INTER-AMERICAN DIALOGUE'S
LATIN AMERICA ADVISOR

## FEATURED Q&A

# Is an Opening of Mexico's Fixed-Line Telecom Sector on the Horizon?

**Q Eduardo Perez Motta, the head of Mexico's Federal Competition Commission, said earlier this month that Mexico's fixed-line telecom market should be opened up to foreign investment, beyond restrictions limiting foreign control of fixed-line operators to 49 percent. Do you see such an opening on the horizon? What impact would it have on competition in Mexico's fixed-line market? Would such an opening be sufficient to attract foreign investment in the sector?**

**A Guest Comment: Wally Swain:** "This issue has floated around for some time and seems to have broad support, since incumbent Carlos Slim has voiced support, and yet it also favors new entrants. It would certainly avoid unpleasant incidents like the long fight between Telmex and Telefonica over interconnection and allow companies to reduce lawyers' fees. The change might reassure some nervous American investors that their money is welcome and they won't get embroiled in unprofitable legal issues. This in turn could lead to new players or better capitalization of existing ones. But the Telefonica case also shows that the existing rules have virtually no operational impact for motivated investors who make the effort to arrange their corporate structures in the right way. And no one should expect that changing the rules will suddenly attract the top tier US telecom companies to invest heavily in fixed-line telephony in the shark tank of Mexican telecom. Verizon and AT&T were both investors in the 1990s, and both left earlier in this decade. We suspect that Wall Street believes US telecom companies should invest in what they consider to be the safer US market. This was the subtext to the great retreat of these companies from Latin America—including from investments where they had absolute control. If your shareholders aren't with you on the journey, it doesn't matter what the rules are."

**A Guest Comment: Clara Luz Alvarez:** "Mexico would benefit from the elimination of the 49 percent limit on foreign invest-

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## Uribe Calls on Brazil to Invest More in Colombia

Colombian President Alvaro Uribe (R) on Saturday urged visiting Brazilian President Luiz Inacio Lula da Silva (L) to increase Brazilian investment in Colombia. See story on page 2.

*Photo: SNE.*



# Inside This Issue

## NEWS BRIEFS

### Colombians March to Demand Peace, End to Hostage-Taking

Hundreds of thousands of Colombians marched Sunday to demand an end to kidnappings and to urge the release of 2,800 captives held in jungle prison camps, Reuters reported. The protesters, marching on Colombia's Independence Day, called on the FARC, the country's largest rebel group, as well as other illegal armed groups, to stop taking hostages and to enter into peace talks. Related demonstrations were held in cities around the world.

### Infinity Bio-Energy Ups Stake in Brazil's Cridasa

Renewable energy firm **Infinity Bio-Energy** announced early today it bought the shares in Brazilian sugar and ethanol producer **Cridasa** it does not already own for about $17 million, Reuters reported. The Bermuda-based Infinity said it raised its stake in Cridasa to 99.56 percent from 57.25 percent. Cridasa's total installed effective capacity is 1.5 million tons per year, according to the report.

### Raul Castro Allows Farmers to Increase Landholdings

In a bid to boost food production, Cuban President Raul Castro has granted farmers and agricultural cooperatives the right to work more land, according to a decree published Friday and cited by Reuters. Under the reform, the latest in a string by Castro since he took office in February, private farmers who have shown themselves to be productive can increase their current land to a maximum of 99 acres for a period of 10 years, according to the report. Cooperatives and state farms can also request additional land to work for 25 years.

# Economic News

## Uribe Calls on Brazil to Invest More in Colombia

Colombian President Alvaro Uribe on Saturday urged visiting Brazilian President Luiz Inacio Lula da Silva to increase Brazilian investment in Colombia. During a meeting between the two leaders in Bogota, Uribe called on Brazil to boost investment particularly in infrastructure and biofuel projects in Colombia, according to the Associated Press. Lula said Brazil wants to be an "ally" with Colombia in developing biofuels, which he said have potential to increase jobs and revenues, Colombian state news service SNE reported. Lula noted that total trade between Colombia and Brazil grew three and a half times between 2002 and 2007 to $2.7 billion, and that in the first six months of this year Colombian exports to Brazil grew 140 percent compared to the same period last year. "We need to continue identifying Colombian products that can be exported to Brazil," Lula said. According to the AP, more than 30 large Brazilian steel, oil and other companies now operate in Colombia, while Colombian state oil company **Ecopetrol** has been invited to help develop huge oil fields recently discovered in Brazil. During the visit, Lula also urged Colombia and other South American countries to increase regional trade ties "so we aren't left dependent on a single partner," such as the United States or European Union. His comments came ahead of a meeting of trade ministers in Geneva this week aimed at reaching a breakthrough in global trade talks.

