

Export of Onion and Price Fluctuation in India

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Abstract

Onion is one of the most significant and commonly used ingredients in Indian recipe. Thus the changes in prices have a huge impact on the food security, and farmer and consumer welfare. An increase in price of onion affects the consumer by way of increase in food consumption budget, while a decrease in onion prices below the cost of cultivation affects the producer. There is enough evidence to show that prices of agricultural commodities are more volatile than those of the non-farm commodities. These commodities are less elastic to price and income and inherently unstable due to weather and institutional risks. The high volatility in prices of agricultural commodities can have a disproportionate, typically nonlinear or asymmetric impact on the economy and may fail to endure exceptional shocks. This impact is prominent if governments and households are well adapted to normal volatility but fail to anticipate or consider making worthwhile provisions against extreme shocks.

Introduction

Onion is one of the most market sensitive commodities that create ripples in the trade as also political circles. Its significant position in the diets across all income groups and an important ingredient in many Indian recipe causes wide ranging effects of any significant price change. It is equally important for the poor as also the middle class. Thus the changes in prices causes all embracing stir among farmers and consumers. High price variability in case of primary products affects both producers as well as consumers through a spillover effect to the other sectors, thereby leading to high inflation in the economy. Thus it is major concern for the politicians, policymakers and experts. Among the agricultural products, prices of onions are more volatile than those of the non-farm commodities due to low price and income elasticity and inherently unstable production. Additionally, market inefficiencies, weak supply chains and traders cartels in the market aggravate the problem. The spurt in food inflation in the recent months has brought to forefront some critical issues of price volatility and market inefficiency. The Inter-Ministerial Group on Inflation advised improving agricultural productivity, strengthening food supply chains as a durable solution to inflation in an economy with rising income levels. Also there is an emphasis on modified Agricultural Produce Marketing Act and initiate other steps to weed out market imperfections. Onion is one such commodity which suffers at the threshold of the market and creates economic stress.

Export of Onion from India:

India is a traditional exporter of fresh onion. Soon after Independence in 1951-52 the country was exporting over 5 thousand metric tonnes (MT) of onion worth Rs 106.69

lakh. Exports of onion started expanding rapidly during the 1960s and reached a high of 512 thousand MT in 1996-97. There was substantial increase in per unit value of onion from Rs 1733 per MT during 1981-82 to Rs 4078 per MT during 1990-91. Over the years there has been a progressive increase in the exports of onion from India and touched a peak of 1873 thousand MT during 2009-10. The quantum had touched a level of 1158 thousand MT during the financial year of 2010-11 up to November 2010. The large quantity of onion export is also one of the reasons for sudden spurt in the prices of onion during December 2010. Exports of onion from India are regulated and permitted only through certain designated canalising agencies. One of the prime agencies is the NAFED, which is the sole agency for exports of onion from India. Although there has been an increasing trend in the quantum and value of exports of onion from the country, the exports are subject to wide fluctuations from year to year. This may be attributed to the fact that the exports of onion have not been free but are canalised through National Agricultural Cooperative Marketing Federation (NAFED) and now through some other agencies. Such agencies are protecting the domestic consumer and probably the producer from unduly high prices and gluts as well. The cause of fluctuations in the exports may be due to the occasional restriction put on exports, keeping in mind the domestic requirement. No doubt, exports of onion have fetched the country valuable foreign exchange and at the same time have given high price per tonne to the producer. The profitability and the potential offered by the exports of onion are evident from the fact that, on a national basis, the area, production and yield of onion have steadily increased by almost two and a half times between 1980-81 and 2008-09.

Growth in Export of Onion:

Following table shows the data on quantity and value of onion exports from India from TE 1953-54 to 2011-12. The onion export from India has increased drastically in last sixty years and gone up from 39,848 MT in TE 1953-54 to 15,52,904 MT in year 2011-12, an increase by 38.97 times. The total value of the export has also gone up from Rs. 1.06 crores to Rs. 2141.43 crores in the same period, touching a peak export of 18,73,002 MT in 2009-10. Unit value of onion export is increasing drastically due to excess demand for Indian onion in the international markets.

Export of Onion from India (1951-52 to 2011-12)

Table No. 1

Year	Export		
	Quantity	Value	Unit Value
	(MT)	(Rs lakhs)	(Rs/ MT)
1953-54	39848	106	267
1962-63	106875	250	234
1972-73	87085	372	427
1982-83	181581	2959	1630
1992-93	363733	14785	4065
2002-03	460781	37407	8118
2005-06	778134	71597	9201
2006-07	1161062	113543	9779

2007-08	1101404	128582	11674
2008-09	1783820	224312	12575
2009-10	1873002	283429	15132
2010-11	1340771	215906	16103
2011-12	1552904	214143	13790

Source - Based on Data from NHRDF (2012)

Onion price rises:

Onion prices continued to be volatile, surging by Rs 10 to Rs 40 per kg today at LasalgaonMandi in Nashik. Wholesale onion prices at LasalgaonMandi, which sets the price trend across the country, rose as supplies halved to 1,500 quintals from 3,000 quintals on October 1, according to data maintained by the National Horticultural Research and Development Foundation (NHRDF). Prices had fallen by Rs 12 per kg at the market on October 1st. Wholesale onion prices at New Delhi's Azadpur market remained at about Rs 40 per kg, whereas the retail rate in the National Capital Region continued at Rs 60-65 a kg, according to the Onion Merchant Traders Association. NHRDF Director R P Gupta called the surge in onion prices a temporary phenomenon. "Arrival of kharif onion has started in the markets from the last week of September...It will take time for the market to settle down," Gupta said. Onion prices skyrocketed to Rs 80 per kg across the country last month, forcing the Centre to impose a minimum export price of USD 900 per tonne to curb outbound shipments. Private players were also allowed to import the commodity from Afghanistan. Onion exports fell 81 percent to 29,247 tonnes in August from 1.56 lakh tonnes a year earlier. Onion production during 2012-13 stood at 16.3 million tonnes. According to NHRDF data, the area under onion crop last year narrowed to 9.58 lakh hectares from 10.87 lakh hectares in the preceding year.

