The New Industrial Policy
A Statement by Finance Minister Manmohan Singh


The Government has decided to take a series of measures to unshackle the Indian industrial economy from the cobwebs of unnecessary bureaucratic control. These measures complements the other series of measures being taken by Government in the areas of trade policy, exchange rate management, fiscal policy, financial sector reform and overall macroeconomic management.

A. Industrial Licensing Policy

i) Industrial Licensing will be abolished for all projects except for a short list of industries related to security and strategic concerns, social reasons, hazardous chemicals and overriding environmental reasons, and items of elitist consumption. Industries reserved for the small scale sector will continue to be so reserved.
ii) Areas where security and strategic concerns predominate, will continue to be reserved for the public sector.

iii) In projects where imported capital goods are required automatic clearance will be given.

   a) in cases where foreign exchange availability is ensured through foreign equity.

   b) if the CIF value of imported capital goods required is less than 25% of total value (net of taxes) of plant and equipment, up to a maximum value of Rs.2 Crore. In view of the current difficult foreign exchange situation, this scheme (i.e.(iii)b) will come into force from April 1992.

   In other cases, imports of capital goods will require clearance from the Secretariat Of Industrial Approvals (SIA) in the Department of Industrial Development according to availability of foreign exchange resources.

iv) In location other than cities of more than 1 million population, there will be no requirement of obtaining industrial approvals the Central Government except for industrial subject to compulsory licensing. In respect of cities with population greater than 1 million, industries other than those of a non-polluting nature such as electronics, computer software and printing will be located outside 25 Kms. of the periphery, except in prior designated industrial areas.

   A flexible location policy would be adopted in respect of such cities (with population greater than 1 million) which require in industrial re-generation.
Zoning and Land Use Regulation and Environmental Legislation will continue to regulate industrial locations.

Appropriate incentives and the design of investments in infrastructure development will be used to promote the dispersal of industry particularly to rural and backward areas and to reduce congestion in cities.

v) The system of phased manufacturing programs run on an administrative case by case basis will not be applicable to new projects. Existing projects with such programs will continue to be governed by them.

vi) Existing units will be provided a new broad banding facility to enable them to produce any article without additional investment.

vii) The exemption from licensing will apply to all substantial expansions of existing units.

viii) The mandatory convertibility clause will no longer be applicable for term loans from the financial institutions for new projects.

**Procedural consequences**

ix) All existing registration schemes (Delicensed Registration, Exempted Industries Registration, DGTD registration) will be abolished.

x) Entrepreneurs will henceforth only be required to file an information memorandum on new projects and substantial expansions.
B. Foreign Investment

i) Approval will be given for direct foreign investment upto 51 percent foreign equity in high priority industries. There shall be no bottlenecks of any kind in this process. Such clearance will be available if foreign equity covers the foreign exchange requirement for imported capital goods. Consequential amendments to the Foreign Exchange Regulation Act (1973) shall be carried out.

ii) While the report of components, raw material and intermediate goods, and payment of knowhow fees and royalties will be governed by the general policy applicable to other domestic units, the payment of dividends would be monitored through the Reserve Bank of India so as to ensure that outflows on account of dividend payments are by export earnings over a period of time.

iii) Other foreign equity proposals, including proposals involving 51% foreign equity which do not meet the criteria (i) above, will continue to need prior clearance. Foreign equity proposals need not necessarily be accompanied by foreign technology agreements.

iv) To provide access to international markets, majority foreign equity holding up to 51% equity will be allowed for trading companies primarily engaged in export activities. While the thrust would be on export activities, such trading houses shall be at par with domestic trading and export houses in accordance with the Import-Export Policy.

v) A Special Empowered Board would be constituted to negotiate with a number of large international firms and approve
direct foreign investment in select areas. This would be a special programs to attract substantial investment that would provided access to high technology and world markets. The investment programs of such firms would be considered in totality, free from pre-determined parameters or procedures.

C. Foreign Technology Agreements

i) Automatic permission will be given for foreign technology agreement in high priority industries upto a lumpsum payment of Rs. 1 crore, 5% royalty for domestic sales and 8% for exports, subject to total payments of 8% of sales over a 10 years period from date of agreement of 7 years from commencement of production.

