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The North American Free Trade Agreement (NAFTA) has had a mixed effect on Mexico's telecommunications sector. Industry insiders say the agreement has failed to promote anticipated improvements in Mexico's telecommunications sector, partly because of the continuing dominance of industry giant TELMEX in the Mexican domestic market. At the same time, NAFTA has created ample opportunities for TELMEX to expand into the US market.

In early July, a special Senate committee called a hearing to examine whether NAFTA has provided any benefits for the telecommunications sector. Witnesses said despite the opening of the market to competition, telephone rates remain high, infrastructure is still inadequate, and salaries continue low for telecommunications workers

Preferential treatment for TELMEX

Rather than blaming NAFTA directly for failing to improve Mexico's telecommunications sector, many witnesses said the lack of advances is the result of the government's failure to take advantage of openings and its decision to allow TELMEX to retain a near monopoly on telephone service.

Pablo Gonzalez, a representative of long-distance provider Avantel, said the government has been slow in removing restrictions for potential TELMEX competitors, particularly allowing TELMEX to continue to charge high interconnection fees. This delay in opening competition has increased costs for competitors, which have been unable to expand and modernize service fast enough to meet the growing needs of Mexican telephone users.

Judith Mariscal, an economist at the Centro de Investigacion y Docencia Economica (CIDE), told the Senate panel that the most glaring problem for the Mexican telecommunications sector is the continuing shortage of telephone lines for a large percentage of the population. As of 1997, there were only 10.7 lines per 100 residents, a "dramatically low number," said Mariscal.

Mariscal acknowledged that NAFTA eliminated tariff and nontariff barriers for many types of telecommunications equipment, which has benefitted some companies. "But the government failed to use the accord to open the most important segment for the industry, which is services," Mariscal said.

Some witnesses said the lack of competition has also resulted in high telephone rates. Arturo Darbel, president of the Fundacion para el Desarrollo de las Telecomunicaciones y Tecnologias de la Informacion, complained that local and long- distance fees are higher in Mexico than in any other country with whom Mexico has a trade accord. "We need to promote more equitable competition in the telecommunications sector to make our services more compatible with our North

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American partners," said Darbel. Complaints about TELMEX at the hearing coincided with a draft report published by the Organization for Economic Cooperation and Development (OECD), which criticized TELMEX for high costs and poor service.

The report, scheduled for release in final form the end of July, also criticized the Comision Federal de Telecomunicaciones (COFETEL) for not taking sufficient steps to guarantee competition in Mexico's telecommunications market. Telecommunications-industry chamber Camara Nacional de la Industria Electronica de Comunicaciones e Informatica CANIETI has published recommendations to increase competition in the telephone market. The recommendations, announced in early July, essentially call for COFETEL to impose tough limits on TELMEX, especially after the government's anti-monopoly agency (Comision Federal de Competencia, CFC) designated the company as a dominant carrier.

TELMEX, a member of CANIETI, did not participate in drafting the recommendations. The CFC ruling could eventually force TELMEX to reduce fees charged to competitors for interconnection and other services, which could boost competition and the quality of service, CANIETI spokesman Angel Martinez said. TELMEX continues rapid expansion in US market Even as TELMEX faces possible increased restrictions in the domestic market, it has taken advantage of NAFTA provisions to expand into the US telecommunications market.

In July of this year, TELMEX acquired Texas-based Comm South Companies for US$75 million. Comm South provides local telephone service to 177,000 residential users in 14 states. The purchase of Comm South is TELMEX's last piece in the puzzle for a diversified telecommunications company in the US. In May, TELMEX became the sole owner of its US long-distance provider TSC Communications by acquiring the share of its then partner Sprint (see SourceMex, 1999-05-12). The name of the long-distance subsidiary, currently called TSC, will be changed to TELMEX USA.

TELMEX also recently entered into ventures in the US cellular-telephone market with the purchase of Topp Telecom and Cellular Communications of Puerto Rico. TELMEX also became a provider of internet services in the US through the joint purchase of Prodigy Communications with its Mexican partner Carso Global Telecom. To finance its rapid expansion in the US market and restructure some debt, TELMEX issued a convertible bond of US$1 billion in international markets in early June. Convertible bonds are corporate debt issues that are exchangeable usually for shares in a company at a predetermined price. (Sources: La Jornada, 06/30/99; El Universal, 06/30/99, 07/08/99; Reuters, 06/03/99, 06/29/99, 07/08/99, 07/09/99; Spanish news service EFE, Agence France- Presse, 07/11/99; El Economista, 06/04/99, 06/30/99, 07/07/99, 07/08/99, 07/12/99; Excelsior, 06/30/99, 07/07/99, 07/08/99, 07/12/99; Novedades, 07/12/99)

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