

December 6, 2011

**OPPOSE FDI IN RETAIL:
DEFEND INDIAN LIVELIHOODS**

Preface

The Congress led UPA Government has decided to allow FDI upto 51% in retail trade through a cabinet decision. This will pave the way for MNC retailers to enter India and grab the Indian market, leading to loss of jobs and livelihood for crores of Indians.

FDI in retail has always been opposed by a large section of Indian society and polity. Coming at a time when the parliament is in session, the cabinet decision has naturally met with protests in parliament. Parties across the political spectrum have demanded a roll back of the decision. The government, however, has insisted that this executive decision does not require any parliamentary sanction. It is this adamant stand of the government, which has created a deadlock and stalled the functioning of the parliament.

The attitude of the government is undemocratic and deplorable. It is willing to oblige western governments lobbying for the MNC retailers based in the their countries but not willing to listen to the elected representatives of the Indian people.

The Parliamentary Standing Committee on Commerce had submitted a report on FDI in Retail in May 2009. After studying all the aspects and consulting relevant stakeholders, the standing committee recommended that FDI in retail should not be permitted. Members of Parliament belonging to various political parties, including the Congress party, were members of the standing committee. There was not a single dissent note. Yet the government went ahead with its decision, displaying its contempt towards the unanimous recommendation of the standing committee.

Not so long ago the government was itself arguing for the Lokpal Bill to be studied by the relevant parliamentary standing committee, in order to evolve a broad based national consensus. Anna Hazare and his team were accused of showing contempt for parliamentary procedures because they wanted to bypass the

standing committee. Today, the government itself is disregarding a unanimous report by a parliamentary standing committee on FDI in retail. This is the height of hypocrisy.

Central governments have tried to push for FDI in retail in the past. The BJP led NDA government had initiated the move in 2002 but dropped it under opposition pressure. Not only did the Left Parties oppose the move during that time, but also the Congress chief whip in the Lok Sabha, who termed it “anti-national”. Later the NDA’s vision document released during the 2004 elections advocated FDI in retail.

During the tenure of the UPA-I Government, there was once again an attempt to allow FDI in retail. The Left Parties had strongly opposed the move and had submitted a note to the UPA government in October 2005, following which it was shelved. The BJP mocked the Congress for not being able to pursue “reforms” because of the Left. Today, when the UPA-II government has once again initiated this anti-people step, the opposition to this move has come not only from the entire opposition but also from Congress’ own allies. Even as the Congress and the BJP trade charges of doublespeak and opportunism against each other, it is noteworthy that the Left Parties have always adopted a principled stand on this issue and consistently opposed FDI in retail.

Faced with opposition from across the spectrum, the government has been arguing that the state governments are free to accept or reject FDI in retail and that the MNC retailers would not open outlets in states where the state governments are opposed to the move. This is a specious argument because the impact of giant retail chains established in some states will be felt in other states too. The entry of giant MNC retailers in any segment of the market will impact small retailers, farmers and small producers across the country. Moreover, once FDI is allowed by the centre, the prohibition by the state governments can be challenged in the courts. FDI in retail is therefore a national issue, on which the parliament must have its say.

This booklet elaborates in a question-answer format, the reasons why the CPI (M) and the Left Parties feel that FDI in retail is inimical to the interests of the Indian people. It rebuts the false claims being made by the government to buttress its decision. We also reproduce the Left Parties note submitted to the UPA on

October 24, 2005 opposing FDI in retail and CPI (M)'s Proposal for a National Policy on Regulation of Organised Sector in Retail Trade, which was released on May 30, 2007.

We hope that this booklet will explain the reasons for opposition to FDI in retail to the masses and strengthen the ongoing struggle to defend the jobs and livelihoods of crores of small retailers, farmers and small producers.



Oppose FDI In Retail

Defend Indian Livelihoods

FDI IN RETAIL: Questions & Answers

Q: What would be the impact of FDI in Retail on the domestic retail sector?

A: The Indian retail sector is the second largest employer in India after agriculture, employing over 4 crore (40 million) persons as per the latest National Sample Survey (NSS) 2009-10. Most of these are small unorganised or self-employed retailers, who are unable to find gainful employment in other sectors of the economy.

Despite the hype over the high GDP growth in India, NSS 2009-10 has confirmed the trend of jobless growth in the country. Total employment growth has slowed down from an annual rate of around 2.7% during 2000-2005 to only 0.8% during 2005-2010. Growth in non-agricultural employment fell from 4.65% to 2.53%. Among all the workers at the national level, about 51% were 'self-employed', about 33.5% were 'casual labour' and only 15.6% were 'regular wage/salaried' employees.

In this backdrop, the entry of MNC supermarket and hypermarket chains would cause severe displacement of the small and unorganised retailers. The sample survey of unorganised retailers done by the ICRIER in 2008 estimated the average size of an unorganised outlet to be around 217 sq.ft, excluding the pushcarts and kiosks operated by the hawkers (*Impact of Organised Retailing on the Unorganised Sector*, ICRIER, May 2008). The total annual business of unorganised retail in India was estimated in the ICRIER report to be \$ 408.8 billion in 2006-07 and the total number of traditional retail outlets as 13 million (1.3 crore). The average total business per store per year for an Indian unorganised retail store therefore comes to around \$31446 (Rs. 15 lakh). The survey found an average retail outlet employing 2 to 3 persons.

The average size of a Walmart supermarket in the US is 108000 sq.ft employing around 225 persons. In 2010, Walmart sold \$405 billion amount of goods through its 9800 odd outlets

located across 28 countries, employing around 2.1 million (21 lakh) persons.

This implies that one Walmart supermarket can displace over 1300 Indian small retail stores and thereby render around 3900 persons jobless. The employment created against this in that supermarket will be 214 (or maximum 225, which is the average in the US). Clearly, there will be severe job losses if giant MNC supermarkets are allowed entry into the Indian market.

Q: Can FDI in Retail create 10 million jobs in 3 years?

The Commerce Minister has claimed that FDI in retail will create 10 million (1 crore) jobs in 3 years with 4 million (40 lakhs) jobs created directly and the rest in the backend logistics. The number of stores worldwide and employee strength of the top 4 MNC retailers are given below.

	Number of Stores Worldwide	Total Number of Employees	Average Employees per Store
Walmart	9826	21,00,000	214
Carrefour	15937	4,71,755	30
Metro	2131	2,83,280	133
Tesco	5380	4,92,714	92

Source: Group websites

If 4 million jobs are to be created in India in 3 years, even the Walmart, which has the largest average employee per store, will need to open over 18600 supermarkets in India! If the average of the 4 top global retailers are considered, i.e. 117 employees per store, over 34180 supermarkets have to open in 3 years to employ 4 million people – i.e. 644 supermarkets in each of the 53 cities!! Can these absurd claims made by the Commerce Minister be taken seriously?

Moreover, our earlier estimate suggests that for every job created in the supermarkets, around 17 jobs will be lost in the Indian unorganised retail sector. Therefore, in case 4 million jobs are created in the supermarkets over the next 3 years, the entire domestic retail sector in India (40 million plus) will get completely wiped out!

Q: Would the restrictions imposed by the government protect Indian retailers?

A: The restriction that MNC supermarkets will be initially allowed in only 53 cities with over 10 lakh population is meaningless, since most small and unorganised retailers are concentrated in these urban areas. These 53 metropolitan areas and cities account for almost 17 crore (169.54 million) people. The number of persons employed in retail and wholesale trade in these 53 cities is over 2 crore. This is where the maximum displacement would occur. Moreover, MNC retailers are most interested in tapping the metropolitan and urban segment of the market, where people have higher purchasing power. They are hardly interested in catering to semi-urban or rural areas.

