

THE ICT MARKET IN MEXICO: CHALLENGES AND OPPORTUNITIES FOR THE NEXT ADMINISTRATION AND REGULATION

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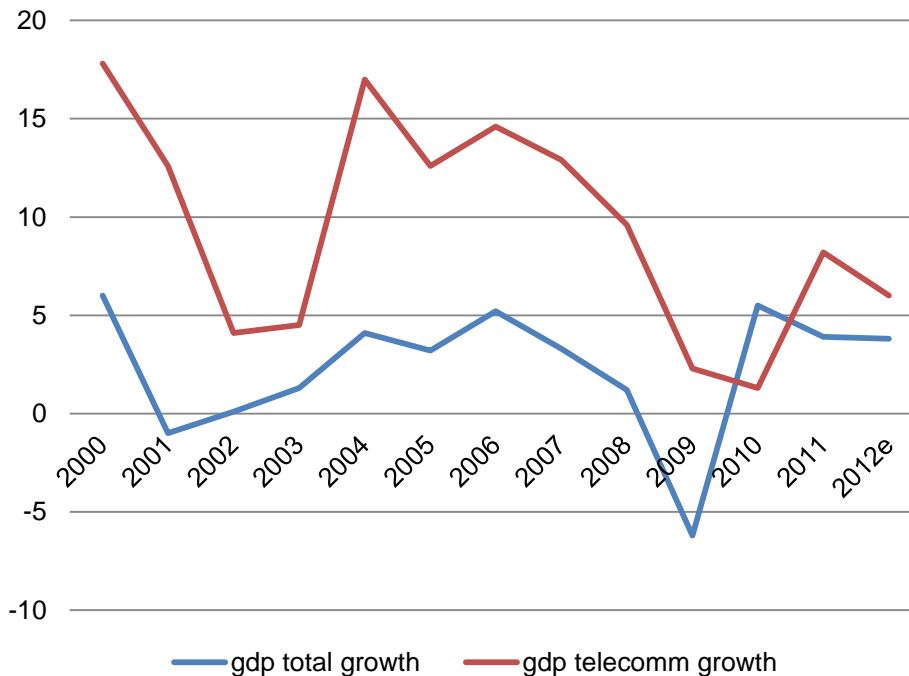
- Structure and past performance of the Mexican market.
- Comparison of performance vs similar markets.
- Industry players and their strategies.
- The regulator and its regulatory endowments; institutional setting and challenges.
- The future and opportunities for incoming Peña Nieto administration

STRUCTURE AND PAST PERFORMANCE OF THE MEXICAN MARKET

First part: the setting and competitiveness

Telecomm is one of the most dynamic sectors in Mexico

GDP and Telecomm GDP annual growth rates



Telecomm grew higher than 10% annually in 6/13 years.

Recouped from Great recession in Mexico with a lag in 2011.

