

3-3-1999

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LADB Staff

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### Recommended Citation

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## Mexico's Telephone Market Opened with Launch of New Service in Tijuana

by LADB Staff

Category/Department: Mexico

Published: 1999-03-03

Competition began in earnest in Mexico's local telephone market when telecommunications company Pegaso began offering local service in Tijuana at the end of February. Pegaso and its partners Grupo Televisa and US-based Leap Wireless International initiated operations in Tijuana because of the city's relatively high per-capita income and medium-sized population. "This allows us to fine-tune the service before moving on to larger markets," a company spokesperson told the daily business newspaper El Economista.

Pegaso's expansion plans for this year include service in Mexico's 28 largest cities, the company spokesperson said. In addition to making local calls, Pegaso clients will be able to use the company's telephone network to complete long-distance calls to other cities in Mexico and to overseas locations, the spokesperson said.

Pegaso is the first of several companies planning to challenge telecommunications giant TELMEX for a share of Mexico's local telephone market this year. At least eight other companies are set to begin operations in the domestic telephone market sometime in 1999. They received operating permits from the Secretaria de Comunicaciones y Transportes in May 1998 (see SourceMex, 1998-06-03).

Communications and Transportation Secretary Carlos Ruiz Sacristan said private companies have pledged to invest about US\$56 million in local service through 2003 to create another 9.5 million telephone lines in Mexico. This could double telephone coverage from current levels. Fewer than 10% of Mexicans own a telephone, one of the lowest ratios in Latin America. Most expansion of local telephone service is expected to come via wireless telecommunications, although some companies are also installing new cable-based fiber-optic systems. At present, some 3.25 million Mexicans, or roughly 3.4% of the population, owns cellular telephones. This could increase to 10% by 2003, telecommunications industry analysts recently told Reuters news agency.

Even with the increased competition from new companies, the TELMEX subsidiary Telcel is expected to retain its 65% share of the cellular-telephone market because most expansion in telephone service nationwide will involve customers who previously did not own a telephone.

### *TELMEX accused of attempting to stifle competition*

Even with TELMEX's large share of the domestic cellular-telephone market, competitors are accusing the company of attempting to stifle competition through its opposition to changes in the fee structure of cellular-telephone charges. In mid-January, TELMEX filed a lawsuit to overturn a decision by the federal telecommunications regulating commission (Comision Federal de Telecomunicaciones, COFETEL) to charge cellular telephone calls to the caller rather than to the party receiving the call.

In opposing the changes, TELMEX argued that the new fee structure would triple the cost of cellular-telephone calls, which would in turn discourage usage. "The new fee structure is an affront to 10 million cellular-telephone users," said TELMEX president Carlos Slim Helu in defending the company's opposition to the plan. TELMEX won a temporary injunction in mid-January to stop the implementation of the new fee. However, the victory was short-lived. A federal court ruled in early February that COFETEL was within its mandate to implement the new fee structure.

While TELMEX was battling the new competition in the domestic market, the company moved to expand its presence in the US cellular-telephone market. In early February, TELMEX reached an agreement to acquire a 55% share of Florida-based Topp Telecom Inc. from Cellstar Corp. Topp Telecom is the largest provider of prepaid wireless-telephone service in the US. Prepaid telephone companies allow clients to pay up front for the use of cellular phones. "[This allows] TELMEX to take a step further in its strategy of growing internationally, expanding its presence in the market of prepaid wireless services," said a TELMEX statement.

Meanwhile, TELMEX remains embroiled in a dispute about the interconnection fee that will be charged to competitors for completing long-distance calls between Mexico and the US during 1999. TELMEX unilaterally imposed a fee of US\$0.34 per minute for this year, but competitors, including Alestra and Avantel, have refused to pay more than US\$0.19. Since Alestra and Avantel are subsidiaries of US companies, the US Federal Communications Commission (FCC) has also rejected the high Mexican rates. It complains that, because of the higher fees, US callers to Mexico are overpaying by US\$700 million a year.

FCC Chairman William Kennard and COFETEL president Javier Lozano Alarcon discussed the dispute during a recent meeting. But Lozano said COFETAL's position is that the dispute is a commercial matter that must be resolved by TELMEX and its competitors. "I am very confident they will reach an agreement in the coming weeks," Lozano told reporters. (Sources: Bloomberg news service, 02/09/99; El Universal, 01/14/99, 02/04/99, 02/10/99; The News, 02/10/99, 02/12/99; Excelsior, 01/14/99, 02/19/99; Reuters, 02/09/99, 02/15/99, 02/18/99, 02/25/99; El Economista, 01/06/99, 01/18/99, 02/05/99, 02/11/99, 02/25/99, 02/26/99)

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