Why is ASHA against FDI in retail?

The Government of India had announced on November 24th 2011 its policy related to FDI in Multi-brand retail, allowing up to 51% foreign equity through government approval route, "subject to adequate safeguards for domestic stakeholders" for multi-brand retail outlets and 100% FDI in single brand outlets. It was further qualified by saying that the policy rollout will cover only cities with a population of more than one million (which means 53 cities as per the 2011 census). The minimum investment stipulated is $ 100 million, with at least half the amount to be invested in back-end infrastructure (cold chains, refrigeration, transportation, packing, sorting, processing etc.). The government believes that this will reduce post-harvest losses and bring remunerative prices to farmers. Sourcing of a minimum of 30% from Indian micro and small industry with a capital investment of not more than $ 1 million has been made mandatory in this policy when it was announced. The government justified this by saying that this will provide 'the scales to encourage domestic value addition and manufacturing, thereby creating a multiplier effect for employment, technology upgradation and income generation'.

Since there was much opposition from several quarters to these proposals including the UPA Government's allies, at the time of writing this note, the Government had announced a suspension of this policy. However, ASHA believes that it is pertinent to keep this debate going, since these proposals will re-emerge at another point of time. It is important to be clear, based on experiences elsewhere and the current Indian reality (large incidence of poverty and hunger; most farmers are smallholders etc.), about what lies in store for Indian farmers, traders and consumers in these sort of proposals and why these need to be rejected.

ASHA looks at the FDI in Retail proposals also from its own focus and perspective on sustainable agriculture with a special emphasis on smallholders of the country. It believes firmly that big foreign retail will hold both farmers and consumers captive and squeeze out millions of livelihoods. Like several other policies, the implications and effects will start showing up in the medium and long term. Further, a careful analysis shows that these moves are not really in the benefit of the Indian economy, but to prop up the failed economic models from elsewhere. This opening-up will ultimately result in outflows from India and not inflows as is being projected. It is also obvious that like in the case of several other policies and legislations, the government is not opening up key issues to widespread public debate and is resorting to unilateral decision-making. This does not bode well for our democratic polity.

But first, some facts and figures:

- India's retail business is estimated at $ 400-450 billion, with 95% of it handled by traditional retailers. Agriculture accounts for 63% of retail trade. It is reported that 58.8 million smallholders from nearly 7 lakh villages sell their produce to around 15 million traders (wholesalers & retailers). Most of them operate within a 16-km radius from the producer, it is further reported. The Indian retail market is projected to grow to $1250 billion by 2020.

- Walmart, which has hundreds of court cases against it, has an annual turnover of $400 bn or 18 lakh crores; Carrefour: $ 130 bn; Tesco: $ 100bn; Metro: $ 96 bn. Just to give a picture of the magnitude of the turnover of these companies, compare Walmart's annual turnover of 18 lakh crore rupees with this: Indian Union Government's 2011-12 budget proposes an expenditure of 12.6 lakh crores. Market shares of these big retailers are known to range from 20% to more than 80% in different countries! Such concentration or domination does not exist in the Indian retail structure. The present set up means more benefits to consumers, farmers and suppliers.
- Walmart, with a global turnover of $ 400+ billion employs just 2.1 million people, and this is less than 5% of India's retail livelihoods at present. A country with a large labour force such as India, cannot opt for policies that result in less jobs/loss of jobs.
- In Thailand, 3 foreign retailers have taken over 38% of the market in just 13 years. Compare this with the fact that this kind of market control took 60-80 years in the West. Tens of thousands of local retailers got wiped out in Thailand. It is estimated that over 30% of independent small retailers were taken out in 10 years.
- For every food dollar spent in the USA, farmers receive only around 19 cents. Half a decade ago, they got at least 40 cents. What US farmers get as farmgate prices as percentage of final retail price for several products ranges from 7% to 45%. In India, farmers currently get 50% to 76% as per different estimates across products. Meanwhile, OECD farmers got a farm subsidy of nearly $ 1260 bn from their governments in 2009, since this model of trading does not support farmers.
- Big foreign retail survives on global sourcing of products. Further, big retailers are not going to create any new markets but only replace existing players. Our traders and merchants operate with some of the lowest mark-ups and margins in the world. This should mean that a larger share of the retail price accrues to farmers and that prices for consumers are not very high.
- It is said that China benefited from big foreign retailers like WalMart. China has a $ 265 bn trade surplus with USA alone in 2010; Walmart is the single largest buyer from China. India has an annual merchandise trade deficit of more than $ 100 bn – comparison with China flawed. India's annual trade deficit with China, now at $ 20 billion, could get worse with big foreign retailers mopping up Chinese surpluses and selling them in India, pricing/edging out Indian goods.

