FDI in e-commerce – Policy review

Why in news?

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Ministry of Commerce & Industry recently reviewed the policy on Foreign Direct Investment (FDI) in e-commerce.

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What does the guidelines say?

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- E-commerce entities would engage only in Business to Business (B2B) e-commerce and not in Business to Consumer (B2C) e-commerce.
- **FDI Limit** - E-commerce means buying and selling of goods and services including digital products over digital & electronic network.
- 100% FDI under automatic route is permitted in marketplace model of e-commerce.
- Marketplace based model of e-commerce means providing an IT platform by an e-commerce entity on a digital & electronic network to act as a facilitator between buyer and seller.
- However, FDI is not permitted in inventory based model of e-commerce.
- Inventory based model of e-commerce means an e-commerce activity where inventory of goods and services is owned by e-commerce entity and is sold to the consumers directly.
- **Control** - E-commerce entity providing a marketplace should not exercise ownership or control over the inventory i.e. goods purported to be sold.
- If more than 25% of the inventories of an E-commerce entity are linked to a single seller, it ceases to be an intermediary between buyers and sellers.
- Such an E-commerce entity will be treated as an inventory based model

rather than a market-place platform.
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- **Equity holding** - An entity having equity participation by e-commerce marketplace entity will not be permitted to sell its products on the platform run by such marketplace entity.
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- Hence, a product in which, say, Amazon or Flipkart have a stake cannot be sold on their respective platforms.
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- **Responsibility** - In a marketplace model, goods/services made available for sale electronically on website should clearly provide name, address and other contact details of the seller.
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- Post sales, delivery of goods to the customers and customer satisfaction will be responsibility of the seller.
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- Any warrantee/ guarantee of goods and services sold will be the responsibility of the seller.
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- Also, e-commerce marketplace entity will not mandate any seller to sell any product exclusively on its platform only.
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- **Price** - E-commerce entities providing marketplace will not directly or indirectly influence the sale price of goods or services and should maintain a level playing field.
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- Also, cash back provided by group companies of marketplace entity to buyers should be fair and non-discriminatory.
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- The above decision will take effect from 01 February, 2019.
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What are the concerns?

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- The guidelines maintain restrictions on cash back services and exclusive product deals on e-commerce platforms.
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- However, it is hard to justify why online stores should not be allowed to display their own labels, when offline ones are allowed to do so.
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- For anti-competitive practices such as deep discounts, the marketplace can

self-regulate or the competition commission of India can step in to check such practices.
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- But the guidelines went against the government's assurance of 'minimum government, maximum governance', by leaning towards heavy-handed regulation.
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- In a retail market as large and diverse as India's, e-commerce players still play a smaller role and the disaggregated retail sector plays a major role.
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- Rather than promoting the sector, the guidelines curb expanded options for producers from e-commerce sector and hence is indifferent to consumer choice and welfare.
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Source: PIB, Business Line

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