Major issues on FDI in Multi-brand retail

1) **Cabinet decision – Distinct Indian Model with Safeguards for domestic stakeholders :**

- FDI up to 51% only through government approval mode.

- Minimum investment of US $ 100 million of which at least 50% to be invested in backend infrastructure, which would include capital expenditure on the entire spectrum of related activities including cold chain infrastructure, food processing, refrigerated transportation, logistics.

- Retail sales outlets may be set up only in cities with a population of more than 10 lakh as per 2011 Census and may also cover an area of 10 kms around the municipal/urban agglomeration limits of such cities; In States/ Union Territories not having cities with population of more than 10 lakh as per 2011 Census, retail sales outlets may be set up in the cities of their choice, preferably the largest city

- **Mandatory sourcing of a minimum of 30% from Indian small industries** with a total investment in plant and machinery not exceeding US $ 1 million.

- Government to have first right of procurement of agricultural produce to ensure food security for the poor.

- Fresh agricultural produce, including fruits, vegetables, flowers, grains, pulses, fresh poultry, fishery and meat products, can be unbranded to help local farmers, fishermen and horticulturists.

- The above policy is an enabling policy only and the State Governments/Union Territories would be free to take their own decisions in regard to implementation of the policy. Therefore, retail sales outlets may be set up in those States/Union Territories which have agreed, or agree in future, to allow FDI in MBRT under this policy.

2) **Context**

India is the second largest producer of fruits and vegetables in the world with an annual production of 240 million tonnes, yet the post-harvest losses are unacceptably high, hovering in the range of 35-40%. There are huge weaknesses in the entire food value chain infrastructure in absence of adequate cold chain facilities, storages and transportation facilities. As a result what can be marketed and sold perishes. Filling the infrastructure gap requires massive private sector investments.

The Government has been grappling with the challenge of high food inflation which is now a cause of serious concern. The farmers are not getting remunerative prices for their produce as middlemen dominate the agriculture M*andis* while the consumer ends up paying more than 5 times the price secured by the farmers.

- DIPP released a discussion paper on "Foreign Direct Investment in Multi-Brand Retail Trading", on July 6, 2010.

In response to the discussion paper, comments from 175 respondents and nine Ministries/ Departments of the Government of India were received. Keeping in view the diversity of responses and respondents, a Committee, chaired by the Department of Consumer Affairs and including representatives from the Department of Agriculture & Cooperation, Department of Commerce, Department of Economic Affairs, Ministry of Micro, Small & Medium Enterprises and this Department was constituted, to examine the responses and provide necessary inputs for policy action.

- Committee of Secretaries on July 22, 2011 gave detailed recommendations on the policy and Union Cabinet finally approved the policy on 24 November 2011.

- However, implementation of the proposal had been deferred, for evolving a broader consensus on the subject on 7.12.2011.

- In pursuance of the aforestated decision of the Cabinet, discussions have been held with State Governments, representatives of consumer associations/organizations, micro & small industry associations, farmers' associations and representatives of food processing industry and industry associations. The Chief Ministers of Delhi, Assam, Maharashtra, Andhra

Pradesh, Rajasthan, Uttarakhand, Haryana and Governments of the State of Manipur and the Union Territory of Daman & Diu and Dadra and Nagar Haveli, have expressed support for the policy in writing. The Chief Minister of Jammu & Kashmir, through his press statements, has publicly endorsed the policy and asked for its implementation. The State Governments of Bihar, Karnataka, Kerala, Madhya Pradesh, Tripura and Odisha have expressed reservations.

- During the consultations with the stakeholders, views for and against FDI in multi-brand retail trading were expressed. On balance, however, the discussions generally indicated support for the policy, subject to the introduction of adequate safeguards. The cabinet removed the Pause from the decision on 14.09.2012

3) **Expected gains from FDI in Multi Brand Retail for different stakeholders :**

- **Farmers**
    a) FDI in retail will encourage direct procurement from farmers to enable them secure higher price. Procurement of fruits, vegetables, flowers, grains, pulses, fresh poultry, fishery and meat products will directly benefit Farmers.
    b) At least 50% of total FDI brought in shall be invested in 'backend infrastructure' which will largely be in villages.
    c) This will create storage and cold storage facility which will greatly benefit farmers as 35-40% of Fruits and vegetables go waste due to lack of these facilities.
    d) Farm produce will directly reach store further reducing wastage. Ultimate result is more gains for farmers.
    e) As supply chain efficiencies are built up, post-harvest losses will be considerably reduced, thereby enabling remunerative prices to farmers.