   The prescribed royalty rates are net of taxes and will be calculated according to standard procedures.

ii) In respect of industries other than those in Annex III, automatic permission will be given subject to the same guidelines as above if no free foreign exchange is required for any payments.

iii) All other proposals will need specific approval under the general procedures in force.

iv) No permission will be necessary for hiring of foreign technicians, foreign testing of indigenously developed technologies. Payment may be made from blanket permits or free foreign exchange according to RBI guidelines.
D. Public Sector

i) Portfolio of public sector investments will be reviewed with a view to focus the public sector on strategic, high-tech and essential infrastructure. Whereas some reservation for the public sector is being retained there would be no bar for areas of exclusivity to be opened up to the private sector selectively. Similarly the public sector will also be allowed entry in areas not reserved for it.

ii) Public enterprises which are chronically sick and which are unlikely to be turned around will, for the formulation of revival rehabilitation schemes, be referred to the Board for Industrial and Financial Reconstruction (BIFR), or other similar high level institutions created for the purpose. A social security mechanism will be created to protect the interests of workers likely to be affected by such rehabilitation packages.

iii) In order to raise resources and encourage wider public participation, a part of the government's shareholding in the public sector would be offered to mutual funds, financial institution, general public and workers.

iv) Boards of public sector companies would be made more professional and given greater powers.

v) There will be a greater thrust on performance improvement through the Memorandum of Understanding (MOU) system through which managements would be granted greater autonomy and will be held accountable. Technical expertise on the part of the government would be upgraded to make the MOU negotiations and implementation more effective.
vi) To facilitate a fuller discussion on performance, the MOU signed between Government and the public enterprise would be placed in Parliament. While focusing on major management issues, this would also help place matters on day to day operations of public enterprises in their correct perspective.

E. MRTP Act

i) The MRTP Act will be amended to remove the threshold limits of assets in respect of MRTP companies and dominant undertakings. This eliminates the requirement of prior approval of Central Government for establishment of new undertakings, merger, amalgamation and takeover and appointment of Directors under certain circumstances.

ii) Emphasis will be placed on controlling and regulating monopolistic, restrictive and unfair trade practices. Simultaneously, the newly empowered MRTP Commission will be authorized to monopolistic, restrictive and unfair trade practices.

iii) Necessary comprehensive amendments will be made in the MRTP Act in this regard and for enabling the MRTP commission to exercise punitive and compensatory powers.

INDUSTRIES TO BE RESERVED FOR THE PUBLIC SECTOR

1. Arms and ammunition and allied items of defense equipment, Defense aircraft and warship.

2. Atomic energy.

3. Coal and lignite.

5. Mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond.

6. Mining of copper lead, zinc, tin, molybdenum and wolfram.


8. Railway transport.

LISTS OF INDUSTRIES IN RESPECT OF WHICH INDUSTRIAL LICENSING WILL BE COMPULSORY

1. Coal and Lignite.

2. Petroleum (other than crude) and its distillation products.

3. Distillation and brewing of alcoholic drinks.

4. Sugar.

5. Animal fats and oils.

6. Cigars and cigarettes of tobacco and manufactured tobacco substitutes.


8. Plywood, decorative veneers, and other wood-based products such as particle board, medium density fibre board, block board.

9. Raw hides and skins, leather, chamois leather and patent leather.

10. Tanned or dressed furskins.

11. Motor cars.
12. Paper and Newsprint except bagasse-based units.

13. Electronic aerospace and defense equipment; All types.

14. Industrial explosives, including detonating fuse, safety fuse, gun power, nitrocellulose and matches.

15. Hazardous chemicals.

16. Drugs and Pharmaceuticals (according to Drug policy).

17. Entertainment electronics (VCRs, Color TVs, C.D. players, Tape Recorders).


Note: The compulsory licensing provisions would not apply in respect of the small-scale units taking up the manufacture of any of the above items reserved for exclusive manufacture in small-scale sector.

LIST OF INDUSTRIES FOR AUTOMATIC APPROVAL OF FOREIGN TECHNOLOGY AGREEMENTS AND FOR 51% FOREIGN EQUITY APPROVALS

1. Metallurgical Industries.

(i) Ferro alloys.

(ii) Castings and forgings.
(iii) Non-ferrous metals and their alloys.

(iv) Sponge iron and pelletisation.

(v) Large diameter steel welded pipes of over 300 mm diameter and stainless steel pipes.

(vi) Pig iron.

2. Boilers and Steam Generating Plants.

3. Prime Movers(other than electrical generators).

(i) Industrial turbines.

(ii) Internal combustion engines.

(iii) Alternal energy system like solar wind etc, and equipment there for.

(iv) Gas/hydro steam turbines upto 60 MW

4. Electrical Equipment

(i) Equipment for transmission and distribution of electricity including power and distribution transformers, power relays, HT-switch gear synchronous condensers.

(ii) Electrical motors.

(iii) Electrical furnaces, industrial furnaces and induction heating equipment.
(iv) X-ray equipment.

(v) Electronic equipment, components including subscribers' and telecommunication equipments.

(vi) Component wires for manufacture of lead-in wires.

(vii) Hydro-steam gas generators generating sets upto 60 MW.

(viii) Generating sets and pumping sets based on internal combustion engines.

(ix) Jelly-filled telecommunication cables.

(x) Optic fiber.

(xi) Energy efficient lamps.

(xii) Midget carbon electrodes.

