Frontier
Vol. 44, No. 24, December 25-31, 2011

DEFENDING THE INDEFENSIBLE

# Of FDI and Retail Reality

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IN THE FLOOD OF RHETORIC following the government's decision to permit FDI in retail, the actual reality of what this will mean is being lost. For that it is necessary to look at international data and what it shows about the claims being made. Commerce Minister Anand Sharma's letter offers a good place to start. His claims can be summarised as follows:

Corporate retail fueled by FDI will result in investment in cold chains and therefore in lower prices by "eliminating middlemen."

Corporate retail will not threaten small retailers, who find "innovative ways to coexist", and will generate employment.

Corporate retail will benefit farmers and producers by ensuring a "remunerative price."

Corporate retailers will remain restricted to some areas and some sectors.

There are already corporate retailers in India and there is therefore no problem in permitting FDI.

Not one of these claims is justified by the available data.

In the sector that requires cold chain infrastructure most–fruits and vegetables –data from developing countries often shows that prices in supermarkets are generally higher than from existing retailers. Certainly, there is no data that shows consistently lower prices from corporate reatilers.

Thus:

In Thailand, they are estimated to be 10% higher.

In Argentina, data showed consistently higher prices for fruits and vegetables in supermarkets (the difference being about 14% through the 1990's), though this difference was falling.

In 2000, in Mexican supermarkets, prices of lemons, tomatoes and oranges were significantly higher than in traditional markets, while in all other fruits and vegetables they were identical or slightly higher.

In Vietnam, in 2002, it was found that prices in supermarkets across all categories were around 10% higher.

The concentration of power in the hands of a few companies by no means leads to lower prices. In the US, supermarkets raised tomato prices by 46% between 1994 and 2004 while real prices paid to producers fell by 25%.

In the Indian experience, the entry of corporate chains into wheat and grain procurement has coincided with increased speculation and increased prices.

Regarding investment in cold chains and reduction in wastage, it should be remembered that the international food industry-controlled by the same chains currently advertised as sources for FDI-wastes almost half of the food it procures.

The Minister and the government here is playing a simple verbal trick. The fact that some retailers "continue to coexist" does not in any way mean that most small retailers will not be pushed out of business.

Indeed, the data is exactly opposite to the claim that there is no evidence of harm to small retailers. Here are citations and figures:

In Brazil, share of street markets in fruits and vegetables declined by 27.8% between 1987 and 1996; in dairy sales, share of dairy stores fell by 27.8% and open air markets by 53.3%.

Argentina: Number of small stores dropped by 64,198 between 1984 and 1993 -30% of the shops in the country. Employment in retail sector dropped by 26% in the same period.

Chile: between 1991 and 1995, 'traditional' food and beverage retailers declined by approximately 20% in all segments.

Indonesia: between 2002 and 2003-just one year-number of 'traditional' grocery stores fell by 154,148 stores, or 9%.

Latin America: supermarkets now control 60% of food retail.

East Asia other than China: 63% of processed / packaged foods controlled by supermarkets, estimated 30% of fresh foods.

The oft-cited example of China is irrelevant, as Chinese food retail is entirely different as shown below:

From 1959 till late 1980's, private retail trade essentially banned in cities, all retail was taken over by public state owned enterprises.

In 1992 (rise of supermarkets just beginning), state owned large networks accounted for 41.3%, cooperatives / collectives 27.9% and private enterprises (i.e. Small retailers mostly) 20% of market-hence completely incomparable to Indian situation.

In all situations big retailers begin with rich population but do not remain confined to them-always attempt to expand into smaller towns, reaching poorer segments etc. In Latin America, Asia and Africa in general: "there has been a trend from supermarkets occupying only a small niche in capital cities serving only the rich and middle class to spread well beyond the middle class in order to penetrate deeply into the food markets of the poor."

## BENEFITS TO FARMERS

Most purchase for corporate retailers occurs through contract farming. This actually has negative impacts on most farmers.

All studies of contract farming and corporate food retail show that small and marginal farmers are unable to access the supply chain.

More than 90% of India's rural population has less than 2 hectares of land and 79% are either landless or own less than 1 hectare. Practically all of these people will be excluded from the corporate supply chain.

