OPEN BOOK EXAMINATION **NEW SYLLABUS**

345

Roll No…………………

Time allowed : 3 hours *Maximum marks : 100*

Total number of questions : 6 *Total number of printed pages : 7*

***NOTE** : Answer **ALL** Questions.*

1. "Telecom Industry in India"

The telecommunication industry in India was one of the most swiftly growing sectors in the world with stupendous growth over the last decade. It was regarded as the third largest in the world and the second largest among the emerging economies of Asia. Besides the public sector, the private segment had made significant contribution that had turned the industry into one of the key contributors to the Indian success story. It had an impressive growth trajectory, adding nearly 9 million subscribers per month, bringing the mobile subscriber base to over 903 million by January, 2012. BCG, in January, 2011, indicated that the Indian telecom market would surpass the US $100 billion mark by 2015. This report contradicted the prevalent common belief that growth in the telecom sector had reached a saturation point.

In 1994, when mobile phones were introduced in India, the country was divided into 23 circles and licences were issued as per these circles. The circles were classified into four categories — Metros, A, B and C - on the basis of revenue potential; Metro and A circles were expected to have the highest potential. The telecom market in India was highly competitive compared to other countries, and there were over 11 operators in each circle, which was unheard of anywhere else in the world. Different players included Airtel, Reliance, Vodafone (earlier Hutch), Idea, Tata, state-owned BSNL and many more. All dominant players offered GSM technology, while Reliance and Tata also offered CDMA technology space. Overall, GSM had a total share of 88% of subscriber base. There were a few new players such as Aircel, Unitech-Telenor, Etisalat DB and Shyam-Sistema, which had obtained licence and spectrum to launch mobile services. Among these new players, Shyam-Sistema had been planning to launch mobiles with CDMA services, while the others were in the beneficial GSM space.

Some of the key factors that were expected to fuel the growth of the sector included increased access to services owing to the launch of new telecom technologies such as 3G and broadband wireless access (BWA), changing preferences of the consumers, emerging technologies such as cloud computing and supportive government policies. An important characteristic of the telecom industry in India was its relatively high penetration level in urban areas as compared to that in rural areas. In order to capitalise on the growing disposable income levels of the rural population, the mobile operators had started to explore and expand into uncovered areas. Adopting telecommunication as a means of social change in sectors such as health care, banking and education in rural areas, enabled mobile services such as m-Health, m-Commerce and m-Learning respectively, to be major enablers of economic growth and social modernisation in India.

About the TELENOR

Headquartered in Fornebu, Norway, Telenor is a telecommunication company with operations in 11 countries and over 146 million mobile subscribers. Started in 1855 in telegraphs, the company had evolved to the present status of housing 30,000 employees with revenues reaching NOK 98.5 billion (US $16.5 billion) for the year 2011.

Telenor used a dual strategy in its global expansion. In countries such as Denmark, Hungary, Montenegro, Norway, Pakistan, Serbia and Sweden, Telenor provided communication services by establishing its own subsidiaries, either through acquisitions or mergers. However, in many Asian economies, it chose to enter into joint ventures with the local partners. Initiating this odyssey, Telenor created a joint venture with DiGi in 1995 with 49% of stake in Digi Telecommunications. Headquartered in Malaysia, DiGi was one of the forerunners in the provision of innovative telecommunication service there. In 2001, Telenor partnered with CAT Telecom Public Company Ltd. formerly known as the Communications Authority of Thailand, to create DTAC, under a 27-year "Build-Operate-Transfer" concession granted by CAT. Grameenphone, one of the biggest teleservice providers in Bangladesh, was once again a joint venture between Telenor and Grameen Telecom Corporation of Bangladesh. **In India, Telenor entered into a joint venture with Unitech Wireless in 2008 to form Uninor.**

Apart from telecommunication services, Telenor also was one of the foremost service providers of television and broadcasting services to both households and enterprises in the Nordic region. The Telenor Group of Business also had its own subsidiaries and joint ventures to develop Telenor's core business and few of these had been seen as pure financial investments.

The Telenor Group was also associated with many other companies such as VimpelCom Ltd. of the Netherlands, C More Entertainment of Sweden, A-pressen of Norway, Evry of Oslo and Kjedehuset of Norway. Telenor had a significant influence on the financial and operational decisions of these companies but did not have control over their policies. Telenor's joint venture with Unitech Wireless Ltd. had resulted in the formation of Uninor Telecommunications Ltd.