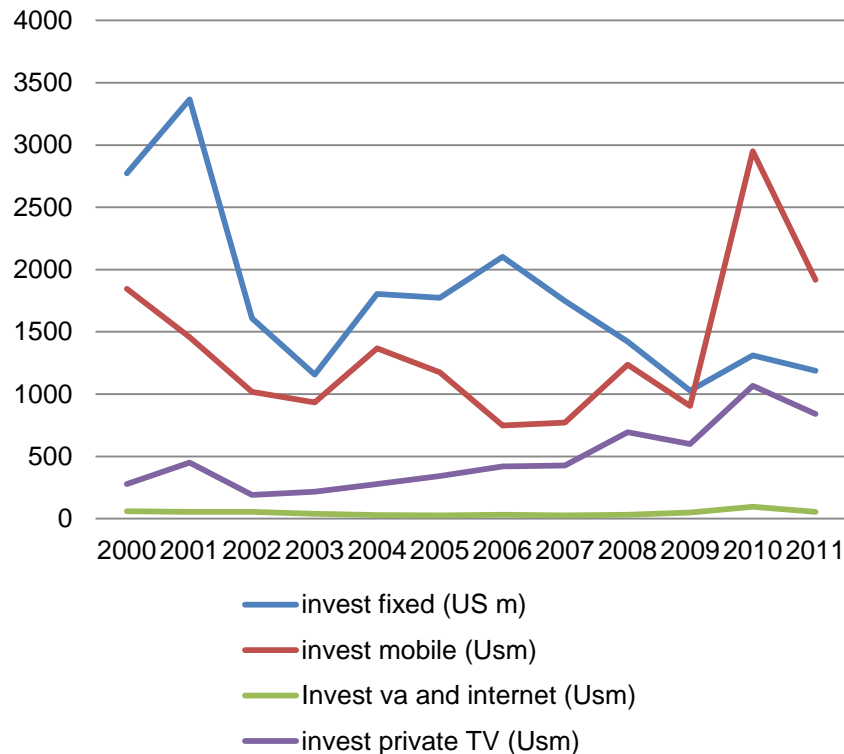
Participation in GDP has continuously increased, from 1.46% in 2000, to 3.1%, estimated at the end of 2012.

Noted subsectors are fixed, mobile, and broadband internet, with own challenges. Convergence in triple play underway, moved by TV players (DTH).

Source: COFETEL, with data from INEGI

Investment and investment/sales commitment and market expectations

Investment by sector in USm
2000-2011



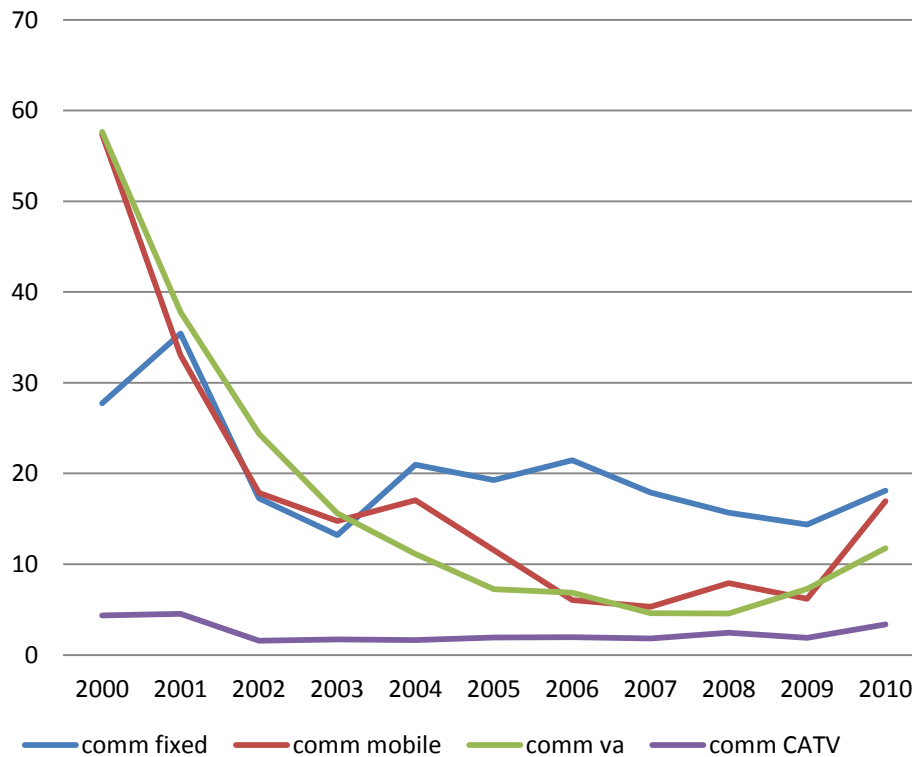
After 2009, mobile investment peaked, along private TV (cable, DTH, MMDS). Fixed investment under substitution with trended decline. Investment in value added svcs and internet surprisingly low (specialized services).