5. Transportation

(i) Mechanized sailing vessels upto 10,000 DWT including fishing trawlers.

(ii) Ship ancillaries.

(iii) (a) Commercial vehicles, public transport vehicles including automotive commercial three wheeler jeep type vehicles, industrial locomotives

(b) Automotive two wheelers and three wheelers.
(c) Automotive components spare and ancillaries.

(iv) Shock absorbers for railway equipment.

(v) brake system for railway stock and locomotives.

6. Industrial Machinery

(i) Industrial machinery and equipment.

7. (i) Machine tools and industrial robots and their controls and accessories.

(ii) Jigs, fixtures, tools and dies of specialized type and cross land tooling.

(iii) Engineering production aids such as cutting and forming tools, patterns and dies and tools.

8. Agricultural Machinery

(i) Tractors.

(ii) Self-propelled Harvester Combines.

(iii) Rice transplanters.

9. Earth Moving machinery

(i) Earth moving machinery and construction machinery and components thereof.
10. Industrial Instruments

(i) Indicating, recording and regulating devices for pressure, temperature, rate of flow, weights levels and the like.

11. Scientific and Electromedical Instruments and Laboratory Equipment.

12. Nitrogenous & Phosphatics Fertilizers falling under

(1) Inorganic fertilizers under '18-Fertilizers' in the first Schedule to IDR Act, 1951.

13. Chemicals (other than fertilizers).

(i) Heavy organic chemicals including petrochemicals.
(ii) Heavy inorganic chemicals.
(iii) Organic fine chemicals.
(iv) Synthetic resins and plastics.
(v) Manmade fibers.
(vi) Synthetic rubber.
(vii) Industrial explosives.
(viii) Technical grade insecticides, fungicides, weedicides and the like.
(ix) Synthetic detergents.
(x) Miscellaneous chemicals (for industrial use only).
   (a) Catalysis and Catalyst supports.
   (b) Photographic chemicals.
   (d) Polyols.
   (e) Isocyanates, urethanes, etc.
   (f) Speciality chemicals for enhanced oil recover.
   (g) Heating fluids.
   (h) Coal tar distillation and products therefrom.
(i) Tonnage plants for the manufacture of industrial gases.
(j) High altitude breathing oxygen medical oxygen.
(k) Nitrous oxide.
(l) Refrigerant gases like liquid nitrogen, carbon dioxide etc. in large volumes.
(m) Argon and other rare gases.
(n) Alkali acid resisting cement compound.
(o) Leather chemicals and auxiliaries.

(14) Drugs and Pharmaceuticals.
According to Drug Policy.

(15) (i) Paper and pulp including paper products.
(ii) Industrial laminates.

(16) (i) Automobile tires and tubes.
(ii) Rubberized heavy duty industrial beltings of all types.
(iii) Rubberized conveyor beltings.
(iv) Rubber reinforced and lined fire fighting hose pipes.
(v) High pressure braided hoses.
(vi) Engineering and industrial plastic products.

(17) Plate Glass.
(i) Glass shells for television tubes.
(ii) Float glass and plate glass.
(iii) H.T.insulators.
(iv) Glass fibers of all types.
(18) Ceramics.
   (i) Ceramics for industrial uses.

(19) Cement Products.
   (i) Portland cement.
   (ii) Gypsum boards, wall boards and the like.

(20) High Technology Reproduction and Multiplication Equipment.

(21) Carbon and Carbon products.
   (i) Graphite electrodes and anodes.
   (ii) Impervious graphite blocks and sheets.

(22) Pretensioned High Pressure RCC Pipes.

(23) Rubber Machinery.

(24) Printing Machinery.
   (i) Web-fed high speed off-set rotary printing machine having output of 30,000 or more impressions per hour.
   (ii) Photo composing type setting machines.
   (iii) Multi-color sheet-fed off-set printing machines of sizes of 18"x25" and above.
   (iv) High speed rotograture printing machines having output of 30,000 or more impressions per hour.

25. Welding Electrodes other than those for Welding mild Steel.

26. Industrial Synthetic Diamonds.
27. (i) Photosynthesis improvers.
   (ii) Genetically modified free living symbiotics nitrogen fixer.
   (iii) Pheromones.
   (iv) Bio- insecticides.


29. Per-fabricated Building Material.

30. Soya Products.
   (i) Soya texture proteins.
   (ii) Soya protein concentrates.
   (iii) Other specialized products of soyabean.
   (iv) Winterized and deodorized refined soyabean oil.

31. (a) Certified high yielding hybrid seeds and synthetic seed.
     (b) Certified high yielding plantlets developed through plant tissue culture.

32. All food processing industries other than milk foods, and flour, but excluding the items reserved for small-scale sector.

33. All items of packaging for food processing industries excluding the items reserved for small-scale sector.

34. Hotel and tourism-related industry.