GOVERNMENT OF INDIA
COMMERCE AND INDUSTRY
LOK SABHA

UNSTARRED QUESTION NO:541
ANSWERED ON:13.08.2012
FDI IN MULTI BRAND RETAIL
Baitha Shri Kameshwar ;Hazari Shri Maheshwar ;Hegde Shri Anant Kumar;Joshi Shri Pralhad Venkatesh;Maadam Shri Vikrambhai Arjanbhai;Majhi Shri Pradeep Kumar;Meghwal Shri Arjun Ram ;Naik Dr. Sanjeev Ganesh;Naik Shri Shripad Yesso;Patel Shri Kishanbhai Vestabhai;Rajesh Shri M. B.;Ray Shri Rudramadhab ;Reddy Shri Magunta Srinivasulu;Reddy Shri Modugula Venugopala ;Sampath Shri Anirudhan;Saroj Smt. Sushila;Sayeed Muhammed Hamdulla A. B. ;Singh Chaudhary Lal;Singh Shri Bhola;Sule Supriya ;Upadhyay Seema;Verma Smt. Usha;Vijayan Shri A.K.S.

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

(a) whether the Government has decided to allow Foreign Direct Investment in multi-brand retail trading;

(b) if so, the mechanism proposed thereon alongwith the safeguards provided by the Government in the interest of various stakeholders including small shopkeepers, farmers and traders;

(c) whether the Government has sought the views/consents of the various State Governments before allowing the multibrand retail trading;

(d) if so, the response of the State Governments in this regard;

(e) whether the Government has conducted any study; and

(f) if so, the outcome thereof and the time by which the final decision is likely to be taken in this regard?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF COMMERCE & INDUSTRY (SHRI JYOTIRADITYA M. SCINDIA)

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

(b): 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 Indian `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.

(c): In July, 2010, the Department of Industrial Policy and Promotion had released a Discussion Paper on the subject of 'Foreign Direct Investment in Multi-Brand Retail Trading', with the aim of generating informed discussion on the subject and obtaining the views and comments of various stakeholders, including the States.

(d): The States of Delhi and Manipur and the Union Territory of Daman & Diu and Dadra and Nagar Haveli, have expressed support for the policy in writing. The Chief Ministers of Maharashtra, Assam, Haryana, Uttarakhand, Andhra Pradesh and Jammu & Kashmir, through their press statements, have publicly endorsed the policy and asked for its implementation.

(e) 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.

(f) Main findings of the ICRIER study are at Annexure. No time frame can be specified in this regard.

ANNEXURE REFERRED TO IN REPLY TO PART (f) OF THE LOK SABHA UNSTARRED QUESTION NO. 541 FOR ANSWER ON 13th AUGUST, 2012.

FINDINGS AND RECOMMENDATIONS OF THE ICRIER STUDY

The real GDP is expected to grow at 8-10 per cent per annum in the next five years. As a result, the consuming class with annual household incomes above Rs. 90,000 is expected to rise from about 370 million in 2006-07 to 620 million in 2011-12. Consequently, the retail business in India is estimated to grow at 13 per cent annually from US$ 322 billion in 2006-07 to US$ 590 billion in 2011-12. The study shows:

The unorganized retail sector is expected to grow at about 10 per cent per annum with sales rising from US$ 309 billion in 2006-07 to US$ 496 billion in 2011-12.

Given the relatively weak financial state of unorganized retailers, and the physical space constraints on their expansion prospects, this sector alone will not be able to meet the growing demand for retail.

Hence, organized retail which now constitutes a small four per cent of total retail sector is likely to grow at a much faster pace of 45-50 per cent per annum and quadruple its share in total retail trade to 16 per cent by 2011-12.

This represents a positive sum game in which both unorganized and organized retail not only coexist but also grow substantially in size.

The majority of unorganized retailers surveyed in this study, indicated their preference to continue in the business and compete rather than exit.

