

TELECOM NEWSFLASH

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Recommendations of the Group of Ministers (“GoM”) of the Republic of India to the Union Cabinet with respect to the Telecom Sector

The GoM on Telecom has made some '*key recommendations*' to the Union Cabinet, which may be of vital importance to the further growth and development of the Telecom Sector in India. Please note that these suggested policy changes are merely "*recommendations*" of the GoM to the Union Cabinet and will come into force, if and when the Union Cabinet approves these *recommendations*.

These *recommendations* are as follows:

- (1) Hike of the foreign investment limit in telecom services companies from the existing 49% to 74%

This recommendation contemplates an increase in foreign investment limit, (to the extent of 25%) only by means of an investment by foreign institutional investors (*FII*). However, the existing cap of 49% on foreign direct investment in telecom services companies will continue. The earlier condition that the management of the telecom services companies should lie with resident Indians shall continue.

The reason for this proposed increase in the foreign investment given by the GoM is that telecom sector requires huge investments (*estimates put it at USD 1,000,000 million*) to meet the growing demand. As the domestic markets do not have this kind of money and since raising money in the domestic market is much costlier, all telecom operators have sought such increase in foreign investment.

- (2) Permitting Intra-Circle Mergers of service providers

Some of the conditions attached for such intra-circle mergers are as follows:

- (a) Number of service providers in any circle will not fall below 3;
- (b) The resulting entity will be allocated spectrum only *as per user base*;
- (c) Rural telephony obligations will get transferred to the resulting entity. On the nature of the rural telephony targets, it has been proposed that the Ministry of Finance and the Department of Telecommunications shall prepare a note for the Government of India on whether the current ceiling of 5% of revenue going towards the Universal Service Obligation Fund should be increased.

(3) To replace existing licenses with nationwide unified licenses.

Reports indicate that while the GoM has agreed in principle to a unified licensing regime, the GoM has requested the Telecom Regulatory Authority of India to make a detailed presentation on the unified licensing regime to the GoM on October 4, 2003.

If you wish to contact the A.R.A. LAW Telecom Group with any queries /further information, please do get in touch us. The contact details of the A.R.A. LAW Telecom Group are listed below.

Dated 26 September 2003

The Telecom Group

If you have any questions regarding the *proposed recommendations*, please feel free to contact us or any member of our Telecom Group:

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