

India plans to impose comprehensive curb on foreign direct investment in tobacco sector

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NEW DELHI: India plans to impose comprehensive restriction on foreign direct investment (FDI) in the tobacco sector by extending the present ban to tie-ups on franchise, trademark, brand name and management contract to prevent piggyback entry and smuggling of foreign brands.

At present, FDI is prohibited in manufacturing of cigars, cheroots, cigarillos and cigarettes of tobacco or of tobacco substitutes. However, foreign technology collaboration is allowed for licensing for franchise, trademark, brand name and management contract.

That provides a backdoor

to foreign firms for infusing FDI in a company owning a brand trademark. And thereafter, it could enter into a brand or trademark agreement with an Indian company engaged in the manufacturing of cigarettes.

This arrangement implies that while the company infusing FDI is not directly engaged in cigarette manufacturing, but its brand trademark agreement could be used for manufacturing its cigarettes, which is against the intent of the present policy. This arrangement also promotes smuggling from Nepal and Myanmar.

In 2016, the Department of Industrial Policy & Promotion (DIPP) proposed a similar ban, but it could not be imple-

mented due to concerns raised by tobacco farmers' associations and some companies.

Except NITI Aayog, the proposal was supported by other consulted departments such as Economic Affairs, Commerce and Health.

FDI in manufacturing of tobacco products was banned in 2010 after being allowed 100 percent only through the Foreign Investment Promotion Board route in 1998. A review of the FDI policy in 2006 allowed other activities requiring industrial license on the automatic route but cigarette manufacture was kept through FIPB.

Sources said the proposed restriction on foreign invest-

ment in technology tie ups is expected to address the larger health concerns by reducing the marketing and visibility of cigarette and tobacco products, thereby making policy more accountable to public concerns.

It borrows from the present rule on Lottery Business, Gambling and Betting activities where foreign technology collaboration in any form including licensing for franchise, trademark, brand name, management contract is prohibited.

With India signing the Framework Convention on Tobacco Control, the rules are being amended to take effective measures for protecting citizens from involuntary exposure to tobacco smoke, sources said.