



**PARLIAMENT OF INDIA
RAJYA SABHA**

90

**DEPARTMENT RELATED PARLIAMENTARY STANDING
COMMITTEE ON COMMERCE**

NINETIETH REPORT

ON

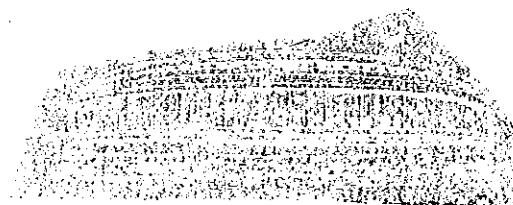
**FOREIGN AND DOMESTIC INVESTMENT IN
RETAIL SECTOR**

**(PRESENTED TO HON'BLE CHAIRMAN, RAJYA SABHA ON 13TH MAY, 2009)
(FORWARDED TO HON'BLE SPEAKER, LOK SABHA ON 13TH MAY, 2009)**

**(LAID IN THE RAJYA SABHA ON 8TH JUNE, 2009)
(LAID IN THE LOK SABHA ON 8TH JUNE, 2009)**

**RAJYA SABHA SECRETARIAT
NEW DELHI**

MAY, 2009/ VAISAKHA, 1931 (SAKA)



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Composition of the Committee

As Constituted on 5th August, 2006

1. Dr. Murli Manohar Joshi — *Chairman*

RAJYA SABHA

2. Shri Thennala G. Balakrishna Pillai
3. Shri Jai Parkash Aggarwal
4. Shri K. Keshava Rao
5. Shri Arun Jaitley
6. Shri Banwari Lal Kanchhal
7. ***Shri Mohammed Amin
8. Shri Rajkumar Dhoot
9. Shri Dinesh Trivedi
10. Shri Robert Kharshiing

LOK SABHA

11. Shri Omar Abdullah
12. Shri C.K. Chandrappan
13. Shri D.V. Sadananda Gowda
14. Shri Radhey Shyam Kori
15. Shri N.N. Krishnadas
16. Shri Jivabhai A. Patel
17. Shri Virchandra Paswan
18. Shri Shisupal N. Patle
19. Shri E. Ponnuswamy
20. Shri Gingee N. Ramachandran
21. Shri Kashiram Rana
22. Shri Haribhau Rathod
23. Shri S.P.Y Reddy
24. Shri Nikhilananda Sar
25. Shri Bharatsinh Madhavsingh Solanki
26. Shri Sarvananda Sonowal
27. #Shri Manjunath Kunnur
28. \$Shri Amitava Nandy
29. *Shri Braja Kishore Tripathy
30. Shri Sippipari Ravichandran
31. **Shri Balashowry Vallabhaneni

Nominated w.e.f 31st August, 2006

\$ Nominated w.e.f 31st August, 2006

* Nominated w.e.f 8th September, 2006

** Nominated w.e.f 11th December, 2006

*** Nominated w.e.f 21st June, 2007

As Constituted on 5th August, 2007

1. Dr. Murli Manohar Joshi — *Chairman*

RAJYA SABHA

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3. Shri Jai Parkash Aggarwal
4. Dr. K. Keshava Rao
5. Shri Arun Jaitley
6. Shri Banwari Lal Kanchhal
7. Shri Mohammed Amin
8. Shri Parimal Nathwani
9. Shri Y.P. Trivedi
10. Vacant

LOK SABHA

11. Shri Omar Abdullah
12. Shri C.K. Chandrappan
13. Shri D.V. Sadananda Gowda
14. Shri Radhey Shyam Kori
15. Shri N.N. Krishnadas
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18. Shri Virchandra Paswan
19. Shri Shishupal N. Patle
20. Shri E. Ponnuswamy
21. Shri Gingee N. Ramachandran
22. Shri Kashiram Rana
23. Shri Haribhau Rathod
24. Shri Sippiparai Ravichandran
25. Shri S.P.Y. Reddy
26. Shri Nikhilananda Sar
27. Shri Bharatsinh Madhavsingh Solanki
28. Shri Sarvananda Sonowal
29. Shri Braja Kishore Tripathy
30. Shri Balashowry Vallabhaneni
31. ##Shri Amitava Nandy

Nominated w.e.f. 24th June, 08

III

As Constituted on 5th August, 2008

1. Dr. Murli Manohar Joshi — *Chairman*

RAJYA SABHA

2. @ Shri Thennala G. Balakrishna Pillai
3. Shri Jai Parkash Aggarwal
4. Dr. K. Keshava Rao
5. Shri Arun Jaitley
6. \$ Shri Banwari Lal Kanchhal
7. Shri Mohammed Amin
8. Shri Parimal Nathwani
9. Shri Y.P. Trivedi
10. # Dr. Akhilesh Das Gupta

LOK SABHA

11. ***Shri Omar Abdullah
12. Shri C.K. Chandrappan
13. Shri D.V. Sadananda Gowda
14. Shri Radhey Shyam Kori
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29. Shri Braja Kishore Tripathy
30. Shri Balashowry Vallabhaneni
31. Shri Amitava Nandy

SECRETARIAT

Shri P. Gopalakrishnan, AS & FA
Shri Surinder Kumar Watts, Director
Shri T.N. Pandey, Deputy Director
Smt. Indira Chaturvedi Valdia, Committee Officer

@ retired on 21st April, 2009
\$ resigned on 23rd April, 2009
nominated on 27th January, 2009
*resigned on 20th October, 2008
**resigned on 5th January, 2009
***resigned on 6th January, 2009

COMPOSITION OF THE SUB COMMITTEE -I

As constituted on 5th October, 2007

1. Dr. K. Keshava Rao - *Convenor*

RAJYA SABHA

2. Shri Jai Parkash Aggarwal
3. Shri Arun Jaitley
4. Shri Mohammed Amin
5. Shri Dinesh Trivedi

LOK SABHA

6. Shri C.K. Chandrappan
7. Shri Manjunath Kunnur
8. Shri Amitava Nandy
9. Shri Jivabhai A. Patel
10. Shri Virchandra Paswan
11. Shri Shishupal N. Patle
12. Shri Gingee N. Ramachandran
13. Shri Sarvananda Sonowal
14. Shri Braja Kishore Tripathy
15. Shri Balashowry Vallabhaneni

As constituted on 7th August, 2008

1. Dr. K. Keshava Rao - *Convenor*

RAJYA SABHA

2. Shri Jai Parkash Aggarwal
3. Shri Arun Jaitley
4. Shri Mohammed Amin
5. #Dr. Akhilesh Das Gupta

LOK SABHA

6. Shri C.K. Chandrappan
7. Shri Jivabhai A. Patel
8. Shri Virchandra Paswan
9. Shri Shishupal N. Patle
10. Shri Gingee N. Ramachandran
11. Shri Sarvananda Sonowal
12. Shri Braja Kishore Tripathy
13. Shri Balashowry Vallabhaneni
14. Shri Amitava Nandy
15. Vacant

nominated on 27th January, 2009

PREFACE

I, the Chairman of the Department Related Parliamentary Standing Committee on Commerce, having been authorised by the Committee, present this Ninetieth Report of the Committee on the Foreign and Domestic Investment in Retail Sector.

2. The Department Related Parliamentary Standing Committee on Commerce took up for an in-depth study the subject of Foreign and Domestic Investment in Retail Sector on 05th April, 2007. The Committee held discussions with the Secretary, Department of Industrial Policy and Promotion (IPP). It also heard the views of the representatives of the various Ministries/Departments and Individuals/Organisations. The Committee authorised the Convenor of Sub-Committee I to undertake on-the-spot-study of the subject on 31st January, 2008. The Committee held a total number of sixteen sittings. The Sub-Committee I of the Committee visited Indore, Mumbai, Bangalore and Chennai from 19th to 23rd February, 2008 ; West Bengal, Assam and Meghalaya, 26th to 31st May, 2008 and Haryana, Gujarat ,Andhra Pradesh & Kerala from 04th to 07th February, 2009 for on-the-spot visits on the subject.

