

COMMENTS & NOTE ON DISCUSSION PAPER ON RETAIL TRADE OF INDIA

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1. The policy laid down in the Discussion Paper is in utter disregard of the unanimous report of the Parliamentary Standing Committee of Commerce headed by Dr. Murli Manohar Joshi which recommended a '**blanket ban on the entry of MNC's and domestic Corporate Houses into retail trade of India**'. It is most surprising that the Govt. did not think it proper to differ with the report of the Parliamentary Committee by analyzing its recommendations. Therefore, the Discussion Paper reflects arbitrary and illogical conclusions.
2. FDI in retail will render crores of people jobless and will have prejudicial adverse affect on Retail Trade. After Agriculture, retail sector is the largest employment generating sector in the Country contributing about 10% of the GDP with more than 5 crore small shopkeepers and about 4 crore small & medium enterprises and self employed persons. About 30 crore people are directly or indirectly dependent upon retail sector for their livelihood. About 3% of the retail trade is in the organized sector and balance 97% is unorganized. The country's retail trade is expanding 10% to 12% every year with an addition of about 25 million middle class consumers.
3. It is apprehended that due to lack of level playing field and with potential resources the MNC's and domestic Corporate Houses can throw domestic retailers out of business. Once a monopolistic situation is created it could hit the consumers due to lack of competition. Retail activities in various forms such as Door to Door selling, Street Carts and Market Stalls, acts as last resort for the unemployed, because of lack of jobs in manufacturing and agriculture sector.
4. In post independence era, no governmental efforts were made to develop the existing retail trade in to structured organized retailing. Hence, instead of allowing Multi Brand Retailing in retail trade, the Govt. should evolve a policy to upgrade the existing retailers by providing them requisite assistance in terms of easy loans from banks and financial institutions on primary sector landing rate and to evolve a scheme to upgrade and modernize the existing retail trade.
5. The one of the reasons that has been stated in the discussion paper is, domination of value chain by the intermediaries and realization of only 1/3rd of the total price paid by the consumers to the farmers. It is necessary to appreciate that present intermediaries are, the bullock cart men in villages, transporter, Agent and small trader whereas in case of the global players the intermediaries are the Brand Ambassadors who are paid crores of rupees, high consumption of power, high cost of warehousing and transportation. Indian intermediaries have not only contributed to the

economy but also to the substantial social development of the Country. Further, the small retailers are charged for keeping 2/3rd margin with them which is factually wrong. Since year 2005 big corporate houses are also engaged in retail operations and their prices are either higher or at par with the market prices. It establishes that the 2/3rd margin are kept by these big retailers and in no way they are going to sell the prices at lower rates. Therefore, allegations against retailers with keeping huge margin, is nothing but to malign the trading community and finding ways to allow MNC's to enter into retail sector.

6. It is said that MBR will prove to be a boon to farmers which is far from truth. The global players will initially buy the products directly from agriculturists at attractive prices through their procurement centers on contract basis or otherwise. Once the agricultural mandis and regulated market yards are closed and farmers loose their contacts, they will radically reduce the procurement prices. As they possess tremendous bargaining power, farmers will be forced to sell their produce at cut throat prices and even will be forced to part with their agricultural land which will render their status as merely employees of retail houses.

7. Due to lack of level playing field, our small retail stores, mid sized departmental and chain shops would be severely hit, depriving millions of people of their jobs and livelihood. Such uprooted section shall face much hardship as the Govt. has no plans for their rehabilitation. While the Government has provided many concessions and implemented assistance schemes for the protection and growth of corporate sector, no concrete steps have been taken to safeguard interest and nurture the progress of Small and Medium sized retail units in the country. Prudence demands that the Government should not disturb our traditional retail trade which is being conducted without throwing any financial burden upon the Government.

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The MNC's should not be allowed to enter into retail trade. It is true that there is a growing demand for modern retailing formats that offer a clean and hygienic environment to shop in at competitive prices but this may not be a sound reason for the entry of global retailers in retail trade and thereby allow them to rout our retailers and take away the livelihood of crores and crores of people. Their entry would lead to "Crony (monopolistic) Capitalism", at the cost of established Retailers being rendered as destitute.

The arguments put forth by those who subscribe to the entry of MNC's in retail trade are summarized below:

1. It will spur the growth of organized Indian retail trade.
2. Consumers will be provided with a better range of quality-ridden products at competitive rates in better and healthier ambience.
3. They will invariably source the products only from local producers which in turn will spur our industrial & economic growth. They may also be prompted to export Indian products to their stores abroad.

4. Farmers will stand to gain by direct purchase from them.
5. New job opportunities will be created.

Most of these arguments are fallacious and have no leg to stand. Let us take one by one:

a. It will spur the growth of Indian Retail Trade:

It is true that entry of MNC's into retail would accelerate the transformation of unorganized retail trade in our country into organized retail trade which accounts for just 3% of the total retail trade at present. The sole aim of giant retailers is to dominate the markets they enter into with the objective of eliminating the existing retailers. These corporate retailers given their outsourcing skills and resources and adopting predatory pricing policy will provide products at a cheaper rates than the smaller retailer in order to crush the competition and when competition will eliminate retailers they will dominate the market by charging monopolistic prices. Presently, the retail trade cannot be monopolized as it is managed by crores of people. Once it is captured by few selected players, the monopoly factor can not be ruled out. Ultimately, it will spur the growth of corporate retailers.

b. Consumers will be provided with a better range of quality-ridden products at competitive rates in better and healthier ambience.

