

2-8-2012

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Recommended Citation

Navarro, Carlos. "Anti-monopoly Agency Rejects Merger of Television Giant Televisa with Cell-phone Company Iusacell; TELMEX Monopolistic Tendencies Also Questioned." (2012). <https://digitalrepository.unm.edu/sourcemex/5861>

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Anti-monopoly Agency Rejects Merger of Television Giant Televisa with Cell-phone Company Iusacell; TELMEX Monopolistic Tendencies Also Questioned

by Carlos Navarro

Category/Department: Economy

Published: 2012-02-08

Mexico's anti-monopoly agency (Comisión Federal de Competencia, CFC) rejected a move by giant television network Televisa to acquire a 50% share of the cellular-telephone company Iusacell. The five-member CFC has not officially announced—and therefore, not explained—its decision, but the vote was communicated widely to the industry and the media.

Ironically, the move eliminates a potential source of competition for Mexico's dominant cellular-telephone company Telcel, a subsidiary of América Móvil, owned by billionaire Carlos Slim. At about the same time that the CFC, also known by the acronym Cofeco, was deciding on Televisa, the internationally respected Organization for Economic Development and Cooperation (OECD) issued a report highly critical of the monopoly of Slim's telephone company, which it said keeps prices high for most Mexicans.

Some analysts said the CFC decision was probably an effort to fight the high concentration in the telecommunications market, whereby one company dominates various aspects of the market, with television, telephone, and Internet quickly becoming integrated.

Slim contends that antitrust authorities should look at the telecommunications market as an integrated unit and not simply look at each one of its parts. The billionaire has raised concerns that his companies are at a competitive disadvantage because they are not able to offer television services.

Grupo Televisa and Grupo Azteca have enhanced their market position by offering "triple-play" packages of phone, Internet and cable. TELMEX can only offer Internet and phone and has said pay-TV would boost revenue. There have been some proposals to create a third major network, and TELMEX has been part of the discussion ([SourceMex, March 2, 2011](#), and [Aug. 31, 2011](#)), but there has been no progress in this regard.

The proposed Televisa-Iusacell alliance actually represents an arrangement between the two largest companies that have dominated the television market, since Iusacell is a subsidiary of national TV network Grupo Azteca, owned by billionaire Ricardo Salinas Pliego. For Iusacell, TV Azteca, and Televisa, the issue is not control of the television market, but increased access to the telephone sector. "[The CFC decision] does not encourage competition in the Mexican telephone market," said Iusacell, while accusing the anti-monopoly commission of basing its move on "suspicions and hypothetical assumptions."

Similar comments came from Televisa. "This decision damages the potential for competition in a key sector for Mexico's development," the giant network said in a statement. "The lack of competition has deeply affected the degree of adoption of these services and the development of Mexico's telecommunications infrastructure."

Decision subject to appeal

The CFC decision will be open to review, and some financial-industry sources suggest that Televisa might just win an appeal. Tomás Lajous, an analyst at UBS AG in Mexico City, believes that Televisa will eventually succeed in overturning the decision. In a research note, he pointed out that Cofeco commissioners might reconsider their decision if Televisa and Azteca agree to conditions to ensure competition.

But TELMEX is also offering some facts that might influence whether the antitrust agency upholds its decision. América Móvil asked the antitrust agency last year to look into allegations that Televisa and Iusacell had already cemented the deal without waiting for antitrust approval, which would be punishable by a fine of as much as 8% of each company's Mexican sales. The complaints cited Televisa's appointment of at least one board member for Iusacell and the investment.

Televisa already has the right to name one of Iusacell's four board members and can add a second when it converts the wireless carrier's debt into shares. And the company contends that the acquisition of debt does not represent a transaction that requires review by the CFC.

The Iusacell transaction represents Televisa's second attempt to enter Mexico's telephone market. The television giant previously attempted to forge a deal with Nextel, but legal considerations and a franchising dispute derailed the agreement.

OECD study says TELMEX monopoly hurting Mexican consumers

The news of the CFC decision to reject the Televisa-Iusacell deal filtered out to the news media at about the same time that the OECD released a report highly critical of TELMEX's monopolistic practices in Mexico. The OECD produced the report at the request of the Mexican government, which would like to use the study to support its efforts to boost competition in the telecommunications market. The OECD—now headed by Mexico's ex-finance secretary José Ángel Gurría Treviño (SourceMex, Nov. 30, 2005)—has a strong relationship with President Felipe Calderón's administration.

As part of a near-term plan to enhance the telecommunications market, the government hopes to auction off some government-owned fiber-optic lines, including those owned by the Comisión Federal de Electricidad (CFE), and seek contracts to introduce high-speed Internet into communities where the service is not available, Communications and Transportation Secretary Dionisio Pérez-Jácome told reporters recently.

The OECD study, released in early February, said the monopolistic practices of TELMEX and Telcel, which control about 80% of Mexico's telephone market, resulted in overcharges of about US\$25.9 billion a year to consumers between 2005 and 2009. "The welfare loss attributed to the dysfunctional Mexican telecommunication sector is estimated at \$129.2 billion between 2005 and 2009," or 1.8% of GDP annually, the OECD said.

Furthermore, the OECD study pointed out that the TELMEX monopoly has delayed the introduction of new services into the Mexican telecommunications market and discouraged the entry of foreign investors into the sector.

The study recommended that Mexico open its cellular-telephone and high-speed Internet services to greater competition. Prices for high-speed Internet service in Mexico are the highest in the

OECD, according to the organization's report, which used a comparison method called "purchasing power parity" to adjust for economic differences between countries.

Mexico "needs the socioeconomic boost provided by greater access to more efficient communication services, in particular high-speed broadband," the OECD report said.

Slim was quick to dispute the results of the study, questioning the OECD's methodology and suggesting that the report seemed to use data "pulled out of thin air." The billionaire especially took issue with the US\$25.8 billion figure, saying that the OECD was implying that the industry, which generates sales of US\$30 billion a year, should give up most of its revenue.

"I don't know what model was used, but it's totally false to say telecommunications cost the country that sum. That's a fantasy, craziness, a totally exaggerated figure because TELMEX and Telcel combined sell a total of US\$17.5 billion annually," Slim said. "It's difficult to compare a country with US\$1,000 per capita GDP with countries with US\$40,000. It's not that the lower broadband impacts GDP growth, it's that the lower rate of growth affects the broadband."

But the OECD defended its findings, saying that its methodology was appropriate. The organization said the report was not intended to show profits or sales by any particular company but to point to the economic losses resulting from the lack of competition.

Slim's protests might be in vain, as the OECD report has attracted the attention of the Mexican Congress. Shortly after its release, the radio, television, and cinema committee (Comisión de Radio, Televisión y Cinematografía) of the Senate announced plans to push for reforms in the telecommunications industry that would take into account the OECD recommendations. "The lack of competition damages the Mexican economy and particularly the consumers," Sen. Antonio Mejía Haro, who chairs the committee, said in a television interview. Mejía, a member of the center-left Partido de la Revolución Democrática (PRD), said the reforms include a move to give the communications regulating agency Comisión Federal de Telecomunicaciones (COFETEL) more autonomy.

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