



Foreign Direct Investment in space sector

Point of View

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Background



Till now, the Indian Space Research Organisation (ISRO) had been spearheading the Indian space sector and the private sector involvement in space sector was primarily through the supply chain of ISRO.

With the introduction of 'Indian Space Policy-2023' in April last year, the Government of India indicated its intention of enhanced private participation in the sector. It re-defined the role and responsibilities of several players in the sector, with ISRO's focus defined to research and development, and setting up of In-Space, to promote and authorise space activities in India.

Till date, In-Space has already approved more than 250 applications for space projects (including applications from private sector participants)¹.

In a recent press release by the Ministry of Commerce and Industry, the applicable limit on Foreign Direct Investment (FDI) in the space sector was reviewed. Under the revised policy, the Union Cabinet has proposed to ease the FDI policy on space sector by prescribing liberalised FDI thresholds for various activities in this domain. The salient features of the draft policy reforms have been discussed below.

Extant FDI policy governing the space sector in India



As per the extant FDI Policy, FDI up to 100 per cent is permitted for satellites establishment and operation under the government route. Further, the said FDI limit was subject to the sectoral guidelines as issued by the Department of Space (DoS)/ ISRO.

Further, the erstwhile sectoral guidelines expressly stated that only Indian registered companies may be allowed to establish and operate an Indian Satellite System. The FDI in such a company shall not exceed 74 per cent.

Accordingly, the satellite establishment and operation was permitted only under the government route. Further, for any other activity, no additional guidelines were present.

1. In-Space NGE Dashboard, In-Space, Mar 2024

Proposed FDI reforms



According to a recent government press release², the satellite sub-sector has now been divided into three different activities with defined limits for foreign investment in each such sector:

S No.	Particulars	Under automatic route	Under Government approval Route
1.	Satellites manufacturing and operation, satellite data products, and ground and user segments	Up to 74 per cent	Beyond 74 per cent and up to 100 per cent
2.	Launch vehicles and associated systems or subsystems, creation of spaceports for launching and receiving spacecraft	Up to 49 per cent	Beyond 49 per cent and up to 100 per cent
3.	Manufacturing of components and systems/sub-systems for satellites, ground and user segments	Up to 100 per cent	--

Amendment in the FDI policy for space sector



The relaxation of the FDI threshold is a positive move in the space sector. However, for the detailed rules and regulations, the private industry would have to wait for the inclusion of the proposed reform in the detailed FDI policy.

Considering the fact that liberalising the space sector may impact national security, accordingly, the fine print of the policy may involve comments on the following:

- Currently, government authorisation is required to own and operate an Indian registered satellite system (including the spacecraft control center). The approval requirements may also be pruned down in line with the proposed FDI reforms

- The proposed FDI reforms, currently do not specify the ownership/control requirements of the Indian entities that are allowed to file the application with the authorities. One can expect certain additional restrictions in this regard to ensure compliance with the proposed FDI norms (*via direct as well as indirect foreign investment*).

2. Cabinet approves amendment in the Foreign Direct Investment (FDI) policy on Space Sector, PIB Delhi, Feb 2024

Proposed impact on private participation



- India became the first country to land near the moon's South Pole, and the fourth country to soft land on the moon. With India's successful involvement in various space missions and the planned human space flight mission to the moon ('Gaganyaan'), the Indian space sector has grabbed the attention of its own government and has put India's capabilities in space technology in the global spotlight
- The Indian government intends to make the policy landscape more conducive to private participation while keeping the national security at the centerstage
- With the introduction of the new space policy in 2023 and space funding in the recent interim budget of INR13,043 crore (~USD1.57 Bn), the government is attempting to take the Indian space sector to its inflection point
- Relaxation of FDI norms and laying the groundwork for foreign participation is a positive move and is expected to make the sector, more attractive in the eyes of the foreign investors. Especially permitting 100 per cent FDI under the automatic route for manufacturing of components and systems/sub-systems for satellites. The liberal FDI limits should boost the confidence of space industry players, including the global players in the space and satellite domain
- The easing of FDI norms will enable Indian space startups working on capital-intensive space products access to the global pool of capital which in turn, will help them to expand manufacturing and production capacity
- The industry now awaits the detailed FDI policy and fine print of the specific space policies (*relating to space transportation/satellite navigation/remote sensing etc.*) by the government.

All figures have been converted to USD using the exchange rate of USD 1 = INR 83 as in February 2024

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