To achieve this we don't need investments from global conglomerates. Organised retail trade accounts for 20 percent of total retail trade in China and 40% in Thailand as compared to 3% in India. The blame solely rests on our rulers and those who framed our economic policies, for this sorry state of affairs. Indian retailers were kept under constant threat of free flow of foreign investments at any time. No effort was made by the Government to motivate and encourage retailers, who provide enormous employment, next only to Agriculture. Our economic pundits have transformed the country into a testing ground for implementing their varied economic school of thoughts.

As mentioned above, the scenario is fast changing. Indian retail trade sector comprising of mostly family run businesses is gradually becoming modernized and organized. There are now, a number of small and medium retail stores who have changed their retail formats by opening up stores in spacious buildings with clean, hygienic and air-conditioned atmosphere. Medium size retailers have opened up departmental and chain shops. Exclusive fruits and vegetables shops have already sprung up in urban areas across the country, which sell variety of products including farm fresh vegetables and fruits. Proximity to actual consumer is considered to be the prime requisite for successful functioning of retail outlets.

c. They will invariably source the products from local producers which in turn will spur our Industrial and economic growth.

This is a misleading statement put-forth to justify their entry. With large market share, global retailers will have large volumes of business enabling them to dictate terms to most suppliers as these suppliers will heavily dependent on them. If local producers are unable to offer their products at the rates offered by them, they will turn their head to the other side.

d. Farmers will stand to gain by direct purchase from them.

Absolutely incorrect.

They will initially buy the products directly from agriculturists at attractive prices through their procurement centres on contract basis or otherwise. Once the agricultural mandis and regulated market yards are closed and farmers lose their contacts, they will radically reduce the procurement prices. As they possess tremendous bargaining power farmers will be forced to sell their produce at cut throat prices and even will be forced to part with their agricultural land which will render themselves merely employees of retail houses.

e. New job opportunities will be created.

Yet another fallacy. They may provide employment to few thousands new recruits but only at heavy cost of displacement of crores of small retailers including self employed.

What the Union Government should do?

We seek following measures for accelerating the growth of organised retailing without unduly impacting existing Small and Medium sized retailers:

1. 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.

2. On the pattern of MSME (Micro, Small and Medium Enterprises) Act, we shall have 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 such as Cluster approach to convert our unorganised retailers into organised modern retailers. Even an individual shop can become a link of chain shops under cluster programme. They should be provided with credit facilities at low interest rates. This will facilitate number of retail units to come together and transform themselves into chain shops and they will have the clout to bargain in purchase.

a. Formation of a National Commission to study the Retail Trade:

In the past years several studies were conducted by various Government and non-Government Agencies on nature, size, problems etc. of the retail trade but it is observed that each study report differs from another report resulting into a picture of confusion and chaos about Indian Retail Trade. In order to understand the ground realities of retail trade, its strength, size and possibilities of its structured development, we are of the firm view that as suggested by Parliamentary Standing Committee headed by Dr. Murli Manohar Joshi, a National Commission should be formed consisting of Senior Officials, Experts and representative of stakeholders.

b. Setting up of a Retail Regulatory Authority:

endorse the recommendation of said Parliamentary Committee for setting up of a Retail Regulatory Authority to be headed by a retired Supreme Court Judge. The mandate of the Authority should be very clear as to avoid any kind of ambiguity.

c. National Trade Policy for Retail Trade:

In the absence of any policy pertaining to retail trade, so far the retail trade has attained growth on its own without any support from the Government. In the wake of globalization and economic liberalization policy of the Government, India's retail trade is facing

serious onslaughts from different quarters and needs a structured parameters for its growth and development. The unorganized sector needs to be converted into organized sector and for this purpose, a National Trade Policy for Retail trade and small & medium industries is the need of the hour.

d. Banking Institutions :

The operations of Banking Activities in retail trade is a cause of major concern for the retailers as Banks are unable to deliver satisfactory services to the retail trade. After nationalization of Banks, marked deterioration in services is observed in comparison to service being rendered by Foreign Banks operating in India. Functioning of Indian Banks is required to be toned to match with standard of services given by Foreign Banks. Policy for grant of loans to traders should be liberalized and cheaper rate of interest should be prescribed. Taking into consideration the factum that Foreign Banks are in competitive mode to offer lucrative interest term even for purchases of vehicles etc. It is suggested that special procedure for credit evaluation in case of application by traders should be laid down. The deposits made by family members of traders should also be considered as equity while determining the Debt Equity Ratio. Advances giving to traders should be considered as priority sector advances.

e. India to be a Free Trade Zone :

