

Report Summary

Standing Committee on Commerce Report on FDI in Retail Sector (June 2009)

Background

The Parliamentary Standing Committee on Commerce examined the subject of Foreign and Domestic Investment in the Retail sector beginning April 5, 2007 under the chairmanship of Dr. Murli Manohar Joshi. The Committee placed its report before Parliament on June 9, 2009.

Key Issues

The Standing Committee identified certain key issues while analysing the impact of FDI in the retail sector. These are:

- Modern retail would displace a large number of jobs.
- Global retail chains would adopt predatory pricing tactics to wipe out domestic competition (small retailers).
- Once global retail chains are established, they would be in a position to dictate prices for both buying wholesale, and selling retail products.
- Retailing itself cannot boost GDP. The growth in manufacturing sector needs to be increased.

Findings and Recommendations

Brand product retailing

FDI in retailing of products under a single brand is permitted upto 51% with prior government approval. Many shops and malls do not adhere to this provision.

Recommendations

Blanket ban should be imposed on domestic and foreign corporate retailers from entering into retail trade in grocery and food items, and restrictions should be imposed on sale of other consumer products. Further licences should not be issued for 'cash and carry' retail. Reservation policy should be adopted for small and medium retailers, and financial assistance should be provided for their modernization.

Unemployment created by corporate retail

Over 200 million people in total are dependant on the retail sector. There exists no built-in policy to relocate or re-employ those dislocated by corporate retail.

Recommendations

- Built-in policy to re-employ those dislocated by corporate retail or shopping.
- A regulatory framework to prevent displacement of small retailers through unfair practices.
- Traditional system of the small trader must be protected by improving institutional credit for expansion and modernization.
- A National Commission may be set up to study the problems of the retail sector, and two laws to look after the interests of small retailers, and to regulate anti-competitive practices of corporate retailers respectively, should be enacted.
- Study of the economic and traffic impact of any large retail store must be made by an independent institution before allowing it to open.

Practices of big retail companies

Big retailers use large amounts of land, space and electricity, and have standards of buying farm produce which promote excessive use of pesticides.

Recommendations

- Set up a Retail Regulatory Authority to act as a whistle-blower.
- Planning and environmental laws should be used to curb the growth of malls. Transparent criteria for the granting of licences for setting up such retail outlets should be devised.

Other Recommendations

- Entry of foreign companies into book publishing needs to be carefully regulated.
- Creation of safeguards to prevent diversion of agricultural land for setting up malls and retail stores.
- A model central law should be created to impose strict regulations on big malls and their adherence to labour and environmental laws, etc.

(Prepared by Anirudh Burman on June 9, 2009)

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