



Issues with FDI in Multi-Brand Retail for Indian Agrarian Community

Submission to Department of Industrial Policy & Promotion (DIPP), Ministry of Commerce & Industry stakeholders meeting held on 13th January 2012

Udyog Bhawan, Delhi

Summary Statement

OFAI supports retail reforms in the form of improving supply chain and infrastructure to aid and economic security for farmers in the country but does not endorse the current proposal of 51% FDI in multi brand retail. We believe that India is capable of managing its own market through the states. Indian government and states can easily access funds available by removing unrequired subsidies to the tune of USD 20 billion a year e.g. through removal of fertilizer subsidy. Arguments and assumptions for this proposal debate piggyback on farmers stating that somehow this will help them in the long run in addition, help tackle national inflation and create newer jobs and infrastructure. The evidence however is on the contrary to this end so far as farmer of other countries fare with such retailers. In America every food dollar sends only 12 to 21 cents to farm gates. There is no provable evidence on whether such a move by even existing retail players of the country has helped the farmers nor is there any current evidence on how the cost of creation of newer infrastructure shall in the long run actually ensure best prices to customers and farmers. In fact in countries where these players operate has seen significant reduction in the overall farming communities and have become net importing states. While the farming community needs better infrastructure to move produce across the country, it also needs assured, stable marketing base which will not dictate to it in terms of inputs, seeds and types of crops. In addition the existing GHG emissions in India will only be added to in the short and medium term too. If India is not able to meet global demand for GHG cuts it will only add economic pressure on the country. While there are lacunas in the current system of marketing, there is also the belief that the solution must come out of our own structures as they exist today without having to resort to foreign funds. As per a 2009 report on North American grocery retail has actually indicated that even in those countries large retail companies actually prefer to open smaller stores more accessible to consumers. This indicates that opening large format stores actually does not work sustainably in terms of environment and costs in the long run anyways. Finally, we believe that retail reforms addressed in this way actually take away the actual economic shock absorbing capacity inherent to the diversity of various traders and retailer in our country. This will be transferred to the hands of a few large entities, which today being susceptible to failure lead to a wide will spread economic havoc the country can ill afford to handle.



Issues with 51% FDI in multi branded retail towards Indian Agrarian Community

Farmers do not get promised price even if foreign players enter the market or for that matter large retailers

1. For every food dollar the American spends the farmer gets 19-22 cents, whereas a decade ago they made 40 cents. US farm gate prices as per cent of final retail price is 7 to 45%. Even in the UK the picture is no different. (Gorelick 2001) Their countries heavily subsidize their farmers to prevent them from committing suicide. Alas in India life of a farmer is far much cheaper than their western counterpart. Currently in India farmers get 50% or higher the price even at times of what gets sold. It will be untrue to state that the farmers in India are dying because of an economic disparity, the reasons for which lie elsewhere. Only farmers do not make more money than they possibly can which shall not get solved even with the introduction of large retailers in the country. With the goal of offering cheap food at high volumes and low margins large retailers procure and lowest possible rates and squeeze farmers in the long run. (Kranz 2008) This is how most farmers of the west have fared and if not for the subsidies of their respective governments there is an impending crisis existing there too. (Manitoba n.d.) . Even as recent as 2009, the farm share went up to 25% in Canada but the relative increase in grocery cost of over 3% was not passed on to the farmer. Considering the rising cost of input even in countries like Canada with large retailer presence, the farmers' costs only increased. So retailers do not bring fair prices back to farm gates and only reduce consumer prices at the cost of farmers. (Wishart 2009) The current market systems are not farmer un-friendly as deemed to be, since even big retailers today use agents to procure goods and do not do so directly from farmers.

