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Government Set to Relax Foreign Investments in Trading Sector

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The forces and fears driving the ever sensitive trading sector in India are so strong that the differences of opinion between ministries and frequent changes in stance of the regulators are sometimes writ large.

The UPA Government is however trying to relax regulations governing foreign direct investment ("FDI") in the sector. This week has witnessed two developments on this front.

In the first development, the Finance Ministry has favored dispensing with the requirement that the wholesale trading between group companies should be restricted to internal use only.

The said stipulation, along with another condition that the wholesale to group companies shall not exceed 25% of the total turnover of the wholesale venture, appeared for the first time in the circular issued by the Department of Industrial Policy & Promotion, Ministry of Commerce and Industry ("DIPP") in April 2010, presumably after inter-ministerial consensus. The stipulations are under reconsideration within a short span of time, following industry representations. The DIPP is now expected to amend regulations in accordance with the views of the Finance Ministry.

The second development has been release of a discussion paper by DIPP on FDI in Multi Brand Retail Trading, inviting suggestions and comments from the public on issues identified for resolution through informed discussions.

The discussion paper indicates the Government's willingness to gradually permit FDI in Multi Brand Retail Trading through informed discussions. Case studies with respect to FDI in Multi Brand Retail Trading in comparable countries have been enumerated in the paper, along with statistical data for India such as:

- 25-30% of fruits and vegetables and 5-7% of food grains in India are wasted in absence of "farm to fork" retail supply system and integrated cold chain infrastructure;
- Losses of perishable farm produce are estimated to be over Rs. 1 trillion per annum, 57 per cent of which is due to avoidable wastage and the rest due to avoidable costs of storage and commissions;
- Intermediaries dominate the supply chain, and the average price that the farmer receives for a typical horticulture product is only 12–15% of the price the consumer pays at a retail outlet; and
- Share of MSME sector in overall manufacturing has declined from 34.5% in 1999-2000 to 30.3% in 2007-08, largely due to the inability of this sector to access latest technology and improve its marketing interface.

The paper, in a nutshell indicates Government's acknowledgement to the need of permitting and encouraging FDI in retail operations in a calibrated manner. It does not, by itself, propose any substantial changes to FDI regulations governing the sector. The ongoing consent building exercise would consume time. Consequently, even if consent is formed, the notification of FDI relaxations for the sector is at least a few months away.