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FEATURED Q&A

Did Mexico's Phone Regulator Make the Right Call on Fees?



Mexico's telecommunications regulator ruled that América Móvil can begin charging rivals next year for completing calls made to its network. // File Photo: pexels.com.

Q Mexico's telecommunications regulator on Nov. 2 ruled that América Móvil can resume charging local rivals for calls made to customers who use its network. The consideration follows an August decision by the Mexican Supreme Court, which ruled that the company, controlled by billionaire Carlos Slim, should not be legally barred from charging other carriers for calls to its customers. How much of an impact will the regulator's decision make on Mexico's telecommunications reforms? How will the decision affect competition in the country's telecom sector, and how will consumers be affected? How important is the decision for América Móvil's bottom line?

A Adrian E. Gonzalez, managing partner at Estego-Transearch Mexico: "There are different ways to take a look at this issue. One is the behavior of the legal entities. Another is the effect on end users. The last one is the role that carriers play. The overall result is positive, except for a few carriers that are slow to adopt to new market realities that the court's decision imposes. The legal system reacted positively to an error. The Senate made a mistake when it tried to set interconnection tariffs, a role that was the responsibility of the telecom regulator. The Supreme Court corrected the mistake, and the regulator published new rates. This generates credibility in the official system, and it maintains the reform's original competitive spirit. The economic impact, if any, will be minimal. The new tariffs will decrease the industry-weighted average cost of interconnection services. Since this is a bilateral charge, it does not matter how much América Móvil charges to

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TODAY'S NEWS

BUSINESS

Scotiabank Seeks to Buy BBVA's Chilean Operation

Bank of Nova Scotia has offered \$2.27 billion to buy BBVA's Chilean unit, a deal that would make the Canadian lender the third-largest non-state bank in Chile.

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POLITICAL

Honduras Election Results Expected Thursday

Election officials are still tallying ballots from Sunday's race, in which challenger Salvador Nasralla is seeking to unseat President Juan Orlando Hernández. Nasralla, who is seen as a political outsider, has taken the lead in the count.

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POLITICAL

Meade Launches Candidacy for Mexico's President

José Antonio Meade resigned his post as Mexico's finance minister and launched his candidacy for president as the standard-bearer of the ruling Institutional Revolutionary Party.

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Meade // File Photo: Mexican Government.

POLITICAL NEWS

Meade Launches Candidacy for Mexico's President

José Antonio Meade resigned Monday as Mexico's finance minister and launched his candidacy for president as the standard-bearer of the country's ruling Institutional Revolutionary Party, or PRI. "I do this with deep conviction and emotion," Meade said at an afternoon event in Mexico City, Bloomberg News reported. "My only wish is to serve my country," Me-



My only wish is to serve my country."

— José Antonio Meade

ade, 48, is an economist with a doctorate from Yale University and has served in four cabinet positions under presidents from different parties. Meade had been serving for the second time as finance minister and also previously served as social development minister, where he helped to spearhead President Enrique Peña Nieto's efforts to fight poverty in southern Mexico. Meade has not been implicated in any corruption scandals that have tainted other powerful PRI politicians, leading some to view him as the ruling party's best choice in next July's election. "I wish him the best of luck," Peña Nieto said Monday. Meade is expected to officially be named the PRI's presidential candidate in February during a convention of party delegates, The Wall Street Journal reported. He would then face a crowded field of presidential candidates, including leftist nationalist Andrés Manuel López Obrador. The current front-runner, López Obrador is making his third attempt at the presidency. The PRI has been trailing in most presidential polls, and the party governs only 14 of Mexico's 32 states, the lowest number in the PRI's 88-year history. Approximately 80 percent of Mexicans want a different party to lead the country, according to a recent survey by polling firm Bueno & Laredo.

In addition to the corruption scandals that have ensnared PRI politicians, the ruling party has also been blamed for rising violence and disappointing economic growth.

Owners of Panama's Trump Hotel Seek to Strip Name

The owners of the Trump International Hotel in Panama are trying to remove the U.S president's name from the building and fire the management company that the Trump family runs, the Associated Press reported Monday. The 70-story hotel in Panama City has struggled with poor occupancy. Owners of apartments and hotel units in the building have alleged problems with the Trump family's management. The Trump Organization said in a statement to the AP that the property is doing well as compared to its peers and that it has an enforceable contract to operate it.