## Fernandez Revokes Four Month-Old Tax Hike for Grain Exports

Argentine President Cristina Fernandez on Friday revoked a four month-old increase in taxes on grain exports after the Argentine Senate rejected the measure, Bloomberg News reported. Explaining the decision to reporters, cabinet chief Alberto Fernandez said that in a democracy one had to "respect the popular will" and "preserve the quality of institutions," *The New York Times* reported. The cabinet chief did not say whether the government planned to revisit the measure, but he said it was committed to its overarching vision of redistributing income to the lower classes, a justification the government had used for the tax increases, according to the

## Uribe Announces Colombia to Join South American Defense Council

Colombian President Alvaro Uribe announced Saturday that his country would join the South American Defense Council, after receiving assurances that the Council would not recognize or legitimize terrorist groups, such as Colombia's FARC rebels.

Uribe said his concerns were addressed during a conversation with Chilean President Michelle Bachelet, Spanish news service EFE reported. Chile currently holds the presidency of the South American Union of Nations, or Unasur, a regional bloc formed in May that includes the South American Defense Council.

The Colombian leader said the Council "should totally reject violent groups, whatever their origin" and "should only recognize the institutional forces of signatory countries."

In May, at the founding of Unasur, Colombia sought to block the creation of the Council, a Brazilian-led initiative that would resolve conflicts, promote military cooperation, and possibly coordinate joint weapons production. Colombia, which has accused neighboring Venezuela and Ecuador of supporting the FARC rebels, said in May that the "terrorist threat" it faces at home from guerrilla groups are an obstacle to regional military cooperation. [Editor's note: see related Q&A in the March 26, 2008 issue of the *Advisor*.]

*Times*. The tax increase, which President Fernandez decreed in March, sparked nationwide protests and road blockades by farmers, causing sporadic food shortages throughout the country and sending Fernandez's popularity plummeting. In an effort to diffuse the crisis, Fernandez last month asked Congress, where her Peronist party has a majority, to ratify the decree. But some Peronist members of Congress, as well as some allied lawmakers, openly opposed the tax increases. After the lower House narrowly approved the measure, the Senate last week rejected it by one vote, with Vice President Julio Cobos casting the deciding vote. Analysts say Fernandez, who only took office in December, has been seriously weakened politically by the Senate's rejection of the tax increase [Editor's note: see related Q&A in the July 18, 2008 issue of the *Advisor,* and adjacent].

# Political News

### Mexico's PRD Party Annuls March 16 Leadership Election

Mexico's leftist opposition PRD party on Saturday annulled the results of its March 16 leadership election, a closely fought contest whose winner was never declared amid suspicions of irregularities, Agence France Presse reported. "We unanimously declare the nullity of the election for president and national secretary of the PRD," said Ernestina Godoy, president of a PRD commission tasked with reviewing the election. The leadership of the PRD was contested by Alejandro Encinas, a former Mexico City mayor from a hardline wing of the PRD associated with 2006 presidential candidate Andres Manuel Lopez Obrador, and Jesus Ortega, who belongs to a more moderate faction of the PRD. Ortega on Saturday accused the PRD commission of trying to block his victory and said he would challenge the party's decision before Mexico's Federal Electoral Tribunal. "The members of the commission prefer to annul the election before recognizing that I was favored by the final count," Ortega was quoted as saying. [Editor's note: see related Q&A in the March 25, 2008 issue of the *Advisor*.]

## The Dialogue Continues

### *Has the Balance of Power Shifted in Argentina?*

**Q In a stinging defeat for the government of Argentine President Cristina Fernandez, the country's Senate on Thursday narrowly rejected a four month-old increase in taxes on grain exports, with Vice President Julio Cobos casting the deciding vote. What is the significance of Thursday's vote? Has the balance of power in Argentina shifted? How might the politically weakened Fernandez recover?**