Onion prices sting RBI ahead of Rajan's first policy review:

The aroma of frying onions from the Britannia and Co. restaurant might not penetrate the office of Reserve Bank of India (RBI) Governor Raghuram Rajan a block away, but like the eatery's customers, he can't escape the soaring price of the pungent vegetable. The price of onions has added to Rajan's already full plate as the new head of the RBI wrestles over how to help stabilise the rupee currency and tackle inflation without further dampening economic growth. A former IMF chief economist, Rajan took over at the RBI on September 4 in the middle of India's worst economic crisis in 20 years. He will announce his first monetary policy review on Friday. The US Federal Reserve's surprise decision on Wednesday not to wind down its massive monetary stimulus just yet helped the rupee to a one-month high on Thursday, so inflation may have now moved up on his list of priorities. In August, the cost of onions was 245% higher than a year earlier, while other vegetables shot up 77%, driving headline inflation to a six-month high. Onion prices have risen even further in September, prompting the government to take steps to limit exports. Eaten raw as a side dish, or blended into a vast array of curries, onions play a prominent role in India. In Britannia, the pinch is being felt

by customers who include employees of the Reserve Bank, who drop by ton cuisine and public anger rises quickly whenever prices spike.

Price pinch:

In Britannia, the pinch is being felt by customers who include employees of the Reserve Bank, who drop by tolunch on steaming plates of its famous Parsi berry pulav rice."Instead of one person eating one plate, two people are splitting. And three people are dividing two plates," said Boman Kohinoor, the 91-year-old co-owner of the restaurant.Much remains unchanged in Britannia, which was founded in 1923, 12 years before India's central bank was set up. But the prices keep on rising.The restaurant raised prices on its menu by between Rs 30 and Rs 50 earlier this year -- a fragrant plate of rice-based chicken biryani now costs Rs 350 -- and Kohinoor said the soaring costs of ingredients may force him to hike prices again by April.With overall food prices up an annual 18% last month, Kohinoor's new neighbour at the Reserve Bank will probably be careful not to stoke inflation in other areas, despite calls from industry to cut interest rates and lower borrowing costs.But in reality there is little Rajan can do to prevent the volatility.Erratic prices for perishable goods are routine in India, partly because the majority of farms depend on the variable monsoon for rains. This year, a drought followed by too-heavy rain affected supplies.Consumers are also hostage to inadequate storage facilities and transport bottlenecks - that together cause up to 30% of fresh produce to rot before it reaches the market - and a distribution network in which many layers of middlemen take cuts, forcing prices higher.Whatever the causes, onion prices have political consequences in India - in the 1998 New Delhi elections the BharatiyaJanata Party (BJP) was booted out of office by the Congress party after prices touched Rs 60 per kilo.The significance will not be lost on Prime Minister Manmohan Singh, whose Congress party faces national elections by May. The Congress party local government in Delhi and its rivals the BJP have been trying to out-do each other selling the vegetable at below market rates from the back of trucks in the city.Discount site Groupon offered onions at Rs 9 per kilogram earlier this month, a discount of as much as 90%, advertising the deal with the image of an onion in a jewellery case. Demand was so high its site crashed.But Rajan, who had a lucky break on Wednesday when the US Fed decided not to reduce the flow of cheap dollars that help drive investment flows to emerging markets such as India, might soon be in for another reprieve.Strong rains in the current monsoon season mean some are predicting a bumper onion crop this year - and farmers are forecasting prices will drop sharply over the next few weeks."Onion prices to ease in 2-3 weeks as fresh output arrives from Maharashtra, other states," agriculture minister SharadPawar posted on Twitter on Thursday.

Causes of Onion Price Fluctuation:

The average onion wholesale price at the country's largest market — Lasalgaon Agriculture Produce Market Committee (APMC) — mounted to an all-time high of Rs 4,800. It broke the previous high of Rs 4,500 on August 13.The minimum and maximum prices were recorded at Rs 2,500 and Rs 5,016 a quintal as around 6,500 quintals of onions were auctioned.

Market sources said the prices have increased due to a sharp decline in supply. Moreover, the arrival of fresh kharif crop in the market is still 20 days away. The fluctuation in onion prices is expected to continue for the next couple of weeks.

National Agriculture Co-operative Federation of India director Changdeo Holkar said the supply has declined in almost all onion markets across the country.

"The arrival of kharif crop from states like Karnataka and Andhra Pradesh has stopped due to rains there. The wide gap between demand and supply is causing the fluctuation in onion prices which is expected to continue for the next 15 or 20 days."

"Once rains stop, onions from Andhra Pradesh and Karnataka will arrive. In Nashik district, the arrival of fresh kharif crop will begin by the first or second week of October."

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