The Supreme Court of India cancelled the 2G (Second Generation) Mobile Licences issued in 2008 to numerous companies. **Uninor was the telecom company most affected when the 2G scam surfaced.** A total of 22 licences that had been issued to Uninor were cancelled.

Other Players with Foreign Investments

(a) MTS India

Formerly known as Sistema Shyam TeleServices Limited (SSTL), MTS India was a joint venture between the Shyam Group of India and Sistema of Russia. Sistema was incorporated in Russia in 1993 and had emerged as one of that country's Top 10 companies in terms of revenue. Its line of business included various sectors such as construction, electronics, oil refining, real estate, telecommunication, tourism and trade. Initially, in 2007, Sistema acquired 10% shares of SSTL, but finally, Sistema became the majority shareholder in this joint venture with a 74% equity stake; while the Shyam Group owned a 23.5% minority stake and the remaining 2.5% was public partake.

(b) Etisalat-DB

Headquartered in Abu Dhabi, United Arab Emirates, Etisalat partnered with two Indian entities, Dynamic Balwa (DB) Reality Ltd. and Reliance Communications Ltd., to venture into the Indian telecommunication sector. DB Reality was incorporated in 2007 and had built a strong reputation in quality residential, commercial and gate community projects. Reliance Communications was one of the businesses of the Reliance Group headed by Anil Ambani and an offset of the group founded by Dhirubhai Ambani.

Etisalat-DB was one of the latest entrants in the burgeoning Indian telecom industry. The company was given 2G licences to operate in 15 circles, but all were later cancelled by the Supreme Court of India. Etisalat was in talks with Reliance Communications to buy a 25% stake in the company; however, the deal was not finalised.

(c) IDEA Cellular

Another company headquartered in Mumbai, IDEA cellular, was initially an amalgamation of three business groups — Birlas, Tatas and AT&T of United States with each of them holding one-third of the equity. The stakes held by Tatas and AT&T were sold off when Tata decided to start its own telecommunication company and AT&T merged with Cellular Wireless in 2004. IDEA Cellular had equities owned by Aditya Birla Group of India, Axiata Group of Malaysia and Providence Equity of the United States. IDEA Cellular was one of the largest mobile service operators in India with its wireless revenue market share at 13.9% in the first quarter of the fiscal year 2012. All 13 licences issued to IDEA Cellular were cancelled by the Supreme Court of India.

(d) S Tel

A joint venture between the Indian company Siva Group (formerly Sterling InfoTech Group) and Bateleo (Bahrain Telecommunication Company), S Tel was one of the latest and youngest entrants in the Indian telecom sector. It had launched its mobile telephone services in India at the end of 2009.

Some of the other domestic players to whom the 2G licences were issued included Loop Mobile (formerly known as BPL Mobile) owned by the Khaitan Holding Group, Videocon Telecommunications Ltd. owned by the Videocon group of India and Tata Teleservices owned by the Tata Group. Twenty-one Licences each of Loop Mobile and Videocon and three of Tata Teleservices were also cancelled under the verdict of Supreme Court of India.

The major **violations** observed in the licence grant procedure were as follows :

— The entry fee for the spectrum licence issued in 2008 was pegged with the 2001 price. There were neither any revisions nor any changes made to the pricing of the licence despite the huge demand-pull inflation that had soared multi-fold during that period. The number of mobile users was 4 million in 2001 but had shot up to 350 million by 2008. This was a clear indicator that should have ensured a change in the prices before the auctioning started.

— Many new entrants with no prior experience in the telecom sector were allowed in the bidding process, including Unitech and Swan Telecom.

— Rules were changed once the bidding process had begun, cut-off date for the bidding of the licence was advanced by a week without any prior notification.

— The licences were issued on a first-come-first-served (FCFS) basis and the then telecom minister, ignored the recommendations of the Finance Ministry, Law Ministry and TRAI. TRAI had recommended auctioning of the spectrum licence at market rates. It was not followed and hence the market price was not achieved.

— A total of only nine companies were issued licences in spite of the fact that there was no restriction on the number of operators.

