Export ban on onions: cause, likely effect

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ON MONDAY, the Centre issued a notification prohibiting the export of onion, even as the average traded price of the bulb crossed the Rs 30-per-kg mark at Maharashtra's Lasalgaon wholesale market. This ban came just about three months after the government had tweaked the Essential Commodities Act, 1955 to make the imposition of stock limit and movement restrictions on food grains, edible oilseeds, potatoes, onions and other essential commodities applicable only in extreme conditions like war or natural calamity.

What led to the export ban?

There seem to be two main triggers. The first was obviously the steady increase in wholesale prices of onions in urban markets. Between March and September, the average price of the bulb at Lasalgaon's market has appreciated by almost 100%. Prices at this markets in Niphad taluka of Nashik district in March were in the range of Rs 1,500 per quintal and since then have appreciated to Rs 3,000. At retail markets, onion is now trading between Rs 35-40 per kg as against Rs 25-30 per kg in June.

The immediate trigger can also be found in Consumer Price Index (CPI) numbers released by the government on Monday. Retail inflation was 6.69%, a tad less than the 6.73% of last month but well above the Reserve Bank of India's target of 6%. The Consumer Food Price Index (CFPI) for August was 9.05% as against 9.27% of last month.

Why are onions costlier in wholesale markets?

The answer can be found in the exceptionally heavy rainfall in the country in August. It led to a near-complete washout of the almost market-ready onion crop in Karnataka that was to hit the markets in early September. Along with this, the rain also damaged stored onions in Madhya Pradesh, Gujarat and parts of Maharashtra. At present it's only the onion growers in Maharashtra who have produce to offload, having stored up their harvest from March-April. The present supply disruption is likely to continue until the new crop in Maharashtra hits markets in early November.

If the domestic supply-demand situation is heavily tilted towards the later, demand for Indian onion is also rising from international markets. Indian onions, which are normally shipped out to the Gulf countries, Sri Lanka and Bangladesh, usually has a year-round steady demand. However, demand from Sri Lanka, exporters say, has suddenly picked up after heavy destruction of crop there, too, due to rain. The landed cost of Indian onions at Dubai port at this moment is around Rs 32-35 per kg, which has led to many exporters increasing their shipments from Nashik.

So, will the export ban bring down prices?

A sharp depreciation in prices is expected to take place in view of the export ban. However, traders feel prices are again going to rise in a week or so as overall supplies will remain muted. The new crop, they say, will arrive only post November and with demand expected to rise before the Dussehra season starts, prices are likely to remain high.

Will the move have any political fallout?

The political fallout of high onion prices can hardly be over-emphasised. With the Bihar elections due later this year, the government appears to have been wary of facing the electorate when onion was costlier than usual.

Ironically, the export ban comes when the government plans to make ordinances that amended the Essential Commodities Act into law and stop knee-jerk reactions like imposition of stock limits. Farmer organisations have called out what they describe as double standards. From Tuesday, the farmers' union Shetkari Sanghatana embarked on *rasta rokos* against this move.