3. The Committee considered and adopted this report at its sitting held on 04th May, 2009.

NEW DELHI:
May 04, 2009

DR. MURLI MANOHAR JOSHI,
Chairman,
Department Related Parliamentary Standing
Committee on Commerce

CHAPTER-I

INTRODUCTION

1.1 Retailing is the interface between the producer and the individual consumer, buying for personal consumption. This excludes direct interface between the manufacturer and the institutional buyers, such as the government and other bulk customers. A retailer is one who stocks a producers' goods and is involved in the activity of selling it to the individual consumers, at a margin of profit. As such, retailing is the last link that connects the individual consumer with the manufacturing and distribution chain. Retailing covers both food and non-food items but all items for retail cannot be clubbed, as the impact of FDI in each category would be different.

1.2 India is a land of retail democracy- hundreds of thousands of weekly haats and bazaars are located across the length and breadth of the country by people's own self-organizational capacities. Our streets are bazaars – lively, vibrant, safe and the source of livelihood for millions. In a country with large numbers of people, and high levels of poverty, the existing model of retail democracy is the most appropriate in terms of economic viability.

1.3 As per the definition, retail industry comprises both the organised and the unorganised sectors. Organised retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. Unorganised retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local *kirana* shops, owner operated general stores, *paan/beedi* shops, convenience stores,

hand cart, pavement vendors, etc. In India around 95% of the retail industry is unorganized. Among the organized ones, the already established retailers in India are Pantaloon Retail, Shoppers' Stop, Marks & Spencer, Hyper City, Lifestyle, Subhiksha, Trent, Reliance Retail etc.

1.4 Retail sector in India is estimated to account for about 10% share in GDP, as compared to 8% in China, 6% in Brazil and 10% in USA. India is estimated to have around 15 million retail outlets, making it the country with the highest retail outlet density in the world. Indian retail sector is highly fragmented in nature, only 4% of Indian retail outlets are larger than 500 sq. feet. Organised retail is just 5% of the total retail market, whereas 95% of the total retail trade in India is in the unorganised sector. Unorganised Retail industry in India is the second largest employer after agriculture, employing about 8 % of total work force (Around 40 million persons).

Policy on FDI in Trading

- As per the Statement on Industrial Policy dated 24th July 1991, FDI in the Trading sector was permitted up to 51% only in the trading companies, primarily engaged in export activities.

In 1997

- FDI in trading companies was permitted vide Press Note 3 (1997) as part of the guidelines for FIPB for considering proposals for FDI. As per this policy, FDI up to 100% was permitted under the FIPB (Foreign Investment Promotion Board) route in case of trading companies, for the following activities:
 - (a) exports
 - (b) bulk imports with ex-port/ex-bonded warehouse sales

- (c) cash & carry wholesale trading
- (d) other import of goods or services provided at least 75% is for procurement and sale of goods and service among the companies of the same group and not for third party use or onward transfer/distribution/sales.

1.5 As part of liberalisation process in the year 2000, in addition to FDI in export trading, bulk imports with ex-port/ex-bonded warehouse sales, and wholesale cash & carry trading, other permissible modes of trading as per the Export-Import Policy were opened up for FDI viz. in companies for providing after-sales service; domestic trading of products of joint ventures; trading of high-tech items; items for social sector; hi-tech medical and diagnostic items; items sourced from SSI sector; domestic sourcing of products for exports; test marketing of such items for which a company has an approval for manufacture provided such test marketing facility is for a period of two years and investment in setting up manufacturing facilities commences simultaneously with test marketing.

1.6 Present Policy on FDI in Trading Sector is that no FDI is permitted in the Retail trading, except for Single Brand product retailing where FDI up to 51% is permitted, with prior Government approval.

1.7 FDI up to 100% is permitted under the automatic route in wholesale/cash & carry trading, including business-to-business sales, and export trading. FDI up to 100% is permitted with prior Government approval in trading of items sourced from small scale sector and test marketing.

1.8 FDI is permitted under the automatic route for Storage and Warehousing services, including warehousing of agricultural products with refrigeration (cold storage). The FDI limit of 74% was increased to 100%.

1.9 FDI up to 51%, with prior Government approval, is allowed in retail trade of single brand products, subject to the following conditions:

- i. FDI up to 51% would be allowed, with prior Government approval, for retail trade of Single Brand Products;
- ii. Products to be sold should be of a 'Single Brand' only.
- iii. Products should be sold under the same brand internationally.
- iv. 'Single Brand' product-retailing would cover only products which are branded during manufacturing.

1.10 FDI in retail trade is allowed in most Asian countries. China has, from December, 2004, lifted all restrictions on the number or location of retail outlets and FDI up to 100% is permitted. Malaysia permits FDI up to 70% in the retail trade sector and proposals for FDI beyond 70% are considered on a case-to-case basis. Thailand, Indonesia and Brazil also permit 100% FDI in retail sector.

Essential Features of Trading, in the context of the FDI policy for trading sector, are as under:-

- a. Trading involves import of goods, their sale in the domestic market, and / or sourcing from domestic producers / suppliers, subject to foreign trade policy.
- b. Wholesale / cash & carry trading involves sale of goods / merchandise to retailers; to industrial, commercial, institutional or other professional business users; or to other wholesalers and relates subordinated services. Wholesale trade would be sales for the purposes of trade, business and profession as opposed to personal consumption.
- c. Export trading includes export of imported goods as also those sourced from the domestic producers.
- d. Trading of items sourced from the small sector requires that the items are manufactured in the small scale sector under technology agreement.
- e. Test marketing is the trial distribution of planned new product or service, to determine the likely acceptance of product. Test marketing of products is permitted to a company with FDI if manufacturing of such products is involved and investment is made simultaneously for setting up manufacturing facilities. Test marketing facility is available only for a period of two years.
- f. Retailing is the interface between the producer and the individual consumer, buying for personal consumption. This excludes direct interface between the manufacturer and institutional buyers such as

the government and other bulk customers. A retailer is one who stocks the producer's goods and is involved in the act of selling it to the individual consumer, at a margin of profit. As such, retailing is the last link that connects the individual consumer with the manufacturing and distribution chain.

g. Retailing would cover both food and non-food items but all items for retail cannot be clubbed, as the impact of FDI in each category would be different.

h. Single Brand Product Retailing would include retail trading of products to be sold under a Single Brand only. The brand should be in use internationally and the branding should be during the manufacturing.

Following are the main issues relating to FDI in Retail:-

- FDI driven modern retailing would be labour displacing. Any policy that results in elimination of jobs in the unorganized retail must be put on hold, till jobs on a large scale can be created in the manufacturing sector. The growth rate of labour in manufacturing and industry is insufficient to absorb the labour that may be displaced.
- The global retail chains, with their deep pockets, would be able to sustain losses for many years, till their immediate competitors were wiped off. The predatory pricing strategy of large retailers would drive out small retailers, resulting in job losses.
- Once monopoly of global retail chains was established, they were more likely to buy cheap and sell dear, disintegrate established supply chains by controlling both ends of the chain.
- Retailing cannot boost GDP by itself. It is only an intermediate value added process. Only after the tardy growth in manufacturing is addressed properly, dislocating some of the retailing workforce into this space could be thought of.
- Allowing FDI in retail would disrupt the current balance of the economy by rendering millions of small retailers jobless.

Steps taken by the Government to analyse the impact of FDI on Retail sector

1.11 Government is in the process of studying the impact of FDI in the retail sector. The retail sector is growing at the rate of 8-9% per annum and a number of big Indian business houses are entering in the retail sector. Food constitutes 70% of the retail sector and is also directly linked to the rural economy. Rs. 50,000 crore worth of food rots in India. There is no organized system for

storage, for processing, for trading and for grading of food items. Any move that would avoid loss of food and benefit the farmers through better procurement prices would need to be considered.