'Better returns for small farmers'?: Evidence points in the other direction!

It has been mentioned that the retailers will have to procure most of their produce from 'small farmers' with less than 10 hectares land holding. The 'operations of the domestic fresh food supermarkets in India has not made any difference to the producer's share in the consumer's rupee so far other than lowering the cost of marketing of the producers', according to Prof. Sukhpal Singh of IIM-Ahmedabad. He further points out that the 10-hectare limit is not any use to small farmers as only 1% of Indian farmers have more than 10 hectares at all and this being used to justify the introduction of FDI in retail cannot be taken as a valid argument. It has been documented in the case of contract farming projects in India that to lessen transaction costs, corporate entities end up working with a small number of largeholders mostly. It has also been experienced that even tripartite agreements, with the involvement of a government entity as the third party to contract farming agreements, have not always protected farmers' interests (Rice growers in Punjab suffered losses because the contract terms were not kept by the contractor, for instance, even though the government was a party to the contract). Experience from elsewhere (like Tesco in the UK) shows that these retailers exploit small farmers, push unsustainable changes in the production systems and take away control from the hands of farmers who face the risk of rejection in front of the supermarkets' irrational standards.

It is also obvious that the big foreign retailers will source from global sources (wherever a given product is cheap in the supply chain) and it is not clear how the government is planning to guarantee fair prices to and procurement from smallholders in India by these entities. Data from countries like the USA shows that farmers there have been getting a steadily declining percentage of every food dollar spent by an average citizen and farming needs to be propped up by ever-increasing subsidies from the government, a public financing burden that will be passed on to citizens ultimately!

'10 million new jobs' – where and at what cost?

It is estimated that India has one retailer for every 80 citizens on an average. Food policy analyst, Devinder Sharma places the Indian retail market at $400 billion, with more than 120 million retailers and employing over 400 million people[i]. The share of corporates in this is estimated to be only 5%, with 95% of the market handled by traditional retailers. In comparison, the 10 million jobs (or is it just 2 million?) that have been cited as being created with the entry of the global supermarkets in retail chain are absolutely negligible! The bottom line seems to be around displacing 400 million and employing (an exaggerated) 10 million.

As it is, arguably, the largest displacement from any sector in the history of mankind is right now unfolding in Indian agriculture, with lakhs of our rural populace fleeing away from agriculture and from our villages. The hostile environment created for farming will only get worse, with other sectors not able to absorb even a fraction of these numbers. Big foreign retail is no answer but will seriously exacerbate the current crisis.

The farmer and small trader are consumers too…- placing their food/nutrition security at risk?

In a bid to cater to the visible and articulate 'urban' consumer, the move to get foreign investments and companies into retail seems to communicate to the rural consumer – particularly the farmer and small retailer (consisting of the informal sector that still employs about 93% of the Indian working population) that they really don't count in the eyes of the government.

The nutrition intake in rural India has been going down over the years. The irony is that the largest numbers of hungry Indians are in rural India, partaking in our food production. As it is, prices of farm produce are pitted against farmers in the current scenario, leading to an overall impoverishment of the rural farm economy; big foreign retailers are not likely to source from smallholders in the poorest regions of the country. Cheaper products from elsewhere will take away the existing paltry opportunities too for our producers through the current retail structure in India.