- **Rural Youth**
    A) Imparting necessary skill sets in a whole new range of activities
    B) Large-scale investment in the retail sector especially in backend infrastructure will provide substantive gainful employment opportunities in the entire range of activities from the backend to the frontend retail business. **Employment opportunities for over 1 crore youth,**
    C) Employment opportunities in front end stores for manning the counters.
- **Consumer**

a) Improvement in product quality as a result of strengthening of backend infrastructure due to technological upgradation, efficient grading, sorting and packaging; efficient testing; quality control and product standardization resulting in better quality products not only for domestic consumers but also for exports.
b) Lower prices and more choice for consumers
c) Strengthening of supply chain infrastructure for all products ranging from storage to processing and manufacturing infrastructure. This would ensure easing of supply chain bottlenecks, and supply flows in accordance with demand thereby having a salutary impact on inflationary pressures.

- **Small industry**
  a) The safeguard pertaining to a minimum of 30% procurement from Indian small industries would provide the necessary scales for these entities to expand capacities in manufacturing thereby creating more employment and also strengthening the manufacturing base of the country.
  b) Fillip to local value addition and domestic manufacturing by SMEs
  c) Technology upgradation of SMEs
- **Small retailer**

a) The entry of FDI into the sector will also incentivize existing traders and retail outlets to upgrade and become more efficient, thereby providing better services to the consumers as also better remuneration to the producers from whom they source their products.
b) Opportunity of sourcing high quality produce at low price from wholesale cash and carry point.

Concerns expressed

The policy will kill the small retailers/traders :

➢ Domestic organized retail already exists such as *'Big bazar', 'Reliance Fresh', 'More', 'Big Apple', 'Spencers', 'Croma'* etc. These co-exist with the small *'kirana'* stores and the unorganized retail sector. It has been found that there was a strong competitive response from traditional retail to these organized retailers, through improved business practices and technology upgradation, so much so that some of the organized retail chains like *'Vishal Mega Mart', 'Subhiksha'* etc. have closed down in a number of locations while others have reduced the scale and spread of their operations. Hence, it is not correct to say that organized retail would wipe out small retailers/traders and stores.

- In any case the policy is limited to cities of population of more than 1 million and for the rest of the country small retailers will be continue to benefit from existing policy which allows 100% FDI upto wholesale cash and carry point.

- Global experience also indicates that organized and unorganized retail co-exist and grow. For example, in the case of China, employment in the retail and wholesale trade increased from 4% of the total labour force in 1992, when FDI in retail was first permitted, to about 7% in 2001. The number of traditional retailers also increased by around 30% in the same period. The number of small outlets increased from 1.9 million to over 2.5 million and employment in these sectors increased from 28 million people to 54 million.
(Source : FICCI – ICICI Property Services Report – February 2005).

- Similarly, in Indonesia, even after several years of the setting up of super-markets 90% of the fresh food and 70% of all food continues to be sold through traditional retailers. No where does international experience indicate the decline of domestic unorganized retail as a result of the opening of the retail sector to organized retail whether domestic or through FDI.

(b) **As a result of this policy, the Indian market will be flooded by Chinese products**

- Entry of goods into a market is not a function of FDI policy but of the export import policy. If foreign goods are imported into the country, Indian goods are also exported to other countries. Therefore, two-way trade is a feature of the current globalized world.

- In order to boost small-scale industry in the country, 30% sourcing has been made mandatory. This will provide the required scale for these enterprises to undertake capacity expansion and upgrade their technology, design, quality and skills. The sourcing condition will also enable the small enterprises to get integrated with global retail chains. This in turn will enhance their capacity to export products from India.

- The safeguard pertaining to a minimum of 50% investment being made in backend infrastructure provides a powerful incentive for investors to use the investments so made in the backend infrastructure to produce/source products locally rather than import from outside which would necessarily carry the additional costs of tariffs, insurance and freight. Given this situation, it would make very little economic sense for these retailers to go in for large scale imports.

(c) **Foreign retailers will resort to predatory pricing**

- A strong legal framework in the form of the competition commission which covers all sectors, is available to deal with any anti-competitive practices, including predatory pricing.

- The calibrated approach provided in this policy will ensure limited presence of such entities which would make it difficult for them to stifle competition. On the other hand, however, the squeezing of distribution margins through supply chain efficiencies would prompt the existing retailers to re-invent themselves, thereby benefitting the consumers.

- One of the criticisms of some of the international retailers is that their low prices are possible on account of exploitative labour/employee practices adopted by them. India has one of the strongest set of labour laws and regulations in the world, a proper implementation of which would ensure that such players do not resort to practices that violate these laws/regulations.

(d) **This policy cannot be imposed on the states**

- This is an enabling policy framework. It remains the prerogative of the states to adopt it or not. This federal spirit has been specifically recognized in the current decision.

- FDI policy does not override the extant laws governing, trade and commerce in the country. The State Government laws and regulations in this regard would apply as much to the foreign players as to the establishment of any domestic businesses in the retail sector.

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