In 2012, the Supreme Court of India had quashed 122 licences awarded in 2008 by the then telecom minister. The licences were cancelled on the grounds that the entire allocation was made in an arbitrary and unconstitutional manner. However, the affected companies were allowed to continue their operations until new rules were finalised. The Supreme Court pointed out the basic flaw in the first-cum-first-served (FCFS) basis in matters that involved the use of public property. It involved a component of chance, thereby leading to intrinsically risky repercussions.

The verdict though hailed by anti-corruption crusaders, left the investors, vendors, and banks upset about their billions of dollars going down the drain. The global telecom operators had followed the government policies in force at the time and had set-up their operations in India through joint ventures with companies to whom the licences were already awarded in the controversial sale.

The ruling ultimately turned out to be a serious attack on lawful investments made by foreign operators in India notably Norway's Telenor and Russia's Sistema. Both these companies approached the Govt. of India to resolve the licence related disputes without jeopardising their investments, citing bilateral treaties.

As a result of the cancellation of the licences, Telenor, the majority stakeholder in Uninor, revoked its contract with the Indian partner Unitech and brought a claim against it seeking indemnity and compensation for the investment made. The shares of Telenor at the Oslo Stock Exchange in Norway fell on 2nd February, 2012 as a consequence of the Supreme Court verdict. Telenor excluded India from its financial outlook for 2012. It held Unitech liable for breach of warranties related to the cancellation of licences and sought compensation for its entire investment, guarantees and damages caused by the Supreme Court order. It was also all set to write-off its investments as a precautionary measure.

India had been a difficult market filled with constant surprises and the Supreme Court's decision could allow Telenor to quit the Indian market where it had always struggled. With TRAI recommending a ten-fold higher base price for the revised spectrum auction, Telenor's prospective costs could well exceed its limit, leaving the exit option as the only viable choice. On the other hand, Telenor Group planned to set-up a new Indian company to take operations forward in that country. This move could allow Telenor Group to take up 74% ownership, allowing the telecom giant to float a new joint venture and continue to focus on its long-term objectives of staying and expanding in India.

Telenor has two possible options : off-load the liability onto Unitech Wireless as Telenor had highly over-paid for the licences; or exit the business, putting the responsibility on Unitech to bear the exit charges of the business.

Answer the following :

(a) Should Telenor try to win back the licences or should it exit operations in India ? Give reasons in support of your answer.

(b) Should Telenor explore diplomatic interventions through Norwegian government ?

(c) What are the risks for MNCs entering into foreign markets especially countries such as India ?

(d) Why are MNCs vulnerable to political risks ? What are the influences that prompt a firm to pull-out of a particular market ?

(e) When an MNC is forced to withdraw its operations from a country, what are the strategic considerations and the different withdrawal alternatives/exit strategies available ?

(10 marks each)

2. (a) Futuristic Technology Ltd., a company incorporated in India, is desirous of entering into a joint venture with an IT company in the USA.

Draft the following :

(i) Arbitration clause

(ii) Clause indicating investment in foreign security by way of swap or exchange of shares in the foreign technology collaboration agreement.

(5 marks each)

(b) Distinguish between the following in brief :

(i) 'Global strategy' and 'international strategy'.

(ii) 'Indirect exporting' and 'direct exporting'.

(iii) 'Focus market scheme (FMS)' and 'focus product scheme (FPS)'.

(iv) 'Revocable letter of credit' and 'irrevocable letter of credit'.

(v) 'Market access scheme (MAS)' and 'market development assistance (MDA)'.

(10 marks)

(c) "Subsidies are used for a variety of purposes including employment, production and exports". Discuss.

(10 marks)

3. "One of India's major attractiveness as an investment destination is its vast pool of skilled and professional workforce. However, India is yet to catch the eye of foreign investors as an export platform or a manufacturing base."

Do you agree with the statement ? Justify your answer in the context of FDI policy framework in India.

(5 marks)

4. How does technological environment affect business decisions in the global world ? Explain.

(5 marks)

5. The main goal of the United Nations Conference on Trade and Development (UNCTAD) is to promote development-friendly integration of developing nations into the world economy. Critically evaluate UNCTAD's effectiveness in the present economic scenario.

(5 marks)

6. Identify a few companies providing Third Party Logistics (3PL) services and compare the services provided and cost involved.

(5 marks)

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