The current statistics indicate that rural consumer has less fruits, vegetables and fresh milk than the urban consumer. There has been no initiative on the part of the government till date (apart from the PDS that is being recommended for dismantling and replaced by the 'direct cash transfer' system) to offset this trend and cater to the nutrition security of the rural population.

Investment in 'Back-End Infrastructure' – can this be mandated and enforced?

Post-harvest losses have been cited as a reason for the need to develop, what is loosely and ambiguously defined as 'back-end infrastructure'; one of the clauses of the GoI has been that the FDI investment will have to necessarily be 50% on back-end infrastructure. However, such segregation of capital spending is not practical to measure and the same has been acknowledged by the Ministry of Finance and Commerce. This will be left to self-regulation, then. Similar approach and its mega failure were noticed in the self-regulation and voluntary declaration by the corporates in GM foods too! The past behavior and global resistance of large retail chains doesn't justify such flexible regulatory regime and particularly when this 50% investment on their part has been repeatedly used by the Government to justify the FDI in retail in the first place. We have no regulatory system or governing mechanism in place currently to either oversee or ensure such investment at all.

It has also been pointed out that in terms of the kind of infrastructure being asked for, nothing of much value will be added for the people of Indian hinterland. We are sure these firms are not going to lay rods or invest on captive power or any such infrastructure but will only add more burden on the partially-working system. It is apparent that there will be minimal impact on supply chain infrastructure. If the amendments in the APMC Act and the results therefrom are anything to go by, nothing improves for our smallholders or infrastructure they need. 94% of our roads are in districts and villages. Power shortages exist now and will continue, in turn impacting cold chain infrastructure. In fact, big foreign retailers are ecologically unfriendly and power guzzlers. How can foreign retailers address these issues?

Will large retail chains contribute to local economies and eliminate poverty or only further their own profits?

Large retail chains do not seem to contribute to either poverty reduction or better returns to farmers. Several studies from across the world have clearly provided evidence of this. A study[ii] in the US has found that WalMart's presence has contributed to the increase of poverty in the communities in the region. It estimates (in 2005) that at least 20,000 people fell below poverty line in the USA. But, more importantly, the authors of the study have a caution that spells doom to our communities; in their inference, they state, "by displacing the local class of entrepreneurs, the Wal-Mart chain also destroys local leadership capacity.[iii]" It is pertinent to note that only 1.2% employed by Walmart are above federal poverty line. Walmart with very questionable labour practices has even been noted for 'dead peasants insurance' a very unethical insurance taken on employees name but benefits the company.

Similarly, another retail major whose name has often been cited, TESCO too, has severely affected local communities and economies; a report says that Tesco is pushing farmers in the UK to the 'brink of bankruptcy'. "Tesco has driven down the price of meat, vegetables, everything, because they have such a huge share of the market. It's a monopoly position…they can simply go and find someone else who will supply them at the price they want": Michael Hart, chair of Small and Family Farms Alliance[iv]. A news report calls the condition of farmers working to supply to the retail chain as, 'debt bonded labour'[v].

"Regarding pricing practice…we conclude…distorted competition and gave rise to complex monopoly situations…and…also operated against the public interest", says an elaborate study that was conducted in the UK examining several complaints against the trade practices of the super market chains[vi].

The impact on local retailers have already been seen in several developing countries such as Vietnam and Thailand (where 14% local retailers shut down within 4 years of permitting foreign retail chains) and in India, large domestic retail chains have already shown the way the local players will be ousted from business. An economist reports that 33-60% of the traditional fruit and vegetable retailers reported 15-30% decline in footfalls, 10-30% decline in sales and 20-30% decline in income in the metros of Bangalore, Ahmedabad and Chandigargh[vii].