Maturity of services is an explanation. Other is lack of reg incentives and/or competition problems.

Source: COFETEL, March 2012

Investment over revenues (2000-2010)

Investment/ revenues as gross
measurement of commitment (% in USD)
2000-2010



Fixed but also mobile, even if very dynamic has postponed investment shares of revenues.

Internet services have moved to become more committed after 2008.

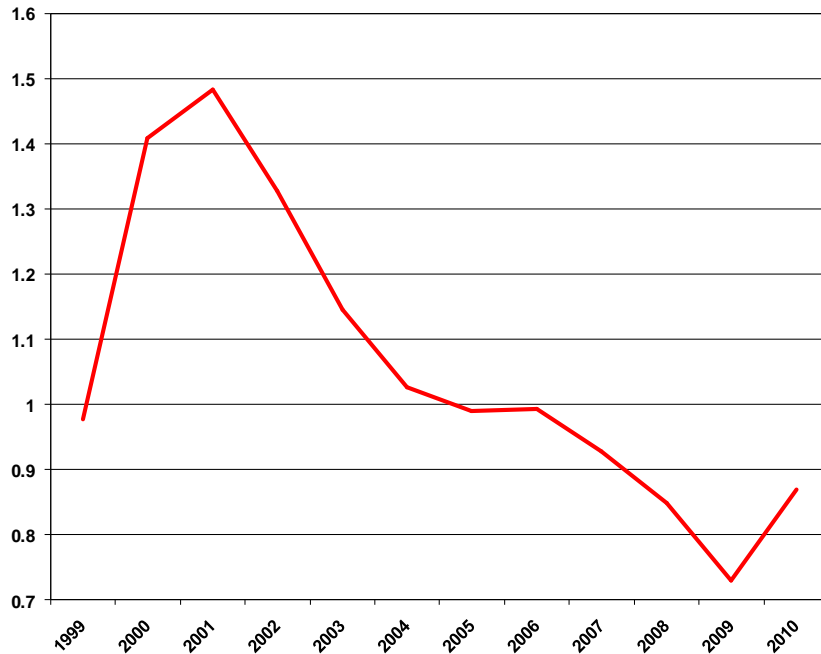
CATV services lag in commitment even if they win from triple play.

Share of new service providers has reached higher than 14% of market (Plenus Group 2010). It is not shown in I/Rev. Commitment of triple play.

Source: COFETEL March 2012

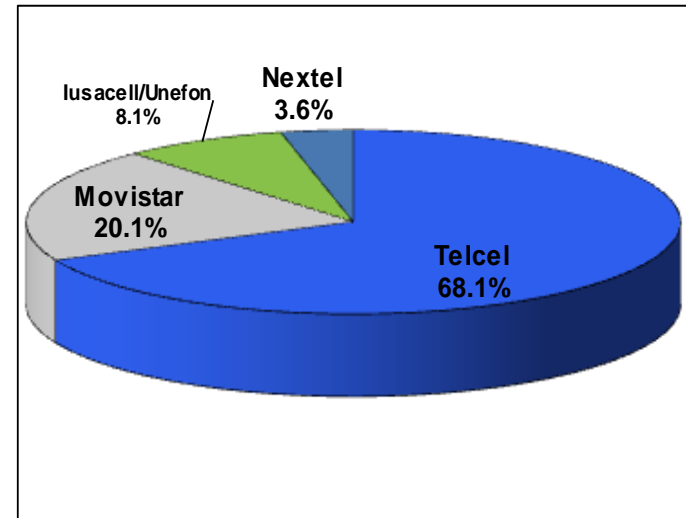
Mobile telephony is substituting the use of fixed telephony

Incoming/Outgoing Mobile Traffic



Source: Cofetel

Mobile Telephony Users
(Market Share March 2012)



Source: Cofetel and Financial Statements of the Permit holders

COMPARISON OF PERFORMANCE VS SIMILAR MARKETS.

