FDI in Defence Sector

September 15, 2020

In a big push for 'Make in India' for the defence sector, the Finance Ministry has decided raising the Foreign Direct Investment (FDI) limit in the defence sector under the **automatic route from 49% to 74%.** It was also decided that the import of some weapons and platforms will not be allowed.

FDI in Defence Sector

- **FDI Cap is 100%.** FDI 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.
- The Union cabinet has approved the change in the FDI policy (49% to 74% through automatic route), but with a rider that **all such investments will be subject to scrutiny on grounds of national security.**
- 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.**

Government Approval

- License applications will be considered and **licenses given by the Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, in consultation with the Ministry of Defence and Ministry of External Affairs.**
- Foreign investment in the sector is subject to **security clearance** and guidelines of the Ministry of Defence.
- Subsequent to **abolition of the Foreign Investment Promotion Board (FIPB)**, the work of granting approval for foreign investment under the extant FDI Policy, has

been **entrusted to the concerned Administrative Ministries/ Departments.**

- The DIPP, Ministry of Commerce & Industry has been given the responsibility of overseeing the applications filed on the **Foreign Investment Promotion Portal** (FIPP) and to forward the same to the concerned Administrative Ministry.

Joint Ventures

- Investee companies 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.
- Indian companies with foreign investment exceeding 49% are not eligible to participate in all types of acquisition programmes. For example, under the **Strategic Partnership Model (SPM)** which the MoD intends to adopt for manufacturing of aircraft, helicopters, only such Indian companies as are owned and controlled by Indian citizens can participate as prime vendors.
- A company shall be considered as **'owned' by resident Indian citizens if more than fifty percent (50%) of the capital** in it is directly or beneficially owned by resident Indian citizens and/ or Indian companies, which are ultimately owned and controlled by resident Indian citizens.