The condition that the minimum foreign investment in retail should be \$100 million (i.e. around Rs. 500 crore) is also inconsequential, because the MNCs interested in entering the Indian retail market are global giants – the largest global retailer Walmart’s annual revenue is currently over \$400 billion and others like Carrefour, Metro and Tesco also have annual revenues worth around \$100 billion. These MNCs are facing slow growth in their countries of origin, i.e. the US, France, Germany and UK etc., and desperately want to expand their operations abroad, especially in growing markets like India. They have sufficient financial resources as well as operational knowhow to simultaneously open a vast number of outlets of various sizes and nature to outcompete the domestic retailers.

The existing big private sector retailers in India can also be bought over by the MNCs. This is how the global retailers have expanded their operations in many developing countries in Latin America and Asia. For instance, the Walmart entered Mexico in 1991-92 with a 50-50 joint venture with local firm CIFRA. By 1997 it had acquired majority stake in the venture and increased its stake to 60% in 2000. By 2004, Walmart alone accounted for over 25% of all retail sales in Mexico and 43% of all sales by the big box retailers.

Q: Would the Indian micro and small enterprises (MSEs) benefit from the entry of global retailers?

A: The mandatory 30% sourcing by the global retailers from the micro and small enterprises (MSEs) stipulated by the

government has also created confusion. While the Commerce Minister insists that this is meant for Indian MSEs, the press note issued by the Commerce Ministry clearly states: "Thirty per cent sourcing is to be done from micro and small enterprises (MSEs) which can be done from anywhere in the world and is not India specific. However, in this case, it has been stipulated that 30% sourcing will be done from micro and small enterprises having plant and capital machinery worth \$1 million."

Article III of the GATT clearly mandates each contracting party to accord 'national treatment' to products of other contracting parties and explicitly forbids regulations like a specific sourcing requirement from domestic industries. Having joined the WTO on these terms, the Indian government cannot implement a 30% sourcing requirement only from Indian MSEs without being challenged by other countries.

Moreover, India has signed Bilateral Investment Promotion and Protection Agreements (BIPAs) with 71 countries till date, which explicitly provides 'national treatment' for the investors of these countries. These 71 countries, which include most major countries of Western and Eastern Europe as well as South East Asia and some West Asian, Latin American and African countries, will demand sourcing from their MSEs. Therefore, the 30% sourcing requirement would in effect mean MNC retailers sourcing cheap products from MSEs across the world bypassing tariff protection and dumping them in the Indian market, hurting the interests of the Indian MSEs. The government does not have any monitoring mechanism to prevent this from happening.

Q: Would the MNC retailers modernize our food supply chain?

A: The Commerce Ministry claims that at least 50% of the investment by the MNC retailers will go towards developing backend infrastructure, which will modernize the supply chain and help in increasing efficiency and reducing wastage. If the global retailers are to sell fresh fruits, vegetables, milk products and meat in large quantities through their retail chains, they will naturally have to set up backend infrastructure in their own interest. But the handful of cold storages, refrigerated transport and other logistics introduced by them would be strictly meant for their own business operations and not for the farmers and consumers at large. The claim that MNCs would dramatically

transform and modernize the food supply chain in India is nothing but propaganda.

In the US, out of the 1578 refrigerated warehouses, 839 are in the public sector and 739 are private or semi-private. The public warehouses are much larger, accounting for 76% of the general storage capacity, with private and semi-private accounting for only 24%. India, by contrast, has 5381 cold storages (much smaller in size), with 4885 being in the private sector, 356 in the cooperative sector and only 140 in the public sector. Over 95% of India's cold storage capacity is in the private sector whereas only 0.44% is in the public sector. Moreover, 75% of the cold storage capacity is being used for potato only. As a result, the average capacity utilisation of the cold storages in India is only around 48%.

China, which produces over 500 million tons of foodgrains each year, has been able to build storage and warehousing capacity of 390 million tons, mainly under the state run Sinograin. This state run corporation has not only driven the modernisation of China's grain and edible oil storage and transportation systems but has also expanded into food and oil processing. By contrast, India's foodgrains production is currently around 230 million tons and its total grain storage and warehousing capacity is only around 50 million tons. FCI and the Central Warehousing Corporation together has around has 40 million tons capacity and the rest is provided by the state warehousing corporations. This lack of inadequate storage infrastructure constrains public procurement and contributes to huge wastage of foodgrains.

The upshot is that broad based modernisation of the food supply chain in a country of India's size cannot be brought about by MNC retailers, who are driven by their narrow business interests. There is a massive scope for expanding storage, warehousing and cold chain infrastructure in the public and cooperative sectors in India and improving their management. Allowing FDI in retail cannot be a substitute for proactive public intervention and undertaking the desired level of public investment in this crucial area.

Q: Would Indian farmers benefit from FDI in retail?

A: It is being claimed by the advocates of FDI in retail that the elimination of intermediaries and direct procurement by the

MNCs would secure better prices for the farmers. The fact is that the giant retailers would have far greater buyer power vis-à-vis the farmers compared to the existing intermediaries.

There is a strong case for modernizing and effectively regulating the existing mandis, because traders' cartels are prevalent, which squeeze the small farmers, corner bigger margins and indulge in hoarding and black marketing. However, the entry of giant MNCs into agricultural procurement would make the problems worse for the farmers. As against the mandis that operate today, where several traders have to compete with each other in order to buy the farmers' produce, there will be a single buyer in the case of the MNCs. This will make the farmers dependent on the MNCs and vulnerable to exploitation.

This is confirmed by international experience. A large number of members of the EU parliament adopted a declaration in February 2008 stating: "throughout the EU, retailing is increasingly dominated by a small number of supermarket chains...evidence from across the EU suggests large supermarkets are abusing their buying power to force down prices paid to suppliers (based both within and outside the EU) to unsustainable levels and impose unfair conditions upon them". This declaration came in the backdrop of protests by farmers against supermarkets across European countries like France, Italy, Netherlands, Belgium, Ireland and Hungary. The nature of the complaints were similar: the giant retailers were squeezing the prices paid to the farmers for products like milk, meat, poultry and wine, in some instances forcing them to sell at below cost prices. The US Justice and Agriculture departments have also jointly conducted workshops and public hearings on corporate concentration and competition in the domestic food and agriculture markets in 2010.

The South East Asian experience also shows how the small farmers derive no benefit from the expansion of the supermarkets. In Malaysia and Thailand, the supermarkets progressively reduced the number of fruit and vegetable suppliers over time and started procuring increasing shares from the wholesalers and other intermediaries rather than farmers. Moreover, several malpractices by supermarkets have been documented in a number of studies, like delayed payments, lowering prices at the last minute when supplier has no alternative, changing quantity and quality standards without

notice and support, removing suppliers from list without good reason, charging high interest on credit etc.

The overwhelming majority of farmers in India are small and marginal farmers, who operate less than 2 hectares of land. The severe problems faced by them today mainly relate to rising input costs, unremunerative prices and lack of access to institutional credit, technology and markets. What they need is enhanced state support and intervention. Procurement by MNCs, far from solving their problems would only worsen their situation.

Q: Can inflation be tamed by allowing MNCs to run supermarkets?

A: The worst myth being propagated by the government to push FDI in retail is that it will help in bringing down inflation. Entry of giant retail chains invariably leads to the elimination of competition and the concentration of monopoly power in the retail market. Greater concentration in the market can only worsen the inflationary trend in the long run.

