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LADB Staff

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After months of fruitless negotiations between the Mexican telephone monopoly Telmex and its potential competitors in long-distance service, the Communications and Transportation Secretariat (SCT) finally intervened to designate the rate that Telmex will be allowed to charge for the use of its lines. The SCT intervention in the matter had been widely anticipated, since Telmex and its competitors had reached a seemingly insurmountable impasse during negotiations that started early this year (see SourceMex, 04/17/96).

The SCT ruling set different rates for domestic and international calls. For domestic long-distance calls, the SCT set Telmex's fee for competitors at the equivalent of US$0.0532 cents per minute for 1997, the first year that the long-distance market will be open. That rate will drop to US$0.0469 cents per minute in 1998. After that, rates will be negotiated between Telmex and its competitors on an annual basis, but will not be allowed to exceed US$0.0315 cents. For international long-distance calls, the SCT set the rate at US$0.25 cents per minute. The rate was twice as high as Telmex's original request of US$0.14 cents per minute. Competitors had requested an average of about US$0.015 cents per minute for 1997 and 1998.

Similar to the domestic rates, the fees for 1999 and subsequent years are subject to negotiation. Telmex had a mixed reaction to the SCT's payment structure. Telmex officials acknowledged that the high fees for international connections will allow the company to boost its earnings. Still, company spokespersons point out that the boost is merited, since Telmex will only earn 25% of all profits from long-distance service, compared with 75% for competitors. Telmex also criticized the SCT for setting relatively low fees for domestic long-distance service. They said the SCT decision meant that the government was focusing a greater effort on developing international long-distance services while slighting development of local infrastructure.

In contrast, the SCT argues that the purpose of high fees for international connections is to provide Telmex with enough funds to allow the firm to significantly expand telephone lines around the country. "The SCT's decision was not easy," one official said. "We made a good-faith effort to resolve the problem." According to some estimates, the high international fees should raise about US$800 million in extra revenue for Telmex during 1997 alone. As expected, Telmex's competitors also had mixed reactions to the SCT ruling. The competitors said they were satisfied with the fees for domestic calls, but they complained that the international rates are excessive. Still, none of the competitors is expected to challenge the SCT ruling.

Some competitors agreed with the need to expand telephone service to a greater percentage of the Mexican population, which in the end would create potential new customers for their companies. "The government must develop a mechanism to ensure that Telmex does indeed invest those resources for development of local telephone service," said Gustavo de la Garza, an official with

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MarcaTel, one of Telmex's competitors in the long-distance market. "I am concerned that [Telmex chairman] Carlos Slim will use that money to acquire more enterprises for his financial group."

Some of the competitors, most of which are joint ventures between US and Mexican companies, have also developed innovative plans to better compete with Telmex. For example, in early April, Alestra and Unicom two consortia that had received separate operating permits to provide long-distance service in Mexico announced they had signed a letter of intent to merge their operations. Alestra was created as a joint venture between Grupo Alfa and US-based AT&T, while Unicom is a partnership between Bancomer, Telefonica de Espana, and the US-based telecommunications company GTE. The merged company, which will operate under the Alestra name, is expected to spend more than US$2 billion between 1997 and the year 2002. The investments will be aimed at expanding long-distance services and other telecommunications operations such as internet access, and will allow for creation of voice mail and data transfer services.

As required by law, 51% of the merged company remained in the hands of Mexican investors, with Alfa controlling a 25.6% share of the company and Bancomer another 25.4%. "This new structure will allow our company to explore other opportunities in the Mexican telecommunications market in the near future," said Rodrigo Guerra, president of AT&T de Mexico. According to El Financiero International weekly business newspaper, the two consortia had been discussing the merger for several months, but only began serious negotiations in March of this year. There are concerns about whether the merger of the two companies will violate Mexico's anti-monopoly law.

However, Communications and Transportation Secretary Carlos Ruiz Sacristan said that, after reviewing the case, his department concluded that the new venture does not violate any federal laws. The strengthened Alestra company is expected to compete heavily with three other well-funded companies: Telmex, Avantel (a partnership between US-based MCI and Banamex), and Iusatel (a joint venture between the cellular telephone company Iusacell and US-based Bell Atlantic). Telmex's long- distance capabilities will be enhanced by its partnership with US-based Sprint. Another company, MarcaTel, was weakened by the decision of one of its three foreign partners, Canadian-based Teleglobe, to withdraw from that venture earlier this year. The remaining partners in the company are Mexico's Radio Beep and US-based enterprises IXC and Westel. Two other competitors Cableados y Sistemas, and Investcom are expected to remain minor players in the long- distance market.

For their part, Avantel officials said the merger will have little bearing on the company's plans in the near future. "In our opinion, the merger did not create a larger company, but merely reduced the number of options for consumers," said Miguel Calderon, Avantel's public relations director. Indeed, sources from competing companies said the withdrawal of one competitor will largely reduce the chances of a price war to attract customers. Calderon said Avantel has already created a network of 3,500 km of fiber optic cables throughout Mexico, which is about 70% of the company's target. "We expect to complete this project by July," Calderon said.

According to some telecommunications analysts, Avantel will be in the best position to compete effectively with Telmex because the company will have its own infrastructure. Meantime, the announcement of the Unicom-Alestra merger had other effects for Telmex. On April 22, the day

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that the merger became public, investors actively sold Telmex shares on both the Mexican Stock Exchange (BMV) and the New York Stock Exchange, resulting in moderate declines for the stock. Still, the company appears to be in relatively sound financial health. For the first quarter of the year, Telmex reported net earnings of 3.48 billion pesos (US$466 million), despite a decline of 16% in sales. The financial results for January-March were a stark contrast to the losses of 561 million pesos (US$75.2 million) reported in the first quarter of last year. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on April 29, reported at 7.46 pesos per US$1.00] (Sources: Agence France- Presse, 04/23/96; La Jornada, 04/23/96, 04/26/96; New York Times, 04/27/96; El Financiero International, 04/29/96; Excelsior, 04/23/96, 04/30/96; Reforma, 04/23/96, 04/29/96, 04/30/96)

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