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In early September, the Communications and Transportation Secretariat (SCT) formally approved a license for the telephone enterprise Avantel to offer long-distance and local service in Mexico. Avantel a partnership formed between US- based MCI and Mexico's Grupo Financiero Banamex is the first of several companies expected to receive concessions to compete in the long-distance market with Telefonos de Mexico (Telmex), beginning in 1997. In its application to provide service, Avantel announced intentions to offer both long- distance service as well as domestic connections in 21 cities. Indeed, in a news release on the day the concession was announced, MCI said Avantel expects to invest US$600 million over the next three years to build and operate a long-distance network of digital fiber-optic cables and advanced switching capable of voice, data, and video communications.

The first phase will consist of 3,200 miles of fiber-optic cables connecting 33 cities in Mexico with additional connections to the US. According to communications industry analysts, the next company expected to receive a concession from the SCT is MarcaTel, which is a partnership among US-based firms Westel and IXC, Mexico's Radio Beep, and Canada's Teleglobe. "Our company was the first to present the application for long-distance service, and we expect to be among the first to receive a concession," said Radio Beep director Gustavo de la Garza. In preparation for the concessions, MarcaTel announced plans to establish cross-border connections at Ciudad Juarez, Chihuaha state, and El Paso, Texas; and at and Nuevo Laredo, Tamaulipas state, and Laredo, Texas. MarcaTel officials said the company expects to gain at least 5% to 10% of the total long-distance market in Mexico.

Other consortia that have announced intentions to compete for licenses include: the banking group Grupo Financiero Bancomer and GTE Corporation; Mexican conglomerate Grupo Alfa and AT&T; and Mexican cellular concern Grupo Iusacell SA and Bell Atlantic Corporation. Telmex, whose monopoly in the domestic and long-distance telephone market will end on Jan. 1, 1997, has formed a partnership with US-based Sprint to enhance its long-distance operations. According to an SCT spokesperson, many of the partnerships that have announced intentions to compete in the Mexican telephone market have actually not submitted formal applications.

The most recent application, submitted on Sept. 11, was presented to the SCT by cellular telephone company Iusacell, which is owned partly by US-based Bell Atlantic Corporation. The Iusacell application, filed through its subsidiary Iusatel requested permits to offer a wide range of long-distance and domestic services. According to the application, the company expects to establish a network of 20,000 km. of line to provide service to Mexico's 60 largest cities by the year 2001 and to more than 125 cities in the country by the year 2004. Avantel and all the other companies that receive concessions from the SCT will have to enter into direct negotiations with Telmex to determine costs

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to connect to the company's existing lines. The structure of the costs will be based on the prices that Telmex charges its own subsidiaries Telcel and Telnor.

MCI officials, meantime, said Avantel will approach negotiations with Telmex with the intention of obtaining the lowest price possible, and not necessarily accept prices set ahead of time by Telmex. According to the federal telecommunications law (Ley Federal de Telecomunicaciones), in case Telmex and other telephone companies are not able to agree on a price, the payment level to Telmex will be set by the SCT. However, Telmex director Jaime Chico Pardo told reporters the company will retain a flexible position and does not anticipate any need for the SCT to intervene. "What we are seeking is for the companies receiving concessions to become good clients for Telmex," said Chico.

Other problems have begun to surface in relation to the concession regulations, however. For example, Telmex officials have complained about the SCT decision not to require companies that receive concessions to immediately offer extensive service within their area. The SCT regulations do require that any company that gains concessions to serve a large metropolitan area also serve smaller cities in the region. However, this requirement will not immediately apply to any small markets within the region that are not immediately profitable for the new telephone company. Telmex officials have argued that exemption will provide the new entrants to the market with an unfair competitive advantage, since the terms of Telmex's original privatization in 1990 require that the telephone monopoly extend telephone service to all rural areas within Mexico.

SCT officials are also considering suspension of certain taxes for new entrants to the Mexican telephone market in cases where this would help in a rapid development of networks within Mexico. An SCT official said the ultimate goal of the government is for Mexico to become a major connection center of telephone traffic for calls between North America (Mexico, Canada, and the US) and Central and South America. Indeed, the SCT official said the government will not create any obstacles for companies that bypass Telmex and build their own network, as long as the new lines do not add excess capacity to Mexico's telephone system. Additionally, the SCT official said the government will not set a limit on the number of permits that will be awarded, as long as applicants provide "a sound business plan." (Sources: Agence France-Presse, Dow Jones News Service, 09/06/95; New York Times, Associated Press, La Jornada, El Economista, Excelsior, 09/07/95; El Norte, 09/11/95; Reforma, 09/06-08/95, 09/12/95)

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