

8TH Annual Technical Symposium

Operators Systems Requirements Forum

Monday, January 14

**16:00 Latin American Operator's point of view: The Mexican experience.
Dr. Enrique Melrose, ex technical commissioner, COFETEL
Daniel Pineda, R&D director, TELCOR S.A.
Alejandro Mayagoitia, chairman, WCA 10 – 12 GHz Task Force**

INTRODUCTION

Good morning ladies and gentlemen ... thank you all for being here. We are very pleased to be in this technical symposium, where we witness year after year the vertiginous technical progress of our sector, exposed very professionally by engineers from the manufacturing and development companies that form part of the WCA and that share the fruits of their work so generously in an effort to provide a higher drive to our industry.

We have been assigned the task to try to present the viewpoint of Latin American carriers that provide their services in a region which Mexico has 19M square miles, with a population of 96M inhabitants, 23M households, approximately 2.6M business and an annual average growth (in spite of the multiple crisis) of 2.0% during the past 10 years. It sounds very difficult to try to present a detailed vision of such a diverse region in the time we have for this presentation, but we believe that Mexico may be a good example of the situation faced by our industry in the region, as we are not intending to present a catalog of mayor recent events, but rather a vision of the bottom questions that have defined the telecommunications profile in our countries for the past 10 years.

We could present the factors that have defined our industry in five mayor groups, with the financial group in first place, however, we will not go into this topic in particular for two reasons: first, because we do not want to upset you, and second because being a factor that goes beyond our borders and strongly influenced by events in the United States, we would have nothing new to say. The second is the technological factor, which is the reason we are here in this symposium, and we have more questions than answers. The third factor will be addressed by Dr. Enrique Melrose, who is undoubtedly one of the best qualified experts in Latin America, and Daniel Pineda, an independent consultant which was one of the few who has able to maintain his independence in times of monopoly and who has now a well recognized prestige in our country is here to talk about the fourth factor, which covers the situation of networks and existing services that basically defines the battlefield where any of our projects will be landing.

Finally, I will be addressing the fifth, and frequently forgotten factor, the market, and as I have the microphone and to make up for this forgetfulness, I am going to present first:

Mexico, as well as many countries in the world, has relied on the hopeful perspectives that are predicted by competition opening processes and service convergence in the broad telecommunications field. First, due to confidence in the dynamism imposed by competition on the development, quality and fitness of services for actual demands from society. Second, due to the perception that progress in digital information storage and transportation technologies makes feasible a dynamism never seen before for creation and distribution of professional and entertainment contents.

Unfortunately, similar to other countries, both processes have imposed major practical difficulties for implementation. As a result of neglect in the analysis of some fundamental aspects of regulatory policies, we have found that it is possible to generate a value-distressing competition, completely opposed in spirit to the competition we are trying to drive. Also, installation of transportation and storage capacity itself is far from generating the management incentives and capacities required by convergence services that people is willing to purchase on line.

It is important to recognize that both, opening to competition as well as entrance of convergence services represent a process rather than a product. A process where reaching partial goals becomes more important regardless of the end product which, on the other hand, we are not yet in a position to predict adequately.

Both in Mexico and in many other countries we have lost the perspective of some of these partial goals. Among these: 1) existence of strong markets in every segment, which reflect the possibility of merges and acquisitions as a single survival means. 2) Regulation of resource transfer between services and jurisdictions, so as to make them factors to foster development and not locks. 3) Infrastructures for interconnection and service exchange management among carriers, which are far stronger than those inherited from the WWW. 4) A true universal service policy, not in the sense of bringing the service to the total population, but in an older and original sense, a single network everywhere, with access to all services in a standardized fashion.

One understands that any process for market opening to new services and players has the risk of failures and bankruptcies. But when red figures are not an exception anymore, but the rule, something must be reconsidered. It is a fact that the pressures that asphyxiate a competitive environment in this manner do not come from competition itself, but from a powerful carrier, from an improper application of competition rules or both. In Mexico, it is clear that results from most of the new competitors are far from being profitable. The outlook would be distressing if it weren't for the existence of brilliant exceptions.

In Mexico, analyzing cost structure of competitors and the incumbent carrier, we may assure that the advantage of the incumbent due to scale economies or scope has only been thwarted by competition with high focus strategies in the markets covered. It is interesting noting, in this sense, that success factors emerge from a deep knowledge of the market to be competed, and from a thorough understanding of the cost advantages provided to the incumbent carrier by the current regulatory statute in specific regions or markets. The major failures in which new competitors have incurred are related to lack of focus. In the domestic long distance market, for example, the companies that have problems today were after taking the market in all residential and commercial segments, in all the regions of the country, and in all destinations.

