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Mexico Welcomes Three New Long-Distance Providers to Compete with Telmex

by LADB Staff
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In early August, three conglomerates initiated limited long-distance service within Mexico, thus ending the long- standing monopoly held by the giant telephone company TELMEX. The three consortia, all joint ventures among foreign telecommunications companies and Mexican partners, initiated service through their own private telephone lines. To commemorate the opening of the long-distance market on Aug. 11, President Ernesto Zedillo placed a long-distance call to Nuevo Leon Governor Benjamin Clariond Reyes in Monterrey.

Zedillo made the call on lines belonging to Avantel, one of TELMEX's three new competitors. Under the legislation passed to open the telecommunications market, those competitors that had access to their own equipment and infrastructure could begin offering long-distance service. As of early August, only three of the eight partnerships that received government concessions had actually installed enough equipment, including private lines, to compete on a limited basis with TELMEX in the long-distance market.

Two competitors, Avantel and Alestra, were set to compete with TELMEX via their private lines. The other competitor, Iusatel, offered long-distance connections via its extensive cellular-telephone network. TELMEX is not obligated to provide competitors access to its nationwide network of telephone lines and switching stations until January 1997. This means that the new options will not become available to residential customers. Avantel, a partnership between Mexico's Grupo Financiero Banamex-Accival (Banacci) and US-based telecommunications company MCI, will initially provide service to 17 large corporate clients. By 1997, however, the company expects to offer service to a wide range of business and residential users via its 3,300-mile network, which connects 33 cities. The company already invested about US$600 million in the first phase of the project.

Alestra, which is also expected initially to serve a few corporate clients, is a partnership among five companies. The two Mexico-based partners are Grupo Financiero Bancomer and industrial conglomerate Grupo Alfa. Two US companies, telecommunications giants AT&T and GTE, also form part of the joint venture, along with Spain's Telecom. Alestra has pledged to invest about US$1 billion to build its own network. Iusatel is a partnership between cellular-telephone company Grupo Iusacell and US-based Bell Atlantic. Bell Atlantic already owns a large share of Iusacell. According to the legislation, all companies participating in the long-distance market, including TELMEX, will have to contribute an unspecified amount of money on an annual basis to a special fund during the next four years to modernize Mexico's telecommunications system. One issue that remains unresolved is the amount of money that the eight competitors will have to pay TELMEX for use of its lines and switching stations. Even the companies that have their own infrastructure, such as Avantel, will have to use TELMEX switching stations for incoming and outgoing calls, and thus will have to pay a fee.

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TELMEX and the eight companies must resolve this difference before Jan. 1, 1997. TELMEX is requesting payments from each of the competitors of 800 million pesos (US$107 million) per year, while the competitors believe the annual fee that each one pays should be anywhere from 250 million pesos (US$33.5 million) to 400 million pesos (US$53.5 million). The competitors argue that TELMEX will be able to recover costs through a separate interconnection fee, which has been set initially at US$0.0352 cents per US$1.00. By the year 2000, the fee will be reduced to US$0.02 cents per US$1.00. According to financial experts, the eight competitors could eventually gainNeri 30% to 40% of the long-distance market, estimated to be worth about US$15 billion per year. A large portion of this market share, about 20%, is expected to go to Avantel and Alestra.

TELMEX, which is expected to retain as much as 60% of the long-distance market, enhanced its competitive position by forming a partnership with US-based telecommunications company Sprint. The five other competitors MarcaTel, Cableados y Sistemas, Miditel, Unicom, and Investcom are expected to remain minor players in the long-distance market. MarcaTel's competitive position was weakened after one of the three foreign partners in the enterprise, Canadian-based TeleGlobe, withdrew from the venture. The company is currently composed of Mexico's Radio Beep and US-based enterprises IXC and Westel. Telecommunications analysts predict that the opening of the long-distance market will provide benefits such as a reduction of 20% to 25% in long-distance rates, while promoting the expansion of Mexico's telephone network to include more users. Currently, only about nine out of 100 residents of Mexico have a telephone line. The number is expected to double to 18 per 100 inhabitants by the year 2000.

Some analysts suggest, however, that the investment now expected to enter Mexico is insufficient to meet the country's immediate needs, which they estimate at a minimum of US$25.5 billion. For its part, Avantel is already exploring branching out beyond long-distance service, perhaps competing directly with TELMEX in local telephone markets. According to Avantel's Director General, Manuel Sanchez Lugo, Avantel is now analyzing entering the local telephone market. The consortium is interested in either buying out the paging company Skytel or setting up its own separate service provider.

According to Francisco Javier Ramirez, president of the national cable television industry (Camara Nacional de la Industria por Cable, CANITEC), the cable providers are considering entering the long-distance telephone service market. According to Ramirez, 10 of the 173 member companies of CANITEC have already purchased some equipment necessary to provide long-distance telephone service.

As part of the changes in the telecommunications market, Carlos Cassasus Lopez until now deputy secretary of the Communications and Transportation Secretariat (SCT) has been appointed to head the federal telecommunications commission (Comision Federal de Telecomunicaciones, CFT). The CFT will now regulate the telephone market, a job previously handled by the SCT. The CFT has chosen US-based company NCS International to head a committee to watch over the opening of the Mexican market to ensure that the process is fair and objective and that all the necessary mechanisms are in place to ensure quality service.

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On a related matter, the SCT announced that the telecommunications regulating agency (Organo Regulador de Telecomunicaciones, ORT) will take over any further openings of the local and long-distance telephone market. That role had recently been the domain of the SCT. Among other things, the ORT will have the power to either set telephone rates directly or to prescribe the formula to be used to set these rates. The ORT will also regulate allocation of radio frequencies. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Aug. 20, reported at 7.47 pesos per US$1.00] (Sources: Reforma, 06/21/96; El Financiero International, 08/12/96; Agence France-Presse, 08/12/96; Excelsior, 08/12/96, 08/13/96; The News, 08/13/96, New York Times, 08/13/96; La Jornada, 08/13/96; El Financiero, 08/13/96; Novedades, 07/18/96, 08/12/96, 08/13/96, 08/15/96, 08/16/96)

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