Dear Sir,

MediaNama (www.medianama.com) is the premier publication for news and analysis of the digital ecosystem in India. Our mission is to support the creation of **an open, fair and competitive digital (Internet and Mobile) ecosystem in India**. We welcome the DIPP's interest in starting the consultation process on enabling Foreign Direct Investment in E-commerce in India, since this industry is an integral part of the nascent digital ecosystem in the country. It has impacted the livelihood of thousands of people, and has the potential the impact the lives of millions in our country.

We also believe that there should be a **public consultation process**, and we would be glad to share and defend our viewpoint **in an open house discussion**, if one were to be held.

Our answers to the questions raised by the DIPP below:

Q1. Should FDI be allowed in B2C e-commerce?

Ans: We believe that FDI in B2C e-commerce (henceforth referred to as 'e-commerce') should be allowed.

Increased competition will lead to better provisioning of goods and services for consumers and for businesses across the e-commerce value chain to become more efficient. Not allowing FDI in e-commerce will lead to a reduction in competition, and the continuation of a business that is, in comparison, far less efficient. This leads to costs being transferred to the consumer, and is not in consumer interest. Lower competition often results in lower salaries and employment as well.
It is important to also note that there is a paucity of funds from within India to support the growth of E-commerce. These businesses require vast amounts of investment to bring in economies of scale. So far, the funds have come from foreign venture capitalists, who have seen this opportunity play out in other international markets, and realize its potential. Before 2008-09, investment in e-commerce in India was vastly ignored, because of a lack of faith in the Indian economy to support building these businesses. The scale at which e-commerce in India operates now justifies the vision of foreign venture capital funds, and the risks they took in supporting Indian entrepreneurs to build this ecosystem.

E-commerce is a superior form of retail, and not allowing FDI in e-commerce will hinder progress and growth in the retail sector. An open and competitive retail market with regulatory oversight preventing malpractices will benefit the Indian economy, Indian businesses, and above all, Indian consumers. **We**

believe that the government should encourage entrepreneurship and competition, with regulatory oversight.

2. Should FDI be opened for all products or only for non-food products?

Ans: We believe that **FDI should be opened for all products**. Competition, with regulatory oversight to ensure fairness, will result in the establishment of best practices in procurement, in terms of forecasting and planning, and supply chain management. This will benefit producers, suppliers and logistics businesses. Competition will also force businesses to focus on convenience and affordability for end consumers, break cartels and address challenges posed by neighborhood retail monopolies.

3. Whether there should be a limit on minimum capitalization?

Ans: We believe there should be **no restriction on minimum capitalization**. Setting a minimum capitalization will mean that business becomes the mandate of a moneyed few, and will prevent the creation of small, niche businesses that cater to the interests of small consumer segments. The Internet allows consumers of types to be provided with goods that meet their unique needs, without the restriction of shelf space or location. There might be a market for sports equipment only for left-handed individuals, or for the unusual market of multi-colored socks. However, these segments might not be of interest to large retailers, because they're too small a segment for them to focus on. Minimum capitalization requirements will prevent the creation of such niche businesses.

4. Should there be a limit on the percentage of sourcing from domestic manufacturers and what should be the limit?

Ans: We believe that **a distinction needs to be made for sourcing of digital and physical goods**. As such, digital goods are intellectual property and sale of intellectual property should not be restricted by geographical boundaries: these often help in the creation of more intellectual property, without consumption of limited national resources. For example, a research report created in the United States of America about businesses practices there might assist in setting up of a similar business in India. Lack of restriction on the digital products like mobile applications and software across geographical boundaries across the globe allows Indian application developers to create products and sell across the globe. India is currently seeing the beginning of a boom in creation of applications for global markets, and any restriction on sourcing might lead to reciprocal protectionism from other countries. In many cases, **it may not be possible to ascertain which country, city or state a consumer might be purchasing digital goods from**, because the delivery of digital goods is via the Internet.

In case of physical goods, however, we believe that support needs to be given to domestic manufacturing, without particularly impacting the starting up of e-commerce businesses. We would recommend that **up to an annual gross merchandise value (GMV) sale of a limit specified by the DIPP (say, Rs 500 crores per year), e-commerce businesses should be allowed to procure goods for sale internationally without any domestic sourcing requirements**. However, in case of the GMV exceeding this specified amount, **15-20% procurement of either goods produced in India, or where value addition is done in India**, should be mandated to promote domestic manufacturing and value addition. This will prevent dumping of goods in India, and encourage domestic manufacturing.

5. What should be the entry routes and FDI caps in B2C e-commerce companies. Should FDI be allowed under an automatic route up to 50%?

Ans: For startups, the process of going through the Foreign Investment Promotion Board (FIPB) for approvals can be a time-consuming and inordinately expensive task. This will limit the propensity of entrepreneurs to start e-commerce businesses in India. In principle, we believe that **there should be no requirement for e-commerce companies to go through the FIPB**, and FDI should be allowed up to 100% under the automatic route.

However, if the DIPP does mandate FIPB oversight in case of e-commerce investments, we would appreciate it if the process was as per an automatic route up to 75%, and that the FIPB decision making process was made public, transparent and efficient.

6. How will retail sale under MBRT be restricted to States that have agreed to open frontend stores?

Ans: We believe that E-commerce should be treated separately from physical retail. As long as E-commerce companies are only delivering goods and services, no restrictions should apply on distribution. The premise of doing an e-commerce business is that you are trying to aggregate consumers across the country, and target a set consumers across a single national market.

