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Government's Initial Efforts to Open Up Television Broadcast Market Only Partially Successful

by Carlos Navarro

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The Mexican government's efforts to open up the television broadcast air waves hit a bump in the road when one of two concessionaires selected to start a new network failed to come up with a required payment by the deadline of April 10. The telecommunications regulator (Instituto Federal de Telecomunicaciones, IFETEL) had awarded the concessions to two of the country's largest radio broadcasters: Grupo Radio Centro (GRC) and Grupo Imagen, with the hope of providing increased competition to the two media giants, Grupo Televisa and Grupo Azteca.

Cadena Tres wins bid

GRC was unable to come up with the 3.58 billion pesos (US\$234 million) that was pledged with its bid, so its concession was declared null and void. However, opening the TV market will go forward albeit in a partial manner, as Grupo Imagen did pay its fee on time to start the Cadena Tres network. Grupo Imagen offered a less ambitious plan than Radio Centro, and thus its deposit was only 2.23 billion pesos (US\$146 million). Both the Cadena Tres network and the Radio Centro proposals offered to provide services to 106 million people. Grupo Imagen is part of the business empire Grupo Empresarial Ángeles controlled by Olegario Vázquez Aldir and his family.

The holdings of Grupo Empresarial Ángeles also include several hotels, hospitals, the daily newspaper Excélsior, and several radio stations and regional pay-television channels. The media companies are all under the control of Grupo Imagen.

IFETEL commissioners said the acceptance of the Grupo Imagen bid means that the initial step to open the television broadcast market to competition could be considered a success. Commissioner Adolfo Cuevas said that, despite the failure of the GRC bid, the first effort to open up the market was successful, given that viewers will have a new choice in Cadena Tres.

In addition to providing increased competition, the telecommunications reform that Congress approved in March 2013 was intended to modernize the television broadcast sector ([SourceMex, March 27, 2013](#), and [July 9, 2014](#)). Under the terms of the telecommunications reform, any new networks would offer digital signals, which means that their programming would not be available without a special converter on nondigital sets. The federal government had anticipated the hardships this would cause for low-income families, so the Secretaría de Comunicaciones y Transportes (SCT) began distributing converters in 2013. In 2014, authorities decided to distribute only 22-inch digital televisions to low-income families. About 13.8 million of these sets have been provided to low-income families.

Vázquez Aldir is planning an investment of about 10 billion pesos (US\$654 million) to develop quality news, culture, sports, entertainment, and situational comedies and dramas that would attract advertisers and a broad audience.

"Given Grupo Imagen Multimedia's reputation of complete coverage during the past decade, we are guaranteed a different and attractive choice," business columnist David Páramo wrote in the daily newspaper *Excélsior*.

Financial considerations force Grupo Radio Centro to drop bid

For all the accolades that Cadena Tres has received, industry observers are also lamenting the failure of the Radio Centro bid, which was expected to make an even bigger splash. Some analysts had even suggested that the success of the IFETEL auction depended on whether Radio Centro was able to come up with the required fee. "The success or failure of the new television broadcast networks depends on whether Radio Centro is able to make the payment," Ramiro Tovar Landa, an independent consultant on telecommunications regulation, said as the deadline was approaching for the participants to submit their deposits.

Tovar criticized the GRC for presenting an overambitious proposal to IFETEL. "All the talk we're hearing is that there was an excessive proposal that did not have financial backing," said the specialist, who is also a professor at the Instituto Tecnológico Autónomo de México (ITAM).

On the deadline, GRC confirmed via a communication to IFETEL and to the Mexican stock exchange (Bolsa Mexicana de Valores, BMV) that the company—led by entrepreneur Francisco Aguirre—would not be able to make the payment of 3.58 billion pesos.

Some observers noted GRC's bid was doomed from the beginning, since the company's finances indicated that participation was not viable. GRC had to obtain a loan of 415 million pesos (US\$27 million) to come up with a security deposit for its bid in November. Aguirre's inability to follow through with the bid means that he lost the security deposit and will still have to repay that loan.

"In 2014, Grupo Radio Centro attained an EBIDTA (earnings before interest, taxes, depreciation, and amortization) of 335 million pesos (US\$21 million) and a net profit of 85 million peso (US\$5.58 million). Anyone who studied these results could determine that the company would not even be able to come up with the minimum of 830 million pesos (US\$54 million) required by IFETEL," columnist Enrique Quintana wrote in the daily business newspaper *El Financiero*. "So its offer, no matter the value, would have had to have been obtained through a financing scheme or from other partners."

"Some of us thought that Radio Centro could come up with the money to make the payment, since a bid that high implied that the bidder had the financial capacity [to obtain the money] and to develop a sound business plan," analyst Jorge Arturo Monjarás wrote in the business publication *Alto Nivel*. "We were mistaken."

Monjarás said the failure of the bid is also unfavorable to President Enrique Peña Nieto's administration, which gets to keep the security deposit but loses out on much-needed revenue. "The government will not be able to obtain billions of pesos, which would have been welcomed in this difficult year of budget cuts," said the *Alto Nivel* analyst. "What's even worse is that this development sets a bad precedent for the time when IFETEL is ready to reopen the process to bidders who want to develop a new television network as well as potential investors in new radio networks."

Current process unattractive to investors

Some analysts said the process is limited by the restrictiveness of the telecommunications reforms, which have discouraged foreign media companies from investing in the sector. "It became clear that any potential partners of Francisco Aguirre found the price too high and decided to back out," said Monjarás. "At the end, only two bidders were left for two networks, which makes it clear that there are not that many Mexican investors willing to enter the business of television, and certainly not at this cost."

"If Mexican entrepreneurs do not want to invest in media, then who will?" asked Monjarás.

Others agreed with this assessment. "Unfortunately, there has been little appetite to participate from investors," said Irene Levy, the head of Observatel, a nonprofit organization focused on the telecommunications sector. "A key reason is that foreign investors were limited to participating only as minority partners of Mexican bidders."

Others blamed IFETEL for a deficient process in which authorities failed to consider the economic solvency of GRC fully. Gerardo Soria, head of the el Instituto de Derecho de las Telecomunicaciones (IDET), criticized the communications regulator for not using a more open process to find operators for the two networks. Soria said IFETEL also failed in developing an adequate valuation process for the broadcast networks.

Other analysts pointed out that the failure of the GRC bid has set the process back significantly. "What is most regrettable about this situation is that we will have to wait about a year for a new process to be open up," said Gabriel Sosa Plata, a media analyst at the Universidad Autónoma de México (UAM), Xochimilco campus. "This is bad news not only for the market but for Mexico's television viewers."

Sosa Plata explained that the economic losses are significant, not only from the standpoint of the government, which misses out on revenues obtained from auctioning off the broadcast rights. "Investments will be delayed, and the opportunity to create jobs has been put on hold," said the media expert.

The UAM expert said creating new options in open television was a necessary step to further the democratic process in Mexico, as it would have increased the content options and the plurality of ideas. "More than 90% of the residents of our country rely on open television as their principal source of entertainment and information, said Sosa Plata.

The institute will now have to consider how to proceed when the process is reopened. "One option is to find a new investor for the network with national coverage that we were not able to auction off," said commissioner Cuevas. "Another option is to consider a regional network or several regional networks, a plan that had been proposed to us in the past several months."

"We are open to all these options, and we believe that it's important to listen to society," added the IFETEL commissioner. [Peso-dollar conversions in this article are based on the Interbank rate in effect on April 14, 2015, reported at 15.24 pesos per US\$1.00.]

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