Union Cabinet approves proposal for review of FDI policy on various sectors

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On August 28th, 2019 the Union Cabinet chaired by the Prime Minister Shri Narendra Modi approved proposal for review of the Foreign Direct Investment ("**FDI**") policy. The proposed changes in the policy will result in easing the FDI rules for various sectors such as coal mining, contract manufacturing, single brand retail trading and media etc. Further, it is expected that the changes in the FDI policy will result in making India a more lucrative investment destination and accelerate the economic development and progress of Indian economy.

In light of the above, some of the proposed changes in the FDI policy are enumerated herein below:

- **Coal Mining:** Presently, the FDI Policy provides 100% (hundred per cent) FDI under automatic route for coal and lignite mining for captive consumption *inter-alia*, by power projects and setting up coal processing plants subject to certain conditions. Now, it has been decided to permit, 100% (hundred per cent) FDI under the automatic route for coal mining activities as well as for sale and export of coal including associated processing infrastructure subject to provisions of Coal Mines (special provisions) Act, 2015 and the Mines and Minerals (development and regulation) Act, 1957 as amended from time to time, and other relevant acts on the subject.

- **Contract Manufacturing:** The present FDI policy does not specify any particular provision for contract manufacturing. It is pertinent to highlight that the new FDI policy seeks to allow 100% (hundred per cent) FDI in contract manufacturing as well. It is further clarified that the manufacturing activities may be conducted either by the investee entity or through contract manufacturing in India under a legally tenable contract, whether on Principal to Principal or Principal to Agent basis.

- **Single Brand Retail Trading**: The Union Cabinet has relaxed FDI in respect to Single Brand Retail Trading ("SBRT"). Under the present FDI policy, FDI of up to 100% (hundred per cent) is permitted under the automatic route in the SBRT sector subject to a condition that 30% (thirty per cent) of the value of goods purchased have to be sourced from India, if the SBRT entity has FDI of more than 51% (fifty one percent). Under the current scenario, for the first 5 (five) years, this local sourcing requirement can be met as an average of the total value of goods purchased during these 5 (five) years. However, the requirement of minimum local sourcing is proposed to be mitigated by removing the current cap for exports for 5 (five) years only. It is further stated by the government that all procurement made from India by the SBRT entity for the single brand shall be counted towards local sourcing, irrespective of whether the goods procured are sold in India or exported. Also, the proposed FDI policy will allow single brand retailers to operate through e-commerce before setting up stores in India, subject to the condition that the SBRT entity opens brick and mortar stores within 2 (two) years from date of start of online retail.

- **Media**: The current FDI policy provides for 49% (forty nine per cent) FDI under approval route in Up-linking of 'News & Current Affairs' TV Channels. The Union Cabinet seeks to permit 26% (twenty six per cent) FDI under government route for uploading/ streaming of News & Current Affairs through Digital Media, on the lines of print media.

The aim behind the said amendments is to liberalize and simplify the FDI policy to further promote the goal of ease of doing business in India and shall lead to larger FDI inflows and thereby contributing to growth of investment, income and employment in the country.

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