

CABINET APPROVES THE FOREIGN DIRECT INVESTMENT POLICY ON CIVIL AVIATION

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Cabinet

Cabinet approves the Foreign Direct Investment policy on Civil Aviation

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To permit foreign investment upto 100% by those NRIs, who are Indian Nationals, in case of M/s Air India Ltd., the Union Cabinet, chaired by the Prime Minister, Shri Narendra Modi has approved to amend the extant FDI Policy to permit Foreign Investment (s) in M/s Air India Ltd by NRIs, who are Indian Nationals, upto to 100% under automatic route.

As per the present FDI Policy, 100% FDI is permitted in scheduled Air Transport Service/Domestic Scheduled Passenger Airline (Automatic upto 49% and Government route beyond 49%). However, for NRIs 100% FDI is permitted under automatic route in Scheduled Air Transport Service/Domestic Scheduled Passenger Airline. Further, FDI is subject to the condition that Substantial Ownership & Effective Control (SOEC) shall be vested in Indian Nationals as per aircraft rules, 1937. However, for M/s Air India Ltd., as per the present policy, foreign investment(s) in M/s Air India Ltd. Including that of foreign Airline(s) shall not exceed 49%, either directly or indirectly, subject to the condition that substantial ownership and effective control of M/s Air India Ltd. shall continue to be vested in Indian Nationals. Therefore, although 100% FDI is permitted under automatic route for NRIs in Scheduled Air Transport Service/Domestic Scheduled Passenger Airline, it is restricted to be only 49% in case of M/s Air India.

Benefits:

In light of the proposed strategic disinvestment of 100% of M/s Air India Ltd. by the Government of India, M/s Air India Ltd. will have no residual Government ownership and will be completely privately owned, it has been decided that foreign investment in M/s Air India Ltd be brought on a level playing field with other scheduled airline operators. The amendment in FDI policy will permit foreign investment in M/s Air India Ltd at par with other Scheduled Airline Operators i.e. upto 100% in M/s Air India Ltd by those NRIs, who are Indian Nationals. The proposed changes in FDI Policy will enable foreign investment by NRIs into M/s Air India Ltd. upto 100%, under automatic route.

Above amendment to the FDI Policy are meant to liberalise and simplify the FDI policy to provide ease of doing business in the country. Leading to largest FDI inflows and thereby contributing to growth of investment, income and employment.

Background:

FDI is a major driver of economic growth and a source of non-debt finance for the economic development of the country. The FDI policy is reviewed on an ongoing basis, with a view to attract larger volumes of foreign investment inflows into the country. Government has put in place an investor friendly policy on FDI, under which FDI up to 100% is permitted on the automatic route in most sectors/activities.

FDI policy provisions have been progressively liberalized across various sectors in the recent past to make India an attractive investment destination. Some of the sectors include Defence, Construction Development, Trading, Pharmaceuticals, Power Exchanges, Insurance, Pension, Other Financial Services, Asset Reconstruction Companies, Broadcasting, Single Brand Retail Trading, Coal Mining, Digital Media etc.

These reforms have contributed to India attracting record FDI inflows in the recent past. FDI inflows in India stood at US \$ 45.15 billion in 2014-15 and have consistently increased since then. FDI inflows increased to US \$ 55.56 billion in 2015-16, US \$ 60.22 billion in 2016-17, US \$ 60.97 billion in 2017-18 and the country registered its highest ever FDI inflow of US \$ 62.00 billion (provisional figure) during the last Financial Year 2018-19. Total FDI inflows in the last 19 1/2 years (April 2000- September 2019) are US \$ 642 billion while the total FDI inflows received in the last 5 1/2 years (April 2014- September 2019) are US \$ 319 billion which amounts to nearly 50 % of total FDI inflow in last 19 1/2 years.

Global FDI inflows have been facing headwinds for the last few years. As per UNCTAD's World Investment Report 2019, Global Foreign Direct Investment (FDI) flows slid by 13% in 2018 to US \$1.3 trillion in the previous year, that is the third consecutive annual decline. Despite the dim global picture, India continues to remain a preferred and attractive destination for Global FDI flows. However, it is felt that the country has the potential to attract far more Foreign Investment which can be achieved, inter-alia, by further liberalizing and simplifying the FDI policy regime.

VRRK/AK

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