GOVERNMENT OF INDIA
COMMERCE AND INDUSTRY
LOK SABHA

UNSTARRED QUESTION NO:1105
ANSWERED ON:04.03.2013
. PROPOSALS OF FDI IN RETAIL
Bhujbal Shri Sameer ;Bundela Shri Jeetendra Singh;Gandhi Shri Dilip Kumar Mansukhlal;Joshi Dr. Murli Manohar;Mani Shri Jose K.;Muttemwar Shri Vilas Baburao;Singh Smt. Meena

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

(a) the salient features of the notification issued by the Government regarding Foreign Direct Investment (FDI) in multi brand retail;

(b) whether the Government has received any proposal from the global retailers for opening up multi brand retail stores in the country;

(c) if so, the details thereof along with the estimated capital likely to be invested by them in retail sector;

(d) whether the Government has evaluated the impact of FDI in retail on domestic retailers /farmers/traders; and

(e) if so, the details thereof along with the safeguard provided in the interest of the domestic industries?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF COMMERCE & INDUSTRY (DR. S. JAGATHRAKSHAKAN)

(a)&(e): Government announced the decision to permit FDI, up to 51%, in multi-brand retail trading, vide Press Note No. 5 (2012 Series) dated 20.9.2012, 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 `backend 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 annexed. 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.

(b) & (c): Global investors normally take time to assess a new policy and its implications in the context of a particular market.

(d): Opening up of FDI in multi-brand retail trade is expected to bring in much needed investments, technologies and efficiencies to unlock the true potential of the agriculture value chain. The policy mandates minimum investment of $100 million with at least half going towards back end infrastructure, including cold chains, refrigerated transportation and logistics. The condition that this investment will have to be made within 3 years of the first tranche of FDI, has been put in to ensure that this purpose is actually achieved. Thus FDI in multi-brand retail trade is expected to bring in, global best practices and benefit farmers in the long run, in terms of quality, price, greater supply chain efficiencies in the agriculture sector and development of critical backend infrastructure. As per the Indian Council for Research on International Economic Relations (ICRIER) report on "Impact of Organized Retailing on the Unorganized Retail Sector", submitted in 2008, farmers would benefit significantly from the option of direct sales to organized retailers. For example, average price realization for cauliflower farmers selling directly to organized retail was about 25 percent higher than their proceeds from sale to regulated government mandi. Profit realization for farmers selling directly to organized retailers was about 60 percent higher than that received from selling in mandi.

While formulating the policy on FDI in multi-brand retail trading, the Government was conscious of the livelihood concerns of the millions of small retailers. Informed studies of global experience have revealed that even in developing economies like China, Brazil, Argentina, Singapore, Indonesia and Thailand, where FDI is permitted up to 100%, local retailers have found innovative ways to co-exist along with organized retail and are integral to the organized retail chain. In Indonesia, even after several years of emergence of supermarkets, 99% of the fresh food retail and 70% of all food retail continues to be controlled by traditional retailers. In any case organized retail through Indian corporate entities is already allowed in India. The experience of the last one decade has shown that the small retailers have flourished alongside the large retail outlets. As per the ICRIER report referred to above, there was no evidence of a decline in overall employment in the unorganized sector as a result of the entry of organized retailers. Further, there was competitive response from traditional retailers through improved business practices and technology upgradation. A majority of unorganized retailers were keen to stay in the business and compete, while also wanting the next generation to continue likewise and most unorganized retailers were committed to remaining independent.