The share of big organised retailers has continuously increased in markets across the world, especially over the past two decades. This, however, has not helped in containing inflation. In fact, the sharp rise in global food prices since 2007 is attributable to a great extent to the increasing control of MNCs over the food chain and speculative trading. The FAO global food prices once again attained a record high in mid-2011, despite the global economic slowdown.

The role of the largest global retailers clearly shows how supermarkets are ineffective in checking inflation. Walmart dropped its famous slogan of "Always Low Prices, Always" in 2007 and replaced it with a more innocuous "Save Money, Live Better". In 2011, Walmart has been found to be raising prices for a whole range of food items including bread, milk, coffee, cheese etc. much faster than all its competitors in the US. Carrefour has also raised food prices in France this year. Tesco in Ireland raised the prices of 8000 products in early 2011 in order to boost its profits before the end of the financial year in February, and then announced price cuts in March to promote sales.

The giant retailers earn profits by selling huge volumes at small margins. Whenever their sales drop, they are forced to raise prices in order to maintain their profits. It is their bottomline, which drives their business and not any commitment to check inflation. Retail sales of the 250 top global retailers had increased by only 1.3% in the recession year of 2009, with 90 retailers witnessing a fall in sales volume. However, the composite net profit margin of the 250 top retailers rose to 3.1% in 2009 from 2.4% in 2008, which would not have been possible without raising prices alongside cost-cutting measures.

Q: If MNCs can run supermarkets in other countries, why not in India?

A: The experiences of the developed countries show that the proliferation of hypermarkets and supermarkets lead to a high degree of concentration in the retail market. The share of top 5 retailers in total retail sales has reached as high as 97% in Australia, and remains over 50% for the UK and most European countries. In the developing world too, the market share of the top 5 retailers is over 80% in South Africa, over 25% in Brazil and around 10% in Russia. Such concentration has resulted in displacement of small retail stores, squeezing of suppliers and elimination of consumer choices. A lot of debate has erupted across the world in recent times over the negative role of the global retail chains.

In South East Asia, modern format retail has grown rapidly over the past decade. This has been driven by MNCs as well as large domestic retailers. Data provided by a Nielsen Company report *Retail and Shoppers Trend: Asia Pacific, The latest in retailing and shopper trends for the FMCG industry, August 2010* shows that wherever the modern format stores' share has expanded significantly between 2000 and 2009 (as in Republic of Korea, Singapore, Taiwan, China, Malaysia and Hongkong), the number of traditional stores has fallen in absolute numbers. The number of traditional stores has continued to grow in those countries where modern format stores have expanded at a slower pace.

China is often cited by the proponents of FDI in retail as a success story of retail modernisation. However, what is often not mentioned is that the largest modern format retail chain in China is the state-run Shanghai Bailian group which runs over 5500 supermarkets across the country. Several other smaller state

run stores have been merged with this entity. The market share of the Baillan group has remained ahead of the MNCs Walmart and Carrefour and the market share of top 5 retailers in China has also remained below 10%. Even so, China has not been able to avoid a decline in traditional retail stores.

South East Asian countries like Malaysia, Indonesia and Thailand have several regulations for modern format stores. Zoning regulations ensure that hypermarkets can come up only within a certain distance from city centres and traditional markets. There are restrictions on minimum size of the markets and as well as timing of operations. These regulations were imposed a decade earlier following protests by small retailers against the opening of hypermarkets. Malaysia had prohibited the opening of new hypermarkets in 2002, but this ban was lifted later in 2007. Despite regulations, however, the market share of top 5 retailers in Malaysia, Indonesia and Thailand has reached 29%, 24% and 36% respectively. Several protests against the opening of outlets by Tesco in Thailand and Carrefour in Indonesia have occurred in the past few years.

In contrast to these cases, the market share of modern format retail in India is around 5% and the market share of the top 5 retailers amounts to less than 1% of retail sales. This shows that despite the expansion of modern format retail by domestic corporates, small retailers have been able to compete so far. However, several studies including the ICRIER survey have observed fall in sales for small retail shops in the vicinity of large modern format stores in India. In order to protect small retailers and prevent concentration in the retail market, there is an urgent need to put in place an effective regulatory framework. The number of large format retail stores should be restricted through a licensing system with regulation on floor area as well as zone regulations. Norms for procurement also needs to be laid down. It is noteworthy that the government has not initiated any discussion on such a regulatory framework for the retail sector so far. Nor has any initiative been taken to encourage the modernization of the existing retail stores in the unorganized, co-operative and the public sector.

What allowing FDI in retail would do is to render any such regulation impossible. The MNC retailers with their deep pockets will aggressively expand their operations in order to reap hefty profits from the India, which is one of the fastest growing FMCG

markets in the world today. Indian corporates can aid this by selling off their businesses to the MNCs, particularly those who have expanded their chains by incurring heavy debt. A sharp increase in the share of organised retail driven by the global retailers will displace a large number of small retailers, causing massive job losses. Given the already grim employment scenario, this will cause social distress and turmoil.

It is being argued from certain quarters that the growth of the Indian market is high enough to allow for a simultaneous growth of MNC supermarkets and unorganised retail. However, the assumption that the spending growth witnessed in the Indian economy in the past will perpetuate is a misplaced one. Already, the signs of economic slowdown are evident in India. The 'double dip' recession in the developed countries and the steep interest rate hikes effected by the RBI are adversely affecting investment and growth. Allowing the MNC retailers to enter the Indian market in this backdrop, far from contributing to growth and job creation, will amount to courting disaster.

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October 24, 2005

Left Parties Note:

On FDI in Retail Trade

Introduction

The UPA Government is considering the opening up of the retail trade sector to FDI. The NDA government had also proposed steps to open up this sector to foreign investment during its tenure. Multinational retail chains like the Wal-Mart have been lobbying with the Government in this regard. The Left Parties, however, believe that allowing FDI in retail trade would have a negative impact on the already grim domestic employment scenario. Since employment generation is the cornerstone of the Common Minimum Programme of the UPA, inviting foreign capital in sectors, which would have a debilitating impact on domestic employment, would go against the spirit of the CMP. Moreover, there are other serious issues related to FDI in retail trade that warrant greater caution.

The Fragmented Retail Sector in India

Retail trade contributes around 10-11% of India's GDP and currently employs over 4 crore people. Within this, unorganized retailing accounts for 96% of the total retail trade. Traditional forms of low-cost retail trade, from the owner operated local shops and general stores to the handcart and pavement vendors together form the bulk of this sector. Since the organized sector accounts for less than 8% of the total workforce in India and millions are forced to seek their livelihood in the informal sector, retail trade being an easy business to enter with low capital and infrastructure needs, acts as a kind of social security net for the unemployed. Organized retailing has witnessed considerable growth in India in the last 10-12 years and is growing at a much faster rate than the overall retail sector. This trend of an increasing share of retail trade coming under the organized sector inevitably causes displacement of small retailers in the unorganized sector and affects their livelihood. This needs to be kept in mind while discussing the impact of FDI in retail trade.