In general, companies with a full local management have prevented making these generalization mistakes. Those associated to large global carriers, relying on the perception of having large funds to withstand the disadvantages imposed to this strategy by the regulatory frame for the time necessary (long enough) until modification of the regulation. That is, the tactic to resist until the regulatory frame changes to adapt to the strategy designed ex-ante has not proven effective.

The same has happened in local access markets, both wireless and wired???. Investments that were relying on changes to the regulatory frame to adapt to the plans of the competitor entering to have the necessary conditions to be able to compete one to one with the incumbent carrier have been useless. Recognizing that the real disadvantage conditions to face competition by the new entry and studying approach strategies that minimize these disadvantages and in some cases turn them into advantages, seem a more realistic position.

Curiously enough, the telecommunications market that shows a higher dynamism, mobile telephony, has a marked advantage for the incumbent carrier from its origin, as it had the right to obtain a national license, while new competitors were only able to compete in specific regions. Notwithstanding, the start of competition that goes back to 1989, was marked by the strategies of Mexican companies that maintained a reasonable competitive position in spite of the disadvantages accepted from the beginning, who were able to obtain significant earnings from the risk, and obtaining, on the long run, national coverage frequencies in PCS, investing 1000 million dollars additionally on them, and a regulatory statute (CPP) that improved substantially their cash flow.

In summary, although the conditions imposed by the legal frame of telecommunications in Mexico is far from providing equity conditions to new competitors regarding competition from the incumbent carrier, this does not mean that there are not clear opportunities to make profitable business in every market segment if the competitive strategy to be followed is analyzed carefully, as well as discrimination of markets that allow success and those that may not be addressed.

In this sense, negotiation of interconnection conditions should be considered more from the viewpoint related to the form in which transfer of resources affects the situation of consumers of the services involved, rather than the form in which they affect the business plan of the company. That is, strategies should work considering the interconnection cost as a neutral parameter and not as a key success factor. This is because, in a competitive environment, any decrease in the interconnection cost is passed immediately to the final consumer, leaving unaltered net sales, as it has happened in the long distance market in the United States for the past 15 years.

That is, in business plans where Mexico has been successful, the interconnection cost has been a neutral element for cash flow. It is true that in fixed wireless telephony, interconnection cost is key to determine those markets where competition with wired telephony is feasible. However, the neutral position to reach a B&K type agreement was predictable, as a starting situation, leaving the possibility of CPP type transfer for a time when users benefited by the measure are properly identified, as in the case of the mobile telephony market.

The situation of dedicated links services and dedicated Internet access have a special interest for the wireless industry, particularly with the deployment of products based on DLS type access or Docsis in CATV technologies, where broad band wireless access is an ideal

complement. The Internet dedicated access service is at the time the basic engine for dedicated access growth. In most sign-ups, the "de facto" solution is access via copper at rates from 64 to 128 Kbps, where the price for the last mile is \$100.00 or \$200.00 US Dollars/month. In fact, this price does not represent a significant burden on the total service price that is in \$450.00 to \$600.00 US Dollars/month, with a penetration in the order of 5% in corporate sites, and negligible at the residential level.

The DSL service recently launched, with prices of \$50.00 US for one connection at 256 Kbps will be changing this scenario significantly. However, we will be observing soon a match between prices for DSL type services and those with dedicated access (Dedicated Line), regarding the quality offered in the POP access by the Internet access provider and, in the future, to other services managed over IP.

The key issue is on the quality offered by transportation metropolitan networks to DSL or Docsis type users. In this scenario opportunity windows will be clarified for broad band wireless accesses. The major negotiation will be with the POP carrier in the sense of traffic over-subscription between the base station (BS) and the POP, and management of the connection infrastructure developed or leased in the metropolitan connection network of the BS. In turn, the POP carrier demands will depend to a major extent on the services offered to customers, in the way the Head End is doing currently in a CATV network.

Currently, we have experience with two broad band wireless services. One on the 3.4 to 3.7 Ghz band, with a band width of 50 MHZ granted under concession, by the carrier Telecomso and operated by a mobile telephony concessionaire (Unefon), other in the band of 10.5 Ghz with a band width of 30 MHz granted under concession, operated by LD carriers and by the fixed wireless access company, Axtel. In both cases, the price structure is similar to that of the Internet dedicated access, therefore, the ADSL or Docsis type options are, at least in the short term, very attractive for residential and small industry markets.

As soon as services offered by POP administrators start to diversify and to become sophisticated, exchange issues between carriers will face major standardization and homologation problems, with a complexity that exceeds the simple Peering agreements current nowadays. The existing club effect in every telecommunications service will undoubtedly force standardization, or in the absence of the latter, consolidation of the industry around a very strong local carrier.