1.12 Government is looking at different models with specific focus on augmenting manufacturing activity; upgradation of technology and generation of employment. These are essential ingredients of FDI in any sector.

Study assigned to ICRIER

1.13 Government had commissioned a study for assessing the impact of Organised retail on unorganized retailers and vendors. The study was assigned to Indian Council for Research on International Economic Relations (ICRIER).

The Terms of Reference of the Study were as follows:

- i) Effect on small retailers and vendors in the unorganized sector, keeping in mind the likely growth in the overall market
- ii) Effect on employment
- iii) Impact on consumers
- iv) Impact on farmers and manufacturers
- v) Impact on prices.
- vi) Overall impact on economic growth

1.14 ICRIER, in its report submitted to the Government in May, 2008, made some major recommendations on the basis of the results of the surveys and the review of international retail experience. The main findings are as under:

A. 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 the 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 the 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.

B. 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.

C. 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.

D. 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.

E. 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

1.15 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 wetmarkets 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.

CHAPTER-II

Written and oral submissions: Central Ministries/Departments

2.1 The Committee considered the background note on the Foreign and Domestic Investment in Retail Sector, received from the Department of Industrial Policy and Promotion. Besides inviting written submissions on the subject, it heard the views of representatives of various Ministries/Departments, which are summarized below:-

Department of Industrial Policy and Promotion (Ministry of Commerce & Industry)

2.2 The Secretary, Department of Industrial Policy and Promotion informed the Committee that the retail industry is roughly growing at five to six per cent per year. The total retail business is considered to be of the order of Rs. 12,00,000 crore which comes to be about one-third of the country's GDP. Out of this, about 95% is in the unorganized sector and only five per cent is in the organised sector. This sector provides employment to 20 to 22 million people, which is the second largest manpower employer in the country, after agriculture. In the last four to five years the space for shopping malls has increased ten folds. FDI in retail is very limited and is allowed only in certain areas. It is allowed in cash and carry route, which is 100% on the automatic route. It is whole sale, cash and carry. It is in the wholesale business that FDI is allowed.

2.3 FDI is allowed in retail sector upto 51%. Secondly, it is allowed in the case of test marketing of products for a period of two years, if one intends to come into the country for the purpose of manufacturing. Further, if one wishes to go for exports then such investor is allowed to put 100% money, sourcing of

goods from India, importing goods, their packaging and repackaging for the purpose of exports. Lastly, there is an automatic route, that is export trading, he can source goods from small scale industries 100 per cent. It is for whole sale business that required government approval. On the issue of single brand, it was felt that just as a company incorporated in India has to carry the country name, it is felt that similarly, the brand coming into India should carry the country tag alongwith it, to identify it with the country. The Committee felt that before permitting FDI in Retail, there should be safeguards to ensure that sub standard things are not sold in the name of the brand. The Secretary informed that they had augmented a research study which would integrate empirical data after going to various cities and local people on the effect of FDI in Retail and its effect on the small domestic traders. The study is being conducted by ICRIER who have been asked to make an independent study on large vs small; organised v/s unorganized, look at FDIs role in it and its effect on economic business. Also, the National Council for Applied Economic Research (NCAER) had been asked to look into the impact on farmers, hawkers, and unorganized trade, etc. The Committee felt that the Department should ensure that the objective results of the study should be unbiased, since it involves the livelihood of millions of people. The Central Government should frame a policy which could take care of various aspects like location, parking condition, environmental condition, distance from small shops, before allowing the malls to be set up and if need be, look at the laws of other countries in this regard. The Committee felt that the present study was looking only at the economic aspects, whereas the overall need was to look into the social aspects also. There is also a need to look into the environmental

issues which would emerge consequent upon opening of huge malls. The Department was instructed to institute a study into environmental, traffic issues, etc., consequent upon opening of these malls, etc.

2.4 The Department informed that as far as organised retail by domestic firms was concerned, the same was under the purview of the Department of Consumer Affairs and the intention of the Government was to have a comprehensive policy debate on the study report that will follow. The Committee was of the view that taking umbrage on the pretext that some part of retail came under the purview of another Department does not hold water, as there was the accountability of whole Government when a policy on the issue is framed.

2.5 The Committee took up the matter of violation of FDI Policy by Foreign Publishers and inclusion of Book Publishing under Print Media, on the representation of Federation of Indian Publishers. The Committee felt that the entry of FDI in book publishing would directly affect the domestic industry, not only in respect of price, but also in the context of published material which was detrimental to the national interests. The Department submitted that it would get a study done on the effect of entry of FDI in publishing at the earliest, as it was an important issue.

2.6 The Committee felt that the policy of allowing FDI in publishing should not be finalised till the study is finalized, as it would not only affect the domestic houses printing text books, but may affect the contents of text books.

2.7 The Secretary, Department of Industrial Policy and Promotion also submitted that the Department would take both immediate and long term steps to

correct the existing system, which would help protect both the domestic publishing industry and the indigenous literature.

Department of Consumer Affairs (Ministry of Consumer Affairs, Food and Public Distribution)

2.8 The Secretary, Department of Consumer Affairs informed the Committee that organised retail by domestic firms is under its purview. The Indian retail sector, whether organised or unorganized, is the most favourable destination, partly because the middle class is growing. Indian organised retail will reach about 16% in about eight to ten years.

2.9 Presently, there is no restriction on the entry of any domestic investor into retail sector. The retailers/traders register their shops with concerned authorities in various States. Licenses are, however, issued under Rules 50 of the prevention of Food Adulteration (PFA) Rules, 1955, for manufacture, sale, stock, distribute or exhibit for sale any article of food, including prepared food or ready to serve irradiated food. State Governments provide various infrastructure facilities to the traders, in line with their policies. So far as Foreign Direct Investment is concerned, as per extant policy, the Government allows 100 per cent Foreign Direct investment (FDI) in cash & carry wholesale through the automatic route, and 51 per cent *for single brand products*.

2.10 The Secretary, Department of Consumer Affairs submitted that unless there was a regulatory approach, it would be difficult to stop the entry of big corporate business houses in retail business.

2.11 The Committee felt that the need of the hour was to put into place strict regulations on the entry of big malls, viz. size of the mall, location of the mall from kirana shops, parking facilities, adherence of environmental norms, labour laws,

etc., to ensure that cartelization does not take place. There is also a need for ensuring that these big organised retail brings latest technologies, which could be absorbed here and also that large scale unemployment, particularly in the unorganized retail sector, does not take place. A National Shopping Mall Regulation Act should also be enacted which could regulate the whole retail sector, both in fiscal and social aspects.

2.12 On the issue of formulation of a National Trade Policy to protect medium and big markets of India on a large scale, the Department of Consumer Affairs informed that presently there is no National Trade Policy. As per 8th Schedule of the Constitution, Trade and Commerce fall within the jurisdiction of respective States. The scope and functions of Central Government are confined to inter-State trade and commerce. Formulation of National Trade Policy would require wider consultation with States and other concerned authorities.

Department of Agriculture and Cooperation (Ministry of Agriculture)

2.13 The Committee enquired about the effect of opening up of retail sector on the farmers. The Committee expressed the apprehension that opening up of retail sector would have adverse consequences on the farmers of the country, as these big organised retailers were resorting to contract farming, which would not only affect the agricultural land, but may result in serious impact on the existing Public Distribution System (PDS), and urged upon the Department to have a serious look into these social and economic issue which could adversely affect the traditional system of farming, farmer – small retailer link, which had existed for thousands of years.

Department of Higher Education (Ministry of Human Resource Development)

2.14 The Committee enquired about the Ministry's attitude towards publication of books and opening up retail shops by foreigners in the country. The representative of the Department of Higher Education informed that the issue was within the jurisdiction of National Book Promotion Council, which was at the finalisation stage. The Committee urged upon the Department to consult other Departments, viz. the Department of Commerce, to impose certain interim regulations on preventing FDI in publishing, till the National Book Promotion Council takes a final view on this matter.