Organic food sector is actually squeezed to extremes by modern retailers even today

2. Currently organic food markets run mostly through NGO's and without the support of organized retailers. However, for what produce that is sold through regular retail channels it is squeezed beyond a measure of its actual costs. This will actually lead to the demise of this movement domestically. This occurs with existing retailers in cities like Gurgaon and Delhi. If other retail players are allowed to enter and take over this market segment, most NGO and small retailer organic food shops will shut down. Thus organic farmers will have no choice but to market their produce through large retailers or perish. Even if they do market through large retailers, they will be squeezed to misery by these monopolies and the movement will suffer in the long run. Small format independently run stores must be allowed to exist and take this movement forward which is badly needed in our urban cities where people need this the most. (Gupta 2011)

Precursor to large scale unsustainable food systems and food biodiversity loss

3. Large brand retailers in the west have been precursors to using Genetically Modified and processed food. Most food biodiversity's suffer due to vast marketing of profitable varieties. As a result farmers are forced to produce food and customers are forced to buy food. Whereas in both these areas choice should remain and ecological biodiversity be preserved. In 2007 seed companies which promote GM foods showed net profits increased to 44% and food processors and large retailers showed over 12-15% increase in food profits. It is this which has led to a food crisis where for the want of feeding



people cheap food, they are fed harmful substances. A link was clearly established by an article which mentioned that while super market shelves were brimming with food in 2007 and 2008 about a billion people in the world were hungry and malnourished. (Vivas 2009). Organic farming as it exists today in the village feeds not only the villagers but people in the city too. Farmer cooperatives and producer companies are squeezed and finished by larger players with deep pockets.

How will government manage closure of local business due to entry of FDI multi brand retailer's hence interim market loss of produce for farmers?

4. It is well known that large format stores will necessarily have a dip in sales and may lead to business closure of existing traders and small shopkeepers in this segment. Even in the select cities where traders may choose to close down their business due to this government decision. It will take a while before the complete entry of foreign player conglomerates in the domestic market. This interim period will be of significant loss to the farmers and farm produce. In the event the government goes ahead with this decision, it must provide a buy back safe guard for all produce coming to the city which will get jeopardized in the interim. The government can choose to pass on this liability to the private players, but at all costs the harvest produce of the farmers must not suffer. The government through FCI and other instruments available to it can purchase all the goods from farmers and sell it to FDI stores when they start operations in the country.
 - a. It must be noted here that in Thailand 30% of independent retailer were taken out of business in 10 years of operation of large retailers. (ASHA 2011)

As per research from University of Nottingham, with the advent of large format retailers 35% to 50% of independent retailers declined in sales. (IIED n.d.)

Small scale farmers markets run in cities such as Hyderabad, Delhi, and Bangalore will suffer due to pressures

5. It is the expectation of small and marginal farmers that the state shall provide the necessary support and infrastructure for them to be able to sell their produce directly to consumers when possible. With a skew created for customers incentivizing them to go to these stores, the farmers markets will dwindle and perish. The reason why CSA works in other counties is there is infrastructural support for farmers in terms of vehicles, roads and defined areas to hold such markets. E.g. Weekly markets held in residential areas of Delhi operate on cheap margins but low volumes. With Large format stores picking up large volumes will deprive these traders too, which will eventually affect farmers as well as consumers.

Trend in the west is of small format convenience stores

6. A recent study of North American Grocery retail showed that there is a trend in all large retailers in opening small format convenience stores (Berry 2009). It must be noted that India is already a country of such mom-pop stores. If retailers themselves are turning to such stores why must we not continue with our own store formats as they exist today? In our country each such store runs a family, this will invariably finish due to large format retailers. Even today in India such store exists in every nook and corner and actually help disseminate large volumes of fresh and dry produce making it accessible to



the poorest villages of India too. This entire structure functioning for years will be offset in the short and medium terms and invariably diminish in the long term due to these policies.

Large format retailers too are net polluters in terms of carbon footprints

7. Large format retailers have very high carbon foot prints not just due to food miles but also because they are energy resource hungry. A recent article showed that net GHG emissions of 2005 of 3 major retailers Walmart, Carrefour and Tesco put together was about 20 million metric tonnes. This is equivalent to the 80th most polluting country in the world. Considering long term impacts in India with populations to cater for these large retailers greater than those in current countries. This is bound to have a multiplier effect. Our country is reeling with managing environmental crisis. This is another problem the nation as a whole can ill afford. (Club 2005). Organic farmers keep environmental and human health at the heart of the movement. The idea of “grow local and sell local” is diminished by large format retailers. With the advent of large scale retail chains in India the country will not be able to avoid polluting more. This will simply add it its kitty of GHG emissions and make it even harder to meet global norms.

