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Plan to Create Shared Telecommunications Network Faces Further Delays

by Carlos Navarro
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Mexico’s grand plan to create an alternative telecommunications network to provide competition for América Móvil, the cellular telephone company owned by billionaire Carlos Slim Helú, has hit another bump in the road. In early August, the Secretaría de Comunicaciones y Transportes (Ministry of Communications and Transportation, SCT) and the Instituto Federal de Telecomunicaciones (Federal Telecommunications Institute, IFT) announced another brief delay in the bidding process for the so-called shared network or red compartida. The move to create the network is the result of telecommunications reforms approved by Congress in 2013 to promote competition and reduce costs for consumers (SourceMex, March 27, 2013, May 8, 2013, and July 9, 2014).

The proposed shared network would use spectrum that was opened following the switch from analog to digital television in 2015 (SourceMex, Nov. 11, 2015). The terms of the bidding process were announced in January.

Under the scheme, the government is seeking private partners to help create the infrastructure to provide mobile service to at least 85% of the population, while at the same time reducing internet costs for operators and consumers.

The plan would offer the winner or winners of the bid inexpensive use of high quality spectrum in the 700MHz band and a 20-year public-private partnership contract to build a 4G LTE mobile network that operators—the companies that receive the concessions—and virtual network operators can rent.

“With the allocation of the entire block to a single network, there is a move to optimize the use of the spectrum and minimize the operating costs, decrease prices for users, achieve 98% coverage including rural areas, and make its capacity available to all operators, including virtual ones, in order to increase competition in final services,” the online site Observacom said in June 2015.

Highly discounted rates

The lack of spectrum space has contributed to the slow development of mobile internet in Mexico, said regulators. To promote increased access to the network, regulators plan to offer highly discounted rates for use of the spectrum.

“Half of the country is not connected,” Jorge Negrete, Latin America director for the telecommunications consulting company Mediatelecom Policy & Law, said in a recent interview with The Wall Street Journal. “Mexico needs 50 million more mobile lines.”

According to SCT officials, the private investment needed is at least US$3.5 billion, which would provide the smallest amount of coverage. Investments of US$7 billion would extend service to 95% of the population, they said. Other independent observers believe coverage could reach 98%.
In July 2015, the SCT announced that 39 interested parties had submitted bids, but the ministry did not say how many of those suitors remain in the process. The initial list included global communications companies Ericsson AB, Nokia Corp., Cisco Systems Inc., Motorola Solutions Inc., China Telecom Corp. Ltd., Alestra, and Huawei Technologies Co. Ltd., according to the financial services company Zacks Equity Research.

Telecommunications experts said companies are interested in the project for two reasons: Mexico’s deficient infrastructure and the opportunity to invest in a project that has high economic potential and minimum regulation. “Even though this project was poorly conceived from the beginning, it is now in process, and the possibility exists to attract investors and to increase connectivity in the country,” said telecommunications specialist Alejandro Mayagoitia, who is president of the firm Anistel.

Observacom pointed out that Mexico’s scheme is unique in Latin America. “Mexico is the only Latin American country that has opted for this plan for the succulent 700 MHz band,” it said. “The rest of the countries have gone for the traditional spectrum allocation model: awarding contracts to private operators.”

The scheme also has practical aspects. “The numbers don’t work out when each operator has to reach rural areas with their own network,” said Mónica Aspe Bernal, the SCT’s deputy communications secretary, who added that the efficiency provided by the shared network allows companies to sell services at lower prices to consumers, which means a greater percentage of the population would be reached.

Observacom and others also pointed out that the scheme is mandated by the Mexican Constitution. “The SCT has already failed to meet the timeframe set out in the Constitution because the construction process did not begin in 2014,” it said.

“The network in its current form is mandated by the Constitution, and we have to make sure that we meet this mandate,” IFT commissioner Mario Germán Fromow said at a forum.

Regulators announced the terms of the bidding process in January, but the scheme has become more complicated than the SCT and the IFT had anticipated. The two agencies had planned to declare the winning bids on Aug. 24, but the final decision was postponed until Nov. 17. Regulators hope to sign a contract with the winning bidder by Jan. 27, 2017, at the latest, the SCT said.

In postponing the announcement, officials cited the large number of tenders and the complexity of queries and requests for clarification submitted by the bidders.

**Skeptics unsure the public would benefit**

The shared-network scheme has attracted some skepticism from a group of experts from academia, industry, the technological sector, and legislators who gathered at a hearing sponsored by the IFT at the end of July. Seven of the nine experts participating said a major flaw in the plan is that it targets the big operators who are bidding to provide the service and does not consider whether the consumer would benefit.

“Two of the skeptics raised concerns that certain government officials want to confuse society into thinking that the red compartida would provide a benefit to society, when there is no guarantee that this will happen,” said the daily business newspaper El Economista.
However, the IFT defended the proposal. “If this project succeeds, it is going to change the telecommunications scheme at the global level,” commissioner Fromow told the skeptics.

Other observers wonder whether the inability of the SCT to move the project forward after three delays is a bad sign. “I prefer to think that the glass is half full instead of half empty and to believe that there are multiple parties interested in this project,” financial columnist Maricarmen Cortés wrote in the daily newspaper Excélsior.

Cortés noted, however, that she was skeptical that the new shared network would begin operations by the targeted date of April 2018.

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