Mexico compares unfavorably to other markets.
Challenges and also opportunities abound!

Intro and argument

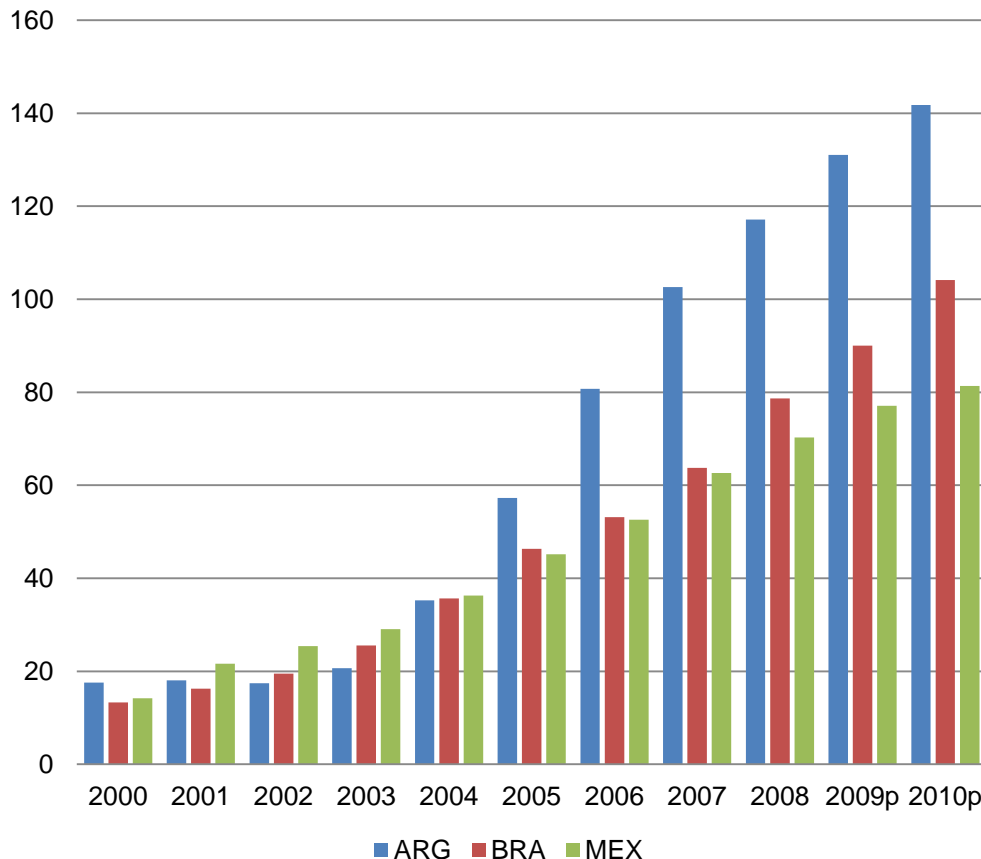
- Mexico is a medium income developing economy. Well known and researched is its insufficient competitive position.
- Since 2000, Mexico's WEF position has moved from place 58 to 53/144. Other Latin American economies -notably Chile- has improved much more clearly than others such as Brazil, Argentina, or Mexico.
- World Bank "how to do business" indexes, show some good performance measures in Mexico but low competitiveness related to governance, rule of law, and competition.
- OECD (February Report, 2012), points out that the ICT industries face less than outstanding performance, related to their economic advance, even if comparison data use nominal dollars instead of ppp-dollars for comparison (Ten-Kate, 2012).

Cont...

