

**GOVERNMENT OF INDIA
COMMERCE AND INDUSTRY
LOK SABHA**

STARRED QUESTION NO:260

ANSWERED ON:12.12.2011

IMPACT OF FDI ON RETAIL

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Will the Minister of COMMERCE AND INDUSTRY be pleased to state:

- (a) whether the Government has decided to allow multi-national and other corporate companies into Indian retail market;
- (b) if so, whether the Government has made any assessment to find out the likely impact of the policy on the Indian retail market and small shopkeepers and traders;
- (c) the likely impact of the Government decision to open up Foreign Direct Investment (FDI) in Multi-Brand Retail Trading on small shopkeepers and traders;
- (d) the names of the multi-national companies that are likely to enter the Indian retail trading alongwith expected amount of investment to be made and the details of regulations made to regulate the marketing activities to be undertaken by these companies; and
- (e) the extent of employment generation due to the said policy in various sectors including jobs in construction sector in the country in the coming years?

Answer

THE MINISTER OF COMMERCE AND INDUSTRY (SHRI ANAND SHARMA)

(a) to (e): A Statement is laid on the Table of the House.

STATEMENT REFERRED TO IN REPLY TO PARTS (a) to (e) OF LOK SABHA STARRED QUESTION NO. 260, FOR ANSWER ON 12th DECEMBER, 2011,

(a): The Government has approved a proposal to permit FDI, up to 51%, under the Government route, in multi-brand retail trading. However, the decision has been suspended in order to evolve a broader consensus among various stakeholders.

(b) & (c): The Government had instituted a study, on the subject of "Impact of Organized Retailing on the Unorganized Sector", through the Indian Council for Research on International Economic Relations (ICRIER), which was submitted to Government in 2008. The study did not find any evidence of adverse impact of organized retail on intermediaries or of a decline in overall employment in the unorganized sector, as a result of the entry of organized retailers.

Economies, such as China, Thailand, Russia, and Indonesia, permit FDI, up to 100%, in the multi-brand retail sector. The ICRIER study interalia revealed that, in Indonesia, even after several years of the emergence of supermarkets, 90 per cent of fresh food and 70 per cent of all food is still controlled by traditional retailers.

(d): A number of companies had submitted their comments in response to the Discussion Paper on "Foreign Direct Investment in Multi-Brand Retail Trading", issued by the Department of Industrial Policy & Promotion in 2010. Under a liberalized economic environment, investment decisions are based on the macro-economic policy framework, investment climate in the host country, investment policies of the trans-national corporations and other commercial considerations. Hence, it is not possible to anticipate the names of the MNCs that are likely to invest in the Indian retail trading sector and the amount of investment.

Safeguards built into the policy decision are:

- (i) FDI in Multi Brand Retail Trade may be permitted up to 51%, with Government approval;
- (ii) Fresh agricultural produce, including fruits, vegetables, flowers, grains, pulses, fresh poultry, fishery and meat products, may be unbranded.
- (iii) Minimum amount to be brought in, as FDI, by the foreign investor, would be US \$ 100 million.
- (iv) At least 50% of total FDI brought in shall be invested in 'backend infrastructure', where 'back-end infrastructure' will include capital expenditure on all activities, excluding that on front-end units; for instance, back-end infrastructure will include investment made towards processing, manufacturing, distribution, design improvement, quality control, packaging, logistics, storage, ware-house, agriculture market produce infrastructure etc. Expenditure on land cost and rentals, if any, will not be counted for purposes of backend

infrastructure.

(v) At least 30% of the procurement of manufactured/ processed products shall be sourced from `small industries` which have a total investment in plant & machinery not exceeding US \$ 1.00 million. This valuation refers to the value at the time of installation, without providing for depreciation. Further, if at any point in time, this valuation is exceeded, the industry shall not qualify as a `small industry` for this purpose.

(vi) Self-certification by the company, to ensure compliance of the condition at serial nos. (iii), (iv) and (v) above, which could be cross-checked as and when required. Accordingly, the investors to maintain accounts, duly certified by statutory auditors.

(vii) Retail sales locations 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; retail locations will be restricted to conforming areas as per the Master/Zonal Plans of the concerned cities and provision will be made for requisite facilities such as transport connectivity and parking;

(viii) Government will have the first right to procurement of agricultural products.

(e): According to the ICRIER study on "Impact of Organized Retailing on the Unorganized Sector" submitted in 2008, organized retail was expected to generate nearly 1.7 million jobs in five years. In addition, significant indirect employment is likely to be generated as a result of the supply chain expected to come up to support the organized retail business.