At a time when there is scarcity of commodities especially of the nature catering to requirements of daily necessity, there was justification to restrict movement of goods from one state to another state. For the purpose, check posts and Barriers were put up. Road Permits and Entry Forms were introduced to accompany goods while in transportation. In the present scenario when situation has drastically changed to the extent that TINSYXS system has been introduced and all articles are available in abundance in almost every state, free flow of inter-state trade, should be ensured by abolition of all barriers in form of Entry Tax, Road Permit, WAYBILL, etc making India a 'Free Trade Zone' leading to single common market. It is necessary that the internal trade of the Country should get all encouragement and Protection from the Government. The traders of the Country are dutifully paying taxes and want to cooperate with Government in further widening of tax base and generation of more revenue.

f. Simplification and rationalization of tax structure:

The Retail trade is governed by multiple laws, rules and acts and most of them since many decades old have lost their significance in the present business scenario. To overcome genuine problems and to mitigate legitimate sufferings of traders, it will be in the fitness of things if the Central and State Govts redress these maladies by taking the following concrete steps :-

- a) Constitute a ' REVIEW COMMISSION ' to scrap outdated Laws and Regulations.
- b) To suggest remedial measures and amendments which may be incorporated in such laws, rules and regulations in consultation with Trade?
- c) To examine feasibility of compilation of a single guidebook in concise form, containing essential requirements of various laws as enacted by Central and State Governments, as applicable to trade.
- d) To examine fixation of accountability of officers and suggesting penal actions in event of dereliction in duty / or high handed behavior.

It is also suggested, just as the advent of Lokpal is applicable to Union Government and State Governments; the 'Lokpal' system should also be made applicable to all Tax Departments for ensuring transparency in the system. The above steps will not only eradicate nepotism and corruption but at the same time will encourage traders to voluntarily comply with the provisions of law.

g . Recovery Tribunal:

In order to ensure proper recovery of bank loans the govt. has constituted debts recovery tribunal. The traders supply goods and services to industry, govt. and semi govt depts. Their money is blocked up with them for years. Under the existing judicial systems it takes years to get their dues recovered through judicial process. It is suggested that an independent recovery tribunal be constituted to recover dues of traders.

In case of Industries the sick units can take shelter of BIFR whereas in the case of traders, no such mechanism exists. It is suggested that some kind of mechanism on the pattern of BIFR should be evolved for Retail Trade.

h. Traders are Tax Collectors and not Tax Payers:

The trading community of the Country is collecting several taxes on behalf of the Government and that too without any remuneration. Therefore classifying Traders as 'tax payers' is patently wrong and the trading community should be given a status of 'tax collectors' with incidental facilities and expenses incurred in collecting such taxes may be reimbursed by the Government.

i. Up gradation of retail trade :

In the wake of changing business scenario, the traditional retailing in India needs to be upgraded and traders may be encouraged to adopt modern technology of business, adoption of computerization etc. Therefore, a scheme should be evolved by the Government under which traders may be educated for transform their business into modern outlook. The cooperation of Trade Associations and Federations may be taken in this regard.

j. Social security for tax payers:

In order to enhance revenue and encourage voluntary compliance as also to promote a policy of reward to honest tax payers, it is necessary to give them certain incentives. Therefore, a scheme should be evolved to reward such tax payers and for that purpose a grading system can be evolved consisting of different class of tax payers.

It has been seen that once the tax payer becomes incapable of earning or is unable to earn sufficiently to sustain himself, his life becomes miserable. Therefore, a scheme of social security should be evolved under which the Government should provide minimum sufficient funds for his medical and monthly living expenses.

k Representation in Government Advisory Boards & Committees :

Despite yeomen services rendered by the trading community which is contributing more than 50% to the national exchequer, it is observed that internal trade is not getting due importance and protection from Central and State Governments which gives rise to a feeling among traders that in spite of being an integral part of economy, it is being sadly neglected.

The formation of Board of Trade by the Government of India does not have a single representative from trade and only industry people have been made as members, though it is termed as 'Board of Trade'. It is suggested that Advisory Committees be formed with Ministry of Finance, Ministry of Commerce, Ministry of Industry, Ministry of

Consumer Affairs and proper representation be given to trade representatives. It is also urged that representation to traders should also be given in the Economic Advisory Council of Hon'ble Prime Minister.

The trading in Commodity Exchanges has proved to be a fatal exercise for retail trade, which has resulted into much speculative trading which in turn has given rise to inflation in the Country. Merely speculative business not supported by any kind of actual delivery has led to large scale of distortions. Therefore, it is suggested that the Regulatory Authority of Commodity Exchanges should be made more effective by taking the representatives of trade as its members and while defining the role of the Regulatory Authority similar on the pattern of SEBI, the actual delivery concept for the deals materialized through commodity exchanges, must be made mandatory.

The retail trade is a promising sector and if necessary efforts are designed to develop the retail trade in a structured manner and within accepted parameters, it will earn more substantial revenue to the Government and will be able to face any challenges whatsoever.

We trust that the above suggestions will meet with acceptance in order to refurbish and reorganize the existing retail trade in a manner so that it can make significant contribution to the national exchequer and also can withstand to any kind of global competition.