According to the *Fourth Economic Census, 1998* out of a total of 18.27 million non-agricultural own account enterprises (enterprises

normally run by members of a household without hiring any worker on a fairly regular basis; hereafter OAEs), which constituted 68% of all non-agricultural enterprises, retail trade dominated among all major activity groups netting 8.36 million OAEs accounting for 45.8% of the total number of OAEs (see Chart 1 in Annexure). In rural areas retail trade accounted for 42.5% of the total number of OAEs while in urban areas it accounted for 50.5% of the OAEs. Retail trade also accounted for 27% of the total non-agricultural establishments, with 18% of the establishments in rural areas and 34.3% establishments in urban areas being engaged in retail trade. A state-wise breakup of the distribution of non-agricultural enterprises in India (see Table in Annexure) shows that for most of the states retail trade accounts for the largest share of non-agricultural enterprises. In 1998 employment in retail trade (11.18 million) constituted 41.6% of the total employment in OAEs (see Chart 2 in Annexure). In rural areas retail trade accounted for 38.2% and in urban areas 46.4% of the employment in OAEs. Retail trade also accounted for 7.36 million workers in non-agricultural establishments accounting for 10.3% of employment in non-agricultural establishments in rural areas and 17.4% in urban areas.

A comparison between the *Economic Census* of 1980 and 1998 further shows that the share of manufacturing in non-agricultural enterprises declined in the rural areas from 39% in 1980 to below 25% in 1998 and in the urban areas from 30% in 1980 to less than 17% in 1998. Employment growth in the manufacturing sector has been less than 5% during this period. In this context the retail sector, especially the unorganized retail sector, has played a crucial role in the absorption of labour. The situation has been lucidly described by Mohan Guruswamy et.al. in their article '*FDI in India's Retail Sector: More Bad than Good?*' (*EPW*, February 12, 2005). They write, "One of the principal reasons behind the explosion of retail outlets and its fragmented nature in the country is the fact that retailing is probably the primary form of disguised unemployment/underemployment in the country. Given the already overcrowded agriculture sector, and the stagnating manufacturing sector, and the hard nature and relatively low wages of jobs in both, many million Indians are virtually forced into the services sector. Here, given the lack of opportunities, it becomes almost a natural decision for an individual to set up a small shop or store, depending on his or her means and capital. And thus, a retailer is born, *seemingly out of circumstance rather than choice*. This

phenomenon quite aptly explains the millions of small shops and vendors. The explosion of retail outlets in the more busy streets of Indian villages and towns is a visible testimony of this.... Yet, even this does not annul the fact that a multitude of these so-called 'self-employed' retailers are simply trying to scrape together a living, in the face of limited opportunities for employment. *In this light, one could brand this sector as one of 'forced employment', where the retailer is pushed into it, purely because of the paucity of opportunities in other sectors.*" (emphasis added)

Adverse Impact of FDI in Retail on Employment

In the absence of any substantial improvement in the employment generating capacity of the manufacturing industries in our country, entry of foreign capital in the retail sector is likely to play havoc with the livelihood of millions. It has been argued by some advocates of FDI in retail trade that since the retail sector is growing at a fast pace in India, entry of the multinational retail chains far from causing any labour displacement would actually generate more quality jobs. Such rosy pictures are painted on the basis of overenthusiastic projections of economic and consumption growth on the one hand and conveniently hypothesized market share for the organized retailers on the other. For instance, a McKinsey Report on 'Indian Growth' projects an addition of 71 lakhs jobs in the retail sector between 2000 to 2010 with the modern format retailers (e.g. supermarkets) accounting for 8 lakhs jobs. However, the projection is based upon a projected 10% GDP growth for the 10-year period and assumes a 20% market share for the modern format retailers. In the case of a more realistic scenario of a lower GDP growth (current GDP growth is around 6%) and a greater market share for the labour-displacing modern format retailers which is likely if FDI is permitted, total employment in the retail sector would actually shrink.

A back-of-the-envelope calculation can substantiate the point. If we take the total retail sales in India to be Rs. 312180 crore approximately (which is around 11% of India's GDP at factor cost at current prices in 2004-05), turnover per employee for the Indian retail sector comes to around Rs. 78045 (taking total employment of 4 crore). In contrast, the turnover per employee for Wal-Mart International comes to around Rs. 7418332 (Annual Report 2005 of Wal-Mart puts the total sales figure for Wal-Mart International at \$ 56277 million, which at the current exchange rate comes to Rs.

244804.95 crore approximately; total number of employees of Wal-Mart International according to their website is around 330000). *Putting it simply, the annual turnover per employee of Wal-Mart International is nearly 95 times that of the average annual turnover per employee in the Indian retail sector.¹ This gives an approximate estimate of the extent of job loss that can be caused by the entry of such multinational retail chains in the retail trade sector.*

The experience of Thailand, where entry of foreign capital took the share of organized retailing to 40% within a span of a few years accompanied by widespread closure of small and traditional retail outlets, is pertinent in this regard. An ACNielsen Report (2003) on the Retail Structure of Asia has shown that for all the South-East Asian countries that have allowed the multinational retail chains to operate (China, South Korea, Malaysia, Singapore, Taiwan and Thailand) the growth in the number of supermarkets have been invariably accompanied by a concomitant decline in the number of traditional grocery stores. China is often cited as an example where FDI in retail has generated a large number of new jobs in the 1990s. It is important to note in this regard that substantial deregulation of foreign investment in retail trade in China took place only in 2004. An Asian Development Bank document has in fact expressed apprehensions that rising competition in retail trade will lead to the decline of small private ventures, which operate in trade and food services in China.²

In the developed countries too, the growth of organised trade in the retail sector has led to poorer societal outcomes. In the US for instance, poverty has increased wherever Wal-Mart has an established presence or has expanded. A recent study found that counties in the US with more initial Wal-Mart stores in 1987 and with more additions of stores between 1987 and 1998 experienced

¹ Estimates of the size of the Indian retail sector vary from Rs. 400000 crore (ORG Gfk survey, 2001) to 1100000 crore (Chengappa et.al, 2003). Here a simple measure of 11% of GDP has been followed, which is perhaps an underestimation. However, even if a much higher estimate of the retail sectors' total annual turnover is taken, the conclusion that the annual turnover per employee of Wal-Mart International is many times that of the average annual turnover per employee in the Indian retail sector, would not change.

² *The Development of Private Enterprise in the People's Republic of China*, Asian Development Bank, available at http://www.adb.org/documents/studies/PRC_Private_Enterprise_Development/prc_private_enterprise.pdf

either greater increases or smaller decreases in family poverty rates during the 1990s economic boom period.³ The study concludes that Wal-Mart stores drove out local entrepreneurs and community leaders. Another study also found that the entry of Wal-Mart reduced the number of small retail establishments and had a negative effect on wholesale employment in the US.⁴ A document *Labor Productivity in the Trade Industry, 1987–99* prepared by the Office of Productivity and Technology, Bureau of Labor Statistics of the US also details the experience of the US in this regard.⁵ In the context of grocery stores the document states, “Consumers increasingly turned away from conventional grocery stores for their food purchases, choosing instead superstores and hypermarkets. In 1988, conventional grocery stores accounted for 42.8 percent of all consumer expenditures for food at home; by 1998, that proportion had fallen to 13.4 percent. In response to these changes in consumer spending patterns, the overall number of grocery stores shrank over the 1987-97 period — from 137,584 to 126,546, an 8.0 percent drop.” In the context of apparel stores the document states, “Most of the three and four-digit SIC apparel store industries experienced a decline in the number of establishments and basically flat employment levels over this 12-year period. Most of the employment decline in the latter period came from family clothing stores.”

