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LADB Staff

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In mid-January, the Communications and Transportation Secretariat (SCT) announced that the telephone monopoly Telmex had reached an agreement on a framework to share lines and infrastructure with potential competitors in preparation for the opening of the country's long-distance telephone market. Telmex whose monopoly on telephone service in Mexico is scheduled to end on Jan. 1, 1997 owns virtually all the lines and telephone-related infrastructure in Mexico. According to Carlos Casasus, the SCT's deputy secretary for communications and technological development, Telmex and its six competitors are expected to continue negotiations regarding usage fees and other related matters over the next several weeks, with the goal of reaching an agreement by April.

The six consortia involved in the negotiations with Telmex include Avantel, Alestra, Investcom, Iusatel, Marcatel, and Unicom. Two of these partnerships Unicom and Alestra were awarded concessions as recently as December. Unicom is a three-way partnership formed by Mexico's Bancomer, Spain's Telefonica Internacional, and US-based GTE. Alestra is a joint-venture between Grupo Alfa and US-based AT&T. The first of Telmex's competitors to receive concessions was Avantel, a partnership between Banamex-Accival and US- based MCI. Another prominent enterprise that received a concession late last year was Iusatel, the holding company formed by Mexico's cellular telephone company Grupo Iusacell and its US partner Bell Atlantic. Telmex itself is launching its long-distance operations in partnership with the US-based telephone company Sprint.

The legislation to open the long-distance telephone market actually allows the companies that received concessions to start offering long-distance connections among their customers on private lines, beginning in August 1996. One of the six consortia, Avantel, has already announced specific plans to begin offering that service, while the other groups are expected to announce their own plans in the near future. In the negotiations among Telmex and its six competitors, representatives of the seven companies reached a broad agreement on various aspects of access to Telmex's telephone lines. Basically, the parties agreed on broad language to prohibit "discriminatory" practices in various areas, including interconnections, tariffs, and financial areas.

The SCT's Casasus said Telmex and the six competitors plan to spend about US$2 billion annually for infrastructure development and to improve service. The increased spending will double the rate of investment annually for the five-year period between 1991 and 1996. According to columnist Manuel Mandujano of the daily newspaper Excelsior, Telmex had purposely delayed negotiations with competitors in order to gain a competitive advantage in several areas, including the establishment of connections for the Internet. In fact, Mandujano noted that some Telmex officials had informally asked President Ernesto Zedillo's administration whether the opening of the long-distance market, targeted for Jan. 1, 1997, could be moved back. According to Mandujano, the

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Zedillo administration, rather than accommodating Telmex, instead pressured the company to begin negotiations with competitors. He said the Zedillo administration's decision to convince Telmex to negotiate was due in part to complaints by the six potential competitors, some of whom had asked the US government to become involved in the matter.

One of the most vocal complaints was lodged by Grupo Iusacell, which plans to compete with Telmex in both the wired and cellular telephone markets. In fact, Iusacell had already filed several formal motions with the SCT and the federal competition committee (Comision Federal de Competencia) against Telmex and its subsidiary Telcel for blocking the approval of the final permit for Iusacell to operate cellular telephone service. The Iusacell complaint regarding cellular telephone service was followed by a motion by Bell Atlantic which owns a 49% share in Iusacell asking the US Trade Representative's Office in Washington to look into the Mexican government's delay of two years in awarding the final permit for Iusacell to operate in the cellular telephone market. Facing strong pressure and unable to provide any more reasons for a delay in approving the final permit, in mid- January the Zedillo administration granted Iusacell the permission needed to operate full cellular telephone service in Mexico.

Speaking to reporters, the SCT's Carlos Casasus said the delay was mostly because of the change in presidential administrations in Mexico, plus the lack of "clear regulations" for cellular telephone service. Separately, the SCT has begun to process other requests for companies seeking to compete in the long-distance and local market. For example, on Jan. 15 the SCT awarded a concession to Cableados y Sistemas to provide long distance service. The company is a subsidiary of the communications firm Grupo Vazquez Arroyo. According to the SCT's Casasus, the company pledged to install a 2,240-kilometer fiber optics network to provide service to 27 cities in Mexico, or about 70% of Mexico's national territory. Cableados y Sistemas officials said the company expects to offer service to 200,000 users in Mexico.

