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On Jan. 1, the Communications and Transportation Secretariat (SCT) officially opened the residential long- distance market to competitors, thus ending the long-standing monopoly held by Telefonos de Mexico (TELMEX). TELMEX, which was originally a state-run enterprise, was privatized by former president Carlos Salinas de Gortari in 1990. In mid-1995, the Mexican Senate and Chamber of Deputies passed legislation to also open long-distance telecommunications services to private-sector competition. Under the timetable announced by the SCT last year, long- distance service will be opened gradually in 60 cities during the course of 1997. The first cities to be opened to competition were Queretaro in central Mexico on Jan. 1, followed by Monterrey on Jan. 10.

All new companies entering the market will, at least initially, have to provide most of the new residential service via existing telephone lines and will have to pay TELMEX a user fee. According to TELMEX executive Jaime Chico Pardo, the company spent US$505 million in 1996 to expand its fiber optics network to accommodate the new users. Most of the new competitors are joint ventures between a Mexican company and a foreign telecommunications company. TELMEX is expected to face the strongest competition from Avantel (a partnership between US-based MCI Communications and Banamex-Accival), and from Alestra (formed by US-based AT&T, Bancomer, and Grupo Alfa). Avantel and Alestra began limited competition with TELMEX in August 1996 by offering long-distance service via their private lines for a network of business customers (see SourceMex, 08/21/96).

Avantel and Alestra are both expanding their infrastructure to eventually accommodate residential users. A third competitor, Grupo Iusatel (a partnership between US-based Bell Atlantic and Mexican cellular company Iusacell), has been offering long-distance connections via its extensive cellular-telephone network. Other competitors include MarcaTel, Bestel, Protel, Miditel, and Telinor, all of which involve partnerships between Mexican and foreign companies. In the case of Miditel, the foreign partner is South Korean-based Korea Telecom. In early January, the SCT awarded an operating permit to another consortia to offer long-distance service, bringing the number of competitors to nine. The new company, Grupo Extensa, is a joint venture between PCM Comunicaciones and US- based Communications Equity Associates. The Mexican partner, which will control 51% of Extensa, is led by businessmen Federico Wilkins, Roberto Salmeron, and David Pons. The US partner is affiliated with the Swedish communications company Ericsson, which will offer technological assistance to the Extensa partnership.

In a press conference, Wilkins said Extensa expects initially to obtain about a 1.7% share of the market, concentrating its operations in Mexico City, Guadalajara, Monterrey, and other areas of northern Mexico. The company will provide direct connections from those cities and regions to five US metropolitan areas, two in California and three in Texas. According to telecommunications

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market analysts, competition for the long-distance market which is expected to double in value to US$10 billion a year will remain fierce during the course of this year. The market's highly competitive nature has been especially evident in the advertising campaigns launched by TELMEX and its two closest competitors, Avantel and Alestra. Among its strategies, TELMEX has attempted to appeal to nationalist sentiment in Mexico by suggesting that Alestra and Avantel are actually US telephone companies AT&T and MCI.

In a controversial television advertisement, which began to air in mid-1996, TELMEX used a fictional character named "Burton Helms" to attack its competitors. The fictional character is a play on words to remind audiences of the US Helms-Burton law, which attempts to punish foreign companies that conduct business with Cuba (see NotiSur, 03/01/96 and 07/26/96). For its part, in mid-January Avantel launched its own campaign linking TELMEX to the inefficient telephone service experienced by Mexicans for several decades. In the advertisement, Avantel uses Mexican movie star Selma Hayek to discredit TELMEX.

Meanwhile, a study conducted by Grupo Financiero Banamex Accival projects that TELMEX will lose as much as 45% of the international phone market and 30% of the domestic long-distance market to competitors by the year 2002. TELMEX has attempted to enhance its competitive position by forming a partnership with US-based communications company Sprint. To compensate for the loss of market share in the long-distance market in Mexico, TELMEX has already made plans to offer its services in the US market via lines leased from its US partner Sprint. TELMEX is also partially owned by the US regional telephone company Southwestern Bell, which could offer some of its infrastructure to the Mexican company, particularly in Texas.

According to TELMEX executives, the service would be targeted to the more than 6 million Mexicans who work in the US. TELMEX estimates that long-distance telephone service between Mexico and the US is the second busiest in the world, surpassed only by the volume of traffic between the US and Canada. TELMEX executive Chico Pardo said his company expects to receive the same treatment in the US as any other long- distance provider. Meanwhile, as a consequence of the fierce competition, all telephone companies have attempted to lure customers by offering introductory discounts. Avantel and Alestra, for example, each announced introductory rates of 1.30 pesos (US $0.16 cents) per minute.

According to telecommunications market analysts at ING Barings in Mexico City, the strong competition could cause rates to drop by another 25% during 1997. The promotional rates forced TELMEX to adopt a similar rate. However, in an interview with the daily newspaper La Jornada, TELMEX chief executive officer Carlos Slim Helu suggested that the discounts offered by other telephone companies were actually a form of "predatory pricing," since the competitors were selling their service at below their operating costs. Alestra executive Jorge Escribano denied that the new competitors were engaged in any form of dumping or predatory pricing, since this practice is outlawed in Mexico. Escribano said the promotional discounts are necessary for customers to learn about the services and qualities offered by each of the companies. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Jan. 15, reported at 7.79 pesos per US$1.00] (Sources: Associated Press, 11/19/96; Spanish news service EFE, 12/17/96; La Jornada, 01/08/97; Excelsior, 01/07/97, 01/09/97; El Universal, 12/17/96, 01/08/97, 01/09/97, 01/10/97; Novedades,

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01/09/97; Siglo XXI, 01/08/97, 01/10/97; Reuter, 01/06/97, 01/10/97, 01/12/97; The News, 12/18/96, 01/13/97; El Economista, 12/10/96, 12/13/96, 01/07-10/97, 01/13/97)

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