DPIIT Working on Proposal to Further Tighten FDI Norms in Tobacco Sector

Press Trust of India

New Delhi: The Commerce and Industry Ministry is working on a proposal to further tighten the foreign direct investment norms in the tobacco sector to check promotional activities and curb smuggling in the segment as firms are trying to circumvent norms, an official said.

At present, foreign direct investment (FDI) is prohibited in the manufacturing of cigars, cheroots, cigarillos and cigarettes of tobacco or its substitutes.

However, it is permitted in technology collaboration in any form, including licensing for franchise, trademark, brand name and management contracts in the tobacco sector.

"FDI in tobacco is prohibited, and there is a need to control the sectors' promotional activities also. By doing promotion of those products, some companies try to create a system where smuggling increases," the official said.

The Department for Promotion of Industry and Internal Trade (DPIIT) has circulated a draft note seeking the views of different ministries on the issue.

The official added that promotional activities include proxy advertising, brand promotion through various ways, and creating brand awareness.

"We are saying that FDI in the tobacco sector is prohibited, and its

promotional activities should also be prohibited as the companies are trying to circumvent norms," the official added.

The ministry, in 2016, had also floated a proposal to put a complete ban on FDI in the tobacco segment. Under the proposal, the ministry had proposed to ban FDI in licensing for franchisee, trademark, brand name and management contracts in the sector.

However, the government could not take any decision on the matter due to concerns raised in certain quarters, including tobacco farmers' associations and some companies.

The domestic tobacco industry is mainly dominated by ITC Ltd.

The FDI matters in the tobacco sector also assumed importance as India is a signatory to the World Health Organization's (WHO) Framework Convention on Tobacco Control, under which the country has the responsibility of reducing the consumption of tobacco products.

FDI equity inflows in India declined 3.49% to $44.42 billion in 2023-24 due to lower infusion in sectors like services, computer hardware and software, telecom, auto and pharma, according to the government data. FDI inflows stood at $46.03 billion during 2022-23.

The total FDI -- which includes equity inflows, reinvested earnings and other capital -- declined marginally by 1% to $70.95 billion during 2023-24 from $71.35 billion in 2022-23, data from the Department for Promotion of Industry and Internal Trade (DPIIT) showed.