POLICY OF THE REPUBLIC OF MAURITIUS WITH RESPECT TO THE TELECOMMUNICATIONS SECTOR

1. Background

The Republic of Mauritius is currently served by a modern, digital fixed telecommunications network, two mobile networks, and a limited number of other service providers. Although adequate by some measures, fundamental legal, regulatory and marketplace changes will be necessary if the Government is to achieve its goal of establishing Mauritius as an info-communications hub for the region.

At the present time, there exists significant unmet demand for basic telephone services in Mauritius, as evidenced by a waiting list of some 26,000 individuals and businesses. Current fixed telephone penetration is 22 telephone lines per 100 inhabitants. The Government anticipates that approximately 50,000 additional customers will be provided service in the coming 12 months. At that time, fixed telephone penetration will increase to approximately 25 telephone lines per 100 inhabitants, which is already significantly above other countries with similar GDP per capita, favourably positioning Mauritius to reach top world class standard.

The prices for basic telephone and other telecommunications services in Mauritius do not reflect the underlying costs of providing those services. In part, this is attributable to the absence of an accurate accounting system capable of identifying the costs of providing individual telecommunications services. In part, it is because the existing price structure reflects Government macro-economic policy decisions unrelated to the cost of providing telecommunications services (namely, that the cost of local telecommunications services should be subsidised by other services). The cost information that is available, as well as comparisons to international benchmarks, suggest that the rates for local residential and business services do not cover the costs of providing those services. This is also evidenced for the national call rates which are set below cost. International calling rates, by contrast, exceed the costs of providing those services, although the profit margin is not as high as is the case in a number of other similarly situated countries.

The 1988 Telecommunications Act established a legal and regulatory framework that was well-suited to the provision of core telecommunications services by a government-owned monopoly. In 1996, however, the Government correctly recognised the need to reform the telecommunications sector. The process began with the publication of the Green Paper on Telecommunications "Strategies and Policies for Info-Communications Sector 1997-2007". Following extensive consultation as part of the Green Paper process, the White Paper on the "Telecommunications Sector Fostering the Info-Communications Society" was published in December 1997. The Telecommunications Act 1998 was thereafter passed on 15 December and enacted on 31 December 1998. The Telecommunications Act 1998 will be proclaimed in the last quarter of 1999.

1. Policy Objectives

The Government's Vision Statement, as expressed in the White Paper, is to *"develop Mauritius into a modern nation and to enhance the nation's competitiveness in the global market place so as to improve the quality of life of the people of Mauritius".*

The Government's objectives for the telecommunications sector, as outlined in the White Paper are to:

(a) provide access to the most modern telecommunications services possible at fair prices;
(b) improve Mauritius? position and competitive edge in global markets;
(c) enhance the economic and social life of the nation;
(d) progressively divest its interest in MT by adopting an appropriate privatisation strategy within a liberalised marketplace;
(e) establish an employee shareholding scheme;
(f) ensure that essential national interests are protected; and
(g) create propitious conditions for Mauritius to become an info-communications hub in the region.

The principles that will be applied to achieve these objectives are:

(a) the active promotion by Government of an information-based economy;
(b) the promotion of competition and network interconnection, as circumstances permit;
(c) an effective and independent regulatory body with clearly defined powers and responsibilities;
(d) private sector participation to the greatest extent possible; and
(e) the termination of all exclusivity provisions by the end of 2004.

2. Implementation Policy

To achieve the Government?s policy objectives for the telecommunications sector, Mauritius Telecom ("MT"), will be privatised as a single integrated telecommunications network operator, authorised to provide fixed and mobile local, long distance and international telecommunications services. The privatisation will be achieved through the selection of a Strategic Partner.
The introduction of a Strategic Partner is intended to strengthen and position the company on the international scene as a major link to the chain of mega-carrier build-up on the international telecommunication market. MT is playing a critical role in the development of the telecommunications sector in the sub-Saharan region and has enormous potential to emerge as

a major regional player in the future. Hence, the advent of a serious partner will bring in resources commensurate with the vision and objectives of the Company.