The fast growth of the organized retail sector experienced in India over the last few years has been based upon the consumption demand of the rich and upper middle classes, whose disposable incomes have risen considerably. Reportedly, around 450 shopping malls are already operating or under various stages of development across the country. Technological upgradation has also accompanied this growth in organized retail. However, it needs to be understood that over-dependence on such luxury goods consumption-led growth, which seems to be the basis of the economic vision underlying the arguments for allowing FDI in the retail sector, is counterproductive since it leads to growth of the “jobless” kind and is therefore unsustainable. Growth occurring in both the organized as well as the unorganized retail sectors

³ Stephan J. Goetz and Hema Swaminathan, “Wal-Mart and Rural Poverty”, Paper presented at the American Agricultural Economics Association Annual Meeting, Denver, Colorado, August 1-3, 2004.

⁴ Basker, E. “Job Creation or Destruction? Labor Market Effects of Wal-Mart Expansion”, University of Missouri Working Paper, 2004.

⁵ <http://www.bls.gov/opub/mlr/2001/12/art1full.pdf>

simultaneously is a chimera. The former grows necessarily at the cost of the latter therefore making job loss inevitable. Therefore the Government has to go beyond a narrow focus on the need to satisfy the consumption demand of the upper classes (whose numbers are often overestimated in India) for luxury goods of all varieties and take into account the negative impact of FDI on employment in the different segments of the retail trade sector. At a time when organized retail in India is growing at a fast pace anyway and there is no dearth of indigenous capital, the entry of foreign capital which would accelerate the concentration of business in organized retail causing job loss at a massive scale is unwarranted.

Predatory Practices of the Multinational Retail Chains

The case for FDI in retail is often made on the basis of the need to develop modern supply chains in India, in terms of the development of storage and warehousing, transportation and logistic and support services, especially in order to meet the requirements of agriculture and food processing industries. While the infrastructure and technology needs are undeniable, the belief that the entry of the multinational food retailers is the only way to build such infrastructure or upgrade technology is unfounded. That can also be achieved by increasing public investment and government intervention. Moreover, the pitfalls of relying upon an agrarian development strategy driven by food retail chains and giant agribusinesses have already become clear through the experiences of several developing countries like Malaysia, Thailand and Vietnam. Small horticultural farmers find it almost impossible to meet the private quality and safety standards set by the food retailers, which are generally much higher than the national standards. Even the big farmers have to bear high risks while supplying their produce to the food retailers and many get eliminated under the "preferred supplier" system. A FAO paper based on the proceedings of a FAO/AFMA/FAMA workshop states, "Farmers experience many problems in supplying supermarkets in Asia and in some cases this has already been reflected in fairly rapid declines in the numbers involved, as companies tend to delist suppliers who do not come up to expectations in terms of volume, quality and delivery."⁶ Moreover, farmers also face problems

⁶ Shepherd, Andrew W., "The implications of supermarket development for horticultural farmers and traditional marketing systems in Asia", paper presented at FAO/AFMA/FAMA Regional Workshop

related to depressed prices due to cutthroat competition among the food retailers, delayed payments and lack of credit and insurance. The emergence of such problems in India, especially in the context of the deep crisis that has engulfed the agrarian economy, is totally avoidable.

It is often argued that in case FDI is allowed in retail, the Indian consumers would benefit from the low prices offered by the multinational retailers. It is also argued that if the multinational retailers are allowed to operate in India they would develop an "efficient" supply chain, not only to cater to the Indian consumers but also the international market and therefore our manufacturing and agriculture sector would benefit from their entry. The ability of the multinational retail chains to sell at low prices is often attributed to their "efficiency" in sourcing goods from their lowest cost producers around the world. What underlies this so-called "efficiency" or "cost reduction through better inventory and cost management" is the ability of these retail chains to squeeze producers across the globe using their monopsony power. The sheer size of a giant retail chain like Wal-Mart enables it to exercise buyer power over the producers of all kinds of goods, from agro products to FMCGs, across the globe. If these retailers are to sell goods to Indian consumers at prices, which are cheaper than what prevails today while sourcing their goods from Indian producers, the latter are definitely going to be at the receiving end in terms of declining incomes. In case the multinational retailers import the cheaper goods from abroad, domestic producers would be displaced anyway. It is difficult to understand therefore how the domestic producers would benefit from these multinational retailers.

It can of course be argued that the Indian farmers and manufacturers are going to enjoy access to international markets by supplying commodities to these multinational retailers. However, the experience of the producers, especially those producing primary commodities in the developing world, is not encouraging in this regard. According to a source, while a cocoa farmer from Ghana gets only about 3.9% of the price of a typical milk-chocolate bar, the retail margin would be around 34.1%.⁷ The same source suggests that a banana producer gets around 5% of

on *The Growth of Supermarkets as Retailers of Fresh Produce*, Kuala Lumpur, October 4-7, 2004, available at http://www.fao.org/ag/ags/subjects/en/agmarket/docs/asia_sups.pdf

⁷ *The New Internationalist*, <http://www.newint.org>

the final price of a banana while over 34% accrues to distribution and retail. Similarly, 54% of the final price of a pair of jeans goes to the retailers while the manufacturing worker gets around 12%. International market access available to the global retail chains do not benefit the producers from the developing countries since they are unable to secure a fair price for their produce in the face of enormous monopsony power wielded by these multinational giants. The growth of global supply chains have only ensured enhanced profit margins for the multinational retailers. The terms of trade for producers in developing countries, especially for the primary products, have been worsening steadily.

It is true that the entry of multinational retailers can initially make a certain range of luxury goods available at cheaper prices for consumers, especially those belonging to the upper classes of society. Using their deep pockets the multinational retailers can under price domestic retailers thus pushing them out of business. However, once these multinational retailers capture a sizeable market share the consumers are going to be squeezed as well. According to the *Economic Research Service, United States Department of Agriculture*, the share of the 20 largest retailers in the US had reached 58.7 percent of total grocery sales in 2001, up from 36.5 percent in 1987 (see Chart 3 in Annexure). Similarly, the share of the top ten grocers in Europe went up from 27.8% to 36.2% of the European market between 1992 and 1997, according to the retail analysts *M+M Eurodata*. In the developed countries, a wave of mergers and acquisitions in the backdrop of a stagnant market since the mid-1990s has led to heightened concentration in retailing, particularly in food retail. According to retail analysts *PlanetRetail* the 10 largest businesses accounted for 40% of modern grocery distribution sales in the US in 2004, 15% of which was for Wal-Mart alone. In 2004, the top five businesses accounted for 29% of total modern grocery distribution sales in the US, 56% in the UK, 67% in Germany and 65% in Canada.⁸ The growing domination exerted by a handful of powerful players in the retail sector further enables them to command market power over suppliers and consumers alike and earn super-normal profits as a result. In the context of growing concentration in the retail sector in the developed countries, the promise of cheaper goods being made available to Indian consumers through competition induced by the entry of the multinational retailers may at best be a short-lived one.

⁸ <http://www.planetretail.net>

Further, the introduction of very large retail chains would push large brands, mostly MNC brands, much deeper into the domestic economy. Since large retail chains find it much easier to negotiate with a few large brands, which are then carried by all its branches, the rich diversity of products and producers that exist in an economy like India would be destroyed. The big branded producers achieve a larger market presence less due to lower costs or better products and more due to their ability to 'sell' life styles. Celebrity involvements through powerful media campaigns play a crucial role in ensuring their market dominance. Their surplus is used to power even more advertisement campaigns for the consumers' eye. It is not an accident that a shoe produced by Nike that costs \$5 to produce but sells for \$50-100 while Nike pays its entire Indonesian workforce less than what it pays Michael Jordan for endorsing Nike Products. The competition between Coke and Pepsi is not waged through better products or lower prices but through competitive ad-campaigns. The consumer therefore benefits little from this victory of the larger brands while the local domestic producers get progressively eliminated in the process.

