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U.S. Mexico End Longstanding Telecommunications Dispute

by LADB Staff
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After several years of acrimonious debate, the US and Mexican governments reached an agreement in early June that would end a bitter dispute regarding telecommunications. The accord basically ends the power of Mexican telecommunications giant TELMEX to negotiate interconnection fees for all long-distance calls originating in the US. Individual companies will now be allowed to negotiate their own rates with US companies.

Spokespersons for the Office of the US Trade Representative (USTR) and the Secretaria de Economia (SE) said the agreement brings Mexico into full compliance with a ruling issued by the World Trade Organization (WTO) earlier this year. In that ruling, the WTO said Mexico was violating international-trade rules by allowing TELMEX to charge excessive interconnection fees to US carriers (see SourceMex, 2004-03-24). The ruling stems from a complaint filed by US authorities before the WTO in 2000 (see SourceMex, 2002-02-20).

The two countries had been involved in international disputes about telecommunications since SourceMex, 1998-03-04, 2000-04-12 and 2000-12-20. Long-distance calls to Mexico may become cheaper Telecommunications-industry analysts said the agreement would in the end reduce the cost of long-distance calls from the US to Mexico.

"This agreement...should result in lower prices for calls to Mexico as the US carriers negotiate lower call-completion rates," said Robert Atkinson, a research director at Columbia University's Institute for Tele-Information. The agreement also opens the door for foreign companies to rent TELMEX equipment, allowing them to offer competing service in Mexico by 2005.

As a result of the agreement, Mexico will begin implementing changes to its telecommunications laws in August. The changes could take as long as a year to fully implement.

US makes concessions
While the agreement appears to be weighted more heavily toward the US, Mexico also won a significant victory with the US government's agreement to ban the practice of bypass. Under this practice, some US companies avoided the interconnection fees by using telephone lines leased from other US companies to connect with Mexico. By avoiding the interconnection fees, these companies were able to offer calling cards with lower prices for calls to Mexico.

Mexico said bypass calls constituted roughly 20% of all incoming calls to Mexico in 2000 at a cost of US$190 million in potential revenue. Ricardo Ramirez, director of legal affairs at the SE, said Mexico was already planning to make some of the changes recently negotiated with the US. "We come out of this case winners because the commitments we made in the agreement were already changes we were planning," said Ramirez. "Additionally, we were able to prevent the [bypass] practice, which the US had been pushing to legalize at the international level."
TELMEX officials were also pleased with the agreement, saying the elimination of bypass calls will offset the revenues that will be lost through potentially lower interconnection fees. Some analysts suggested the loss of revenue from interconnection fees would be minimal for TELMEX. "I think the impact will be very small because interconnection fees represent a very low percentage of the company's earnings, perhaps only 2%," said Ana Gabriela Ocejo, an analyst at Scotiabank Inverlat. An SE spokesperson said a significant benefit of the agreement was that the two countries resolved their dispute bilaterally and thus avoided having to bring the matter before a WTO dispute-resolution panel. "Going to the WTO with this issue was not convenient for either government," said the spokesperson. (Sources: Reuters, 05/31/04, 06/01/04; Associated Press, Spanish news service EFE, Notimex, 06/01/04; El Financiero, La Jornada, El Universal, The Dallas Morning News, El Sol de Mexico, 06/02/04)

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