Those left out of corporate sourcing may find themselves competing for a much smaller market and essentially being driven out of existence. Thus, in Argentina, the number of dairy farms fell from 40,000 in 1983–around the time when corporate transformation of the supply chain began–to 15,000 in 2001.

There is no reason that purchases by a small number of companies is going to lead to higher prices for producers. An Oxfam study shows that real export prices for South African apples fell by 33% from 1994-2004, and Florida tomato growers found their real prices falling by 25% over same period–while consumer prices in the US rose by 46% at the same time. Data currently says that four or five companies control 40% of the international trade in several types of produce, including grains, edible oils, coffee, cocoa and bananas.

The same study by Oxfam shows that condition for agricultural workers in supermarket suppliers is very bad, because of the intense pressure placed on farmers to reduce prices, guarantee 'quality standards', handle last minute changes in contracts and absorb discounts, promotions, etc. passed on to them.

Abuses of power by corporate retailers include:

- delayed payments (example from Argentina here,
- arbitrary quality standards (Oxfam 2004 study cited above has very good examples including, for instance, sudden demands that apples should be exactly 65 mm rather than 63 mm),
- passing on of costs for discounts and promotions to producers (Vietnam for instance),
- and simple default on contracts, as has happened in India (several studies, some with a lot of data; a summary reference is Jayati Ghosh and CP Chandrasekhar here).

Global sourcing of fruits and vegetables puts intense pressure on producers to reduce prices to compete and to satisfy the requirements of the corporate retailers (FAO 2005 study).

### 'Corporate Retailers Already Exist, So FDI Will Not Cause Additional Damage'

This is simply an irrelevant argument. The small presence of corporate retailers in India's markets today is a reflection of the fact that in themselves, corporate retailers offer nothing in the sense of retailers that allows them to out-compete the existing system. This is why the entry of FDI has been shown to be the single determining factor that permits large-scale expansion of corporate retail in developing countries.

The large quantities of money that FDI provides permit retailers to displace existing suppliers and establish monopolies or oligopolies when purchasing produce; to absorb losses and hence fix lower prices until the competition is wiped out, whereupon prices will be raised (i.e. predatory pricing); and to pressurise governments into bending regulations and subsidising their activities (the latter is already visible among existing corporate retailers).

The simple reality is that, if corporate retailers were simply going to grow alongside the existing system without displacing anyone and purely because of their better results, they would have done so already to a great extent. Why have they failed?

## IGNORED ISSUES

Most of the debate ignores the structural requirements of corporate retail and what this will mean. Inherently, in order to make profits, corporate retailers need massive economies of scale in order to offset their very high overhead costs (in contrast to the low overhead, decentralised existing system). Some of the resulting impacts include:

Privileging good looks and long durability over taste and nutritional value, so as to permit price hunting and delayed sale of produce: The result is that, as is widely known, fruits and vegetables in supermarkets tend to have less taste, are lower in nutritional value, and are often picked when unripe. This is one reason for rapid growth of the "organic food" market in the industrial countries.

Massive increase in use of energy and water for processing, packaging, and transport: The international food industry is now recognised as a major contributor to climate change. Better storage is certainly necessary, but the requirements of corporate retailers far outstrip the actual need. They are not interested merely in storing of food but in being able to source from very long distances and in storing as long as necessary (in order to speculate on prices). The result is that the energy spent on production and sale of one kilogram of rice in the US is 80 times the energy spent by a farmer in the Phillippines. One fifth of all energy spent on transport in the US is spent on transport of food. Can India afford this kind of expenditure of energy and water?

Sharp rise in use of pesticides, additives, preservatives and other chemical agents to increase the shelf life of food, with attendant health consequences: For much the same reason as above. Contract farming in particular usually involves a sharp rise in total inputs, destroying the fertility of the land and leading to increased pollution and other problems.

The growth of corporate retail not only will not address the key problems plaguing India's economy today – it will greatly exacerbate many of them. In particular, the crisis in agriculture, environmental destruction, declines in land productivity, urban unemployment, price volatility and unequal access to resources would all be worsened by unchecked growth of corporate retail. □

[source : *Kafila*]