Distortion of Urban Development and Culture

The promotion of large retail stores with huge retail space also fosters a different kind of urban development than what we have followed in India till date. Large shopping malls with all known retail chains with their showrooms as a part of urban development is familiar in the US where the consumer lives in suburbs, drives long distances for his/her shopping and lives in a community that hardly knows each other. Instead of this atomized existence and high transport costs, we have chosen a model of mixed land area where every small urban cluster has local markets and local facilities for their needs. It is this model of urban development that is sought to be changed in favour of a mall culture with huge retail chains and branded products. The problem with this model is that it neglects the simple Indian reality where most households do not have cars and need local markets. The malls that have already come up in our metropolitan cities are failing to attract consumers who find local shopping much more attractive. The myth of a huge and fast growing affluent middle class is counter to the reality that this section is still too small to support the remodeling of the urban landscape as is being planned with malls, large retail chains and branded products.

Unfortunately, the failure of the mall-retail chain-brand culture does not only affect the real estate developers and the Wal-Mart. The East Asian crisis was triggered precisely by this kind of distorted urban development, which saw a real estate boom and then a collapse, dragging down developers and the banks that had funded that process. The issue here is not only of FDI in retail alone. This entire model of 'branded' products sold through high-powered ads and dominant retail chains coupled with lopsided urban development would promote monopoly in the market, kill diversity and displace small producers on a large scale. This model of development would fail in India, as it has done over much of Asia, but not before it does enormous damage.

Conclusion

It needs to be underscored that FDI in retail is fundamentally different from greenfield foreign investment in manufacturing. While the latter enhances the economy's productive base, enhances technological capability and generates employment in most cases, entry of multinational retail chains has few positive spin-offs. In fact the negative effects in terms of job loss and the displacement of small retailers and traditional supply chains by the monopoly/monopsony power of the multinational retailers far outweigh the supposed benefits accruing to the organized retail sector in terms of increased "efficiency". Moreover, India does not have any prior commitments vis-à-vis the WTO to open up the retail sector. Therefore, the case for opening up of the retail sector to FDI does not seem to be justifiable.

Annexure

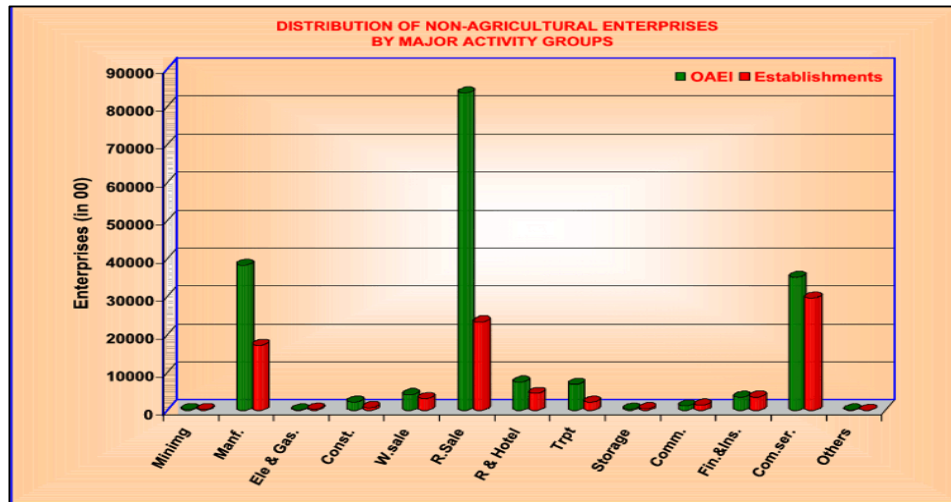


Chart 1: - Source: Economic Census, 1998, Central Statistical Organization

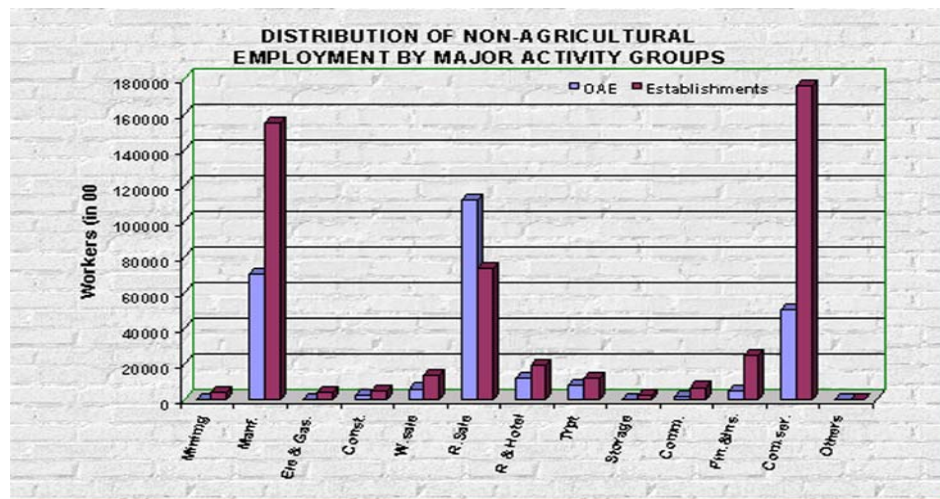


Chart 2: - Source: Economic Census, 1998, Central Statistical Organization

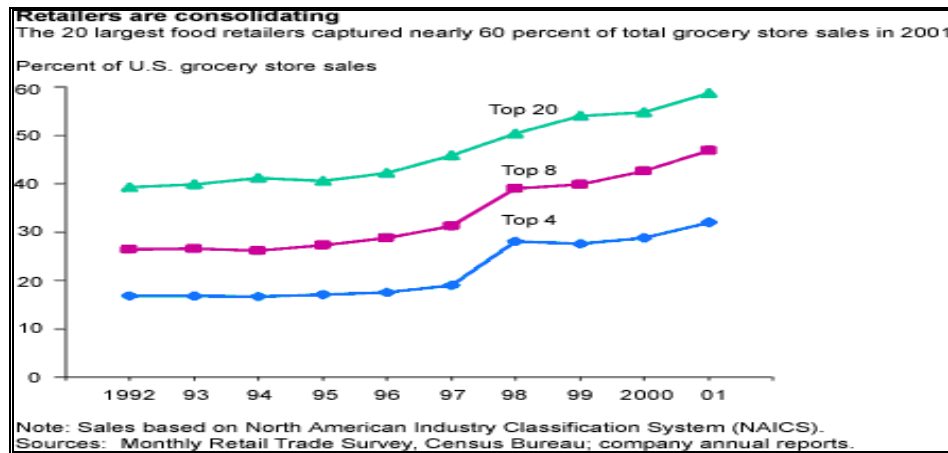


Chart 3: - Source: Economic Research Service, United States Department of Agriculture

