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Mexico Restructures Telecommunications Regulating Agency

by LADB Staff

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In late April, the Secretaria de Comunicaciones y Transportes (SCT) announced a full restructuring of the Comision Federal de Telecomunicaciones (COFETEL). The decision followed the surprise resignation of COFETEL director Carlos Casasus, who was unable to mediate a solution to the growing conflict between telephone giant TELMEX and its major competitors in the long-distance market.

Casasus was replaced by the SCT's deputy secretary Javier Lozano Alarcon, who will retain his current duties and also preside over COFETEL. "We will strengthen the technical and administrative authority at COFETEL," said Lozano.

Changes may appease US telephone companies

According to the Reuter news agency, the SCT may have pressured Casasus to resign to appease US telephone companies AT&T and MCI. The two US companies had complained about excessively high interconnection fees charged by TELMEX to MCI-affiliated Avantel, AT&T subsidiary Alestra, and other competitors. As a protest against the high fees, the two US companies had suspended new investments in Mexico and also blocked TELMEX's efforts to expand service into the US market (see SourceMex, 11/05/97 and 03/04/98).

In interviews with Reuters, telecommunications analysts said Casasus was considered incapable of resolving the disputes between TELMEX and its competitors because of past ties to the Mexican telephone company. Before his appointment to head COFETEL, Casasus worked as an executive at TELMEX. Lozano Alarcon acknowledged Casasus's departure from COFETEL may have paved the way for an "urgent" restructuring of the agency. "We have to restore certainty and clarity to the telecommunications market," Lozano told the daily business newspaper El Economista.

The change in leadership at COFETEL may be intended to encourage MCI and AT&T to proceed with plans to secure new investment in Alestra and Avantel. In a report on the telecommunications industry, Santander Investments said MCI and its Mexican partner Grupo Financiero Banamex-Accival have completed negotiations to sell a 10% share of Avantel to Telefonica de Espana. The Spanish company has agreed to invest US\$250 million in Avantel but only after changes are made in the telecommunications industry to remove an unfair advantage for TELMEX. Santander Investments said AT&T is also involved in negotiations to sell part of its minority share in Alestra to Italian telecommunications company Telecom.

Under the plan, Mexican partners Grupo Financiero Bancomer and Grupo Alfa would retain their majority shares in Alestra, leaving AT&T and Telecom as the two minority partners. One of the principal issues Lozano must address as head of COFETEL is the question of what regulatory

restrictions will be imposed on TELMEX based on a recent ruling from the federal anti-monopoly commission (Comision Federal de Competencia). In December 1997, the commission declared TELMEX a "dominant" company in the telecommunications market (see SourceMex, 12/17/97).

The ruling allows the government to take action against TELMEX to ensure competition in the telecommunications market. Analyst Lars Schonander of Santander Investments in Mexico said Lozano may not take any drastic action against TELMEX in the near term because COFETEL will still be faced with a decision to protect the company's interests in the short term while ensuring that full competition will be in place in the medium to long term. (Sources: Novedades, 04/20/98; Bloomberg News, 04/23/98; The News, 04/24/98; Reuters, 04/27/98; El Universal, 04/28/98; El Economista, 04/28/98, 04/29/98; Excelsior, 04/29/98; El Financiero International, 05/04/98)

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