- The following tables are gross comparisons. Note that the pace of modernization has begun at different moments in time, to take into account for a more punctual analysis..
- However, modernization is related to: a) market entry; b) incumbent concentration; c) strategic conduct *for* the market; d) regulation and asymmetric regulation; e) regulation endowments into the regulation agencies; f) other non-market strategies by interest groups (hold-up problems).
- Example: all LA countries, except Colombia and Venezuela, saw mobile telephony beginning between 1990 and 91.
- On the CPP programs , Argentina started “calling party pays” program in 1997, while Mexico and Chile began in 1999 (Brazil did so in 1994, and Peru in 1996, according to COFETEL 2012).

Mexico's mobile penetration and comparison with Argentina and Brazil since 2000

Mexico vs Argentina and Brazil, with similar penetration rates in 2000 per 100 pop



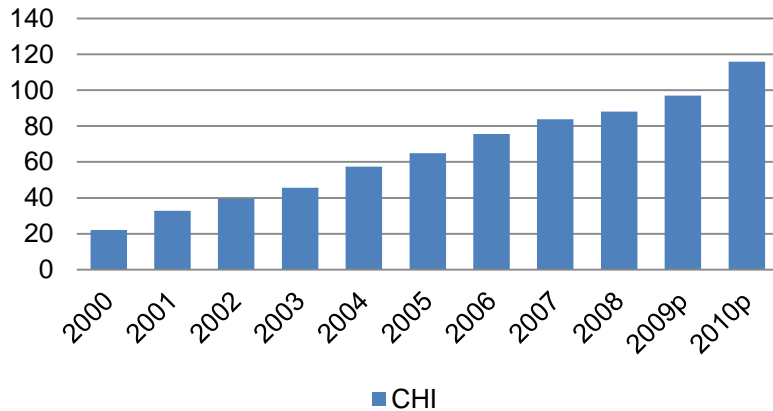
Penetration differences originally from Calling-party pays launch was 1997 in Arg, 1994 in Bra, and 1999 in Mexico.

However, such does not totally explain Mexico's lower penetration, and penetration growth

Income distribution? Doing business? Regulatory certainty? Less market failure elsewhere? Prices? Access Discrimination or impediments?

Other performances in LA (mobile subscribers per 100 pop.) Contrasting Chile (higher original penetration) and Peru

