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FEATURED Q&A

How Competitive Is the Telecoms Sector in Mexico?



Mexico started an overhaul of its telecommunications sector a decade ago. Telecommunications towers in Mexico are pictured. // File Photo: Mexican Government.

Q A decade ago, in 2013, Mexico began an overhaul of its telecommunications and broadcast sectors following recommendations from a review by the Organization for Economic Cooperation and Development, or OECD. Mexico's government took actions that included lifting restrictions on foreign direct investment and establishing the Federal Institute of Telecommunications regulatory agency. Mexico later agreed to additional measures to promote competition under the U.S.-Mexico-Canada Agreement, or USMCA. What have been the most significant changes in Mexico's telecommunications sector in the past decade? How much have those changes increased competition in Mexico's telecommunications sector? What has been the impact on companies in the sector, the services that they provide and on consumers?

A Ryan Berg, director of the Americas Program at the Center for Strategic & International Studies: "Since 2013, Mexico's ICT sector has grown substantially. Nearly three-quarters of the population now has access to the Internet, up from 43 percent when the reforms were passed, while the consumer price index for ICT services has decreased an estimated 28.7 percent over the last nine years. Crucially, the reforms opened Mexico up to greater competition, helping drive prices down and bringing in billions of dollars in investment from companies such as AT&T. Finally, the inclusion of a chapter on digital trade in the USMCA proved a powerful complement to constitutional reforms in Mexico, locking in a commitment to competi-

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TODAY'S NEWS

POLITICAL

Guatemalan Judge Orders Probe of Nine Journalists

A Guatemalan judge on Tuesday ordered the investigation of nine journalists from daily newspaper El Periódico, whose president has been jailed since last year on various charges.

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BUSINESS

Tesla to Build Plant in Nuevo León State: López Obrador

Electric vehicle manufacturer Tesla plans to build a factory in Mexico's Nuevo León state, President Andrés Manuel López Obrador announced Tuesday.

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ECONOMIC

Peru Announces Launch of \$9 Bn Worth of Projects

Peru on Tuesday announced the launch of \$9 billion in public-private projects. The projects are set to begin by 2024, said José Salardi, the head of the government's agency for investment promotion.

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Salardi // File Photo: Peruvian Government.

POLITICAL NEWS

Guatemalan Judge Orders Investigation of Nine Journalists

A Guatemalan judge on Tuesday ordered the investigation of nine journalists from daily newspaper El Periódico, whose president, José Rubén Zamora, has been jailed since last year on various charges, the Associated Press reported. Judge Jimi Bremer said authorities would seek to determine whether the journalists were maliciously pursuing members of Guatemala's justice system, including prosecutors and judges, the wire service reported. Top prosecutor Cinthia Monterroso said El Periódico questioned decisions that she and other justice officials had made and also reported on complaints and disciplinary procedures against justice officials, the AP reported. Monterroso added that the investigation would probe who ordered the news stories and would also look into the newspaper's sources of funding. Last December, a Guatemalan judge ordered Zamora to stand trial on money laundering, influence peddling and blackmail charges. On Tuesday,

Bremer also added a charge of obstruction of justice against Zamora. Also on Tuesday, the Committee to Protect Journalists called on Guatemalan officials to halt any investigations of employees of El Periódico. "Authorities' targeting of the publication's staff after Zamora's arrest on dubious financial charges is a clear attempt by the prosecutors to intimidate and harass an investigative outlet and journalists working tirelessly to expose corruption," said the organization's program director, Carlos Martínez de la Serna.

ECONOMIC NEWS

Brazil's Outstanding Bank Loans Down for First Time in a Year

Brazil's level of outstanding bank loans fell 0.3 percent in January, marking their first decline in a year, Reuters reported Monday, citing data from Brazil's central bank. The new data increases the possibility that a slowdown could gain momentum amid the central bank's rate increases, which policymakers hope will

NEWS BRIEFS

Peru Announces Launch of \$9 Billion Worth of Public-Private Projects

Peru's government on Tuesday announced the launch of more than 30 public-private projects that will inject some \$9 billion into the economy, Reuters reported. The investments will seek to revive the country's weakened economy from months of violent anti-government protests. The projects, which include road infrastructure, energy and sanitation, are set to start by 2024, José Salardi, head of the government's agency for investment promotion, said at an event with investors. "The key is to regain confidence," Salardi said.

World Must Protect Amazon Rain Forest to Reach Climate Goal: Kerry

The world cannot reach its climate goals of limiting warming to less than 1.5 degrees Celsius unless it protects the Amazon, U.S. climate envoy John Kerry said Tuesday in Brazil during discussions of possible U.S. funding for the rain forest's conservation, Reuters reported. After Brazilian President Luiz Inácio Lula da Silva's visit to Washington on Feb. 10, the U.S. government offered \$50 million to Brazil for environmental cooperation.