2.15 The Committee felt that the Ministry of Human Resource Development should take due care to protect the intellectual resource of this country by not allowing foreign publishers to promote certain authors who use the local literature to impact the taste and the aesthetic values of this country.

Department of Commerce (Ministry of Commerce & Industry)

2.16 The representative of the Department of Commerce submitted that it would look into the matter whether any foreign publisher was operating in the area reserved for SSI without permission, and also look whether any regulating system could be put into place, so that use of SEZs for publishing foreign publications through SEZs into the country could be put into place.

Director, NCERT

2.17 The Director, NCERT submitted before the Committee that 100% FDI in the field of publication through automatic route was not a threat to it. However,

what was restricting its growth was the fact that in the absence of it being not designated 'University Status', it had to take numerous permissions from various Ministries to take its personnel in book fairs, organised outside the country. On the contrary, many countries had evinced interest in the books being published by NCERT. Moreover, NCERT had used the power of internet to post all these books on its website, so as to integrate with global market. The NCERT would not be affected due to FDI in publishing industry, either now or in future, as NCERT was superior in terms of quality and price, and would continue to maintain so in future.

Director, National Book Trust (NBT)

2.18 The representative of NBT submitted that FDI in publishing should be regulated but not banned altogether, because there was a need for balancing between the foreign publishers coming here and Indian publishers going outside, and the interests of both needed to be protected.

CHAPTER-III

Written and oral submissions: Individuals/Organisations

3.1 The Committee issued a Press Communiqué on the subject, to seek the views of stakeholders and the public at large on 05th June, 2008. The Committee received 65 Memoranda (Annexure-) on the subject. Besides, it heard the views of the representatives of the following organisations/individuals:-

- (i) Federation of Indian Publishers;
- (ii) Federation of Publishers and Booksellers Association in India (FPBAI)
- (iii) Shri N. C. Joshi, New Delhi.
- (iv) Shri K. K. Mittal, New Delhi.
- (v) Bhartiya Udyog Vyapar Mandal
- (vi) Shri Himanshu Goel, Dehradun
- (vii) National Hawker Federation
- (viii) Shri Tara Chand Jain, Jaipur
- (ix) Youth for Unity and Voluntary Action (YUVA), Mumbai
- (x) Tamil Nadu Chamber of Commerce and Industry
- (xi) Federation of Associations of Maharashtra

Federation of Indian Publishers

3.2 The representative of the Federation submitted before the Committee that recently they had come to know that publishing comes under small scale industry, and no one can enter this industry without Government's permission, and that too upto 26% shares only. Further, neither publishing should be allowed through the automatic route, nor the import of books should be allowed by foreign publishers, as ultimately their basic aim was to take control of the Indian market. The other argument that FDI would bring latest technology in publishing did not hold water, as the Indian publishing industry already had the latest technology

available. The National Book Development Council, which looked after the interests of domestic industry, had not held a meeting after 2003, which was adversely affecting the domestic industry. There was a need to change policy with regard to allowing units operating in EPZs/SEZs to sell books in the Indian market, as these ultimately affected the domestic publishers.

Federation of Publishers and Booksellers Association in India (FPBAI)

3.3 The representative of FPBAI submitted that the entry of FDI in publishing had slowly edged out books being published by Indian authors and they had been replaced by books being published by foreign authors, which was detrimental to the very culture and ethos of the educational and moral upbringing of our future generations. There was no need for FDI in the publishing Industry in the country.

3.4 The Committee felt that there was a need for Indian Publishing Industry to unify and explore new avenues like IT knowledge if they wanted to compete with foreign publishers.

Shri N. C. Joshi

3.5 The Committee were informed that the concept of departmental stores/malls had its origin mostly in the West, particularly after the World War II, because of many factors such as overall shortages of goods, infrastructure, etc. The position in India is, however, very different where large portion of our population depends on small scale retail business. Competition is no doubt healthy as it keeps prices under check, but this should be limited within the segment and between equals, while keeping in view the local conditions. Bulk buying by large retailers has the inherent advantage of creating monopoly

conditions and thus raising prices of essential items. Representationist was of the view that FDI in the retail sector should not be allowed, as it directly affected 20% of the Indian population connected with it.

Shri K. K. Mittal

3.6 The witness submitted that the Government should not turn a Nelson Eye towards the interests of estimated 23.5 crore small retailers/vendors in villages/towns/cities. They had a strong case for saving themselves from predatory tendencies of the corporate giants. A regulatory authority at Government of India level is needed, which may be headed by an eminent Economist, well versed in translating marketing moods, pulse and taste of Indian public across the country.

3.7 The opening up of retail sector to FDI had destroyed small retailers due to the fact that they got all concessions from the Government, whereas the small retailers had to furnish all types of documents to set up and survive, and the traditional retailers are at a loss and required sympathy from the Government of India.

Bhartiya Udyog Vyapar Mandal

3.8 The Committee were informed that currently there is about 320 Billion dollar retail trade per year in India which has been going on traditionally for thousand years, and the share of organized sector in this has gone up to five percent. It is traditionally spread over in every nook and corner of the country - in villages, cities and from deserts of Rajasthan to snow-covered peaks of Himalayas, and is going on from generation to generation. Domestic retail traders have their own credibility due to which even a kid of a family goes for

shopping to these shop keepers and in turn he maintains his credibility, by giving good quality product at reasonable prices and appropriate weight.

3.9 Efforts are being made by the Central Government and different State Governments, to provide to big industrial companies loans at lower rates of interest from banks but so far no such arrangement has been made for small retailers who have very little capital. Besides, when any big industrial house sets up some industry, State Governments provide the land at reduced rates, and five to 50 percent of the total cost is borne by the Central Government and State Governments as subsidy, but there is no such arrangement by Government for small traders. If these big industrial families, having capital of thousand crore are permitted to enter in retail trade, traditional retail trader, having nominal capital, would be unable to compete with them. Ultimately they will have to close their shops.

3.10 Unemployment in India is increasing rapidly, Government has not been able to provide employment opportunities in the proportion at which population is increasing, due to which the youth of India adopt retailing as a mode of self-employment. Its specialty is that it absorbs the less educated, as well as the illiterate people. Hence, there should be a complete ban on the entry of big domestic and foreign companies in retail trade in India, having widespread poverty and unemployment because these companies cannot provide sales in the ratio of un-employment generated due to them.

3.11 There is rapid increase in the graph of crimes like theft, dacoity, murder, loot and robbery in the country. The main reason behind this is the fast increasing economic disparity between the poor and the rich. The people having

big capital are making more and more profit due to their capital, while the condition of the poor is getting bad to worse due to price-rise, and the corruption is increasing fast in the country. If these big domestic and foreign companies, as well as the big industrial houses, are allowed to invest more in retail trade, the situation may turn more horrible.

3.12 There should be a complete ban on the entry of foreign companies in retail sector. There should also be a complete ban on the big domestic industrial companies having a capital more than 100 crore on entering in the retail trade. There should also be a complete ban on similar lines on retail chains being run by big domestic industrial families at present.

Shri Himanshu Goel

3.13 The witness submitted that there was a need for a firmer pricing policy so that the unfair trade practices, being indulged in by certain big retail chains, are reined in. Organized retailers' cut throat competition can affect adversely by sub-standardization of goods, which should be vigilantly watched by the Government agencies. FDI should be prevented from direct investment and it should be mandatory to collaborate with Indian firms and the limit of FDI should be lower than the current limit of 74%, because it endangers major portion of our domestic industry dependant on Indian customer bases. To safeguard consumers' interests and to check profiteering or cartelization, a regulatory agency should be formed, which can be approached by consumers, for safeguarding consumer rights and to prevent misappropriation in commodity prices. There should be a check on the foreign financing agencies, which provide credit to retail customers

at high rates, through arrangements with the retailers. This should be checked to safeguard consumer interests.