Table

State-wise Percentage Distribution of non-Agricultural Enterprises by Major Activity Group						
States/UTs	Manufacturing	Wholesale Trade	Retail Trade	Restaurant Hotel	Transport	Community, Social & Person Services
Andhra Pradesh	23	2.2	37	4.3	2.5	25.1
Arunachal Pradesh	9.8	0.4	44.8	6.6	1.8	32.6
Assam	10	3.1	46.6	5.3	3.1	28.1
Bihar	16.2	1.7	49.1	4	1.4	24.6
Goa	18.7	1.3	38	5.5	8.3	19.8
Gujarat	17.8	3.9	40.5	2.1	5	25.2
Haryana	16.3	3.4	41	3.4	3.4	27.5
Himachal Pradesh	20.9	0.6	33.1	7.8	2.3	30.8
Jammu & Kashmir	20.6	2.8	45.1	3	1.3	24.2
Karnataka	23.5	2.3	36	5.8	1.5	24.8
Kerala	17.8	3	36.3	6.5	3.7	26.7
Madhya Pradesh	22.9	1.4	36.7	3.9	1.7	28.6
Maharashtra	16.3	3.2	40	4.5	4.4	23.7
Manipur	23.8	0.8	39.8	5.2	3.9	21.3
Meghalaya	5.2	2.9	40	10.3	1.7	32
Mizoram	10.4	0.3	39.4	5.7	5.4	36.9
Nagaland	9	0.9	50.9	6.9	0.6	29.9
Orissa	24.2	1.6	39.4	3.6	1.6	25.9
Punjab	16.5	3.3	39.6	3.1	1.3	30.9
Rajasthan	18.5	2.8	33.7	3.7	8.8	27.6
Sikkim	3.7	1.1	40.6	6.8	17	26.6
Tamil Nadu	25.6	2.3	36.9	6.5	1.2	21.1
Tripura	16.2	1.5	45.1	5.6	4.6	24.5
Uttar Pradesh	21	1.6	45.9	3.6	2.3	22.2
West Bengal	24.2	4.6	41.6	4.1	5.6	16.5
A & N. Islands	21.8	0.6	36.6	5.7	7	23.2
Chandigarh	9.5	1.6	36.5	4.1	9.2	22.2
D. & N. Haveli	23.1	1.4	32.3	5.3	6.8	26.3
Daman & Diu	16	2.1	43.4	1.7	9.9	20.4
Delhi	19.1	5.4	34.1	4.5	7	21.7
Lakshadweep	49.7	..	11.6	2.3	8.4	24.8
Pondicherry	10.6	1.3	40.5	6.4	3.3	28.6

Source: Economic Census, 1998, Central Statistical Organization

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May 30, 2007

National Policy On Regulation of Organised Sector in Retail Trade: A Proposal

Background

Retail trade contributes around 10-11% of India's GDP and currently employs over 4 crore people. Within this, unorganized retailing accounts for 97% of the total retail trade. Traditional forms of low-cost retail trade, from the owner operated local shops and general stores to the handcart and pavement vendors together form the bulk of this sector. In the absence of any significant growth in organized sector employment in India in the manufacturing or services sector, millions are forced to seek their livelihood in the informal sector. Retail trade, which has been a relatively easy business to enter with low capital and infrastructure needs, has acted as a refuge source of income for the unemployed.

Organized retailing has witnessed considerable growth in India in the last few years and is currently growing at a very fast pace. A recent KPMG survey report prepared for the FICCI states that organized retail, estimated as a \$ 6.4 billion industry in 2006, is projected to reach \$ 23 billion by 2010. The share of organized retail in overall retail sales is projected to jump from around 3% currently to around 9-10% in the next three years. A number of large domestic business groups have entered the retail trade sector and are expanding their operations aggressively. Several formats of organized retailing like hypermarkets, supermarkets and discount stores are being set up by big business groups besides the ongoing proliferation of shopping malls in the metros and other large cities. This has serious implications for the livelihood of millions of small and unorganized retailers across the country.

Need to Regulate Organized Retail

Large format retailing is controlled and regulated across the world. The experiences of Western European as well as South East Asian countries are particularly relevant in this regard. However, an appropriate regulatory framework for the organized retail sector in India has to be framed keeping in mind the

Indian specificities. India has the highest shop density in the world with 11 shops per 1000 persons, much higher than the European or Asian countries. The potential social costs of the growth and consolidation of organized retail, in terms of displacement of unorganized retailers and loss of livelihoods is enormous. Regulation in India therefore needs to be more stringent and restrictive. There are broadly three ways in which the adverse impact of the rapid and unbridled expansion of organized retail can be felt:

1. Around 95% of the 12 million shops in India have a floor area of less than 500 square feet. The impact of the growing market share for organized retailers is being manifested in the falling sales for the unorganized retailers in several places. The NSSO surveys already indicate a significant decline of more than 12.5 lakhs in the number of self-employed retailers in urban India (by current weekly status) between 1999-2000 and 2004-05. Further acceleration in the growth of organized retail would eventually result in making business unviable for a large number of unorganized retailers, particularly in the event of a slowdown in consumption growth and retail sales. In the backdrop of huge unemployment and underemployment persisting in India, small-scale retailing still provides livelihood security to around 20 million urban workers and 12 million rural workers. Their displacement would further worsen the unemployment scenario.

2. Giant organized retailers use their monopoly buying power to squeeze small producers of agricultural as well as manufactured products. The experience of the farmers of developing countries with the giant food retailers has been particularly bad. The farmers become dependent upon the inputs, credit and technology supplied by the food retailers and end up being at their mercy in terms of prices for their produce and quality standards. Contract farming, which is the preferred mode of operations as far as the agribusiness corporations and food retailers are concerned, has led to agrarian distress in many places. Moreover, uncontrolled diversification in agriculture away from foodgrains can imperil food security. In the backdrop of the crisis being already faced in Indian agriculture, the entry of large retailers with monopsonistic control can aggravate the situation.

3. The proliferation of large format retail outlets reshapes the urban landscape in myriad ways. Land use patterns change

drastically, often in violation of city plans. Given the unplanned and chaotic path of urban development witnessed in India over the past decade and a half, and the pathetic state of urban infrastructure, the proliferation of large format retailers will only accelerate the undesirable trends of predatory real estate development and unsustainable pressures on urban infrastructure and the environment. Rather than enhancing choices for the consumers, especially the lower income groups, proliferation of large format retail stores would kill competition, lead to closure of neighbourhood markets and make consumers solely dependent upon the organized retailers. This would also increase the propensity to use private vehicles for shopping thus leading to more pollution.

Regulation of the organized retail sector has to address all these areas of concern mentioned above. Organized retail cannot be allowed to grow in a way, which displaces existing unorganized retailers, jeopardizing livelihoods in the absence of other employment opportunities. The interests of the small producers, especially farmers, also have to be protected by preventing the emergence of local monopolies/monopsonies. It has to be ensured that competition is not stifled and potentially monopolistic practices in credit, input and output markets are not encouraged by the entry of large corporate retailers. Moreover, undue pressure on urban infrastructure and the environment arising out of the proliferation of large format retailers has to be prevented.

Framework for a National Policy on Regulating Organized Retail

Small retailers need protection and policy support in order to compete with organized retail. The Ministry of Housing and Urban Poverty Alleviation has formulated a National Policy for Urban Street Vendors. The policy proposes several positive steps to provide security to street vendors considering it as an initiative towards urban poverty alleviation. However, what is required is a more comprehensive policy, which addresses the needs of small retailers, especially in terms of access to institutional credit and know how to upgrade their businesses.

A regulatory framework for organized retail should also be framed. Since the operations of organized retailers impact upon

various sectors of the economy, policy guidelines should be framed involving all the relevant Departments, namely Commerce, Agriculture and Urban Development. Moreover, since regulation of the large format retailers would mainly be in the domain of the states and local bodies, State Governments have to be consulted and involved in the process of framing policy guidelines. A Central legislation or a Model legislation, which can be enacted by the State Governments, may also be considered for this purpose.