Restrictions on sale under MTRB must only be applicable in case an e-commerce company is setting up a physical retail outlet, in accordance with existing laws.

Please also be aware that any restriction on the sale of digital goods under multi-brand retail will create inordinate complications in the sale and consumption of intellectual property on the web and mobile applications. In many cases, it may not be possible to ascertain which country, state or city a consumer might be purchasing digital goods from, because the delivery of digital goods is via the Internet.

7. What are the likely benefits to Indian economy, particularly in terms of FDI inflows, additional employment, back-end infrastructure and efficiency?

Ans: The investments made by Venture Capitalists in online commerce, whether marketplaces or otherwise, have contributed significantly to the growth of the Internet in India. Our reasons for supporting FDI in e-commerce are as follows:

- **Consumer Interest:** Customers are now more comfortable with paying online than ever before. e-commerce companies, with the help of logistics providers like Blue Dart, Gati, Delhivery and others have led to the availability of products in small towns that had otherwise might not have had access to them.

E-commerce also provides unlimited shelf space, which is a limitation of offline retail. This allows consumers access to a wider variety of products than ever before.

E-commerce also offers consumers a convenience of being able to shop whenever they want, from whereever in the world they are. The advent of mobile commerce will make it even easier for consumers to purchase products they want.

Competition in e-commerce has driven down prices of products, making them accessible to a wider strata of society.

- **Business Interest:** Investments made in e-commerce in India have been spent on building an entire ecosystem of businesses: money has been spent on advertising and marketing, on payment gateways and improving the consumer experience while making payments, on delivery and logistics businesses. Logistics businesses like Chhotu, Gharpay and Delhivery were created purely for supporting the growing demands of e-commerce. Book Publishers and producers of goods have found a much wider market online than offline and are able to cater to a larger base of customers than they would have been offline.

It’s important to note that businesses have already invested, expecting continued growth in the sector, and not allowing FDI in e-commerce will force them to scale down operations.

- **People Interest:** Businesses have invested in growth. E-commerce businesses today employ people in the thousands and have the potential to employ many more. We are at the beginning of the e-commerce revolution in India. Not allowing FDI in e-commerce will force these businesses to lay people off. The announcement that FDI in e-commerce would not be allowed last year forced many fledgling e-commerce businesses to shut shop and lay off people.

- **Impact on Entrepreneurial ecosystem:** with FDI in e-commerce not allowed, the message that goes out to entrepreneurs is that the government of India is blocking routes for them to raise money and build their businesses. We’ve seen several product businesses leave the country and set up operations abroad in the recent past. One of the reasons for this is that the economic environment is not conducive to starting businesses in the online and mobile domain, and policy changes can derail operations. Therefore, some businesses have relocated to the United States of America, since they believe that the government policy and the investment ecosystem in Silicon Valley is more conducive for entrepreneurship. This leads to a different kind of brain drain, and will impact the Indian economy in the long run.

8. What should B2C e-commerce cover – Goods, Services and/or Intellectual Property?

In case the DIPP decides to treat all three categories (Goods, Services and/or intellectual property) as the same, we would recommend allowing 100% FDI in e-commerce without restrictions.

In case the DIPP intends to provide any restrictions whatsoever, such an approvals process under FIPB and/or provisions mandating domestic sourcing, we would suggest that they treat physical and digital goods separately: We believe it's difficult, counter-productive and unadvisable to separate services from intellectual property, and doing so would have an adverse impact on the growing industry typically labeled as Software As A Service' (SAAS), and create undue complications in business.

Summary of our submission

1. FDI should be allowed in e-commerce.

2. Support needs to be provided for building an e-commerce market that will benefit consumers, create employment, encourage competition, and allow value creation and entrepreneurship to be support.

3. FDI should be allowed in all products, including food products.

4. There should be no limit on minimum capitalization.

5. For domestic sourcing requirements: a distinction should be made between digital and physical goods. No domestic sourcing requirements for digital goods. In case of physical goods, domestic sourcing of only 15-20% should be mandated, and that too, only beyond an annual Gross Merchandise Value sale of Rs 500 crore. This is allow starting up without restrictions, and help support domestic manufacturing once a business reaches scale.

6. No FIPB requirements for e-commerce. However, if FIPB oversight is mandated, then it should be via the automatic route until 75%, else it will add additional costs to a startup raising money. Even then, the FIPB process should be transparent and public.

7. e-commerce should be treated separately from physical retail when it comes to retail sale under MBRT, in order to allow e-commerce businesses to target a single national market. Restrictions should only apply in case an e-commerce company sets up a physical retail business.

8. No restriction on sale of digital goods under MBRT, since it may not be possible to ascertain country, state or city of consumer purchasing digital goods.

9. Benefit of FDI in e-commerce: providing better goods and services to the consumer because of lack of geographical limitations and unlimited shelf space, and encouragement of competition. Businesses benefit because of wider reach and consumer base, and an entire ecosystem of e-commerce affiliated businesses gets created. This leads to more employment opportunities and competition for talent, leading to better pay. Policies that support Entrepreneurs will prevent a brain drain.

10. DIPP should not treat Goods, Services and/or intellectual property as the same in case they intend to put restrictions, because this will impact SAAS businesses. They should then treat goods as physical and digital, and have no restrictions on/conditions for the sale of digital goods. Ideally, there should be no restrictions.