated products are much cheaper to store and are more durable, they can help check the spikes in onion prices.
- This will reduce wastage and help farmers get a fair price and consumers can switch to these dehydrated onions in the lean season at affordable prices.

Source: Indian Express

Quick Fact

Minimum Export Price

- Minimum Export Price (MEP) is the price below which an exporter is not allowed to export the commodity from India.
- MEP is a kind of quantitative restriction to trade.
- Government fixes MEP for the selected commodities with a view to arrest domestic price rise and augment domestic supply.
- This is intended to be imposed for short durations and is removed when situations change, it is not a formula based imposition.
- The removal of MEP helps farmers / exporters in realizing better and remunerative prices and would also help in earning valuable foreign exchange for the country.
- Generally, MEP imposition is restricted to essential commodities like potatoes, Onions, rice, edible oils etc.
- Notifications on MEP issued by Department of Commerce, but actual price fixing is done by concerned agencies, like, say NAFED in case of Onions.



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