Government of India
Ministry of Commerce & Industry
Department for Promotion of Industry and Internal Trade
FDI Policy Section

Press Note No. 4 (2020 Series)

Subject: Review of Foreign Direct Investment (FDI) Policy in Defence Sector

1. Present Position

5.2.6 Defence

Sector/Activity	% of Equity/ FDI Cap	Entry Route
5.2.6.1 Defence Industry subject to Industrial license under the Industries (Development & Regulation) Act, 1951 and Manufacturing of small arms and ammunition under the Arms Act, 1959	100%	Automatic up to 49% Government route beyond 49% wherever it is likely to result in access to modern technology or for other reasons to be recorded

5.2.6.2 Other Conditions

i. Infusion of fresh foreign investment within the permitted automatic route level, in a company not seeking industrial license, resulting in change in the ownership pattern or transfer of stake by existing investor to new foreign investor, will require Government approval.

ii. Licence applications will be considered and licences 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 M/o 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. Revised Position

The Government of India has reviewed the extant FDI policy in Defence sector and the policy will now be read as under:

5.2.6 Defence

Sector/Activity	% of Equity/FDI Cap	Entry Route
5.2.6.1 Defence Industry subject to Industrial license under the Industries (Development & Regulation) Act, 1951 and Manufacturing of small arms and ammunition under the Arms Act, 1959	100%	Automatic up to 74% Government route beyond 74% wherever it is likely to result in access to modern technology or for other reasons to be recorded

5.2.6.2 Other Conditions

i. FDI up to 74% under automatic route shall be permitted for companies seeking new industrial licenses.

ii. Infusion of fresh foreign investment up to 49%, in a company not seeking industrial license or which already has Government approval for FDI in Defence, shall require mandatory submission of a declaration with the Ministry of Defence in case change in equity/shareholding pattern or transfer of stake by existing investor to new foreign investor for FDI up to 49%, within 30 days of such change. Proposals for raising FDI beyond 49% from such companies will require Government approval.

iii. Licence applications will be considered by the Department for Promotion of Industry and Internal Trade, Ministry of Commerce & Industry, in consultation with Ministry of Defence and Ministry of External Affairs.

iv. Foreign investment in the sector is subject to security clearance by the Ministry of Home Affairs and as per guidelines of the Ministry of Defence.

v. Investee company should be structured to be self-sufficient in the areas of product design and development. The investee/joint venture company along with the manufacturing facility, should also have maintenance and life cycle support facility of the product being manufactured in India.

vi. Foreign Investments in the Defence Sector shall be subject to scrutiny on grounds of National Security and Government reserves the right to review any foreign investment in the Defence Sector that affects or may affect national security.

3. The above decision will take effect from the date of FEMA notification.

(Manmeet Kaur Nanda)
17 Sept 2020
Joint Secretary to the Government of India

DPIIT File No.: 5(8)/2020-FDI Policy dated 17/09/2020

Copy forwarded to:

1. **Press Information Officer, Press Information Bureau**- for giving wide publicity to the above Press Note.

2. **Joint Secretary, Department of Economic Affairs, North Block, New Delhi**

3. **Reserve Bank of India, Foreign Exchange Department, Mumbai**

For suitably incorporating the policy changes in Foreign Exchange Management (Non-Debt Instruments) Rules, 2019 and the relevant schedules thereof.

4. **NIC Section in the Department for Promotion of Industry and Internal Trade** - for uploading the Press Note on DPIIT's website.

5. **Hindi Section, DPIIT**- for providing Hindi version.