Another application under consideration is one submitted by Monterrey's Grupo Domos and its partner, the Italian telephone company Stet. Meantime, in addition to facing complaints about creating obstacles to competition in the wired and cellular telephone market, Telmex has also been accused of earning undue profits at the expense of the Mexican public. This complaint has been common since the company was privatized in 1990, but took more prominence in January of this year, following the 20% increase in domestic and long-distance rates. Telmex officials said the increase was justified because of Mexico's higher-than-expected inflation rate during 1995. According to the company, the rate increase should have gone into effect in November of last year, when the accumulated rate for January-November surpassed 47%.

Ultimately, the Banco de Mexico (central bank) reported the annual inflation rate for 1995 at about 53%, compared with earlier projections of 42%. Telmex raised rates twice during 1995, by 12% in March and by 17% in July. In announcing the latest increase in December, Telmex warned consumers to expected further increases in rates during the course of 1996. Many consumer and business groups around the country reacted angrily to the latest increase in rates. For example, in mid-January, the Monterrey Chamber of Commerce (Camara Nacional de Comercio, CANACO) said the organization's 14,000 members were considering actions against the higher fees charged by Telmex, including withholding of payments. CANACO leader Jose Garza Benavides said

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consumers were not getting any benefits from the higher rates, since telephone service remained poor throughout Mexico. Indeed, according to the federal consumer protection office (Procuraduria Federal de Proteccion al Consumidor, PROFECO), Telmex received the most complaints about bad service and high rates among all private and public companies during 1995.

Meantime, in an article published at the beginning January, the weekly news magazine Proceso reported that Telmex has increased rates by 340% between January 1990 and December of 1995. In comparison, the report said that accumulated inflation for that period is about 130%. Telmex officials responded to this charge by presenting their own figures. In a letter to the daily newspaper Reforma, Telmex spokesman Alejandro Montano said the company's own measure, which takes into account an index of basic services, showed that the increase between May of 1990 and December of 1995 was only 101.46%, while inflation during the same period was 160.9%.

Regardless of which statistics are used, critics suggest Telmex has received overly generous tax breaks and other concessions since the company was privatized. According to the telephone workers union (Sindicato de Telefonistas de la Republica Mexicana, STRM), Telmex has received special tax exemptions totaling 27 billion nuevo pesos (US$3.6 billion) over a five-year period, which no other business enterprise in Mexico has received. The STRM said Telmex has also used loopholes in the law in the five years to avoid distribution of 2 billion nuevo pesos (US$270 million) in profits among its 53,000 workers. The STRM noted that US business magazine Fortune, in its August 1995 issue, ranked Telmex as one of the top 25 most profitable companies in the world. According to the Fortune report, the net value of Telmex as of that month was estimated at almost US$14.15 billion.

Meantime, on Jan. 26, former presidential candidate Cuauhtemoc Cardenas of the opposition Democratic Revolution Party (PRD) filed a formal request to President Zedillo to nullify the privatization of Telmex. Cardenas said that in his request to Zedillo, he asked the president to respond to the complaints within 120 days. The request presented to Zedillo, which Cardenas also planned to bring to the Attorney General's Office (PGR), is nearly identical to lawsuits filed by PRD members in the Chamber of Deputies and the Senate late last year (see SourceMex, 12/06/95). In all three cases, PRD members argue that the privatization was against the best interests of the Mexican public, citing the parallel increases in telephone rates and in Telmex profits. According to Cardenas, the privatization has only served to increase the wealth of the company's owners, led by businessman Carlos Slim Helu.

Meantime, two days before Cardenas filed the complaint with the executive branch, Telmex officials denied there had been any violations of the Mexican Constitution. "The privatization of Telmex was a clear and transparent process from beginning to end," said Telmex general manager Jaime Chico Pardo in an interview with the daily newspaper La Jornada. He said all the information relevant to the privatization is contained in documents available to the public. "We are willing to testify to clarify any doubts related to any part of our operation," he said. [Note: Peso- dollar conversions in this article are based on the Interbank rate in effect on Jan. 30, reported at 7.40 pesos per US$1.00] (Sources: Inter Press Service, 12/27/95; Reforma, 12/05/95, 01/05/96, 01/11/96, 01/16/96, 01/25/96; El Financiero International, 01/15/96, 01/22/96; Jornada, 01/24/96, 01/26/96; Proceso, 01/01/96, 01/22/96; Agence France-Presse, 12/27/95, 01/11/96; Associated Press-Dow Jones, 01/08/96; El Financiero, 01/17/96; Excelsior, 01/25/96).

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