Irreversible damage to the Producer – Consumer relationship

Since the advent of so-called 'retail revolution' involving several domestic retail chains dominating the landscape, the distance between the farmer as a producer of food and the consumer has increased several fold. This has meant the displacement of any idea of 'safe food' on the consumer and 'care' for the consumer in the farmer. The earlier 'Green revolution' promoted large scale monocultures propped up with environment-degrading, expensive chemical inputs, for higher currency returns at the cost of the environment, health and diversity. Subsequent quick-gun techno-fixes such as GM seeds are only a worse form of the same paradigm. The path to more farm suicides is constantly being laid firmly in this country.

Let us also not forget that the traditional retailers in this country had an organic relationship with their clients. The credit (goods offered on credit) that has been available to the poorest in this country from such retailers is missing in the case of big retailers. Proximity to consumers when it comes to traditional retailers is also that of physical proximity. Meanwhile, a generation of consumers in India (since the arrival of retail chains in the larger metros) has lost any connectivity with the farmer and agriculture as it was known or the neighborhood trader. Such ignorance has resulted in replacement of low cost, nutritional, localized food with self-proclaiming 'value added' nutritional food that eats into the family budgets and also often is not the most healthy food solution. While no systematic studies have been done to correlate the explosion of degenerative diseases and expansion of large retail chains, it seems to have happened at the same time over the last 10 years during the so called 'retail revolution'. In other parts of the world, the increase in supermarkets have left negative impacts including, 'concentration of the food sector, particularly in the fresh produce; a major decline in specialists and decline in availability of local regional produce'[viii].

Making consumer carbon footprint intense

Sustainable agriculture practitioners share a larger ecological vision where the world emits less carbon through lesser miles of food travelled from its source as well as less petro-based chemicals used in agriculture. Adding more 'food miles' is to add further to the carbon footprint per unit consumption for the Indian consumer. It is estimated that food in the retail supermarkets travel 1500 food miles before they appear in the shelves in the USA[ix]. This obviously has a lot to do with global sourcing for cheaper products and not necessarily the best quality or other parameters at work. India, early this year, became the world's third largest carbon emitting country[x], a dubious distinction after all. Big foreign retailers will only increase the carbon footprint.

Infiltration of Genetically Modified Food through large retails

Elsewhere, it took consumer pressure for segregation and identity preservation systems to be put into place within centralized, monopolized markets, to preserve the right of the consumer to informed choices and their right to know what is in their food. This applies more so in the case of GM foods where labeling regimes are in place in many countries to ensure that the consumer's right to informed choice is not violated. It is also apparent that where informed debates are coupled with regulation like labeling, there is overwhelming consumer rejection of unwanted, undesirable foods like GM foods. Considering the lack of informed debates related to food safety and quality in India, and non-existence of effective and affordable consumer redressal mechanism and lack of a labeling regime, this opening up of FDI in retail could lead to an increased infiltration of the off-the-shelf GM material in the Indian market. This is especially so given the increasing rejection of GM foods elsewhere.

WE, IN ASHA, CONCLUDE THAT:

There is no evidence from elsewhere to show that big foreign retail will benefit local farmers or consumers; or will increase employment opportunities; or keep investments in the country by restricting outflows;

The Indian situation warrants a good appreciation of the positive aspects of the current retail structure (like agricultural production, retailing also has traditionally been a community affair here) and any inefficiencies in these supply chains, or lack of infrastructure has to be addressed by the government in other ways since the FDI proposals have no mechanisms of ensuring this;

That food inflation too has to be tackled by other means, and FDI in retail cannot be made the destructive false means for this problem;

That such policy initiatives will in fact destroy millions of livelihoods including of farmers and create monopolies (including with agri-input giants and trading giants sharing the profits with big foreign retailers), leaving very few choices for farmers and consumers and very little control in their hands;

That this will lead to unsustainable production and consumption styles which completely negate the availability of alternatives within India. ***ASHA opposes any such policy moves by the government.***

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