GOVERNMENT OF INDIA
COMMERCE AND INDUSTRY
LOK SABHA

STARRED QUESTION NO:43
ANSWERED ON:26.11.2012
FDI IN RETAIL
Choudhary Shri Bhudeo;Ponnam Shri Prabhakar

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

(a) whether the Union Government has finally decided to allow Foreign Direct Investment (FDI) in multi brand retailing;

(b) if so, the details thereof;

(c) whether the Government has assessed the benefits of FDI in retail and if so, the details thereof;

(d) the names of the States which have decided not to implement the decision of the Union Government in this regard and the reasons therefor; and

(e) the initiatives taken by the Union Government to evolve a broader consensus amongst the various stake-holders and the outcome thereof?

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. 43, FOR ANSWER ON 26TH NOVEMBER, 2012, REGARDING FDI IN RETAIL

(a): Yes, Madam.

(b): The policy, announced by the Government vide Press Note 5(2012 series), allows for 51% Foreign Direct Investment (FDI), in multi-brand retail trade, subject to the following conditions:

i. FDI in multi brand retail trading upto 51% shall be allowed through the Government approval route.

ii. Minimum amount to be brought in, as FDI, by the foreign investor, would be US $ 100 million.

iii. At least 50% of total FDI brought in shall be invested in `back-end infrastructure` within three years of the first tranche of FDI, 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.

iv. At least 30% of the value of procurement of manufactured/ processed products purchased 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. This procurement requirement would have to be met, in the first instance, as an average of five years' total value of the manufactured/ processed products purchased, beginning 1st April of the year during which the first tranche of FDI is received. Thereafter, it would have to be met on an annual basis.

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

vi. 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; 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; 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 and may also cover an area of 10 kms around the municipal/urban agglomeration limits of such cities. The locations of such outlets 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.

vii. Government will have the first right to procurement of agricultural products.

viii. 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. The list of States/Union Territories which have conveyed their agreement is at Annex. Such agreement, in future, to permit establishment of retail outlets under this policy, would be conveyed to the Government of India through the Department of Industrial Policy & Promotion and additions would be made to the annexed list accordingly. The establishment of the retail sales outlets will be in compliance of applicable State/ Union Territory laws/ regulations, such as the Shops and Establishments Act etc.

ix. Retail trading, in any form, by means of e-commerce, would not be permissible, for companies with FDI, engaged in the activity of multi-brand retail trading.

(c): 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 ICRIER study indicated significant benefits for various stakeholders, such as consumers, farmers and manufacturers, arising from the growth of organized retail. Based upon the study, as well as the experience of other countries, it is the Government's assessment that implementation of the policy is likely to facilitate greater FDI inflows into front and back-end infrastructure; technologies and efficiencies to unlock the potential of the agricultural value chain; additional and quality employment; and global best practices. This, in turn, is expected to benefit consumers and farmers in the long run, in terms of quality and price. The 30% mandatory sourcing condition has been incorporated to encourage local value addition and manufacturing. The increased level of activity, in the front-end, as well as in the back-end, resulting from greater FDI inflows, is expected to create additional employment opportunities for rural and urban youth. It is, further, expected to encourage existing traders and retail outlets to upgrade and become more efficient, thereby providing better services to consumers and better remuneration to the producers from whom they source their products.

(d): The State Governments of Bihar, Karnataka, Kerala, Madhya Pradesh, Tripura, Odisha and West Bengal have expressed reservations on the grounds of possible adverse effect on farmers and small traders, job losses, displacement of small retailers and undermining of traditional supply chains by the monopoly power of multinational retailers.

(e): The implementation of the decision taken by the Government on 24th November, 2011 to allow foreign direct investment up to 51% in multi brand retail, was put on hold for evolving a broader consensus among key stakeholders. Consultations were held in this regard with stakeholders, including traders' associations; consumers' organizations; farmers' representatives and associations; small & medium enterprises' associations and representatives; food processing industry representatives. The consultations brought out views both for and against FDI in multi brand retail trading. On balance, however, the discussions generally indicated support for the policy, subject to the introduction of adequate safeguards. The necessary safeguards have, accordingly, been incorporated in the policy and are expected to protect the interests of various stakeholders, including small traders. Government has also decided to constitute a high-level group to make recommendations on internal trade reforms, with a view to ensuring distributional efficiencies and also that the benefits from trade are available to all sections of society.

As part of the stakeholder consultations, the matter was also taken up with the State Governments. The States of Delhi, Manipur, Assam, Uttarakhand, Haryana, Andhra Pradesh, Rajasthan, Maharashtra, Jammu and Kashmir and the Union Territory of Daman & Diu and Dadra and Nagar Haveli, have expressed support for the policy. Correspondence from some other States indicates that they would like to consider the matter further. Since this is only an enabling policy, the decision to implement the policy is left to the State Governments.

ANNEXURE

ANNEXURE REFERRED TO IN REPLY TO LOK SABHA STARRED QUESTION NO. 43 FOR ANSWER ON 26.11.2012.

LIST OF STATES/ UNION TERRITORIES REFERRED TO IN RESPECT OF PART (b)
(viii) OF LOK SABHA STARRED QUESTION NO. 43, FOR ANSWER ON 26TH NOVEMBER, 2012, REGARDING FDI IN RETAIL

1. Andhra Pradesh
2. Assam
3. Delhi
4. Haryana
5. Jammu & Kashmir
6. Maharashtra
7. Manipur
8. Rajasthan
9. Uttarakhand
10. Daman & Diu and Dadra and Nagar Haveli (Union Territories)