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FEATURED Q&A

What Have Been the Results of Mexico's Telecom Reform?

Q Mexico passed a constitutional reform of the telecom sector just over a year ago and finalized related secondary legislation earlier this year aimed at curbing the dominance of major players and increasing competition in the sector as well as modernizing infrastructure. How has the reform affected the market and consumers so far, and has competition increased as expected? How would you rate the reform's implementation to-date? What remains to be done?

A Calvin Monson, senior vice president of telecommunications at Castalia Strategic Advisors: "Mexican regulator IFT determined this year that América Móvil is dominant under the provisions of the new legal framework. It based this determination primarily on measurements of market share. For América Móvil to get out of the regulatory requirements that only it faces, it will have to lose market share. How will it do so? It can lose market share by competing less vigorously or by divesting. We should expect to see both things happen to some extent. Is competition less vigorous than before? So far, the overall effect on Mexican consumers of the new framework has been unremarkable at best, or somewhat negative at worst. To say that there has been a positive effect, one would expect to be able to point to more being sold at cheaper prices. Instead, the latest figures from IFT show that the number of cellular subscribers has peaked and started to decline (at penetration levels below those seen in neighboring Latin American countries) and that mobile prices have ticked upward in the latest measurements (after a long and steady decline). Will América Móvil divest? It has announced that it is willing to sell assets so that it can get below 50 percent in overall market share. However, the company has said that it is only willing to do such a divestiture if it is

Continued on page 3

Obama Planning to Sign Venezuela Sanctions Measure

U.S. President Barack Obama is planning to sign legislation that would slap sanctions on Venezuelan officials deemed to have committed human rights abuses during crackdowns on protesters earlier this year, the White House said Thursday. Congress approved the sanctions this week. See brief on page 2.

File Photo: White House.

Inside This Issue

FEATURED Q&A: What Have Been the Results of Mexico's Telecom Reform? 1

Mexico's Videgaray Bought Home From Contractor Tied to Allegations 2

Chilean, Peruvian Central Banks Keep Interest Rates Unchanged 2

Brazilian Prosecutors Charge 35 in Petrobras Scandal 2

Obama Plans to Sign Venezuela Sanctions Measure 2

Bolivia's Foreign Minister Proposes Obama-Morales Meeting 2

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NEWS BRIEFS

Obama Plans to Sign Venezuela Sanctions Measure

The White House said Thursday that U.S. President Barack Obama plans to sign legislation sanctioning Venezuelan officials responsible for human rights abuses during anti-government protests earlier this year, *The New York Times* reported. The legislation passed the House of Representatives and Senate this week. Critics of the legislation say sanctions will worsen the situation in Venezuela. [Editor's note: See related Q&A in the Dec. 1 issue of the *Advisor*.]

Bolivia's Foreign Minister Proposes Obama-Morales Meeting

Bolivia's foreign minister, David Choquehuanca, said Thursday he has proposed holding a meeting between U.S. President Barack Obama and Bolivian head of state Evo Morales as a way to improve ties between the two countries, *La Razón* reported. "The ball is in the United States' court," Choquehuanca said of the gesture, noting the Obama-Morales meeting with likely follow lower-level meetings of diplomats, including between himself and U.S. Secretary of State John Kerry. The two countries withdrew their ambassadors in 2008, when Morales accused the U.S. envoy of supporting opposition leaders.

Climate Change Is 'Everybody's Responsibility": Kerry

Developed nations have "contributed significantly" to global warming, but countries must stop arguing about who is at fault for climate change and work on the issue together, U.S. Secretary of State John Kerry said Thursday at the U.N.-sponsored climate talks in Peru, Bloomberg News reported. The two-week talks end today.

Political News

Mexico's Videgaray Bought Home From Contractor Tied to Allegations

Mexico's finance minister, Luis Videgaray, bought a home from a government contractor whose companies have won hundreds of millions of dollars' worth of business from the federal government and also from the government of Mexico state dating from the time that President Enrique Peña Nieto was the governor, *The Wall Street Journal* reported Thursday.

