



# FDI in Defence Production

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Foreign Direct Investment (FDI) Policy has been gradually liberalized in the last two years. Since defence projects involve long gestation period and investment inflow takes time even after the projects are approved and contracts awarded, there is always a time lag before the impact of FDI is visible. In the year 2014-15, FDI of US\$ 0.77 lakh and US\$ 0.01 lakh has been received from France and Israel respectively. In the year 2015-16, FDI of US\$ 0.95 lakh has been received from France. In the year 2016-17, FDI of US\$ 0.01 lakh has been received from Israel. In the current year, till May 2017, no FDI inflow has been received.

Government vide Press Note No. 5 of 2016 Series dated 24.06.2016 has notified revised Foreign Direct Investment (FDI) policy on various sectors including Defence. According to the new policy, FDI up to 49% is under automatic route and beyond 49% is through government route wherever it is likely to result in access to modern technology or for other reasons to be recorded.

Further Defence Industry sector is subject to industrial licensing under Industries (Development & Regulation) Act 1951 and Arms Act, 1959. The licence applications are examined by Licensing Committee, an inter-ministerial body, which among other things, also takes into account security clearance by Ministry of Home Affairs (MHA) and views of Ministry of Defence (MoD).

With the abolition of FIPB, concerned Ministries have been mandated to recommend approval of the Government in respect of proposals of foreign investment in excess of 49% after taking into account security clearance of Ministry of Home Affairs (MHA) and views of Ministry of External Affairs (MEA), Reserve Bank of India (RBI), Department of Revenue (DoR) and Department of Industrial Policy and Promotion (DIPP).

Government has also put in place a Security Manual for Licensed Defence Industries. The security manual prescribes guidelines on physical, information, documentation, cyber and personnel security aspects. Security is categorised in 'A', 'B' & 'C' categories depending upon the products/ weapons/ equipments manufactured by them. Defence licensees have to adhere to the safety and security procedures laid down therein based on their categorisation. Security Manual also provides for Security Audit of licensed companies by Intelligence Agencies once in two years and Cyber Security Audit by CERT-IN empanelled Auditors once every year.

For the licenses granted under IDR Act, the items so produced will be primarily sold to the Ministry of Defence. These items may also be sold to other Government entities under the control of the Ministry of Home Affairs, State Governments, Public Sector Undertakings (PSUs) and other valid Defence Licensed Companies without prior approval of Department of Defence Production (DDP). However, for sale of the items to any other entity, the licensee shall take prior permission from DDP, Ministry of Defence. Further, for licenses granted under Arms Act, the items so produced shall be sold to the Central Government or the State Governments with the prior approval of the Ministry of Home Affairs.

After review of FDI policy in June, 2016, three representations have been received from defence employee federations regarding change in FDI policy in defence sector. The replies have been furnished stating that the policy has been reviewed with an aim to promote investment and technology transfer in defence manufacturing sector. This sector needs significant capital investment and infusion of technology for which foreign investment can play a critical role. The FDI in the sector could be the most trusted route to technology transfer which would help in increasing the defence production base and providing the much needed impetus to self-reliance and indigenization in defence sector.

This information was given by Minister of state for Defence Dr. Subhash Bhamre in a written reply to Shri K.R.P. Prabakaran and Shri Bheemrao B Patil in Lok Sabha today.

NAo/DK/Rajib

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