BUSINESS NEWS

Scotiabank Seeks to Buy BBVA's Chilean Operation

Bank of Nova Scotia, or Scotiabank, has made an offer to buy the Chilean unit of Banco Bilbao Vizcaya Argentaria for 2.9 billion Canadian dollars (\$2.27 billion), The Canadian Press reported today. Scotiabank, which is headquartered in Toronto, has said that BBVA is willing to accept the offer if the Chilean unit's minority partner, the Said family, does not exercise its right of first refusal. Spain-based BBVA owns 68.19 percent of the Chilean unit, while the Said family owns 29 percent, Reuters reported. The deal would make Scotiabank Chile's third-largest non-state bank. BBVA announced in August that it was considering the sale of the Chilean unit after Scotiabank expressed an interest in acquiring up to 100 percent of it. BBVA, which has a consumer finance operation

NEWS BRIEFS

Results of Honduras Presidential Election to Be Announced Thursday

Election officials said Monday that the results of Honduras' presidential election, held Sunday, will not be released officially until Thursday, the Associated Press reported. With 57 percent of the ballots counted, outsider candidate and television personality Salvador Nasralla has 45.7 percent of the votes, while incumbent President Juan Orlando Hernández has 40.2 percent. Supporters of the candidates, both claiming victory, took to the streets Monday in a show of public support. Civil society group have expressed concern about the delay, saying the lack of official data generates unnecessary speculation.

Treviño Named as New Head of Pemex

Mexican President Enrique Peña Nieto on Monday named Carlos Alberto Treviño Medina, 47, to be the new chief executive of state oil company Pemex, Bloomberg News reported. Treviño, who has been Pemex's corporate director of administration and services, succeeds Jose Antonio González Anaya as CEO. González has been named finance minister. Treviño spent a stint as Pemex's CFO, in 2010, and has also served as its corporate director of finance and management. Previously, he worked in the energy and economy ministries, among other government posts.

Brazil's House Speaker Eyes Pension Reform Vote by End of Year

The speaker of Brazil's lower house of Congress, Rodrigo Maia, on Monday said he will try to pass a hotly debated pension reform bill this year but that he would only put the measure to a vote if it has enough support, Reuters reported. A government proposal to hold a vote next week will likely be put off until Dec. 13.

in Chile, has said it does not plan to exit the South American country altogether. Scotiabank, which has the largest foreign presence of any Canadian lender, said in August that it had enough flexibility to invest and grow. Scotiabank said its offer for BBVA Chile would double its market share in the country to about 14 percent and would be part of its strategy to boost its presence in the Pacific Alliance trade bloc, which includes Chile, Colombia, Peru and Mexico. BBVA reported a weak first half of the year in Spain amid record-low interest rates. Its strong performance in Mexico, however, helped to drive earnings. BBVA Chile has 127 branches and approximately 4,000 employees, The Canadian Press reported.

Modelo to Invest Some \$750 Million in New Hidalgo Plant

Mexican beer-maker Grupo Modelo on Monday announced plans to invest more than \$750 million to build a brewing and bottling plant in the city of Apan in the central state of Hidalgo, Reuters reported. Mexican President Enrique Peña Nieto joined Modelo CEO Mauricio Leyva in announcing the plant, which is expected to begin operating in the first quarter of 2019. "We expect in about 14 to 16 months to be sharing and toasting with you the first beer from this plant," said Leyva. According to Forbes Mexico, the new site is expected to be the world's second-largest brewery. "The fact that domestic and foreign companies keep investing in Mexico is a clear sign that we're on the right economic path," said Peña Nieto. Global beverage behemoth Anheuser-Busch InBev took ownership of Modelo in 2013 with a \$20 billion deal that raised alarms among regulators in the United States. After nearly a year of talks, the U.S. Justice Department filed an agreement in court that resolved an antitrust lawsuit, allowing the purchase to proceed under certain conditions, including the sale of rights to market Modelo and Corona beer brands in the United States to another company, Constellation Brands.

I Squared Capital Acquiring Inkia's Latin America Unit

New York-based I Squared Capital said Monday it is acquiring the Latin American and Caribbean businesses of Lima-based Inkia Energy, a wholly owned subsidiary of Israel's IC Power Ltd. The deal, which does not include IC Power's Israeli asset, OPC Energy Ltd., is valued at about \$1.2 billion, Reuters reported. Inkia has a highly contracted portfolio of approximately 3.4 gigawatts of gross installed capacity in nine countries, with a mix of hydroelectric, wind and thermal facilities. The company also owns an electricity distribution company servicing approximately 1.7 million customers. Inkia is

the second-largest power producer in Peru, I Squared Capital said in a statement. "The Inkia portfolio comes with a highly seasoned and successful development team as well as

The deal is valued at about \$1.2 billion.

a robust pipeline of renewable and natural-gas generation projects," Adil Rahmathulla, a partner at I Squared Capital, said in a statement. As part of the transaction, I Squared Capital will assume Inkia's \$450 million of bonds, which were issued this month. Credit Suisse and Norton Rose Fulbright acted as advisors to I Squared Capital.