Nutritional Value of food will dip

8. The Indian housewife even today depends on a large quantity of raw and fresh produce. However, with the advent of large branded retail packaged are processed food production and sale inevitably goes up. A glass of fresh fruit juice is any day better in nutrition than a stale “One for One Free” sold tetra packed juice. Research in correlation between degenerative diseases and processed retail food must reveal the connection. Otherwise the number of hospitals and patients in our cities would have gone down and not up. (ASHA 2011) The farmers of India are consumers too and urban consumerism is forcing them to eat more processed food since that is what becomes easily available with corporatisation of food. Large retailers encourage it and make it a norm.

Food Waste is not really reduced by large format retailers in USA as claimed

9. A study has shown that even today half of food in US goes waste due to many reasons in the supply chain. (Daily 2004) It is not just in the purview of retailers to reduce food waste since the problem may actually lie elsewhere. So stating that retailers will reduce food wastes by putting a backend infrastructure will require greater analysis. To a large part it is also due to the fact that urban consumers are provided more food than is required in the centres. Apart from this processed food actually creates products which lend themselves to wastages at the end consumer households. The remaining are also tossed out by retailers and other food industries as detailed in the following point. USDA food loss study analysis showed that in 1995 food lost by retailers, food service and consumers was more than 96 billion pounds. Assuming that market share is maximum of the large retailers why does such a loss occur? (al. 2009) It also showed that a reason for high food loss at the consumer end was also due to greater number of competing segments or items within one sub category. One can hence wonder what will be the impact of this in India if large format centralized retailers are allowed to openly function. Organic farming again promotes grow local and sell local, thereby reducing wastage as a natural function and not imposed due to markets. If most of the seller today is within a 16 km radius of growers then this problem does not occur. Large format retailers actually exacerbate the problem of food loss.



General Wastage caused by FDI in retail and large format retail in general

10. Comparing veracity of foreign retail with Indian retail should also include statistics comparing food retail packaged wastage per household in India. FDI in retail will actually increase the amount of packaged retail food into the system. Large brand foreign stores will stock and sell more processed packaged food and as a result will increase the amount of wastage into the system. Today Indian society is dependent more on raw and unprocessed foods and this is a reason why the health of many of urban Indians is better than the average urban American. But this will inevitably change in case large format retailer. Consider even now that the visible percentage square feet of large format retailers in terms of unprocessed to processed food is skewed in favour of the later. As per estimates global food industry including retailers throw away large quantities of their foods which have reached sell-by dates. They are unable to optimize on this due to their contractual agreements with their suppliers. Wal-mart actually put in place a zero waste plan which it has not yet reached over so many years since 2005 despite having phenomenal recycling mechanisms as compared to India. Their own goals are set to 2025 in USA; it will be a miracle if this can occur in lesser time in India. It is anybody's night mare what will be the situation when they enter India.

Power requirement for the country will go up and farm power may be diverted to such stores as well leaving a greater deficit for agriculture

11. Any new enterprise will inevitably use resources such as paper and plastic for packaging. In addition large format stores are huge sinks for electrical energy. The assumption that they will create newer jobs will have a multiplier effect on energy consumption as well as resources. A cap should be put on the total energy available for consumption to large format stores. Since India does not have augmented power available for such an infrastructure, just because such stores open in the country it must be ensured that they are not offered energy by diverting from existing usage especially to agriculture.

Acquisition of Indian retailers by foreign players and prevention of monopolies/oligopolies

12. There is an apprehension in the community that in case monopolies of cartels in the food business are created it will lead to dictation of terms to the farmers and force them to produce food which is not agreeable with markets for want of commercials. Hence there should be a mandate that food retail foreign or national retail shall not be used for acquisition for **at least** a period of 15 years. Competition between domestic large format domestic retailers and foreign retailers should be encouraged so that large monopolies are not created by foreign retailers. This will ensure sufficient completion for existing players to continue existing without causing them to be bought over to create such monopolies. This will ensure that there is sufficient competition in the market available to the farmers to be able to sell to the highest bidder for their produce rather than being dictated to by a few large entities on what to grow and how to grow it.