**A Board Comment: Beatrice Rangel:** "The balance of power in Argentina has been slowly but surely shifting away from traditional elites to agricultural entrepreneurs that derive their income from international trade. This process that started in 2002 seemed to proceed without being perceived by the country's elites. As commodity exports continued to climb and international demand levels provided a safe platform for growth, more people were attracted to agriculture and became independent from the government. Given that economic policies and recovery efforts relied on price fixing for basic food stuffs and public services such as water, electricity, and communications, these economic activities experienced stagnation. Thus, employment generation has been tied to the export of commodities. In short, over the past four years the fulcrum of social and economic power moved from the cities to rural areas. These rural areas quietly accepted high levels of taxation, which included income taxes and retentions. Retentions were aimed at providing the nearly bankrupt Argentine state with funds to operate and provide public services but also to maintain enough agricultural output inside Argentina so that scarcity and high prices would not hit low-income families. From 2003 to 2008, these taxation levels were accepted by agricultural producers because continuously rising international prices allowed them to keep a significant share. But as commodity prices began to stabilize, demand began to lose speed and the government of Argentina decided to raise taxation levels, agricultural producers realized that any further government intervention could wipe away their hard-won prosperity. As the government engaged in an ill-advised game of chicken with agricultural producers, the majority of Argentines rallied to their support, because fresh in their minds was the bitter experience of the 2001 *corralito*, which amounted to a nationwide expropriation of assets. The government, on the other hand, prisoner to a frozen and unreal image of the agricultural sector, intensified the conflict. To the government, agriculture was in the hands of a few oligarchs that could be threatened into accepting higher taxation through popular mobilizations against them. Needless to say that the government seemed to ignore that over 45 percent of the country's families derived their living from agricultural production and that the production effort relied heavily on small- and medium-sized entrepreneurs that had painstakingly acquired land. Slowly the whole country moved away from the government and closer to the farmers. The July 16 vote by the Senate will be remembered as the day Argentina reversed course and began to move away from populism to enter a phase of power regrouping that, while placing President Fernandez in a lame duck, will give rise to a modern and independent leadership that will rebuild the country's democracy."

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**Beatrice Rangel** *is a member of the* Advisor *board and Director of AMLA Consulting LLC.*

*Editor's note: the above is a continuation of a Q&A published in the July 18, 2008 issue of the* Advisor.

**Featured Q&A**

*Continued from page 1*

ment in the telecommunication market, provided that the legal framework strengthens the Mexican telecommunication regulator, Cofetel. The historic reasons for such a limit are no longer applicable. The amendment of the foreign investment provisions for the fixed-line market has been subject to severe criticism. The debate has been between a nationalistic approach that defends 'sovereignty' and is aligned with Telmex's interests, and a liberal viewpoint that has been linked to Spain's Telefonica. Neither perspective has objectively assessed the public interest of allowing or not allowing more foreign investment ... Mexico's fixed-line telecommunications market is attractive to foreign investment, and could trigger major infrastructure deployment. However, opening the fixed-line market to full foreign investment will not have a significant impact on competition unless it is accompanied by other regulatory measures. These should at least grant Cofetel the power to assure timely interconnection, to sanction, and to revoke licenses. Also, there should be *ex–ante* regulations for those operators that have 25 percent or more market participation. Full foreign investment in fixed-line is unlikely to be approved without other conditions (*i.e.*, demanding reciprocity), and relevant regulatory reforms might be on hold for some time."

A **Guest Comment: Santiago Gutiérrez:** "Yes, we believe that in its next session Congress will approve the initiative, which is currently being reviewed by the Chamber of Deputies' Economic Commission and which in a recent consultation forum was supported by several operators, Canieti, IMPCO, the economy secretariat, the SCT, Cofeco, academics, and the consumers association ... [The impact on competition in Mexico's fixed-line market] will be greater choice for users, accompanied by quality and better tariffs, as a result of increasing offerings and a reduction in the concentration of more than 90 percent that exists currently through a single provider. On the other hand, and to the benefit of society as well as to economic agents in Mexico, fixed-line infrastructure will grow, allowing the provision of Internet services with greater bandwidth in a more economic fashion, thus improving living standards. We will also be taking better advantage of the multiplier effect of investment in information and communication technology on national competitiveness and productivity, decreasing the gap that we have in the sector with respect to countries with which we have the most trade. The opening will create equal conditions for fixed networks (traditionally wired) with mobile networks (wireless). In addition, the opening will promote timely investments needed to set up new or next-generation networks, which through unified communications allow the provision of fixed and mobile services—voice, data, and video—on a single platform based on Internet protocol, and accessible from anywhere, at any time and from any device, no matter whether it is fixed or mobile. The opening will contribute to the development of the sector, but to be relevant other important issues need to be advanced, such as the auction of WiMax and 3G spectrum, PLC, interconnection, and interoperability."

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**Wally Swain** *is Senior Vice President for Emerging Markets at The Yankee Group.*

**Clara Luz Alvarez** *is a former Commissioner for the Mexican Telecommunications Commission (Cofetel) and was head of the legal affairs office there from 2003-2006.*

**Santiago Gutiérrez** *is Vice President for Telecommunications at the National Industry Chamber of Electronics, Telecommunications and Information Technology (Canieti) in Mexico.*

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