8-16-2006

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LADB Article Id: 51657
ISSN: 1054-8890

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by LADB Staff
Category/Department: Mexico
Published: 2006-08-16

The television and telephone industries, two of Mexico's most powerful sectors, are on opposite sides of a nasty dispute regarding a proposal to open the lucrative telecommunications market. At issue is a proposal by the Secretaria de Comunicaciones y Transportes (SCT) to allow cable television companies to begin to offer telephone service.

Telephone rates have remained high because the giant telephone company TELMEX has been allowed to operate as a near monopoly for many decades. A large segment of the Mexican population still relies on fixed-telephone service, with TELMEX controlling 94% of the country's landlines. This means any competitors are forced to pay high fees to gain access to TELMEX's infrastructure, which has discouraged competition.

Cellular telephones are becoming increasingly popular, but even in cellular use TELMEX is the major player in the market with its subsidiary America Movil, although its dominance is not as high there as it is in the fixed-telephone market.

Plan could reduce domestic telephone rates by 30%

Under the SCT proposal, the nearly 200 cable companies that operate in Mexico would be able to use their own infrastructure to offer telephone service, which could reduce the cost of local service significantly. This would mark a major change from the current practice, where cable companies are required to enter into partnerships with some of the smaller telephone companies to offer voice services. "We could see prices drop by 30% or more," said Alejandro Puente Cordoba, president of the Camara Nacional de la Industria de Telecomunicaciones por Cable (CANITEC).

The SCT's proposed market-opening measures are expected to make just a small dent in Mexico's telecommunications market. By some estimates, there are only about 3.4 million cable TV customers in Mexico, out of a population of 106 million people. Many cable companies have made major investments to upgrade their systems so they can eventually offer consumers a combination of television, Internet, and telephone services, a package known in the industry as triple play.

By some estimates, the telephone market could mean an additional US$59.4 million in revenues for the cable companies. Still, some analysts say only the three giant companies Cablevision, Cablemas, and Megacable are in a position to jump into the telephone market immediately. Cablevision is owned by Mexico's television giant Grupo Televisa. A TELMEX spokesperson said the company supports the concept of the SCT's proposal, but opposes some conditions imposed by the government.

Under the plan, TELMEX would have to meet certain requirements before it would be allowed to enter the television market. Cable companies would be allowed to enter the telephone market

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immediately with few, if any, conditions. The SCT is expected to present full details of its "convergence agreement" (Acuerdo de Convergencia) to open the telecommunications market by the end of August. The plan will go to the Comision Federal de Mejora Regulatoria (COFEMER), a watchdog agency that ensures that any changes in federal regulations serve the public interest. COFEMER has already endorsed the SCT proposal in principle, as has the government's anti-monopoly commission (Comision Federal de Competencia, CFC). The SCT would like to implement the changes by November or December.

COFEMER said it was in favor of allowing all the telecommunications networks to "offer all services that they are technologically able to provide," including telephone, radio, television, and Internet. TELMEX says proposal is unfair CFC president Eduardo Perez Motta has been one of the staunchest advocates of opening the telecommunications market and has thus been the target of TELMEX's harshest criticisms. Company officials have criticized Perez Motta and the CFC for taking on the banner of consumer protection while protecting the interests of the cable companies.

TELMEX accused the CFC of trying to create a "patent for piracy" for the cable companies. "TELMEX greatly regrets that the CFC has taken the stance of supposedly protecting consumers," said a company statement. "In reality, [consumers] will be the most affected by the opening of a strategic sector to other parties." TELMEX said many cable companies are already offering television, Internet, and telephone services. "What the cable companies want is to tie TELMEX's hands while they consolidate their own monopolies," said TELMEX legal affairs director Javier Mondragon Alarcon.

TELMEX raised concerns that the new agreement would enable the cable companies to take some of the telephone company's higher-income customers in the urban markets. Under the SCT proposal, TELMEX would have to develop a system of portability, by which customers who defect to the cable companies would be able to keep their existing telephone numbers. "Who should pay for this portability?" said Mondragon.

Perez Motta said, however, that portability was essential to ensure fair competition in the telecommunications market. The CFC is requiring that TELMEX accept the portability concept as a condition for allowing the telephone company to eventually enter the television market.

Mondragon also noted that the SCT proposal does not require the cable companies to offer telephone services to low-income consumers or invest in infrastructure in rural areas. Until a few years ago, TELMEX was required to expand telephone-related infrastructure to remote areas of Mexico as a condition for being allowed to retain a dominant status in the market. The company was criticized for its slow pace in meeting these commitments (see SourceMex, 2000-01-26).

In 2000, government regulators proposed to relieve TELMEX of those responsibilities, creating a special infrastructure-development fund through collecting fees from all telephone companies (see SourceMex, 2000-11-08). Perez Motta noted that the CFC's position is already contained the federal telecommunications law (Ley Federal de Telecomunicaciones, LFT). "[The law] establishes minimum conditions for the operation of new services," said the CFC president.

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TELMEX, owned by billionaire Carlos Slim, has frequently sparred with the government regarding the telephone company's monopolistic tendencies, including excessively high interconnection fees charged to new competitors in the long-distance market in the 1970s (see SourceMex, 1997-12-17, 1998-11-11 and 2000-09-20).

Many industry observers expect the giant company to bring the matter to the courts. "I think they'll take some legal action to slow it down," Latin America telecommunications expert Juan Ignacio Fernandez told the Los Angeles Times. "If the tools are available for them to delay opening a market or implementing market changes, they will use them." (Sources: Revista Expansion, 07/06; Reforma, 07/11/06, 07/15/06, 07/18/06; La Jornada, 07/18/06, 07/20/06; Milenio Diario, 07/18/06, 07/25/06; El Universal, 07/23-26/06; Los Angeles Times, 07/26/06; El Economista, 07/06/06, 07/07/06, 07/18/06, 08/04/06; Notimex, 08/08/06, 08/14/06; La Cronica de Hoy, 07/19/06, 07/20/06, 07/24/06, 07/25/06, 08/07/06, 08/15/06; Excelsior, 08/08/06, 08/15/06)

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