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Three Groups Compete for Concession of State-Run Satellite Company

by LADB Staff

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In mid-September, the Secretaria de Comunicaciones y Transportes (SCT) announced the approval of three applications from Mexican-foreign consortia to participate in the auction of a 60% share in the state-run satellite communications company Satelites de Mexico (SatMex). The government formed SatMex earlier this year to facilitate the privatization of the Morelos I and II and Solidaridad I and II satellites. The successful bidder will have the option to launch a new satellite to replace Morelos I, which has since been taken out of service.

According to SatMex planning director Jorge Castilla, the SCT has set a minimum bid of US\$120 million. The winning bid will be announced in early November. Castilla said the participation of private investors in SatMex is essential to expand services in the domestic market, including direct-to-home satellite television and long- distance telephone service. In addition, Castilla said increased foreign investment in SatMex will help the company expand its coverage to incorporate all of the Americas. The coverage of SatMex satellites has been limited to North and Central America.

At the same time, SatMex is considered a particularly attractive property for foreign investors. According to SCT statistics, the company's revenues for this year are expected to increase by 27% from 1996 to US\$122 million because of major contracts with users such as Televisa and Multivision. The three consortia that submitted bids by the September deadline include: * Industrias Penoles and PanAmSat Corporation, a subsidiary of California-based Hughes Space Communications * Telefonica Autrey and US-European company Loral Space * Megacable and New Jersey-based GE American Communications (Americom).

According to SCT privatization director Carlos Casaus, each of the three consortia will be allowed to incorporate other partners into the venture before the Oct. 19 deadline to submit technical and economic bids to the government. However, any expansion of the joint ventures must comply with the satellite-privatization guidelines announced by the government earlier this year. The guidelines restrict foreign partners to a 49% share of the joint venture. Television networks may join one of the existing bids All three consortia have taken steps to expand their partnerships.

In late September, the Penoles-PanAmSat venture announced negotiations to incorporate Mexico's two major television networks, Televisa and Television Azteca, plus cable television venture MVS Multivision, into their bid. As of late September, Television Azteca was still considering the plan to determine whether participation would be advantageous from a financial standpoint. "There are intangible assets to this company that are being evaluated by the competing companies," SatMex planning director Castilla told reporters. "It has to do with markets, licenses, the concessions, commercial agreements, and a series of processes that could greatly increase the value of SatMex."

Meanwhile, both the Autrey-Loral and GE-Megacable joint ventures have initiated negotiations with other prospective partners to join their bid for the satellite concessions. The Autrey-Loral partnership is negotiating with communication company Grupo Alcatel, while the GE-Megacable consortium has invited Grupo Villacero to join its bid. Still, the prospective partnership among Penoles-PanAmSat and the three television stations would appear to be the strongest of the three ventures. According to news reports, the government's anti-monopoly commission (Comision Federal de Competencia, CFC) must approve the deal before the television companies can become a part of the Penoles-PanAmSat venture.

For its part, the SCT has offered informal support for the addition of Televisa, Television Azteca, and MVS to the Penoles-PanAmSat partnership. In an interview with the daily newspaper El Economista, deputy communications secretary Javier Lozano called the incorporation of the three companies into the satellite privatization a healthy move, since the television industry accounts for 59% of the usage of Mexican satellite services. The 350 private telecommunications networks represent another 38% of the usage, while radio networks and cellular telephone service account for the remaining 3%. (Sources: El Financiero International, 09/22/97; Bloomberg News, 09/24/97; La Jornada, El Universal, 09/24/97, 09/25/97; The News, 09/25/97; Reuter, 09/26/97; El Economista, 09/24/97, 09/25/97, 09/26/97, 09/30/97)

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