SoftBank to Increase Investments in Current Latin America Projects

Japan-based SoftBank group is planning to increase its investments in Latin American start-ups that are already in its portfolio, the company's head for Brazil, Alex Szapiro, told Bloomberg News in an interview. SoftBank plans to dedicate about half of its capital investments, up from 10 percent, to those start-ups over the next year to 18 months, said Szapiro. SoftBank has 86 companies in its Latin America portfolio, including Kavak, Rappi and Nubank.

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tiveness and further spurring investment. However, Mexico under President Andrés Manuel López Obrador shows worrying signs of backtracking on these provisions. The Mexican ICT space remains one of the most concentrated in the world, with América Móvil exercising a massive 70 percent market share (which it increased during the pandemic). A 'Reform 2.0' is therefore urgent for Mexico to capitalize on digital developments. Any such reform must begin by lowering spectrum fees, the mechanism through which Mexico allocates to companies the radio frequencies that form the backbone of digital communications. Mexico's current spectrum pricing helps cement América Móvil's dominance by pricing out smaller competitors. The IFT also

needs to be empowered to operate at full capacity, with new commissioners appointed to fill open slots, and the reversal of years of budget cuts. Additional reforms especially in digital education and cybersecurity will also be vital if Mexico is to compete in the 21st century digital economy and make good the promise of secure, reliable and affordable ICT services for all."



Luis Rubio Barnette, executive partner in the Mexico City office of Holland & Knight:

"The overhaul of the telecommunications legal framework in Mexico back in 2013 and 2014 brought about a renewed spirit within the telecommunications sector. The authority granted to the newly created federal

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contain inflation. In January, outstanding loans declined to 5.3 trillion reais (\$1 trillion), with loans to companies declining by 2.4 percent year-on-year, according to the central bank data. At the same time, loans to families grew 1.1 percent in January. In the previous 12 months through January, total credit expanded 13.6 percent in Brazil, as compared to 14 percent year-on-year in December. The decline in credit to companies had a seasonal component, but the decline was “slightly greater” in January as compared to the same month a year ago, said Fernando Rocha, the head of the central bank’s statistics department. Rocha added that it was too early to say to what extent the bankruptcy of retailer Americanas has affected Brazil’s credit market, Reuters reported. Bank loans in Brazil have slowed amid higher interest rates; the benchmark Selic interest rate currently stands at 13.75 percent as compared to a record low level of 2 percent in March 2021. Brazilian President Luiz Inácio Lula da Silva and some of his political allies have criticized the level of the key interest rate, which they have said is not justifiable given slower increases in inflation, the wire service reported. Brazil’s level of inflation stood at 5.63 percent in mid-February. Lula has called the country’s monetary policy an “embarrassment,” Bloomberg News reported. In a weekly central bank survey published Feb. 13, analysts expected the Selic rate to be reduced to 12.75 percent by December. The central bank has left the benchmark interest rate unchanged since September, Reuters reported.

BUSINESS NEWS

Tesla to Build Plant in Mexico’s Nuevo León State: López Obrador

Mexican President Andrés Manuel López Obrador announced Tuesday that electric vehicle manufacturer Tesla will build a plant in the industrial hub of Monterrey in the northern state of Nuevo León, the Associated Press reported. The plant will involve around \$5 billion in investment, Bloomberg News reported. “We

THE DIALOGUE CONTINUES

Does Colombia’s Health System Need an Overhaul?

Q **Colombian President Gustavo Petro on Feb. 13 presented a set of controversial social and economic reforms to Congress focused on the health care sector. The government said the changes would protect workers’ rights, improve primary care, expand access to treatment, raise health care workers’ salaries and address corruption by eliminating private sector management of payments. On Feb. 14, thousands took to the streets in support of the reforms, while the next day, opposition-led demonstrators protested against them. What is the current state of Colombia’s health care system, and what specific reforms would do most to improve it? How would the proposed health care reforms address the issues the Petro administration outlined, and why are they controversial?**

