Daily Economic News Summary: 22 June 2016

1. Foreign airlines can control Indian carriers via group firms

Source: **Business Standard** (Link)

While foreign airlines can't directly own more than 49 per cent in Indian airlines, despite Monday's liberalised Foreign Direct Investment (FDI) policy, their group companies or investors can fully own airlines in India with government approval. So while the likes of AirAsia and Singapore Airlines will continue to have a cap of 49 per cent on their stakes in Indian arms, AirAsia India and Vistara, foreign funds and non-airline companies will be allowed to fully own a domestic, Indian airline. The government is looking to dilute the rule which makes it mandatory for an Indian carrier to be controlled and owned by an Indian or an Indian entity. This will increase competition for Indian airlines, as deep-pocketed airlines from the Gulf will be able to set up shops in India through their group companies.

This will allow the likes of Etihad, Singapore Airlines and AirAsia to gain management control of Jet Airways, Vistara and AirAsia India through their group companies. Qatar Airways had earlier tried to use the Qatar Investment Authority, a sovereign wealth fund, to buy into Indian budget carrier IndiGo. *"A foreign airline, through its group companies, will be able to own a carrier in India, this will require some amendments to the current rules SOEC (substantial ownership and effective control) norms,"* said a senior civil aviation ministry official. "Increasing stake to 100 per cent is only permitted through the government route, Foreign Investment Promotion Board along with the ministry will examine carefully and decide on case-by-case basis," the official added.

However, airlines controlled by foreign nationals may not get the right to fly to those countries which adhere to the SOEC norms of ownership and effective control. If a country does not permit foreign nationals to own airlines, these foreign-controlled airlines from India cannot fly to those countries. Under the bilateral air service agreements, countries have traditionally refrained from giving operating permission to foreign carriers which are not effectively controlled by the designating country or national. "*Changes to air service agreements depend on the partner country. If it allows, why should we object?"* another ministry official said.

2. Govt kick-starts commercial coal mining with states

Source: **Business Standard** (Link)

Taking the first step towards commercial mining and sale of coal in India, the ministry of coal has decided to allot mines to states that would sell the mined resource to interested industries. The Centre has identified 16 coal mines with an estimated annual capacity of 40 million tonnes. The mines have been divided for host states and non-host states. This would entail non-mine rich states owning a mine in another state and using it for commercial purposes.

This is the first step to open coal mining beyond the monopoly of state-owned Coal India, the sole miner in India for 41 years. The government plans to evolve the mechanism of commercial mining by involving the states and then private miners, said Anil Swarup, secretary in the ministry of coal. This move is likely to benefit mineral-rich states earn surplus revenue. These states were till now getting only royalty from private companies mining coal for captive use. The earlier coal blocks allotted to the states during last year under the new auction mechanism had stipulated end-use and said no sale of coal would be allowed.

Till 2013, most of the coal blocks allotted to the states changed the equity structure in favour of the mining development operator (MDO), making a private mining company the owner of a block. The Supreme Court last year struck down the arrangement and cancelled all allocations to the states. Under the new mechanism, the states would apply for coal mines by citing their demands, reasons for demand and expected sale plan. Joint ventures by the states are allowed to apply as long as the state department or utility has the majority stake in it (74 per cent). The state utilities would not be allowed to transfer the mine to any private company. However, the states can employ an MDO to handle the mining operations. The appointment of MDO would have to follow the MDO guidelines stipulated in the new Coal Mines (Special Provisions) Act, 2014.

