

FinMin examining DIPP's proposal for curbs on royalty payments

The [Finance Ministry](#) is examining a proposal of the Department of Industrial Policy and Promotion ([DIPP](#)) to re-introduce restrictions on royalty payments by Indian arms of foreign companies.

"This matter is under examination," Department of Economic Affairs Secretary [Arvind Mayaram](#) told PTI, when asked whether the Ministry favours restrictions on royalty payments.

Worried over excessive outflow of foreign exchange as royalty and fees for technology transfer and use of brand names, Commerce and Industry Minister [Anand Sharma](#) wrote to Finance Minister P Chidambaram on the matter.

Sharma had last month said the excessive outgo of precious foreign exchange needs to be checked.

"We are not saying that royalty will not go but we are looking at this issue as to how to address the sudden outgo of these funds. This needs a little bit of tampering," he had said.

The increase in outflow of these payments started after the government liberalised the [FDI](#) policy in 2009. It had removed the cap and permitted Indian companies to pay royalty to their technical collaborators without seeking prior government approval.

The outflows on account of royalty and fee for technical services, taken together, accounted for 16-33% of the foreign direct investment (FDI) inflows between 2009-10 and 2012-13. In the last fiscal, India had attracted FDI worth \$22.42 billion.

Royalty is paid to a foreign collaborator for transfer of technology or the usage of brand.

In his letter to Chidambaram, Sharma had said that given the current economic situation and a high quantum of outflows, there was a need to take a view on whether the ceiling on royalty payments and fee for technical services should be re-introduced in the FDI policy to prevent possible misuse of this window.

FDI, which is essential to bridge the widening [CAD](#), declined by about 15% to \$12.6 billion (Rs 74,971 crore) during the April-October period in the current fiscal.

(Business Standard)