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Mexican Government Awards Concessions for Local Telephone Service

by LADB Staff

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The Secretaria de Comunicaciones y Transportes (SCT) has approved permits for eight private companies to offer local telephone service in Mexico, primarily through wireless telephone networks but also via cable-based fiber-optic systems. Local service will initially be opened to competition in Mexico City, Guadalajara, and Monterrey and eventually expanded to include most of the country. Seven of the eight companies will compete with telephone giant TELMEX, which until now had exclusive rights to offer local telephone service. One company that received a permit, Radiomovil Dipsa, is a TELMEX subsidiary.

The SCT also awarded concessions to Midicel, Telefonica Inalambrica del Norte (Telinor), Grupo Hermes, Sistemas Profesionales de Comunicacion (SPC), Qualcomm-Pegaso, Grupo Iusacell, and Telcel. Midicel is affiliated with long- distance provider Miditel. SPC is a subsidiary of the appliance chain Grupo Elektra, which is also affiliated with the television network Television Azteca.

Avantel, Alestra decline to participate

The most prominent names absent from the list are Avantel and Alestra, TELMEX's primary competitors in the long-distance market. Avantel is a joint venture between US-based MCI and Grupo Financiero Banamex-Accival, while Alestra is a partnership formed by US company AT&T and Mexico's Grupo Alfa and Grupo Financiero Bancomer. Alestra and Avantel have been involved in a heated dispute with TELMEX regarding interconnection fees for long- distance telephone calls (see SourceMex, 03/04/98 and 05/06/98).

Alestra and Avantel had planned to participate in the auction by offering wireless telephone service for local customers. But they withdrew their bids, citing the high fees required by the SCT for frequency bands. The weekly business newspaper El Financiero International said the SCT was charging between US\$17 million and US\$29 million for the rights to frequency bands. Some telecommunications market specialists suggested Alestra and Avantel may be missing an opportunity to gain a share of the local market. "In light of what the two companies spent on long distance, the concession prices weren't so high," said Lars Schonander of the Mexico City office of Santander Investment.

Some companies are planning to compete with TELMEX through an aggressive pricing strategy. In an interview with Bloomberg News, SPC president Ricardo Salinas Pliego said SPC will charge customers only 400 pesos (US\$45.45) to install a new line, compared with the current TELMEX rate of 1,500 pesos (US\$170.45). SPC will initially offer local service in Cuernavaca and Acapulco, extending the offer throughout Mexico by the beginning of 1999.

TELMEX director Jaime Chico Pardo said he was not concerned about losing clients to the new competitors. "The competition for local telephone service is going to expand the market

and diversify the clientele," Chico Pardo said at a public hearing. In testimony before a Senate telecommunications committee, Communications and Transportation Secretary Carlos Ruiz Sacristan said President Ernesto Zedillo's administration would not seek an immediate reduction in local telephone rates because this would reduce the profitability of new investments and hamper the government's goal to further expand telephone service in Mexico.

Ruiz Sacristan said the eight companies had thus far pledged to invest a total of 10 billion pesos (US \$1.14 billion) over the next five years to develop infrastructure, including the expansion of cable or wire systems and the installation of 9 million telephone lines throughout the country. The SCT official said 28,000 communities of 100 or more inhabitants lacked telephone service when Zedillo took office in 1994. As of early 1998, 10,000 of those communities now have access to telephone service.

Anti-monopoly commission opens new TELMEX investigation

On a related matter, the government's anti-monopoly agency (Comision Federal de Competencia, CFC) has launched a new investigation against TELMEX for unfair practices. The CFC is investigating complaints that the company is charging fees for customers who dial toll-free 800 numbers from TELMEX pay phones.

TELMEX's own customers can still dial 800 numbers from those pay phones by using a special calling card. TELMEX argues that the fees to noncustomers are needed to compensate for the costs of operating pay phones. The CFC is expected to issue a ruling on the matter by the end of August. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on June 3, reported at 8.80 pesos per US\$1.00] (Sources: The Miami Herald, 04/29/98; Associated Press, 04/30/98; Bloomberg News, 04/28/98, 05/26/98; The News, 05/22/98, 05/27/98; El Economista, 05/22/98, 05/28/98, 06/03/98; El Financiero International, 06/01/98; El Universal, 05/22/98, 06/03/98)

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