> "There was no conflict of interest. I did the deal when I was not holding public office, and the deal was within market parameters."
>
> — ***Luis Videgaray***

Videgaray bought the house, in an exclusive golf resort near the town of Malinalco in Mexico state, from **Bienes Raíces**, which is owned by Juan Armando Hinojosa. Last month, investigative journalists in Mexico revealed that a company owned by Hinojosa held the title to a Peña Nieto family mansion in Mexico City. The president's office has denied that the revelations about the mansion showed any impropriety and said First Lady Angélica Rivera bought the home from Hinojosa with money from her acting career and that she and the president maintain separate assets. Videgaray is not accused of doing anything illegal, but the report that he bought the home from Hinojosa adds to the allegations of conflicts of interest that have damaged the credibility of Peña Nieto, who won election two years ago on promises that his Institutional Revolutionary Party was moving past its history of corruption. In a written response to *The Wall Street Journal*, Videgaray said he purchased the home from Hinojosa in October 2012, several weeks before Peña Nieto was sworn in on Dec. 1, but at a time that Videgaray was widely believed to become the next finance minister. "There was no conflict of interest. I did the deal when I was not holding public office, and the deal was within market parameters," said Videgaray. At the time, Videgaray also took out a $532,000 mortgage with Hinojosa's firm rather than with a financial institution. Videgaray said he later paid off the mortgage in full for financial reasons. Hinojosa has declined to comment on the homes of either the finance minister or first lady.

Economic News

Chilean, Peruvian Central Banks Keep Interest Rates Unchanged

The central banks of Chile and Peru on Thursday kept their benchmark interest rates unchanged amid inflation that is running above target in both countries, Bloomberg News reported. Chile's central bank, led by Rodrigo Vergara, kept its key rate at 3 percent. Chile's inflation slowed to 5.5 percent in November after quickening to 5.7 percent in October.

Vergara

File Photo: Chilean Central Bank.

Peru's central bank, led by Julio Velarde, kept its benchmark rate at 3.5 percent. The Andean country's annual inflation rate rose to 3.16 percent in November.

Company News

Brazilian Prosecutors Charge 35 in Petrobras Scandal

Brazilian prosecutors have filed charges against 35 people, including executives from the country's largest construction companies, in the corruption scandal at state-run oil company **Petrobras**. Authorities allege that top Petrobras officials operated the scheme, allegedly involving contracts worth more than $4 billion, with inflated contract prices purportedly being sent to the governing Workers' Party and other politicians.

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Featured Q&A

Continued from page 1

declared non-dominant. Designing such a divestiture will be difficult: moving customers involuntarily to another provider, convincing IFT that the result improves consumer welfare and competition and also eliminates dominance, in addition to finding an agreeable price with the buyer and seller."

Adrian E. Gonzalez, managing partner at Transearch Mexico: "It is early and complex to draw a conclusion, although I tend to lean toward the positive side. The law modifies multiple competitive and regulatory structures in telecommunication, television, radio and Internet services. In the competitive arena, there are signs of increased competition and lower service prices. Cablevisión, Televisa's triple-play business, launched an aggressive converged service offer under their new brand, 'Izzy.' For less than $30, customers will have access to CATV, unlimited calls and 10 Mb Internet. Service will be extended from Cablevisión's Mexico City coverage to other geographic regions in the following months. The service price is well below the closest equivalent available from combined Telmex-Dish offering, which has limited calls to cell phones and international numbers. AT&T also announced the purchase of Iusacell, the third-largest mobile service provider after powerful competitors América Móvil and Telefónica. These two positive announcements are the direct result of the new market structure promoted by the new law. Implementation is generally within the timetable approved by Congress. Still in the planning phase are the creation of the two new backbone and local access networks under a carrier-of-carriers—a private-public partnership scheme, which will represent more than $8 billion of investment in the following three to five years. These networks, although criticized by some for allowing the government to be an important market player, seem also to be the best alternative to promote investment in regions with limited coverage and unattractive financial returns for private investors."

Dwight Dyer, Americas senior analyst at Control Risks in Mexico City: "Mexico's telecoms reform has largely gone under the radar in the last few months, on account of rising insecurity and social upheaval. Yet, important changes have been taking place. To name the more important ones, the bidding process for new TV networks was launched, and the preponderant economic actors in broadcasting and telephone services have started responding to asymmetric regulations that force them to share their infrastructure free of charge with competitors. While positive, these developments are but a small part of what is at stake in the sector's reform. IFT, the telecoms regulatory agency, has failed to send clear signals that it has sufficient independence to stand up to the industry's vested interests. Recent rulings on long distance charges, portability (keeping your mobile number if you switch carriers) and market concentrations point either to a poorly designed decision-making process or continuing undue influence from the usual suspects, or both. Regardless, IFT could easily kill the high expectations the Peña Nieto administration created about increasing competition in the sector and delivering tangible benefits to rank-and-file consumers. Mexico can create strong state institutions, though they may become fragile with time, as evinced by the national electoral authority, and IFT may yet veer in the right direction, but the recent stumbles bode ill for opening the telecoms market to intense competition in 2015 and beyond."

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

Latin America Advisor
is published every business day by the Inter-American Dialogue, Copyright © 2014

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Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at:
1211 Connecticut Avenue NW, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553
www.thedialogue.org ISSN 2163-7962

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