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In early May, Mexico's giant telecommunications company Telmex acquired full control over Telmex Sprint Communications (TSC), a joint venture established with Sprint Corp. to operate in the US market. Telmex and Sprint spokespersons said the decision to dissolve the partnership was mutual, with the Mexican company paying an undetermined amount for Sprint's 50% share in TSC.

TSC originally received a permit from the US Federal Communications Commission (FCC) to operate in the US market in October 1997, but final authorization was delayed because of strong opposition from US long-distance providers AT&T and MCI WorldCom. The two US companies argued that TELMEX should not be allowed to operate in the US because of the company's monopolistic practices in Mexico's long-distance market. After repeated appeals from Telmex and the Mexican government, the FCC gave its final approval for TSC to begin operations in August 1998 (see SourceMex, 1998-08-12).

Even though TSC had operated in the US market for less than a year, Telmex and Sprint executives said marketing considerations were the primary reason behind the decision to dissolve the partnership. "We both agreed that it was time to redefine the relationship to give each company flexibility to pursue its own independent efforts to market products and services to the Hispanic community," said Roberto Isaac Rodriguez, executive vice president of Telmex International Ventures.

But telecommunications analysts, in interviews with Reuters news service, said the Sprint-Telmex partnership had not been a successful venture in its nearly 10 months of operation, with the company spending much of its energy on conducting marketing research. "The US business right now is not significant to Telmex except for long-term strategy," said analyst Michel Morin of Merrill Lynch's office in Mexico City.

Telmex expected to strengthen ties to another US company

The dissolution of the partnership with Sprint was announced only a day after Telmex and SBC Communications formalized a joint purchase of Cellular Communications of Puerto Rico Inc. Telecommunications analysts expect Telmex and SBC to eventually forge a partnership in local and long-distance markets in southwestern US states.

SBC, formerly known as Southwestern Bell, already owns a 9.8% share of Telmex. SBC has applied for FCC permission to provide long- distance telephone service. That permission is expected to be approved in September. There was also speculation that a third prominent telecommunications company, Telefonica de Espana, could join a Telmex-SBC partnership. The Spain-based newspaper Cinco Dias said discussions among the three partners are only in the "embryonic stage." But any deal reached by the three parties would end up as a merger and not merely an alliance.

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The newspaper said a merger with Telmex and SBC would give Telefonica de Espana a foothold in both the US and Mexican markets and allow the company to become more competitive against other European telecommunications concerns, particularly the recently merged Deutsche Telekom-Telecom Italia joint venture.

Responding to the reports in Cinco Dias, Telmex denied any talks with Telefonica de Espana about a three-way merger with SBC. "We find it necessary to clarify that we have not been engaged in any merger discussions," a Telmex statement said. (Sources: Agence France-Presse, Notimex, Spanish news service EFE, 05/10/99; Reuters, 05/04/99, 05/11/99; Excelsior, 05/05/99, 05/11/99; El Universal, 05/05/99, 05/12/99; El Economista, 05/05/99, 05/10/99, 05/12/99)

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