



## LATEST STATUTORY SNAPSHOT

SATURDAY, 7<sup>th</sup> DECEMBER 2019



### FOREIGN DIRECT INVESTMENT PERMITTED FOR CONTRACT MANUFACTURING THROUGH AUTOMATIC ROUTE

Vide our Latest Statutory Snapshot titled ***“Foreign Direct Investment in Contract Manufacturing continues to be under Approval Route”*** dated 02<sup>nd</sup> December, 2019 (Volume 10; Issue 10) we had stated that despite Press Note 4 (2019 Series) dated 18<sup>th</sup> September, 2019 providing for inclusion of contract manufacturing under automatic route for Foreign Direct Investment (FDI), the Foreign Exchange Management (Non-Debt Instrument) Rules, 2019 (the Rules) which came into effect from 17<sup>th</sup> October, 2019 did not provide for the same.

However, vide Notification dated 05<sup>th</sup> December, 2019, the Ministry of Finance (Department of Economic Affairs) has amended the Rules vide Foreign Exchange Management (Non-Debt Instrument) (Amendment) Rules, 2019 inter alia inserted an explanation as to what constitutes manufacturing activity under Sl.No.5.1 (Manufacturing) of Schedule-I to the Rules as under:

**“Manufacturing activities may be either self-manufacturing by the investee entity or contract manufacturing in India through a legally tenable contract, whether on Principal to Principal or Principal to Agent basis.** Further, a manufacturer is permitted to sell his products

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manufactured in India through wholesale and/or retail, including through e-commerce, without Government approval.” (emphasis supplied)

Thus, with the aforesaid amendment the earlier anomaly of the Rules not including the contents of Press Note 4 (2019 Series) which recommended inter alia the inclusion of contract manufacturing under FDI has been set right. Hence, FDI is now permissible for contract manufacturing in India evidenced by a legally tenable contract on principal to principal basis or principal to agent basis.

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