

GOVERNMENT OF INDIA
MINISTRY OF DEFENCE
DEPARTMENT OF DEFENCE PRODUCTION
LOK SABHA
STARRED QUESTION NO.354
TO BE ANSWERED ON THE 9TH DECEMBER, 2016

FDI IN DEFENCE SECTOR

*354. SHRI BHARTRUHARI MAHTAB:
DR. SATYAPAL SINGH:

Will the Minister of DEFENCE जिकक ea=h
be pleased to state:

- (a) whether the Foreign Direct Investment (FDI) in defence Sector has increased in the country during the last three years and the current year and if so, the details thereof, country-wise;
- (b) the mechanism in place to ensure that the security of the Nation is not compromised from such FDI in defence sector;
- (c) whether the Government has received representations / suggestions from various quarters in this regard and if so, the details thereof along with the action taken / being taken by the Government on such representations / suggestions; and
- (d) the other steps taken / being taken by the Government to maintain a fine balance between FDI in defence sector and security of the Nation?

A N S W E R

MINISTER OF DEFENCE
जिकक ea=h

(SHRI MANOHAR PARRIKAR)
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(a) to (d): A Statement is laid on the Table of the House.

STATEMENT REFERRED TO IN REPLY TO PARTS (a) TO (d) OF LOK SABHA STARRED QUESTION NO. 354 FOR ANSWER ON 9.12.2016

(a) 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 2013-14, FDI of US\$ 8.22 lakh has been received from UK. In the year 2014-15, FDI of US\$ 0.77 lakh from France and US\$ of 0.01 lakh from Israel has been received. In the year 2015-16, FDI of US\$ 0.95 lakh has been received from France. In the current year, till September 2016, no FDI inflow has been received.

(b) & (d): 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, 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).

Foreign Investment Promotion Board (FIPB), mandated to recommend approval of the Government in respect of proposals of foreign investment in excess of 49% is an inter ministerial body which inter-alia comprises of representatives of MHA and MoD. FIPB also takes into account security clearance of MHA and views of MoD while considering such proposals of foreign investment.

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 External Security Audit of licensed companies by Intelligence Agencies once in two years and Cyber Security Audit by CERT-IN empanelled Auditors once every year.

The licensable defence items as mentioned in the license, produced by the private manufacturers 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.

(c) 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.