In addition, the UPA Government should also abandon the moves to permit FDI in retail trade through the back door, as in the case of the joint venture between Wal-Mart and Bharti whereby the former proposes to operate in the cash-and-carry segment while the latter in the front-end.

It is more than obvious that this proposed joint venture is nothing but a subterfuge, to circumvent the existing policy regime, which does not allow FDI in retail. The entry of giant MNCs like the Wal-Mart, TESCO, Carrefour etc, besides accelerating manifolds the already rapid growth of organized retail, would also sabotage any attempt by the Government to regulate the sector in order to protect the interests of the small retailers and farmers. The UPA Government should take a categorical position on this issue. ***Not allowing MNCs to operate in the retail sector should be the starting point of the national policy on retail.***

The issues, which need to be addressed in the regulatory framework for organized retail, have already been discussed above. Some suggestions are made below which seek to address those issues:

A Licensing System for Organized Retail

1. A system of licensing should be introduced for organized retail. Any retail outlet with floor area over an appropriate minimum floor area should require prior license from local authorities (city corporations or municipalities). Corporate entities should not be allowed to operate retail outlets below the specified minimum floor area

2. The authority to grant licenses should be the urban local bodies. A dedicated committee/board/department should be set up by the urban local bodies, with representation from street vendors and small retailer associations, which should be empowered to grant licenses to organized retailers.
3. The system should be devised in a manner so that there is transparency in the process of granting licenses in order to prevent corrupt practices. A process of open bids for granting licenses may be considered.
4. Considering the multiplicity of formats of organized retail, there should be separate sets of regulations for each format, based on floor area. Slabs should be set for the different retail formats, like discount stores, supermarkets, hypermarkets, shopping malls etc based on floor area.
5. Licenses for each format should be given on the basis of a population criterion, i.e. not more than X number of large format retail stores of Y format per Z population. The criteria may vary between states and cities depending upon the nature of the retail sector and needs of consumers. However, a commonality should exist in terms of assessing the employment impact by the local authorities in a scientific as well as democratic manner, before granting license for a large format retail outlet.
6. There should be appropriate caps both on the total number of large format retail outlets that are being granted licenses in particular areas as well as on the maximum floor area for a retail outlet.
7. Retail outlets above a certain floor area should not be allowed to operate within existing commercial zones/areas. In case a license is granted for a large format retailer within an existing commercial area, it should only be on the basis of an agreement to share a substantial proportion of its floor area with small retailers at concessional rent. The allotment of space to small retailers in such cases should be done by the license issuing authority.
8. Giant retail outlets like hypermarkets, which attract large numbers of customers should have adequate parking space and should ideally be located outside city limits.

Environmental Impact assessment should also be mandatory for giant retail outlets whose floor area exceeds a specified limit.

9. Penal provisions, including withdrawal of licenses, should be laid down for violation of the terms and conditions of licenses by organized retailers.

Government's Role in Preventing Private Monopolies

1. A single large format retailer should not be allowed to capture a large market share. For this it is important to restrict the number of retail outlets that a single private entity can open in a city, state as well as region. Under no circumstances should a national level monopoly be allowed to develop in the retail sector.
2. There should be guidelines to prevent predatory pricing and below-cost sales by organized retailers. A mechanism should be set up where complaints against predatory pricing can be registered by small retailers. The Competition Commission in India is not suitably equipped to handle such issues. A dedicated mechanism is required for this purpose.
3. In order to prevent the development of big private monopolies in retail trade, it is also important for the Government to ensure its presence in the market. Several Government marketing agencies exist, both at the Central as well as State levels. With a few exceptions, these agencies have been experiencing decay, owing to various factors. These marketing agencies should be revived and encouraged to grow and compete with private large format retailers.
4. Consolidation of several Government marketing agencies in order to create a few big public sector retail chains should be seriously considered, which can also invest in developing modern supply chain infrastructure. Panchayati Raj Institutions (PRIs) should be involved in the administration of cold storages and procurement centres.
5. Encouragement should be provided to the existing retail chains in the cooperative sector. New retail cooperatives

should also be promoted. Partnerships between existing Government marketing agencies and cooperatives can also be considered, especially in food retail where synergies exist.

6. The State Governments or urban local bodies should levy a cess on the VAT on all goods sold by large format retail outlets (including those in the public sector) in order to create a level playing field between the organized and unorganized retailers. Revenues generated from the cess can be used to create a dedicated fund to provide infrastructure support, financial assistance or cheap credit for unorganized retailers to improve and upgrade their operations.
7. Tax incentives should not be provided, either by the Central or State Governments, for the setting up of procurement/distribution centres or “rural business hubs” by private players. Neither should tax breaks be provided to private players for contract farming.

Safeguarding Farmers’ Interests

1. Handing over farmland to food retailers for contract farming should not be permitted. Rules for contract farming should ensure that there is no possibility of farmers being alienated from their land, even if there is a failure in meeting contract commitments.
2. Contract farming should be regulated and monitored by the Government to protect the interests of farmers. Farmers should be encouraged to form groups or cooperatives in order to enter into contracts collectively with corporates rather than entering into individual contracts.
3. The processes of credit provision linked to input supplies and subsequent purchase of the crop, all by one private player, need to be regulated carefully by State authorities and PRIs. Supply of inputs like seeds need to be monitored by the Government. It is also important to ensure that monoculture is avoided.

4. It should be ensured that the farmers are not denied the opportunity of selling their produce over and above the quantity specified in the contract to other agencies at a price higher than what is specified in the contract. Farmers also need to be protected from arbitrary refusal by the contracting parties to buy their produce on grounds of 'poor quality'. The Government should reserve the right to intervene in such contracts in situations when they are found to be operating to the detriment of farmers' interests.
5. Large procurement centres created by corporate retailers should compulsorily have separate space for Government agencies. The scope of activities of the Government agencies would depend on the scale of operations. They may range from a single information centre for Government services to various Government agencies supplying inputs, providing extension services, disbursing credit and undertaking procurement. Several State Governments have amended their APMC Acts in accordance with the Model APMC Act framed by the Central Government. That model Act itself needs to be changed incorporating the suggestions made above. State Governments should also be persuaded to do the same.
6. It has to be ensured that a single corporate retailer does not monopolize procurement operations in a district or area. It is therefore absolutely critical that both public procurement agencies and cooperatives are given support, incentives and freedom to compete with the corporate retailers. This would require special initiatives from the State Governments to reinvigorate the Government agencies. The Central Government should also provide adequate funds required for the purpose.
7. Private procurement of foodgrains by large players who can manipulate the market should be discouraged. The experience of the last two years shows how the free hand given to corporate players has led to shortfalls in public procurement necessitating wheat imports. There is an urgent need to strengthen and expand the public procurement machinery into more areas and provide it

with the required flexibility to ensure adequate procurement at remunerative prices. Private procurement of food grains, wherever it takes place, should be closely monitored by the PRIs and the Government.

8. Food retailers or other agribusiness companies should not be allowed to corner and hoard foodgrains stocks under any circumstances. To prevent cornering of stocks by private players with the associated potential for speculation, there should be rules for public disclosure of stock holding levels. Public agencies should be empowered to purchase foodgrains from the private holders at pre-specified prices if their stocks exceed a specified level.

Conclusion

These proposals are being made in a backdrop where private players are entering both in retail trade and agriculture in a big way. There is an urgent need to frame new rules in order to regulate the operations of corporates in these sectors, which employ the bulk of the Indian population. The UPA Government should consider the proposals seriously and take immediate initiatives to frame a national policy in this regard.