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### **Guidelines on FDI in E-Commerce**

The Government has, a few days back, introduced certain guidelines for Foreign Direct Investment (FDI) in E-commerce sector in order to ease and legitimize the existing E-commerce business. A brief summary of the same is as follows:

#### **Certain definitions to be kept in mind**

##### **E-Commerce**

E-commerce is the buying and selling of goods and services, or the transmitting of funds or data, over an electronic network, primarily the Internet. These business transactions occur either business-to-business (b2b), business-to-consumer (b2c), consumer-to-consumer (c2c) or consumer-to-business (c2b).

##### **Business - to- Business (B2B)**

B2B (business-to-business) is the exchange of products, services or information between businesses, rather than between businesses and consumers.

##### **Business- to- Consumer (B2C)**

(B2C) is referred when companies that sell products and services to consumers directly through the Internet.

##### **Single Brand retail**

Individual brands setting up their retail stores. The likes of Titan, Reebok, Nike, HP, Dell etc. setting up their retail outlets.

##### **Brick and Mortar Stores**

Brick and mortar is a traditional "street-side" business that deals with its customers face to face in an office or store that the business owns or rents. The local grocery store and the corner bank are examples of "brick and mortar" companies.

##### **Inventory based model of E-Commerce**

An E-commerce activity where inventory of goods and services is owned by e-commerce entity and sold to consumers directly.

##### **Marketplace based model of E-commerce**

An E-commerce entity provides an information technology platform on a digital and electronic network to act as a facilitator between buyer and seller.

As per the current FDI policy, 100% FDI under automatic route is permitted in Business –to- Business (B2B) E-commerce but no FDI was permitted in Business-to-Commerce (B2C) E-commerce. However, FDI in B2C E-commerce is permitted subject to few conditions as under:

A. A manufacturer is permitted to sell its products manufactured in India through e-commerce retail.

- B. A single brand retail trading entity operating through brick and mortar stores is permitted to undertake retail trading through e-commerce.
- C. Indian manufacturer is permitted to sell its own single brand products through e-commerce retail.
- D. Indian manufacturer would be the investee company which is the owner of the Indian brand and which manufactures in India at least 70% of the total value of its products in house and outsource remaining 30% from Indian manufacturers.

**Other Conditions with respect to market place model of e-commerce**

- A. Digital and Electronic network includes network of computers, television channels and any other internet applications like web pages, apps, mobiles, extranets, etc.
- B. Market place e-commerce entity will be permitted to sell its products and services only through sellers registered on B2B platform.
- C. E-commerce Market place entity can provide services to its seller in respect of ware housing , logistics, payment collection and other services.
- D. Market place e-commerce entity will not be permitted to exercise ownership over the inventory purported to be sold.
- E. E-commerce entity cannot permit more than 25% of sale affected through its Market place from one vendor or their group of companies.
- F. In Market place based model where good and services made available for sales electronically should provide complete details of the seller. Post sale service and even warranty/ guarantee will be under responsibility of the seller.
- G. Payment for sales should be in accordance with RBI guidelines.
- H. E-commerce Market place entity shall not directly or indirectly influence the sale price of goods and services and ensure fair play.

It may be noted that FDI under the 'inventory' model of e-commerce, is still not permitted.

Further, it may be noted that, the Press Note also states that, subject to other conditions of the FDI Policy, sale of services through e-commerce shall be under automatic route. In this context it may be noted that the definition of 'E-commerce' itself includes buying and selling of goods and services and the word 'services' have been used widely through the Press Note, which leaves confusion in the minds of the readers, whether the conditions herein are applicable to the 'services' as well.

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