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LADB Staff

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In mid-April, the Communications and Transportation Secretariat (SCT) announced that the government will make the final decision on the interconnection fee that the telephone monopoly Telmex will charge to competitors for use of its telephone lines when providing long-distance service. Carlos Casasus, the SCT's deputy secretary for infrastructure, said President Ernesto Zedillo's administration decided to set the fee after Telmex and its eight competitors in the long-distance market were unable to reach a decision. Representatives from Telmex and the eight companies have been involved in negotiations on the interconnection fee and other issues for several weeks.

Telmex whose monopoly on telephone service in Mexico is scheduled to end on Jan. 1, 1997 owns almost all the lines and telephone-related infrastructure in Mexico. Six companies Avantel, Alestra, Iusatel, MarcaTel, Unicom, Investcom have been involved in negotiations since mid- January (see SourceMex, 01/11/96). Two other companies, Cableados y Sistemas and Miditel, later joined the negotiations. Most of Telmex's potential competitors involve joint ventures between Mexican companies and foreign partners, mostly from the US. Telmex is entering the long-distance market in a partnership with the US-based company Sprint. According to the SCT, negotiators have reached agreement on 53 separate issues, but are still far apart on the fee Telmex will charge for interconnections.

The eight competitors proposed paying a fee equivalent to between US$0.010 cents and US$0.015 cents per connection, while Telmex was asking for US$0.147 cents per connection. The fee will have a direct impact on the cost of service the long-distance carriers will charge their customers. The SCT is expected to make a ruling before mid-June, but sources said the secretariat already has enough information to make a decision before that time.

The interconnection fee was also the subject of hearings in the Chamber of Deputies in early April. At one session, Deputy Carlos Navarrete, a member of the opposition Democratic Revolution Party (PRD), urged the Zedillo administration to resist political pressures from Telmex to set a high fee. Navarrete charged that Telmex wants to keep rates high to maintain a substantial profit margin. "It is time for Telmex to sacrifice its profits to encourage competition," said Navarrete. Navarrete raised the possibility that if Telmex takes action to discourage competition, companies such as Avantel--which is laying down its own fiber optics network and other major infrastructure may decide to subcontract its lines and equipment to the other seven concessionaires. Avantel is a partnership between US-based MCI and Mexico's Banamex- Accival.

Responding to concerns raised by Navarrete and other legislators, the SCT's Casasus promised that the Zedillo administration will base its decision on two factors: the best interests of Mexican consumers and the effort to attract much-needed foreign investment in the Mexican telephone

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sector. Meantime, according to Brian Fontes, a representative of US-based Cellular Telephone International Association (CTIA), the dispute between Telmex and the eight potential competitors raises a deeper issue: who will pay for the government's pledge to bring telephone service to a larger segment of the population. Telmex has justified its request for a high interconnection fee on the grounds that the company will bear the brunt of the cost of extending telephone service to more users in Mexico. Telmex argues that the high fee forces competitors to contribute to expanding the telephone lines in Mexico. In an interview with the daily newspaper Reforma, Fontes said this argument is legitimate, but only if Telmex provides a detailed account of how this money will be spent on infrastructure to dispel concerns that the high rate will simply enhance Telmex profits.

"The new competitors have recognized that they cannot provide service to all who request it," said Fontes. "But they must recognize that all participants in the Mexican telephone sector must contribute to the development of universal telephone service. At the same time, the Zedillo administration's policies regarding competition in the telecommunications sector have also come under fire. According to a report published by the office of the US Trade Representative (USTR) in early April which quoted then-US Trade Representative Mickey Kantor Mexico has not fully adopted procedures spelled out in the telecommunications section of the North American Free Trade Agreement (NAFTA).

The report acknowledged that Mexico has adopted testing procedures for terminal attachments, as required by NAFTA. On the other hand, the report criticized Mexico for failing to adopt separate procedures for testing data related to telecommunications product safety. Under the NAFTA timetable, both of these testing mechanisms were to be in place by January 1995. According to the USTR report, the two procedures are necessary for US suppliers to export their telecommunications equipment to Mexico. "Recent bilateral negotiations have made progress, but Mexico has been unwilling to provide concrete assurances that it would remedy this situation in a manner that meets US concerns," read the USTR report.

"Enforcement of our trade agreements and trade laws is critical to ensuring that we create trade that is both open and fair," Kantor said in a prepared statement. "We must ensure that US firms and workers are provided the market access necessary to compete effectively in the Mexican market." The report on Mexico's telecommunications sector was part of an overall review of opportunities in telecommunications for US companies.

Also included in the report were updates on whether Japan and South Korea were meeting their obligations under bilateral agreements signed with the US. The USTR's report was met with indignation in the Mexican Chamber of Deputies, where some legislators accused the US of adopting hypocritical trade policies. Deputies Orlando Arvizu and Israel Soberanis, both members of the Chamber's committee on communications and transportation (Comision de Comunicaciones y Transporte), said the US already has broad advantages over Mexico in the area of telecommunications and is only using the telecommunications example to enhance President Bill Clinton's reelection campaign. Furthermore, Soberanis and Arvizu said the US government should not accuse Mexico of unfair trade practices until the Clinton administration corrects inequities in US policies toward Mexico. "Mexico has always complied with the terms of NAFTA, even when the US has adopted unfair policies regarding imports of Mexican tuna, cement, and tomatoes," said the

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legislators. (Sources: Reforma, 04/01/96; Reports from US Trade Representative's Office, 04/01/96, 04/03/96; Agence France-Presse, 04/03/96; Excelsior, 04/04/96, 04/05/96; La Jornada, 04/04/96, 04/11/96)

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