

## BUSINESS

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### Unpeeling the many layers of onion prices in India

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*Prices have almost tripled as rainy monsoon season has led to crop shortages*



A worker sorts a sack of onions at the Vashi Agricultural Produce Market Committee (APMC) wholesale market in Mumbai. Onion prices have proved to be a political hot potato for local Indian governments. Bloomberg

Bangladesh's prime minister Sheikh Hasina, during a visit to New Delhi on Friday, joked to the audience at a conference that she had asked her cook not to use onions in her food, following a sudden ban by India on onion exports, triggered by surging prices.

The ban was a problem for her country because it had not been given any warning to allow it to source its onions from other countries, Sheikh Hasina said. This has resulted in a severe shortage of onion supplies in Bangladesh and a sharp spike in prices of the vegetable.

"It would have been better if we were given notice," she said.

India's trade minister Piyush Goyal was on the stage when Ms Hasina made these comments, and despite her good sense of humour and the laughs she drew from the audience, it is clear that this has become an area of concern for Bangladesh, as it has for several other countries. Nations including Malaysia and Sri Lanka also depend heavily on onion shipments from India.

India's government last Sunday with immediate effect banned onion exports and placed limits on stockpiling in the country in an effort to cool soaring prices. Onion rates last month almost tripled to hit 80 rupees (Dh4.15) a kilo in some areas. The price rise is due to the impact of flooding from the monsoon rains in India, which has delayed sowing and damaged crops, including in the state of Maharashtra, which has Mumbai as its capital, and the south Indian state of Karnataka. This monsoon season, rainfall reached a 25 year high, according to official data.

**"Prices have reduced post the ban," says Sameer Mittal, the chairman of the International Trade Council in India and managing partner of accountancy firm Sameer Mittal and Associates. "But mainly it's hurting the exporters. It also has an impact on on the wholesalers and retailers."**

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Farmers in Nashik in Maharashtra staged protests on Monday after wholesale prices plummeted following the limits on stocks that retailers and wholesalers can hold, the *Times of India* newspaper reported. The curbs impact their ability to sell their crops if their buyers can't stockpile them.

Onions have a reputation in India for being a political issue. It is often said in the country that onions have the ability to topple a government. Many people, including the country's poor, depend on onions as a staple in their diet, and high prices of the vegetable hits them hard.

**"Onion prices can be considered one of the major issues as far as politics is concerned," says Mr Mittal.**

In 1998, when the ruling BJP party was defeated, onion prices were believed to have been a factor in how people voted. The BJP is back in power, after its victory in 2014 and again in the general election earlier this year. In 1980, Indira Gandhi played on the problem of onion prices in her election campaign to win over voters. Her Congress party secured a clear majority in the polls. This is partly why the government felt it had to take action to tackle high onion prices, given the impact of these costs on the common man.

"The ban on exports was the only option, otherwise prices would have shot up further," says Vijay Sardana, an expert in food and agri-commodities. "The government has done this in order to retain prices at an affordable level, especially given that it's a festival season in the country and they don't want citizens to face problems."

He says that "there's a huge domestic demand" in India for onions currently.

The increase in onion prices comes at a time when India's economy has slowed, with GDP growth falling to a six-year low of 5 per cent in the April to June quarter, while the country is also struggling with high unemployment rates.

Indian prime minister Narendra Modi's government has been taking a series of measures to try to calm what the opposition parties describe as an "economic crisis". In recent weeks, the government has made announcements including a surprise cut in a corporate tax rates to 22 per cent from 30 per cent in an effort to kick-start the economy.

Faltering consumer demand has had a significant impact on India's sluggish growth, economists say, and rising prices of basic foods could exacerbate the situation.

"Onions are an essential requirement which are used by almost everyone in their day-to-day needs," says Ashwin Ruchani, the director of marketing and sales at ANGT, a food manufacturer which makes packaged onion paste under its brand, Nonions.

Higher prices can drive up inflation.

"At the end of September, weekly price levels indicate a sharp increase in vegetable prices, up 18.9 per cent due to onion prices," says Suvodeep Rakshit at Kotak Institutional Equities, based in Mumbai.

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Local media reports say that wholesale prices for onions in the Lasalgaon market in the state of Maharashtra, Asia's largest onion market, have declined to below 30 rupees a kilo now compared to 51 rupees a kilo for wholesale rates a couple of weeks ago, citing figures from the National Horticulture Research and Development Foundation. This decline in rates follows the export ban and limitations on hoarding of onion stocks imposed by the government.

But the ban is having a significant impact on trade.

India is one of the world's top exporters of onions. Fresh onion exports totalled 2.18 million tonnes of onions worth \$498 million (Dh1.83 billion) in the financial year to the end of March, according to India's Agricultural and Processed Food Products Export Development Authority. That was up from 1.56 million tonnes worth \$479 million of onion exports in the previous year.

It is not clear yet when the government will lift the ban on onion exports, although it will be a temporary measure. The government has simply said that the export ban will remain in place until "further orders".

Some countries have had to turn to rival exporters China and Egypt as alternative sources for their onion supplies. But traders in Bangladesh say that it takes much longer to secure onions from these countries compared to getting the products from neighbouring India.

Spikes in onion prices, however, are a recurring problem for India and it is not the first time authorities have had to take action to reduce prices.

"Banning exports would not give an ease to the situation, says Mr Ruchani. "Its impact is very limited or short lived before it flares up again."

Although consumers will get some relief from cooling onion prices, there are negative implications for farmers from the government's measures, he says.

"Due to the loss at the farms, farmers might discontinue supply of their reserves which may affect the export business," says Mr Ruchani.

Farmers are already grappling with a range of problems including low profitability and high debts, which has led to a high rate of farmers committing suicide in the country. This has prompted large-scale protests by farmers in India over the past few years.

"Farmers feel sad," says Mr Sardana. "They get a chance to earn more when prices shoot up and the export ban has reduced onion prices. They would like to earn more."

He explains that given the unpredictability of supply and demand, India is likely to face continued sharp fluctuations over the coming years.

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In the near term, too, he says that the agriculture sector is still waiting to assess the full impact of flooding on crops that are in the ground now.

"Nobody knows what the outcome is yet," he says. "If there's massive crop damage, prices could rise once again. We'll have to wait to see."