Case in point is that of Karsog Valley Farmers Group in Himachal Pradesh which is farmers run cooperative. KVFG works towards helping farmers grow produce as well as market it for them to get best prices. However, agents for Walmart in Ludhiana, created an unfair price skew causing the cooperative to run into losses. Overall farmers moved from the cooperative to the agent for want of higher prices. While the cooperative may make extreme losses and shut down, there are no



guarantees in the agent sustaining prices. In the event the agent in the future does not sustain these prices the farmers will have no choice but to sell at a loss. This will eventually force farmers to be out of choice and enslave them to the monopoly. (Gupta 2011)

Country of small independent entrepreneurs will be forced to take up jobs

13. India is a country of small entrepreneurs; this has provided a shock absorbing capacity to economic failures large scale. It is a fact today that a too large to fail syndrome does not exist. Exit of large business in the long run shall result in large scale unemployment. Since the shift from business to job creates lesser businesses, the shock absorbing capacity of the economy will undoubtedly suffer and may potentially lead to a larger loss to the society as a whole.

Summary

OFAI concludes that retail on any kind of western format; do not augur well for the economy and the environment. In addition to creating a skew in the economics of the country, it will also lead to more poverty, overall loss of nutrition and further environmental degradation. In addition retailers do not save food as assumed to be since the marketing strategy and consumer choice ensures that loss in only high overall. While issues of markets and fair price to the farmers can very well be handled with mechanisms existing in the country, inviting foreign retailers will lead to a non-reversible situation where losses made against the gains will be extremely hard to overcome. We believe that the state should put its foot forward to improve infrastructure conditions in the country by generating funds by offsetting existing policies such as fertilizer subsidy amongst others. We have faith in our system, economy and people and do not require foreign companies telling or dictating how our agrarian economy shall run. As with any system there are problems with the system, however we yet have mechanisms to tackle them on our own and save the lives of farmers, traders and consumers of the country. The Organic farming movement will suffer in the medium and long term due to the policies and method of operation of corporate retailers. We hope that our arguments against FDI in retail and corporate retail in general are taken in the right light and the government takes appropriate decisions to ensure the well-being of not just the farmers but also the citizens of the country.



Bibliography

al., Jean Buzby et. *Supermarket Loss Estimate for Fresh Fruit, Vegetables, Poultry, Meat* USDA, 2009.

ASHA, Alliance for Sustainable and Hollistic Agriculture. *Why is Asha Against FDI in retail?* 2011.

Berry, Ben. *Overview of Retail Grocery Market in the Pacific Northwest United States.* Canada: Agri-Trade Food Services, 2009.

Club, Siera. "What is Wal-Mart's True Environmental Footprint." 2005.

Daily, Food production. *Half of US food goes to waste.* 2004.
<http://www.foodproductiondaily.com/Supply-Chain/Half-of-US-food-goes-to-waste>.

Gorelick, Steven. "The Farm Crisis." International Society for Ecology and Culture, 2001.

Gupta, Ashish. "Independent Verification." 2011.

IIED, International Institute for Environment and Development -. *Tracking supermarket progress towards a greener and fairer food system.* n.d.
<http://www.racetothetop.org/indicators/module4/>.

Kranz, Dave. *Where did my food dollar go?* November 2008.
<http://www.cfbf.com/magazine/MagazineStory.cfm?ID=105&ck=65B9EEA6E1CC6BB9F0CD2A47751A186F>.

Manitoba, University of. *Declining farm value share of the food dollar.* n.d.
http://www.umanitoba.ca/afs/agric_economics/ardi/farm_value.html.

Vivas, Esther. *Causes, consequences and alternatives.* 2009.
<http://www.internationalviewpoint.org/spip.php?article1774>.

Wishart, Ian et.al. *The Farmers' Share.* Winnipeg: Keystone Agricultural Producers, 2009.