PRESS RELEASE

IndiaTech Welcomes Draft E-Commerce Policy - A Strong First Step to Enable and Support the Next Wave of Home-Grown Internet Firms

New Delhi/Bangalore, August 22: IndiaTech.Org, an industry association that has the objective of creating a strong ecosystem of home-grown internet firms in India via a level playing field in the internet sector, welcomed the initiation of a national e-commerce policy.

According to CEO of IndiaTech, Rameesh Kailasam, "India is at the doorstep of creating the next wave of internet firms that can become the foundation for India's growth story. A national e-commerce policy would help in addressing the challenges that are presently faced by the Indian e-commerce sector and contribute to building the next wave of successful Indian enterprises. A strong domestic internet commerce sector will significantly contribute to job creation in India, similar to the domestic IT sector that has created millions of jobs in India."

IndiaTech believes that while this is the first draft of India's e-Commerce Policy and sets course for consultations on the way forward, it is a strong first step by the Government of India at the right time to support the evolution of domestic internet firms and the tech ecosystem.

The draft policy framework is a strong first step in creating a level playing field in the internet sector in India, by addressing a few of the core challenges in the sector. Firstly, the proposed policies aim to counter the practice of predatory pricing in this sector, at times used by international internet firms: it is a mechanism whereby international scale can be used to create a non-level playing field with an Indian player. This is a practice whereby international internet firms use operating cash flows from operations abroad to sell at predatory prices in India, in order to gain share from home-grown Indian firms (translating into negative gross margins or negative net take rates). Home-grown Indian firms are often forced to respond by reducing prices (while still refraining from predatory pricing conducted by international players), in order to prevent market share losses. However these price reductions are often challenging for home-grown Indian firms to fund, as they typically don't have operating cash flows from operations abroad to fund them.

Thus, they are forced to raise capital from abroad in order to fund the cash burn that results from this practice. Given the smaller scale of home-grown firms, these capital raises are naturally more dilutive to the home-grown firms than the international firm. Dilution not only causes local ownership to become low, but also causes returns for Indian VCs to be lower - one factor that has prevented India's VC ecosystem from being large as it is in China and the US (annual inflows into Chinese VC firms is over 50x that of India). While the customer may benefit in the short-term from predatory pricing, in the long-term the customer suffers as if and when the international firm achieves leadership prices are then raised sharply (and as a result gross margins or net take rates are raised sharply).

This practice was at times used by international internet firms in Europe to achieve dominance over home-grown firms, and in each case prices and margins were raised sharply once dominance was achieved. In spirit, the practice is similar to product dumping which is prohibited by the WTO, however in practice ecommerce/internet is considered a service and thus not covered by WTO product dumping clauses.

Secondly, the framework considers the need for preferential voting rights for Indian founders – similar to what exists in China and the US with either VIE structures or Class A/Class B voting right structures. Most of the largest internet firms in these countries, including Facebook, Google, Tencent, Alibaba, Snapchat and others – have such systems in place whereby founder's votes are well in excess of their shareholding.

Using one example, the founder of one of the US's largest internet firms has an 18% economic interest in the company, but controls 60% of the votes due to Class B shares held by the founders which carry 10 votes for every share while Class A shares carry 1 vote. As Indian founder shareholding is often being diluted to low levels, preferential voting structures for founders is needed to help them retain an adequate voting position

Thirdly, the proposed framework highlights the need for international internet firms to also follow the same regulatory and compliance requirements such as the RBI payment regulations and Indian tax regulations for their operations in India as followed by Indian internet firms. We strongly believe that once these core issues are addressed through the proposed policy framework, Indian firms would have a level playing field with international firms. Addressing these core issues are critical preconditions to having a vibrant ecosystem of home-grown internet firms.

Lastly, IndiaTech welcomes the proposal of introducing a regulatory body for this sector and believes if conceptualized and implemented rightly, it will go a long way in not only ensuring the interests of the consumers and businesses but will also ensure the country is well protected from a national security perspective that cuts across all its aspects and ensures the necessary data related issues are clarified and safeguarded.

IndiaTech believes that the policy will also help increase foreign investment into India's internet sector. Over the long term, the stronger home grown internet firms are, the more foreign investment a country can attract into the internet sector. In a scenario where there are less homegrown firms and more external firms, the multiplier scope of foreign direct investment is usually minimized because it occurs in the beginning few years (until dominance is achieved) and then gradually tapers off to be almost non-existent later on. China is a case study on how foreign investments were maximized with the country's internet sector valued at over $3 trillion and over $400 billion of foreign investment have come into China's internet sector. In Europe by contrast, where a level playing field for local firms did not exist and the region was dominated by foreign internet firms, the internet sector is valued at under $100 billion and under $50 billion of foreign investment flows have been attracted.

IndiaTech does not support any protectionist measures such as those implemented in China to support local firms there, but believes that a level playing field must be created in which home grown internet giants emerge - and that this is critical to maximizing long term investment flows, which is in India's national interest. The current landscape in which Indian players operate on a non-level playing field may have already cost India over $20 billion of investments locally.