FEATURED Q&A / Continued from page 1

others, as long as the total cost remains lower than before, and it keeps an asymmetrical allocation. In addition, this tariff is applied to voice-related services, which are rapidly decreasing in volume and being replaced by data services. The negative reaction of some carriers may simply show they are not ready for the new market conditions. By trying to extend old-style voice services, they are possibly only displaying their slow adoption of highly demanded, new data solutions. Their reaction could be interpreted as the continuation of blaming the regulation for their below-optimal performance, instead of effectively responding to their customers' requirements."

Antonio Cárdenas, local partner at White & Case in Mexico City: "The recent decision of the Federal Telecommunications Institute, establishing a mobile termination rate in the Telcel network and soon to be issued termination rate in the Telmex fixed network (jointly 'Telcel'), will have an important impact on the telecommunications market in Mexico, especially in the medium term, mainly due these reasons: The

first is that for a long time, Telcel engaged in anti-competitive practices, which was widely recognized by the defunct Antitrust Commission and recently by the Federal Telecommunications Institute, because

“There could even be new price increases of telephony, to consumers' detriment.”

— Antonio Cárdenas

Telcel through the manipulation of its 'On Net' termination rate displaced its competitors through the so-called 'community effect,' which made it impossible for competitors to grow in consumers, subscriptions and network occupation. Although there is a ban on Telcel for discriminate rates, the ability of the Institute to verify that this does not occur is at least questionable. Second, the reduction of the asymmetry of the mobile termination rate between Telcel and its competitors (Telefónica and AT&T) could

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have a medium-term effect of ‘price squeezing’ due to Telcel’s enormous economies of scale, which fundamentally affects the ability of competing companies to replicate Telcel’s final telephony prices. Thus, it is foreseeable that the dynamism in the ‘price war’ that arose since 2014 will be relented, and there could even be new price increases of telephony, to consumers’ detriment.”

A James R. Jones, member of the Advisor board, chairman of Monarch Global Strategies and former U.S. ambassador to Mexico: “After the Mexican Supreme Court established a legal right for America Móvil to be compensated for competitors’ use of its network, now it is only a matter of how to implement and how much to charge. IFT, the telcom regulator, has shown fidelity to the

“IFT, the telcom regulator, has shown fidelity to the reforms.”

— James R. Jones

reforms by its unanimous decision to grant a rather modest limit that America Móvil can charge for the use of its network. The regulator says the new fee structure is among the lowest in the world. Clearly, when Telmex and America Móvil held a dominant monopoly position, they were charging one of the world’s highest fees to competitors for use of their networks, thus significantly inhibiting competition. This new user charge should not thwart competition from establishing strong beachheads into the Mexican telecommunications market. That in turn should boost prospects for economic growth and

development of consumer choices. Such a fee would be far cheaper than requiring new competitors to build a network from scratch. So, I continue to be bullish on the vitality of the communications reforms and their effect on Mexico’s economic growth.”

A Ramiro Tovar-Landa, senior advisor at the Brattle Group in Mexico City and economics professor at the Mexico Autonomous Institute of Technology: “Since the 2014 telecommunications reform, competition has increased substantially, not by drastic changes in the number of competitors, but rather by the fast-moving strategies adopted by the main operators, including AT&T, Telefónica and América Móvil. The outcome has been a more than 40 percent drop in real prices and increasing quality in broadband service, as well as fixed and mobile. The prohibition on charging interconnection fees on incoming traffic to Telcel’s network came from a legislative decision drafted into the current telecommunication law and did not come from an economic or technical decision from the independent regulator that was created by the constitutional telecommunications reform. The ‘zero tariff’ was an asymmetric measure gone to extreme, such that it created an interest group among Telcel’s competitors to perpetuate that benefit. So the IFT has resumed its powers and updated mobile interconnection rates, and soon it will extend to Telmex’s fixed network. Competition based on a subsidy is not a market-based regulatory tool. A zero mobile termination rate to all, except one, is not an efficient rule to spur competition and consumer welfare. Customers will not see a price increase because the effective competition already in place will shield them.”

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