THE ECONOMIC TIMES

Restaurants seek clarity on E-commerce FDI rule tweak

By
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NEW DELHI: Restaurants in India have asked the government to clarify whether online food ordering entities such as Zomato, Swiggy and UberEats are covered by the policy on foreign direct investment (FDI) in ecommerce.

The National Restaurant Association of India, which represents over 100,000 eateries, had asked the Department of Industrial Policy and Promotion earlier this month to state if online food companies should comply with the guidelines, which prohibit them from influencing prices and operating inventory-based models, including their own kitchens.

The norms issued by the DIPP at the end of December to provide clarity on the FDI policy are due to come into effect on February 1 and all attention so far has been on online marketplaces Flipkart and Amazon, which have been drawing buyers away from brick-and-mortar stores. They have sought more time to comply with the rules, which disallow them from owning equity in vendors, controlling the inventory sold on their platforms and influencing their prices.

Some online food companies operate as marketplaces, others are inventory-based, and some do both. The NRAI has already said that online food companies are making their consumers “discount addicts”.

“As the restaurant sector comprises lakhs of small businesses run by entrepreneurs and families, their interests need to be kept in mind. The policy should provide a fair and non-discriminatory framework,” NRAI president Rahul Singh said. “In this rush to acquire customers at any cost and intense competition between the ecommerce behemoths, we need to prevent any adversities on the brick-and-mortar players.”

“This ambiguity needs to be resolved. A calibrated view needs to be taken to balance existing business owners’ interest versus the nearly unstoppable impact of technology on customer choice, convenience and consequent employment generation and economic value-add,” said Debashish Mukherjee, a partner at management consulting firm AT Kearney.

DIPP officials declined to comment on the matter. Email queries sent to Swiggy and Zomato did not elicit any response.

According to the DIPP guidelines, 100% FDI is allowed in ecommerce marketplaces, which are platforms for buyers and sellers. FDI is not allowed in inventory-based models, where an entity can own the goods and services and sell them directly to consumers.

According to an amendment dated November 18, 2018, by the Food Safety and Standards Authority of India, the regulator, ecommerce food business operators are also classified into these two categories — inventory-based and marketplaces.

Earlier this month, representatives from the restaurant association and the aggregators discussed the disputed issues including deep discounting, inventory control, data masking and private labels, which remain unresolved.

ET had reported in its January 3 edition that over 500 small to mid-sized restaurant companies had petitioned the Competition Commission of India and the Prime Minister’s Office about the “misuse of dominant position” by food delivery companies including Swiggy, Zomato, UberEats and FoodPanda.

While Swiggy has started an inhouse kitchen, The Bowl Company, Zomato has set up a company called Hyperpure, which sells vegetables, chicken and other meats. The aggregators have denied all allegations of wrongdoing.