3.14 The witness further submitted that even though organised retail had come into the country, the unorganized sector was growing at a rate of 8% per annum and, therefore, was not threatened. The Committee was of the view that growth of the sector at the cost of the whole nation could not be allowed, as it had resulted in massive unemployment in the unorganized retail sector.

National Hawker Federation

3.15 The witness submitted that a task force should be constituted, comprising the representatives of vendors, retailers, farmers, workers, consumers, manufacturers, cooperatives to undertake a comprehensive research. Till such time no new licence should be given to open corporate stores.

3.16 Immediate ban should be imposed on the format of neighbourhood convenience stores of corporations. There should be a blanket ban on the corporations for selling fruits, vegetables, groceries and goods of daily use. There should be allocation of space for social consumption and thrust should be to develop natural markets, instead of serving corporate capital. In the name of Public Private Partnership, the Government must not allow the retail structure of the country to be controlled by a handful of multi-national corporations, in association with the Indian Corporate partners and the State must play a role to protect the livelihoods of retailers and vendors; ensure better prices to farmers, living wage to workers of supplying units, quality products at reasonable prices to consumers.

3.17 The witness further submitted that National Hawker Policy, which was announced in 2001, was not being implemented, which had led to the Hawkers becoming unemployed, which was further compounded due to the large shopping malls being set up, as nothing was done to regulate either these malls nor were any measure taken to regularize the Hawkers.

Shri Tara Chand Jain, Jaipur

3.18 The witness submitted that instead of allowing investment - domestic or foreign, the small retailers must be allowed to form co-operatives, and the Government must intervene to support small retailers in this regard. The Committee felt that the contention of the witness that the entry of investment - domestic or foreign, had affected the employment prospects of small retailer, should be backed by some statistics, because the Committee could take up the cause of the small retailers only if they were backed by empirical evidence sector wise.

Youth for Unity and Voluntary Action (YUVA), Mumbai

3.19 The Committee were informed that National Sample Survey Organization (NSSO) should be directed to carry out annual surveys and reports on the conditions of Indian retailers and their supply chains, with particular emphasis on small, unorganized retailers. There was a need to maintain the current ban on foreign direct investment in multi brand retail. A moratorium should be called on the issuance of licenses in whole-sale cash and carry to foreign firms, until thorough study is conducted into the practices of those already engaged in this trade. State and Municipal Acts should be amended, to decriminalize street vending and allow hawkers to compete with new retailers, on equal footing. The

National Policy on urban street vendors, 2004 should be implemented in every city. A separate retail regulatory authority should be constituted, to regulate retail and its related industries, along the lines of those regulators in the telecom and related industries. Parliament should enact strict laws, with heavy penalties, for predatory pricing practices and scrap the "model APMC Act "in favour of regulating and modernising the existing APMC system. The existing APMC Act should be modernized and made more fair to farmers. There was a need to provide a social security coverage for all informed workers.

3.20 The representatives of YUVA submitted that they were carrying out studies on the effect of foreign and domestic investment on local retailer and the same would be furnished to the Committee on completion of the studies.

Tamil Nadu Chamber of Commerce and Industry

3.21 The Committee were informed that certain measures for accelerating the growth of organized retailing could be taken, without impacting the existing small and medium-sized retailers. Firstly, a categorical policy statement should be announced by the Government immediately that no FDI should be allowed in retail trade in India, even as joint ventures with Indian partners. Secondly, a blanket ban should be imposed on large domestic corporates from entering into retail trade in grocery, fruits and vegetables. Thirdly, a policy, similar to the reservation policy adopted by Government, earmarking certain products to be manufactured exclusively by SSI units, retail trade in grocery, fruits and vegetables should be reserved only for indigenous small and medium retailers. Fourthly, an Act similar to MSME (Micro, Small and Medium Enterprises) Act, should be passed to protect and promote small and medium retailers, which

could be implemented by a separated Ministry. Fifthly, a ceiling should be fixed for the number of shops (say 20 in a State, three in a corporation, and two in municipality) that could be set up by domestic corporate heavy weight chain stores. Such a move would ensure non-accumulation of market revenue in few hands, and retail trade would provide livelihood for more people. Sixthly, domestic corporate heavy weights may be permitted to set up Super and Hyper Malls for non-food items in the outskirts of Corporation and Municipal cities, beyond the peripheral area of five kms., specifying the minimum carpet area for malls and space for parking to avoid traffic congestions within the city limits. Seventhly, encouragement and assistance should be provided for formation of co-operatives or associations of kirana stores. Lastly, in order to help small retailers improve efficiencies, they should be entitled to better deal in terms of institutional credit. Therefore, credit should be made available to them at reasonable rates from banks and micro-credit institutions, for expansion and modernization.

3.22 With regard to whether FDI should be allowed in retail trade or not the witness submitted that it should not be allowed.

Federation of Associations of Maharashtra

3.23 The Committee were informed that certain steps needed to be taken by Government to protect and encourage the small street corner retailers who employ more than four crore individuals. Firstly, Foreign Domestic Investment in retail should not be permitted under any circumstances till the year 2010, since as per the World Trade Organisation Agreement, India is not required to open the services sector till 2010. After 2010, the Government can decide on basis of

situation prevailing at that time. Secondly, the Government should stop issuing further licences for "cash and carry", either to Transnational Retailer or to a combination of Transnational Retailer and the Indian Partner, as it is a mere camouflage for doing Retail Trade through back door. Thirdly, there is a need to formulate rules and regulations, whereby the activities of large corporate houses are regulated, as has been done in some other Far-east countries. Lastly, amendments by the Government of India in the Agricultural Produce Marketing Committee Act (implemented by most of the State Governments) needed to be properly streamlined. The Government should provide the same facilities to the existing traders, as are offered to the Multi National Corporations (MNCs) and big corporate retailers.

3.24 The Committee sought the views of the witness on whether the entry of big malls had effected employment, environment, etc. and whether any study in this case had been carried out by the witness, and if not, the same may be done, so that the same may allow the Committee to take a constructive view on protecting the unorganized retail sector.

CHAPTER-IV

STUDY VISITS

4.1 Sub-Committee I of the Committee undertook study visits on behalf of the Committee to gather first hand information on the subject and to interact with different stake holders. It visited Indore, Mumbai, Bangalore and Chennai from 19th to 23rd February, 2008, West Bengal, Assam and Meghalaya from 26th to 31st May, 2008 and Haryana, Gujarat, Andhra Pradesh and Kerala from 4th to 7th February, 2009. During the visits, the following important issues come up:

Indore

4.2 The Sub Committee visited the Prize, Salasar, Vishal , Fashion Malls, Reliance Fresh, Treasure Island and MangalCity in Indore. Discussions were also held with Associations of organised retail/fruit, vegetable retailers and representatives of Local Administration and Municipal Corporation. It was informed that the sale of small retailers had declined after opening up of malls in their vicinity and people preferred to buy from the large stores. The business had come down and remained just 25%, in comparison to their previous years' sales. The business had declined since the launch of Reliance Fresh. The small shopkeepers should be given attention, in contrast to Reliance Fresh. There should be enactment of the laws, keeping in view the challenges being faced by the farmers, so that the farmers could get relief. Efforts should be made for improvement in basic irrigation, agriculture, etc.

Mumbai

4.3 The Sub Committee visited shopping malls like INORBIT, Shoppers Stop as well as Hypercity in Malad (West), Crossroads, Atria, Big Bazaar, Subhiksha, Reliance Fresh, ApnaBazar and Phoniex shopping Mall at Lower Parel and Crawford Market Heritage . Discussions were also held with the Associations of organised retail/fruit, vegetable retailers and representatives of Local Administration and Municipal Corporation. It was submitted before the Sub Committee that :

There was a need to provide infrastructural facilities at the existing markets so that retailers could continue their business; and

Redevelopment of market should be taken on top priority as per the guidelines approved and the civic amenities should be given, so that the licensees of the Municipal markets are placed in a better environment.

