FDI, Wal-Mart & controversies: An eventful year for retail

The retail sector, where the government permitted foreign direct investment in multi-brand, courted controversies during the year with several opposition parties making it a political issue in Parliament.

Even before its entry into multi-brand retail, the global chain Wal-Mart was grappling with various issues, including spending money in the US on lobbying for entry into India.

Adding action to the drama was Swedish furniture chain IKEA's hectic bargaining with the government over sourcing clauses for its foray into the Indian market with plans to invest Rs 10,500 crore, the largest FDI in single-brand retail so far, and the alleged Rs 870 crore fraud in Reebok India by its two top executives.

The year started on a sombre note for the sector, with the lingering effect of the decision to put on hold relaxation of FDI in retail in 2011.

After battling stiff political opposition, the government allowed 51 per cent FDI in multi-brand retail in September this year, but left it to the states to permit global retailers to open stores.

The government also gave its go ahead for 100 per cent FDI in single-brand retail from 51 per cent earlier. The sourcing norms for FDI exceeding 50 per cent in single brand retail was also tweaked, changing the previous "mandatory" sourcing requirement of 30 per cent of items from micro, small and medium enterprises (MSMEs) to "preferably" from MSMEs.

It, however, required foreign firms that wanted relaxation of the 30 per cent procurement norms to set up manufacturing facilities in India.

The step to let FDI in multi-brand retail didn't go down well with Opposition parties and erstwhile UPA ally Trinamool Congress, which decided to withdraw support from the government over the issue and others, including hike in diesel prices.

The issue stalled proceedings of Parliament till the government agreed to a voting on allowing of FDI in multi-brand retail that it managed to win, thanks to the abstention of Samajwadi Party and Bahujan Samajwadi Party.

Just when the government thought it was done with the issue, Wal-Mart's disclosure in the US that it spent close to USD 25 million (about Rs 125 crore) since 2008 on its various lobbying activities, including on issues related to "enhanced market access for investment in India", created furor again. The Opposition stalled Parliament for many days on the issue.

As per Wal-Mart's lobbying disclosure reports, the company has continuously lobbied for its India entry since 2008, except for a few quarters in 2009. The company, however, stressed that it did not pay bribes to anyone in India.

Another issue that created controversy was Wal-Mart's USD 100 million investment in Cedar Support Services, an arm of Bharti BSE 0.57 % Ventures, when FDI in retail was not allowed here.

Now, the Enforcement Directorate is investigating the alleged violation of FDI regulations under Foreign Exchange Management Act, 1999, by cash-and-carry chain Bharti Walmart -- the equal joint venture between Wal-Mart and Bharti group.

Not only Indian authorities, Wal-Mart itself is probing allegations of corrupt practices against it in foreign markets, including India. In March this year, the firm started a worldwide review of its policies, practices and internal controls for US Foreign Corrupt Practices Act compliance.

Following this, Bharti Walmart suspended five people, including Chief Financial Officer Pankaj Madan, as part of the global investigation. After this, the JV decided to put a halt on opening of new cash and carry wholesale stores in India pending the probe.

While Wal-Mart hit the headlines in multi-brand, it was IKEA that made news continuously in the single-brand segment. The Swedish furniture announced plans to invest Rs 10,500 crore in India to open 25 stores over a period of time. It had proposed to invest 600 million euro (Rs 4,200 crore) to open 10 stores in the first stage. The remaining 900 million euro (Rs 6,300 crore) for opening 15 more stores.

The Scandinavian retailer, however, wanted the government to relax the clause for mandatory sourcing of 30 per cent from MSMEs. After months of dialogue, the government relented and relaxed it for single brand segment.

The IKEA Group, which manufactures and sells home and office furnishing products, applied afresh after the norms were relaxed. In November, the Foreign Investment Promotion Board (FIPB), cleared the proposal but out of 29 products, the company was prevented from selling 14 items like textile products, consumer electronics, leather products, lifestyle products and food and beverages at its restaurants and cafes.

However, IKEA has approached FIPB again seeking a review of its earlier application so that it is allowed to open cafeteria at its proposed single-brand retail stores. The proposal has already been scrutinised by the Department of Industrial Policy and Promotion (DIPP) in the Commerce and Industry Ministry.

Another proposal that FIPB cleared was that of British footwear retailer Pavers England to open fully-owned stores. Besides, a 51 per cent joint venture of American luxury clothing retailer Brooks Brothers is the third proposals that got cleared. Italian jewellery maker Damiani's plan to form a venture with Mehta's Pvt Ltd also received a nod from FIPB.

For German sportswear maker Adidas Group's arm Reebok India, it was a year trying to overcome the impact of an alleged a Rs 870-crore fraud by its former Managing Director Subhinder Singh Prem and Chief Operating Officer Vishnu Bhagat, who allegedly indulged in "criminal conspiracy" and "fraudulent" practices over a period of time.

(Economic times)