

FDI Policy in Defence Sector

DIPP vide Press Note No. 5 of 2016 Series dated 24/06/2016 notified review of Foreign Direct Investment (FDI) Policy on various sectors including which includes conditions related to FDI in defence at Para 5 of the said Press Note. According to the revised guidelines, Foreign Direct Investment Cap is 100%. Foreign Direct Investment up to 49% is allowed through automatic route and above 49% under government route wherever it is likely to result in access to modern technology or for other reasons to be recorded. Defence Industry subject to Industrial License under the Industries (Development & Regulation) Act, 1951 and manufacture of small arms and ammunition under the Arms Act, 1959. The detailed guidelines in this regard may be seen under the Press Note available at DIPP website (www.dipp.nic.in followed by link Acts & Rules).

The other conditions governing FDI Policy in defence manufacturing sector as notified in the Press Note 5 of 2016 Series dated 24/06/2016 are as under:

- (i) Infusion of fresh foreign investment within the permitted automatic route level, in a company not seeking industrial licence, resulting in change in the ownership pattern or transfer of stake by existing investor to new foreign investor, will require Government approval.
- (ii) License applications will be considered and licenses given by the Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, in consultation with Ministry of Defence and Ministry of External Affairs.
- (iii) Foreign investment in the sector is subject to security clearance and guidelines of the Ministry of Defence.
- (iv) Investee company should be structured to be self-sufficient in areas of product design and development. The investee/joint venture company along with manufacturing facility, should also have maintenance and life cycle support facility of the product being manufactured in India.

2. Further, subsequent to abolition of the Foreign Investment Promotion Board (FIPB) by the Government vide O.M No. 01/01/FC12017-FIPB dated 05.06.2017, the work of granting approval for foreign investment under the extant FDI Policy, has been entrusted to the concerned Administrative Ministries/Departments. The Department of Industrial Policy & Promotion, Ministry of Commerce & Industry has been given the responsibility of overseeing the applications filed on the Foreign Investment Promotion Portal (FIFP) and to forward the same to the concerned Administrative Ministry. DIPP has finalized a Standard Operating Procedure (SOP) for examination of foreign investment proposals by Administrative Ministries and placed on their website.