Bangalore

4.4 The Sub committee visited various malls in and around the City to study the latest facilities available to the consumers there. Discussions were also held with Associations of organised retail/fruit, vegetable retailers, representatives of Local Administration and Municipal Corporation. The following issues came up:-

- 1) Small traders' interest in the business should be protected without affecting their normal course of business activities while implementing the new business strategies by corporate/foreign investors in organized and unorganized retail sectors.
- 2) The hardship faced by the small traders due to various reasons, will effect the employment opportunities of the illiterate people who are totally dependent on the small investment business, which may vanish during the course of introducing the new business concepts in malls.
- 3) There was a need to consider concessional insurance premiums for all small retailers and their employees.
- 4) Organized retailing may benefit the consumers by removing the intermediaries between them and the producers, thereby being cost effective to a certain extent. It may also be true that it is in the consumers' best interest to enable them to obtain goods of better quality. However,

this should not displace the existing retail sector, thus affecting the livelihood of small retailers.

- 5) Any policy that proves to be detrimental to the unorganized retailing should be reviewed carefully, keeping the interest of all sections of society in mind.
- 6) The Government may decide upon a percentage as to the number of malls or chain stores that may come up in a city or in the neighborhood area, after a detailed study, to ensure that the local 'kirana' shops or 'maligai kadais' are not displaced, thereby enabling access to the end consumer living below the poverty line.
- 7) It is also imperative that the Government should consider enacting new laws to check the expansion of these organized retail outlets and to strengthen the grievance redressal mechanisms with regard to various offers, tied selling and other promotional tactics employed by these outlets to augment business which are issues of great apprehension to the consumers.
- 8) The State Governments should be sufficiently equipped to deal with issues arising in their respective states by setting up a separate division and the centre may monitor and ensure the overall functioning of these divisions.
- 9) Displacement of small retailers should not happen. The economic security of the vulnerable population should be given due consideration.

Chennai

4.5 The Sub committee visited various malls (Food Court/Spencer) in Chennai to study the latest facilities available to the consumers there. Discussion were held with the associations of organised retail/fruit, vegetable retailers and representatives of Local Administration and Municipal Corporation. The following issues came up:-

- 1) As far as the conventional retail sector is concerned, there is no big investment and advertisement for doing the retail trade, whereas, in the corporate sector, the investment is very huge, ambience is very good; enough advertisements are being given through the powerful Media like television and newspapers. So, it is not a genuine competition as the conventional retail trade will be ruined;
- 2) The corporate sector will raise the rates, once the monopoly comes into play and, therefore, the entry of big corporate and multi nationals in retail trade should be opposed .

- 3) The entry of the big corporates has made owners of the business become employees of the corporates and these corporate were also affecting national interest, as many people in the unorganized sector cannot be employed by the corporates.
- 4) A decision should also be taken on what percentage of imported commodities should be allowed to be sold in retail outlets.
- 5) A way should be found out to provide cheaper finance for the small vendors, as he/she cannot negotiate with the banks for a lower rate of interests.

4.6 The Sub Committee visited various Malls namely Big Bazaar (Cosmos Mall), Sun Flower and Vishal Mega Mart in Siliguri; Big Bazaar, Pantaloon, Vishal Mega Mart in Guwahati and Shillong; South City Mall, Orchid Mall (Pantaloon), VIP Market, etc., in Kolkata. Each Mall was given a proforma to furnish various details related to that Mall for information of the Sub Committee.

4.7 During the course of the Visit, the Sub Committee had a series of discussions with the associations of organised and Un-organised retail, representatives of local Administration/Municipal Corporations etc. Some of the important points raised in these representations are given in the following paragraphs.

Siliguri

4.8 The representatives of the Federation of Chambers of Commerce & Industry, North Bengal (FOCIN), in their written submission, made the following suggestions:-

- i) Further development of retail business, more infrastructure to develop the market complex and re-development of the old retail markets of the districts of North Bengal is required;
- ii) The bankers and financial institutions should come forward to help the small retailers and traders as the retailers in North Bengal, as a whole, are deprived of the bank loans for their business;

- iii) Some mechanism should be formulated by the Central and the State Governments to ensure that the Credit and Deposit ratio of banks is improved, in the best interest of the country;
- iv) The retail trading is the main business activity in North Bengal. As such, its existence and expansion is essential for economic growth in the region; and
- v) Agricultural Produce Marketing Tax and its Check Posts be withdrawn, which pose hurdles to retailers dealing with agricultural products.

4.9 The representatives of the C.I.I. submitted that the Malls have every facility like A.T.M., toilets, parking, etc., which attract people for purchasing the items from these malls. Besides, the malls offer their commodities at cheaper rates and with various lucrative schemes too, due to which people visit them and prefer purchasing the things from these malls. They get these schemes as they purchase in bulk from the factory itself. The retailers do not get such attractive schemes from the factories on these FMCG items and hence, they cannot offer such schemes to the customers.

Guwahati

4.10 The representatives of the Assam Chamber of Commerce submitted before the Sub Committee that various factors like increased railway freight, weak Public Distribution System, State Government control over the retail trade and Fast Moving Consumer Goods (FMCG) products, absence of proper business Hub and regulated Market, lack of infrastructure facilities, viz., proper warehouses, godowns, storage facilities for goods, absence of uniform taxation on various items, despite VAT, etc., have led to price rise in Assam.

Kolkata

4.11 The representatives of Federation of Traders' Organisation of West Bengal (FTO) requested that: -

- a) Categorical policy statement should be announced by the Government immediately that no big investment will be allowed in retail trade in India, even as joint ventures with Indian partners.
- b) On the pattern of MSME (Micro, Small and Medium Enterprises) Act, there should be an Act to protect and promote small and medium retailers by name. Small and Medium Retailers Act (SMR Act) under separate Ministry, with innovative schemes like the Cluster approach, to convert our unorganized retailers into organised modern retailers. Even an individual shop can become a link of chain shops under the cluster programme. They should be provided with credit facilities at low rates. This will facilitate a number of retail units to come together and transform themselves into chain shops.
- c) Formulate a National Policy on Retail Trade and Small Manufacturing Industries.
- d) Implement the National Policy on Urban Street Vendors.
- e) Institute an Independent Special Task Force, comprising representatives of stakeholders, to study on the socio-economic environment and cultural impact of corporate retail.
- f) Enact a law against predatory pricing and anti-competitive actions.
- g) Repeal the changes made in the APMC Act through the APMC Model Act.
- h) In a country where almost one-third population is leading a life below the poverty line, every precaution is called for, so that a situation is avoided in which the problem of poverty multiplies.

In nutshell, the following issues came up before the Sub Committee:

4.12 Unorganized retailers in the vicinity of organised retailers experienced a decline in their volume of business and profits, after entry of the large organised retailers. Some small retailers had to close their shops after opening of shopping Malls nearby them. However, the exact figures about the closure of such shops were not available with retailers. There was a need to undertake a survey to study the exact number of closure of shops due to opening of these Malls.

4.13 A level playing field should be provided to the small retailers. The local Municipalities should take initiatives to develop the old retail markets under their control, with all the necessary infrastructure like better roads, proper supply of

electricity, including parking, ATM facilities, etc., so as to attract customers to these retail shops. The bankers and the financial institutions should come forward to help the small retailers and traders, for providing loans to them.

4.14 The retailers are being governed by some kind of rules as they open only six days a week, have to apply for various licenses, etc., while the shopping Malls are open seven days a week. There is a need to formulate a Shopping Mall Regulation Act. At present there is no such regulation, as a result anybody can open a shopping Mall anywhere in the city under the Shops & Factories Act. No shopping Mall should come up in the vicinity of an existing municipal or other market, and that the Act should contain a provision so as to restrict the number of such shopping malls opening in a city, keeping in view its population, other retail markets, etc. The said Act should also have provisions to restrict sale of fruits and vegetables, rice, pulses, other grocery items, etc. in the Malls, as the sale of such commodities in the malls is adversely affecting the business of the retailers.

