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On Revamping Mexico's Telephone System

by John Neagle

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Communications Minister Andres Caso Lombardo recently announced that Mexico's state-run telephone company, Telmex, will undergo a \$14 billion overhaul within the next five years. According to a recent study by the Mexican Association for Defense of the Consumer, 20% of Mexico's 4.4 million telephone lines and 9 million telephones are not functioning. Government officials estimate that more than 12,000 complaints about telephone service are received daily, equal to one protest a year for every telephone line in the entire country. Innovations in wide use elsewhere, such as computer transmissions and facsimile machines, have been adopted very slowly in Mexico because of its unreliable telephone lines. With an annual gross domestic product of more than \$150 billion, Mexico has the 14th-largest economy in the world. According to a recent survey cited by the New York Times, with only 4.9 telephone lines per 100 people, Mexico ranks 82nd world-wide. Telmex has pointed out that many of the telephone lines were cut or heavily damaged by the earthquake in September 1985 that struck the Mexican capital, which accounts for half the country's telephone lines. Telmex has since been required to operate public telephones for free, a policy imposed by the government that has deprived the company of millions of dollars in revenues. There are also complaints of corruption. For instance, many Mexicans complain that Telmex repair crews disrupt phone lines to supplement their salaries. Officially, telephone repairs are free, but because repair services can be delayed for months, many customers prefer to pay as much as \$50 to workers if a Telmex truck suddenly appears in the neighborhood immediately after a breakdown in service. Another cause of resentment among phone customers is Telmex's policy of demanding that all monthly bills be paid in full, even if a telephone is out of order or if the company has charged for long-distance or international calls not made by a given customer. Consumer groups estimate that this practice accounted for \$50.7 million of Telmex's fiscal revenues of more than \$1 billion last year. If the bills are not paid promptly, the company repossesses the phone line, which often costs more than \$1,500 to obtain on a flourishing black market. Telmex is able to act in this fashion because of long waiting lists of customers requesting telephone lines. Despite all, Telmex is highly profitable. It earned more than \$200 million last year, about half of which derived from long-distance and international calls. The government also collects a tax surcharge of 50% from international and long-distance calls. (Basic data from New York Times, 04/03/89)

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