

7-12-1995

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Recommended Citation

LADB Staff. "Mexico Set to Announce Long-Distance Telephone Concessions in September." (1995).
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Mexico Set to Announce Long-Distance Telephone Concessions in September

by LADB Staff

Category/Department: Mexico

Published: 1995-07-12

According to the Communications and Transportation Secretariat (SCT), concessions for long-distance and local telephone service will finally be announced sometime in September. Under the timetable, all the companies or partnerships that receive concessions will be allowed to integrate their operations into the system operated by the telephone monopoly Telefonos de Mexico (Telmex) by August 1996. The SCT said this will give the companies adequate time to start operations by January of 1997. The SCT said official regulations are due to be published shortly in the federal register (*Diario Oficial de la Federacion*), based on the new telecommunications law approved by the Chamber of Deputies and the Senate in May (see SourceMex, 05/24/95).

Many participants that bid to provide long- distance and local service in Mexico have complained about frequent delays in the announcement of the concessions. Indeed, when former president Carlos Salinas de Gortari first announced intentions to open the long-distance market to competition, he said concessions would be announced by mid- 1994. The expected date for the announcement was later pushed back to sometime in late 1994. Several factors have delayed the announcement, including the change in presidential administration and the economic crisis that followed the devaluation of the peso in December 1994. Still, the long delay in announcing the concessions, along with the downturn in the Mexican economy, may have caused some companies to withdraw or modify their concession plans.

"Establishing the definitions, ground rules, and regulations for Mexico's telecommunications industry has taken so long that the list of interested parties reflects the changes that have taken place while the process drags on," said columnist Herminio Rebollo Pinal of *El Financiero* International weekly business newspaper. Rebollo points out that alliances such as one between Motorola and Protexa have scaled down their planned involvement in the long-distance market. Similarly, the partnership between Grupo Pulsar and Britain's Ionica is expected to withdraw from the process because of recent losses by Pulsar in the cattle ranching industry in Chiapas and Tabasco state due to the recent downturn in the Mexican economy. According to Rebollo, at least one major participant a partnership between Bancomer and US-based GTE is said to be considering scaling down its involvement from offering direct services to serving mostly in the role of a broker.

The GTE-Bancomer partnership has been one of the most vocal critics of the concession process. In addition to complaining about the delay, the GTE-Bancomer partnership charges that the telecommunications law passed by the Mexican legislature in May lacks adequate details about the rights and responsibilities for the companies that do ultimately receive concessions. The uncertainty created by the delays in announcing concessions and publishing regulations also appears to have placed Telmex at a disadvantage. According to telecommunications analysts, the delays in announcing such decisions as how much Telmex will be allowed to charge competitors has affected the company's ability to draft long- range plans. Among the participants that have bid

for concessions are partnerships between US telephone companies and Mexican firms, including MCI and Banamex, AT&T and Grupo Alfa, and GTE and Bancomer. Telmex itself has placed a bid, in partnership with the US telephone company Sprint. Still, Telmex has managed to take certain strategic decisions in anticipation of the opening of the long-distance and local markets, such as announcing a plan to formally separate its long-distance and local service units into independent subsidiaries, effective on Sept. 1.

The downturn in the Mexican economy has forced Telmex to scale down spending projections for the next five years despite the prospect of new competition. According to US financial analysts, Telmex plans to spend US\$1.1 billion annually each of the next five years, a decline of 45% from the annual average in recent years. As a result, Telmex is looking for alternative sources of revenue. For example, Telmex officials have asked the US Federal Communications Commission (FCC) to consider the company's request to offer long-distance services in the US market. Nevertheless, US anti-trust laws have created an obstacle to this plan, since Telmex is partially owned by Southwestern Bell Telephone Co., one of the seven companies formed after the telephone service monopoly by AT&T was ended. Southwestern Bell and its subsidiaries or properties are prohibited for now from entering the long-distance market.

According to US telecommunications industry analysts, Telmex will not be able to enter the US market unless the US government makes an exception to US anti-trust laws or eliminates the restriction altogether. The analysts said a significant obstacle is that the US Federal Communications Commission (FCC) opposes any effort to circumvent the anti-trust regulations created with the breakup of AT&T. Telmex officials, for their part, argue that the US government should make the exception based on the principle of reciprocity, since Mexico has modified its own laws to allow US companies to operate in the Mexican market. Telmex's plan to operate in the US has the full backing of President Ernesto Zedillo's administration, which has promised to seek negotiations with US authorities to allow the Mexican telephone company to operate in US territory.

The US telephone company Sprint, which has formed a partnership with Telmex to bid for long-distance concessions in Mexico, has publicly supported the Telmex bid to operate in US territory. A Sprint spokesperson said the Telmex proposal is a "natural" strategy, since most telecommunications companies are seeking external markets. The spokesperson noted that telecommunications companies from France, Germany, and Chile have established some foothold in the US market. Telmex has not released a specific long-term plan of action for operation in the US. However, as an initial step the company has requested permission to establish direct connections between Mexico and US cities near the Mexican border, therefore eliminating the need to use a US telephone company as an intermediary. (Sources: Wall Street Journal, 06/02/95; Reforma, 06/07/95, 07/05/95; El Norte, 06/12/95, 07/05/95; Notimex, 07/06/95; El Financiero Internacional, 07/03/95, 07/10/95)

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