4.15 The Labour Laws should also be implemented strictly in these malls, so as to safeguard the rights and the interests of various employees working therein.

4.16 There is no control on prices of commodities being sold in the Shopping Malls. The Shopping Malls Regulation Act should have a provision with regard to control of price of various commodities in them.

4.17 Some rehabilitation schemes should be introduced in respect of those retailers whose shops have been closed due to opening of shopping malls near them.

Gurgaon

4.18 The Sub-Committee visited the MGF Malls, Sahara Malls and AMBIENCE Malls in the city and held discussions with the representatives of various unorganized retailers, organized retailers and officers of different departments, like Municipal Corporation, Marketing Department, Food and Civil Supplies Department and Fire Fighting Department. The following points emerged:

- (i) There is no proper parking space in the malls campus.
- (ii) There is no direct threat to the unorganized sectors after coming up of the big malls.
- (iii) For attending the children of the customers in the malls, kiosks should be installed.
- (iv) Fire fighting system should be made available in the malls.
- (v) The authorized malls should sell the single brand for which license is given.
- (vi) There should be one day off for employees engaged in the malls.

Ahmedabad

4.19 The Sub-Committee visited the Star Bazaars, ISCKON Mega Malls, ATRIUM Mall, Gallops and municipal market of Ahmedabad City and held discussions with the representatives of Gujarat Chambers of Commerce and Industry. The following points emerged:

- (i) There is no direct or indirect adverse effect to the unorganized sectors after coming up of big malls. Moreover, they are co-existing without affecting each other.
- (ii) For attending the children of the customers in the malls, kiosks should be installed.
- (iii) Fire fighting system should be made available in the malls.
- (iv) The authorized malls should sell the single brand for which license is given.
- (v) There should be one day off for employees engaged in the malls.

Hyderabad

4.20 The Sub-Committee visited the Metro Mall and Hyderabad Central Mall in the city and discussed the issue of the foreign and domestic investment in retail sector with the representatives of the big malls, unorganized sectors and officers of industry department, labour department, licensing department, marketing department and food and civil supplies department of Andhra Pradesh Government and the members of the Andhra Pradesh Chambers of Commerce and Industry. The following points emerged during the discussions:

- (i) There is no immediate loss to the unorganized sector due to setting up of big malls.
- (ii) Some unorganized retailers were of the view that FDI should not be allowed in the retail sector.
- (iii) There should be a monitoring mechanism for imported goods in the State Government, in order to know the fate of those products.
- (iv) Fire fighting system should be made available in the malls.
- (v) The authorized malls should sell the single brand, for which license is given.
- (vi) There should be one day off for employees engaged in the malls.
- (vii) There is no proper parking space in the malls campus.

Cochin

4.21 The Sub-Committee visited the OBERON Mall and held discussions with the representatives of Government of Kerala, the members of Kerala Chambers of Commerce and Industry and other individuals related to the subject. The following views emerged:

- (i) Some small shops of South Ernakulam District have been closed.
- (ii) The effect of the malls is felt in the major cities. The small towns and cities are unaffected at present.
- (iii) Some workers are joining the employment of mega malls after leaving their present employment.
- (iv) Some sectors should be reserved for unorganized retailers to protect their interest.

- (v) First-aid facilities should be made available in the big malls.
- (vi) Unilateral opening up of the retail sector will affect the farm sector which is likely to be affected by cheap imports of highly subsidized agro products.
- (vii) Another danger is that of entry of genetically modified organisms(GMOs) entering the countries without adequate checks.
- (viii) Entry of big multi-national capitalists may result in gradual wipe out of small and medium retailers which would lead to large scale *unemployment* and, therefore, FDI in retail sector should be withdrawn.

CHAPTER-V

OBSERVATIONS AND RECOMMENDATIONS

5.1 The Committee were informed that present Policy on FDI in Trading Sector is that no FDI is permitted in the Retail trading, except for Single Brand product retailing where FDI up to 51% is permitted, with prior Government approval.

5.2 FDI up to 100% is permitted under the automatic route in wholesale/cash & carry trading, including business-to-business sales, and export trading. FDI up to 100% is permitted with prior Government approval in trading of items sourced from small scale sector and test marketing.

FDI up to 51%, with prior Government approval, is allowed in retail trade of single brand products, subject to the following conditions:

- i. FDI up to 51% would be allowed, with prior Government approval, for retail trade of Single Brand Products;
- ii. Products to be sold should be of a 'Single Brand' only.
- iii. Products should be sold under the same brand internationally.
- iv. 'Single Brand' product-retailing would cover only products which are branded during manufacturing.

5.3 The Committee are of the view that the provision of single brand is not strictly adhered to and shops in malls are selling other branded items, alongwith the brand for which they have got permission. Corporate retailers practice product bundling, whereby products of single or different brands are sold as combinations and bargains in the malls. This also adversely effects small shopkeepers and restricts over-all competition. The Committee are also of the view that allowing cash and carry wholesale in India is nothing but allowing backdoor entry of foreign companies into

retailing, as they are selling goods for personal consumption also, whereas they were allowed for only business purposes.

5.4 The Committee feel that opening up of FDI in Retail Trade by allowing single Brand foreign firms in India will result in unemployment due to slide-down of indigenous retail traders. Consumers' welfare would be side-lined, as the big retail giants, by adopting a predatory pricing policy, would fix lower price initially, tempting the consumers. After wiping out the competition from local retailers, they would be in a monopolistic position and would be able to dictate the retail prices. Local manufacturers, in particular the small scale industrial sector, would be gradually wiped out. The entry of few big organized companies, may result in distortions in the economy and the gap between 'haves' and 'have nots' in the country. Procurement centres constituted by big corporates for making direct bulk purchases would initially pay attractive prices to the farmers, and cause gradual extinction of mandis and regulated market yards. Then on the strength of their monopolistic position, farmers would be forced to sell their produce at rock bottom prices. Farmers would be unduly affected due to the non-remunerative prices.

5.5 The Committee, therefore, recommend that a blanket ban should be imposed on domestic corporate heavy weights and foreign retailers from entering into retail trade in grocery, fruits and vegetables, and restrictions should be entered for opening large malls by them for selling other consumer products. Reservation policy, similar to that adopted by Government on certain products being manufactured exclusively by SSI

units, should be adopted for indigenous small and medium retailers, and financial assistance schemes should be planned for providing assistance to them for undertaking expansion and modernization. Government should stop issuing further licenses for “cash and carry”, either to the transnational retailers or to a combination of transnational retailers and the Indian partner, as it is mere a camouflage for doing retail trade through back door.

5.6 Another issue which merits attention is unemployment created by corporate retail. At present, unorganized retail provides employment to more than 40 million people, which accounts for 8% of the total employment. Many of them are not well educated. Projection of corporate retail to create two million jobs is highly exaggerated, ignoring the 200 million people, depending on the retail sector likely to be rendered jobless. Once displaced, there is no in-built policy to relocate or re-employ the dislocated persons.

5.7 The Committee feel that in a country with huge numbers of people and high level of poverty, the existing model of retailing is most appropriate in terms of economic viability. Unorganized retail is a self-organized industry, having low capital input and high levels of decentralization. The Committee, therefore, recommend that the Government should ensure that some in-built policy must be established to relocate or re-employ the people who are dislocated due to opening up of big malls in the vicinity of their shops.

5.8 The entry of big domestic and foreign retailers will not merely destroy the economic foundation of the small retail supply chain, but will have social

underpinning, in view of the fact that the small retailer is mostly illiterate or semilliterate and would not be able to find gainful employment elsewhere. The Committee, therefore, recommend that in view of the adverse effects of corporate retail (foreign as well as domestic) on the small retailer, there is a compelling need to prepare a legal and regulatory framework and enforcement mechanism for the same, that would ensure that the large retailers are not able to displace the small retailers, by unfair means.