The privatisation will be effected through a tender. The Government intends to dispose of up to forty percent of MT to a Strategic Partner or, as the case may be, to a consortium of investors. International financial institutions may also be invited to participate. In addition, up to one percent of the shares of MT will be made available to MT?s employees.

The legal and regulatory framework created by the Telecommunications Act 1998 includes: the Mauritius Telecommunications Authority (the "Authority") (a body corporate with extensive powers over the sector to implement Government policy), a new licensing scheme, a universal service regime, the retention of the Telecommunications Advisory Council, rights-of-way and access rights, negotiated interconnection agreements (with regulatory intervention in the event negotiations fail), the regulation of anti-competitive conduct, the prohibition of anti-competitive arrangements by licensees, tariff regulation, and the regulation of operator-customer relationships. It also addresses the allocation of limited resources (*i.e.,* spectrum and numbers) and ensures technological compatibility and standards compliance.

Because telecommunications is a rapidly developing sector, the Government will keep the regulatory structure under review, and take such measures as may be necessary to ensure that market development is not skewed by an uneven playing field or discriminatory regulation. Should it appear that supplementary adjustments to the regulatory structure are required to achieve the Government?s goals and objectives for the sector, to ensure open, transparent and proportionate regulation or to clarify ambiguities, the Government will take the appropriate legislative action.

In accordance with international best practices, tariff regulation will be based upon a tariffing formula applicable to groups or "markets" of telecommunications services. The tariffing formula will reflect inflation and other factors, and telecommunications operators will have the flexibility to adjust tariffs within stipulated limits. Tariff regulation will permit the rebalancing of rates for individual services so as to better reflect the underlying costs of providing those services.

The Government is committed to the liberalisation of the telecommunications sector. Liberalisation will benefit the sector and the economy as a whole by generating a market-focused culture, encouraging innovation and reducing costs. Complete liberalisation, however, must await the transformation of MT into a commercial, market-oriented company. Exclusivity in MT?s core business (basic (local, national) and international telecommunications services) Exclusivity in MT?s core business (fixed local and national and all international telecommunication networks and services) must be given temporary preference over liberalisation to facilitate the rebalancing of tariffs and the fulfilment of the Government?s universal service goals.

The Government intends to introduce competition through service-based, rather than infrastructure-based, competition. The 1998 Act requires the Minister to specify the date on which MT's exclusive rights will terminate. As the Government has stated in the White Paper and on a number of subsequent occasions, MT will be granted, until 31 December 2003, the exclusive right to provide all telecommunications services between places within Mauritius and places outside Mauritius, and fixed voice between places within Mauritius (except as noted below), and fixed telecommunications networks. During the term of its exclusive right to provide international telecommunications services, MT will provide access to satellite-based mobile telecommunications services. MT or an affiliate of MT will also be given non-exclusive authority to provide mobile voice, data and value-added telecommunications services. EMTEL currently holds licences to provide analogue and digital mobile telecommunications services. The Government does not intend to issue any additional licences to provide mobile telecommunications services before 1 January 2004. The Government may consider licensing certain operators to provide value-added services within Mauritius prior to 2003; these providers, however, will not be permitted to offer voice services without the prior consent of MT. Other entities will be allowed to engage in all other business activities in the sector. This competition, however, will only be possible under terms and conditions stipulated by law and the Authority. MT will also have the right to provide services that are open to competition pursuant to the same terms and conditions as other operators. The provision of terminal equipment is completely liberalised.

MT will be obligated to provide cost-based interconnection to its network to other authorised telecommunications operators to the extent not inconsistent with its exclusivity. The rates, terms and conditions pursuant to which telecommunicators operators interconnect will be subject to commercial negotiation. If licensees are unable to reach agreement, the Authority may be called upon to intervene and render a decision.

The legal and regulatory structure set forth above, as well as the policies of the Government with respect to the telecommunications sector, will be implemented so as to promote the development of the info-communication industry and the economy as a whole.

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