Main Findings Impact on Unorganized Retailers

Unorganized retailers in the vicinity of organized retailers experienced a decline in their volume of business and profit in the initial years after the entry of large organized retailers.

The adverse impact on sales and profit weakens over time.

There was no evidence of a decline in overall employment in the unorganized sector as a result of the entry of organized retailers.

There is some decline in employment in the North and West regions which, however, also weakens over time.

The rate of closure of unorganized retail shops in gross terms is found to be 4.2 per cent per annum which is much lower than the international rate of closure of small businesses.

The rate of closure on account of competition from organized retail is lower still at 1.7 per cent per annum.

There is competitive response from traditional retailers through improved business practices and technology upgradation.

A majority of unorganized retailers is keen to stay in the business and compete, while also wanting the next generation to continue likewise.

Small retailers have been extending more credit to attract and retain customers.

However, only 12 per cent of unorganized retailers have access to institutional credit and 37 per cent felt the need for better access to commercial bank credit.

Most unorganized retailers are committed to remaining independent and barely 10 per cent preferred to become franchisees of organized retailers.

Impact on Consumers

Consumers have definitely gained from organized retail on multiple counts.

Overall consumer spending has increased with the entry of the organized retail.

While all income groups saved through organized retail purchases, the survey revealed that lower income consumers saved more. Thus, organized retail is relatively more beneficial to the less well-off consumers.

Proximity is a major comparative advantage of unorganized outlets.

Unorganized retailers have significant competitive strengths that include consumer goodwill, credit sales, amenability to bargaining, ability to sell loose items, convenient timings, and home delivery.

Impact on Intermediaries

The study did not find any evidence so far of adverse impact of organized retail on intermediaries.

There is, however, some adverse impact on turnover and profit of intermediaries dealing in products such as, fruit, vegetables, and apparel.

Over two-thirds of the intermediaries plan to expand their businesses in response to increased business opportunities opened by the expansion of retail.

Only 22 per cent do not want the next generation to enter the same business.

Impact on Farmers

Farmers benefit significantly from the option of direct sales to organized retailers.

Average price realization for cauliflower farmers selling directly to organized retail is about 25 per cent higher than their proceeds from sale to regulated government mandi.

Profit realization for farmers selling directly to organized retailers is about 60 per cent higher than that received from selling in the mandi

The difference is even larger when the amount charged by the commission agent (usually 10 per cent of sale price) in the mandi is taken into account.

Impact on Manufacturers

Large manufacturers have started feeling the competitive impact of organized retail through price and payment pressures.

Manufacturers have responded through building and reinforcing their brand strength, increasing their own retail presence, 'adopting' small retailers, and setting up dedicated teams to deal with modern retailers.

Entry of organized retail is transforming the logistics industry. This will create significant positive externalities across the economy.

Small manufacturers did not report any significant impact of organized retail.

Policy Recommendations

On the basis of the results of the surveys and the review of international retail experience, the study makes the following major recommendations:

1. Modernization of wet markets through public-private partnerships.

2. Facilitate cash-and-carry outlets, like Metro, for sale to unorganized retail and procurement from farmers, as in China.

3. Encourage co-operatives and associations of unorganized retailers for direct procurement from suppliers and farmers.

4. Ensure better credit availability to unorganized retailers from banks and micro-credit institutions through innovative banking solutions.

5. Facilitate the formation of farmers' co-operatives to directly sell to organized retailers.

6. Encourage formulation of "private codes of conduct" by organized retail for dealing with small suppliers. These may then be incorporated into enforceable legislation.

7 Simplification of the licensing and permit regime for organized retail and move towards a nationwide uniform licensing regime in the states to facilitate modern retail.

8. Strengthening the Competition Commission's role for enforcing rules against collusion and predatory pricing.

9. Modernization of APMC markets as modelled on the National Dairy Development Board (NDDB) Safal market in Bangalore.