3. Foreign law firms like DLA Piper, Jones Day and others seek talent, acquisitions for bigger India play

Source: **Economic Times** (Link)

As the Indian executive debates and formulates laws to allow foreign lawyers to practice here, big foreign law firms are scoping the market for talent and acquisition targets. Global recruitment firms that have so far remained fringe players in the area are beefing up their legal practices as firms like DLA Piper, Baker & McKenzie, Allen & Overy, Linklaters, Jones Day and Gibson Dunn show interest in mapping Indian corporate legal professionals. Foreign law firms at the moment are keen on identifying talent in niche areas synergistic to their existing clients with Indian presence or little law firms with low cost structures and small presence in major cities, said recruitment experts contracted by foreign firms almost on a quarterly basis for updated reports on Indian lawyers. *"Foreign law firms seem to be looking at lean operations and would not be looking to compete for domestic work, which is competitive and won't yield commensurate fees,"* said Premal Shah, founding partner of legal search firm FCL Search. The firm is in talks with several international law firms as they formulate their India strategy, he said.

4. Apple free to take bite out of India after rule change

Source: **Economic Times** (Link)

The gleaming glass atriums and blue-clad "geniuses" that herald the arrival of an Apple store could soon be landing in India, after the government cleared the way for it to open in the rapidly growing smartphone market. Before now, the Silicon Valley giant has been just a bit-player in the country, selling through local shops with none of its own. It applied to open stores in January, but was reportedly rebuffed because of a diktat that states foreign retailers must source 30 percent of their products locally. But on Monday, the government relaxed the rules, just weeks after Apple chief Tim Cook toured India on a breathless charm offensive where he was pictured using Prime Minister Narendra Modi's gold iPhone to launch the premier's own app. Companies making state-of-the-art technology -- understood to include Apple -- now have up to eight years to meet the sourcing requirements under a waiver, part of a push by India's pro-business government to attract foreign investment and create jobs.

5. Strengthening energy ties with Russia to be on top of PM Narendra Modi's agenda

Source: **Economic Times** (Link)

Oil will be a key item on the agenda when Prime Minister Narendra Modi meets Russian President Vladimir Putin on the margins of the Shanghai Cooperation Organisation (SCO) summit in Tashkhent later this week. The meeting will take place at a time when energy hungry India is considering hydrocarbon projects in the Artic region in collaboration with Russia, while state-run oil and gas companies are exploring the possibility of acquiring stakes in three Russian oil fields. The hydrocarbon sector has emerged as one of the three key areas of partnership with Russia, besides defence and nuclear energy. A major Russian oil company is in discussions with an Indian counterpart for partnering in the refinery sector and setting up petrol pumps across India, a person familiar with the development told ET.

Several public sector oil and gas companies have evinced interest in acquiring stakes in Vankorneft, Tass Yuryakh and Tagulskoe oil fields in Russia. The total investment in these fields is estimated to be $5.5 billion, a senior official source said, adding, *"Russia is one the biggest* *producers of oil and gas in the world and India is one of the biggest consumers. This makes the two countries natural partners in this area".* There are reports that the Russian president is keen to sell stakes worth $11 billion in Russian oil major Rosneft to both India and China amid economic downturn following Western sanctions on Moscow.

6. Huawei to make India the battleground in its war against Samsung, Apple to become No.1 smartphone maker globally

Source: **Economic Times** (Link)

Huawei is in the process of restructuring its mobile business in India aimed at greater focus and speedier decision making as China's largest smartphone player hopes to use growth in the country for its larger objective of toppling Samsung and Apple to become No. 1 globally. The Shenzen-headquartered company wants to multiply its offline presence and is considering applying for single-brand retail licence, the process for which has been incentivised after the government on Monday relaxed mandatory local sourcing norms for three years, people familiar with the matter told ET. "Operationally, headquarters will directly oversee India's consumer business, the restructuring is being undertaken," a senior executive aware of the developments at the company said. The devices business is currently under the consumer division, reporting into the India CEO and then the global consumer business group. The idea is to remove interim layers to speed up the decision process to compete better in an intensely competitive market where a handset has a maximum lead time of two to three months before getting upstaged by a competitor. *"India will be a priority market for Huawei globally, so there will be hiring on ground across the country,"* the person said.

By Harsha Hazarika