A **Alessandra Durstine, CEO and founder of Catalyst Consulting Group LLC:** “A populist commitment to serving the poor is considered a slam dunk in Latin America, but Colombia’s health scenario is more complex as evidenced by widespread but opposing protests over President Petro’s proposed healthcare reforms. Last month, many Colombians celebrated Petro’s health reform, which includes initiatives like health worker training, community-based service delivery and an emphasis on prevention—all of which will improve primary care for marginalized

communities. But, as Colombia’s population ages, its health burden is shifting away from the infectious diseases that primary care addresses and toward more complex and expensive treatments for noncommunicable diseases (NCDs). The drastic shift to a public model focused on primary care does not reflect the current or future health needs of most of the country. Critically, the reform proposes to do away with the public/private model of health coverage that has been the cornerstone of Colombia’s health system for 30 years. Those who have been accessing care in the public/private model are deeply concerned because they fear that its complete eradication will lead to severe gaps in service delivery and coverage, particularly treatment for NCDs. So, just like those in support of the reforms, they also took to the streets. Colombia is a country at an epidemiological crossroads. It suffers from the double burden of disease—infectious and noncommunicable. Petro’s plan is perceived to be overly focused on primary health care, and by ending Colombia’s private/public model, many worry that the new health care system would not be up to the daunting task of meeting the health challenges that Colombians face both today and tomorrow.”

EDITOR’S NOTE: The comment above is a continuation of the Q&A published in Tuesday’s issue of the Advisor.

brought to Mexico an investment of around \$5 billion for the installation of the largest electric vehicle plant in the world,” Deputy Foreign Minister Martha Delgado said in a video posted on Twitter. López Obrador said the decision followed phone calls he had on Friday and Monday with Tesla CEO Elon Musk. López Obrador had previously rejected Nuevo León as a site for a Tesla factory over concerns about

water shortages and droughts. “The only thing we want to say to the directors of the company [Tesla] is that we also want orderly growth,” he had told reporters, Bloomberg News reported. In response, Musk offered commitments to address those concerns, such as drawing on recycled water. The new plant will help Mexico expand on the millions of combustion-engines it already supplies to the United States.

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government agency, independent from the executive branch, was seen at the time as necessary to effectively separate the regulator from those regulated and as a means to level the playing field between the incumbent network operators and their competitors. Additionally, the majority of the members elected to the entity's governing body had experience in the telecommunications sector apart from regulated entities. During those first years, the new regulator dedicated substantial resources to designing and implementing measures aimed at containing and potentially reducing the market power of the incumbents. Fierce competition among mobile operators brought lower rates, and most mobile plans increased the number of minutes or megabytes included. However, the underlying conditions were not effectively changed. The incumbents managed to delay compliance of certain obligations and successfully challenged certain legal provisions aimed at restraining its market power in the mobile sector. The composition of the regulator's governing body has also changed. The federal administration has failed to appoint new commissioners and has reduced the regulator's budget. Recently, the incumbents have managed to sway the regulator into lifting certain restrictions in specific areas arguing that 'effective competition' exists. In summary, the intent was commendable, but implementation has failed to produce long-term benefits for consumers. Competition has not actually increased in Mexico. The incumbent holds either the same or more market power (depending on the specific market)."

A **Gonzalo Rojon, director and senior partner at The Competitive Intelligence Unit in Mexico City:** "At the beginning of the implementation of the new phase of regulatory framework for the telecommunications and broadcasting sector, there was an initial and partial rebalancing in the competitive conditions among operators and market structure toward a scenario of better compe-

tion. However, since the beginning of 2017, a trajectory of persistent and excessive market concentration in different metrics in favor of the 'Agente Económico Preponderante en Telecomunicaciones' (AEP-T, América Móvil) is identified. The AEP-T is a Mexican legal concept to represent an agent holding more than 50 percent of the market share of the telecommunications market. For example, the aggregate share of AEP-T Revenue Generating Units (RGU) went from 59.8 percent in March 2017 to 57.5 percent in December 2021. Despite the Instituto Federal de Telecomunicaciones (IFT), the Mexican regulatory body for broadcasting and telecommunications sectors, having made two revisions to the asymmetric regulation applicable to the AEP-T, its market share dropped only 2.3 percentage points during that period. In terms of revenues and operating margins, the AEP-T has reversed its deconcentration trend, such that between March 2017 and March 2022, América Móvil's share of revenues increased by 2.7 percentage points to 60.4 percent. Meanwhile, in the case of its EBITDA as a proportion of its revenues, an upward trajectory places América Móvil's margin at 41.1 percent, a level close to the one it reached when it was declared as AEP-T and 11.6 percentage points higher than the average of its competitors. The high market concentration and the lack of enough competition in the telecommunications sector have resulted in extraordinary profits for the AEP-T, which allows it to continue with significant advantages, including in spectrum ownership, infrastructure development and exclusivity agreements with equipment vendors. Almost a decade after the definition and application of the preponderance regulatory framework, little progress has been made in achieving its objectives; on the contrary, it has caused losses in competition. This is due to the noncompliance and ineffectiveness of the asymmetric measures aimed at leveling the playing field. Hence, the need for the IFT to apply additional mechanisms to accelerate effective competition."

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