5.9 The traditional system of small retailer should be protected. In order to help them improve their efficiencies, they should be entitled to better deal in terms of institutional credit. Credit should be provided at lower rates of interest to small retailers by public sector banks, for expansion and modernization of traditional retailers. A proactive programme of assisting small retailers, to upgrade themselves, should also be undertaken.

5.10 The Government may consider to establish a National Commission, to study the problems of the retail sector, and to evolve policies that will enable it to cope with FDI. Cooperatives and cooperative marketing should be encouraged to strengthen the unorganized retailers. Akin to MSME (Micro, Small and Medium Enterprises Development Act, 2006) Act, an Act to promote small and medium retailer should also be formulated. Further there was a need to enact a law against predatory pricing and anti-competitive actions.

5.11 The Committee were informed that efforts were being made by Central and State Governments to provide to big industrial companies loans at lower

rates of interest from banks, but so far no such arrangement had been made for small retailers. Besides, when any big industrial house sets up some industry, State Governments provide the land at lowest rates, and five to 50 percent of the total cost is borne by Centre and State Governments as subsidy, but there is no such arrangement by the Government for small traders. If these big industrial families, having capital of thousand of crores are permitted to enter the retail trade, the traditional retail traders, having nominal capital, would not be able to compete with them and will ultimately have to close their shops. **The Committee, therefore, recommend that the Government should ensure that a level playing field for the small retailers should be made, before opening up of the sector to big ticket foreign and domestic investment. Before any permission for opening any new retail store is given, it should study and analyse the economic and traffic impacts of the store, may be, by a University or economic or environmental institute of repute. The expenditure of the same should be borne by these companies and not by the Government and any proposed store, which has the potential to eliminate the local community from retail sector, or can increase the traffic by more than five percent, should not be allowed to open.**

5.12 The big retail uses large land space, without having any proper parking facilities. It consumes more power for its lighting, air conditioning, etc. For refrigeration of vegetables and fruits, and for air conditioning the retail outlets, approximately 20,000 megawatt of additional electricity is estimated to be needed. The giant retailers have their own standards of buying farm produce. It is alleged that they promote usage of excessive insecticides and pesticides, to

meet the demands of these retailers. These retailers sell the farm produce throughout the year, by preserving the same in cold storages, without adhering to food safety norms, making the produce.

5.13 The Committee, therefore, recommend that there is a need for setting up of a Retail Regulatory Authority, to look into the problems and act as a whistle blower, in case of anti competitive behaviour and abuse of dominance. Urban planning, zoning laws and environmental laws in urban areas should be used to limit the multiplication of malls and corporate retailers, by creating transparent criteria for licences, that are linked to the density of population and the stage of existing competition in retail in the zone. The regulatory mechanism should be strengthened and be made more democratic, by including the representatives of farmers also.

5.14 The Committee felt that the entry of FDI in book publishing would directly affect the domestic industry, not only in respect of price, but also in the context of the published material, which could be detrimental to the national interests. The Department should ensure that the foreign publishers, in the garb of promoting their literature, do not impact the taste and aesthetic values of Indian readers.

5.15 The Committee were informed during the course of deliberations with the stake holders that agricultural land was being diverted for building shopping malls. The Committee feel that diverting the agricultural land may not merely lead to reduction in production or income to farmers, it may affect the social and cultural life of the farmers, agricultural labourers and others, connected with the agricultural activities. The Committee, therefore,

recommend that the Government should come out with adequate safeguards to prevent diversion of agricultural land for setting up of malls, etc.

5.16 The need of the hour was to put into place strict regulations on the entry of big malls, viz. size of a mall, location of a mall from kirana shops, parking facilities, adherence to environmental norms, labour laws, etc., to ensure that cartelization does not take place. It may also be ensured that these big organised retail brings latest technologies, which could be absorbed here, at the same time ensuring large scale unemployment, particularly in the unorganized retail sector, does not take place. A National Shopping Mall Regulation Act could also be enacted to regulate the entire retail sector, both in fiscal and social aspects.

5.17 On the issue of formulation of a National Trade Policy to protect medium and big markets of India on a large scale, the Department of Consumer Affairs informed that presently there is no National Trade Policy. As per 8th Schedule of the Constitution, Trade and Commerce fall within the jurisdiction of respective States. The scope and functions of Central Government are confined to inter-State trade and commerce. Formulation of National Trade Policy would require wider consultation with States and other concerned authorities. The Committee, therefore, recommend the Government should formulate a model central law after due consultation with the State Governments and concerned stake holders.

4. The Committee feel that in a country with huge numbers of people and high level of poverty, the existing model of retailing is most appropriate in terms of economic viability. Unorganized retail is a self-organized industry, having low capital input and high levels of decentralization. The Committee, therefore, recommend that the Government should ensure that some in-built policy must be established to relocate or re-employ the people who are dislocated due to opening up of big malls in the vicinity of their shops. (para 5.7)
5. The Committee, therefore, recommend that in view of the adverse effects of corporate retail (foreign as well as domestic) on the small retailer, there is a compelling need to prepare a legal and regulatory framework and enforcement mechanism for the same, that would ensure that the large retailers are not able to displace the small retailers, by unfair means. (para 5.8)
6. The traditional system of small retailer should be protected. In order to help them improve their efficiencies, they should be entitled to better deal in terms of institutional credit. Credit should be provided at lower rates of interest to small retailers by public sector banks, for expansion and modernization of traditional retailers. A proactive programme of assisting small retailers, to upgrade themselves, should also be undertaken. (para 5.9)
7. The Government may consider to establish a National Commission, to study the problems of the retail sector, and to evolve policies that will enable it to cope with FDI. Cooperatives and cooperative marketing should be encouraged to strengthen the unorganized retailers. Akin to MSME (Micro, Small and Medium Enterprises Development Act, 2006) Act, an Act to promote small and medium retailer should also be formulated. Further there was a need to enact a law against predatory pricing and anti-competitive actions. (para 5.10)
8. The Committee, therefore, recommend that the Government should ensure that a level playing field for the small retailers should be made, before opening up of the sector to big ticket foreign and domestic investment. Before any permission for opening any new retail store is given, it should study and analyse the economic and traffic impacts of the store, may be, by a University or economic or environmental institute of repute. The expenditure of the same should be borne by these companies and not by the Government and any proposed store, which has the potential to eliminate the local community from retail sector, or can increase the traffic by more than five percent, should not be allowed to open. (para 5.11)
9. The Committee, therefore, recommend that there is a need for setting up of a Retail Regulatory Authority, to look into the problems and act as a whistle blower, in case of anti competitive behaviour and abuse

of dominance. Urban planning, zoning laws and environmental laws in urban areas should be used to limit the multiplication of malls and corporate retailers, by creating transparent criteria for licences, that are linked to the density of population and the stage of existing competition in retail in the zone. The regulatory mechanism should be strengthened and be made more democratic, by including the representatives of farmers also. (para 5.13)

10. The Committee felt that the entry of FDI in book publishing would directly affect the domestic industry, not only in respect of price, but also in the context of the published material, which could be detrimental to the national interests. The Department should ensure that the foreign publishers, in the garb of promoting their literature, do not impact the taste and aesthetic values of Indian readers. (para 5.14)
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12. The need of the hour was to put into place strict regulations on the entry of big malls, viz. size of a mall, location of a mall from kirana shops, parking facilities, adherence to environmental norms, labour laws, etc., to ensure that cartelization does not take place. It may also be ensured that these big organised retail brings latest technologies, which could be absorbed here, at the same time ensuring large scale unemployment, particularly in the unorganized retail sector, does not take place. A National Shopping Mall Regulation Act could also be enacted to regulate the entire retail sector, both in fiscal and social aspects. (para 5.16)
13. The Committee, therefore, recommend the Government should formulate a model central law after due consultation with the State Governments and concerned stake holders. (para 5.17)