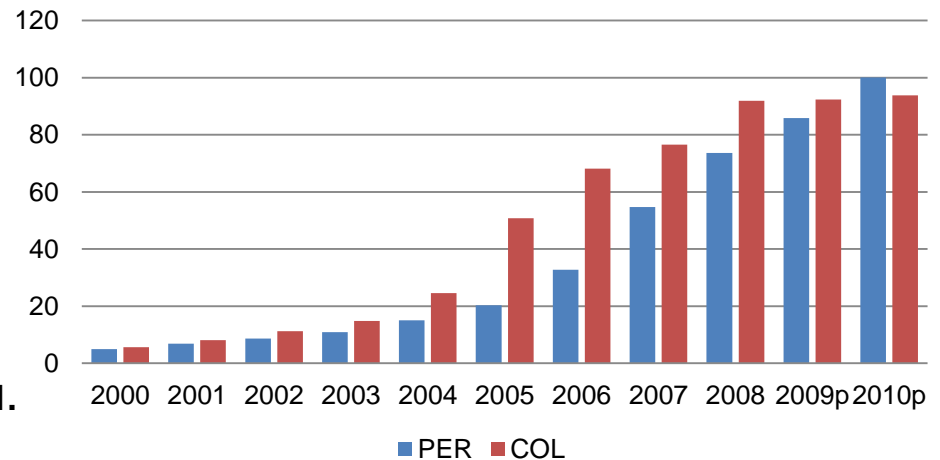
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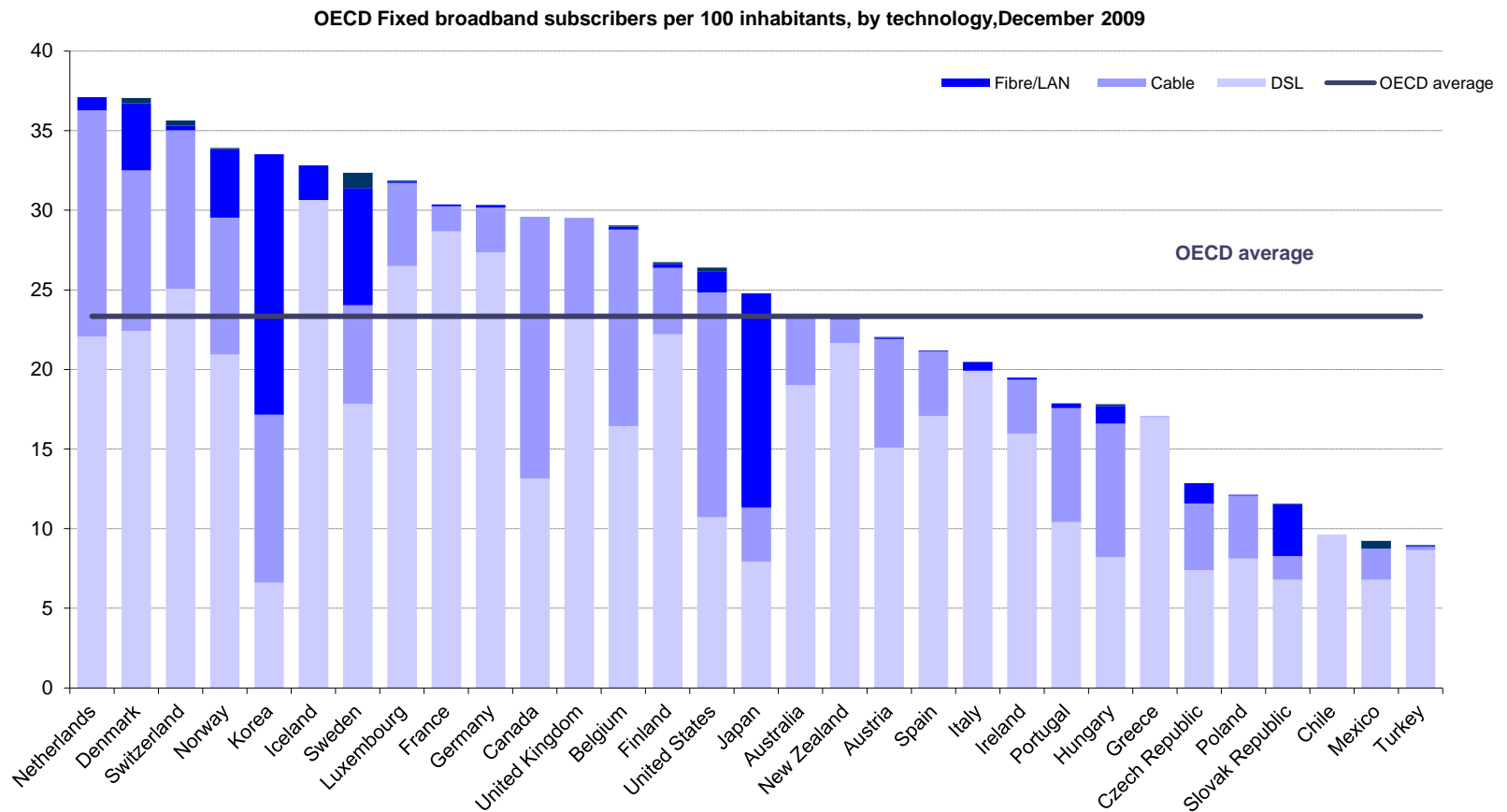
Chile's more mature market grew steadily but at lower rate than Colombia, and notably Peru, as shown here.

Penetration rates are: 116% for Chile; 93.76% in Colombia, and 100.13% Peru.
Source: Cofetel 2012.

COL and PER



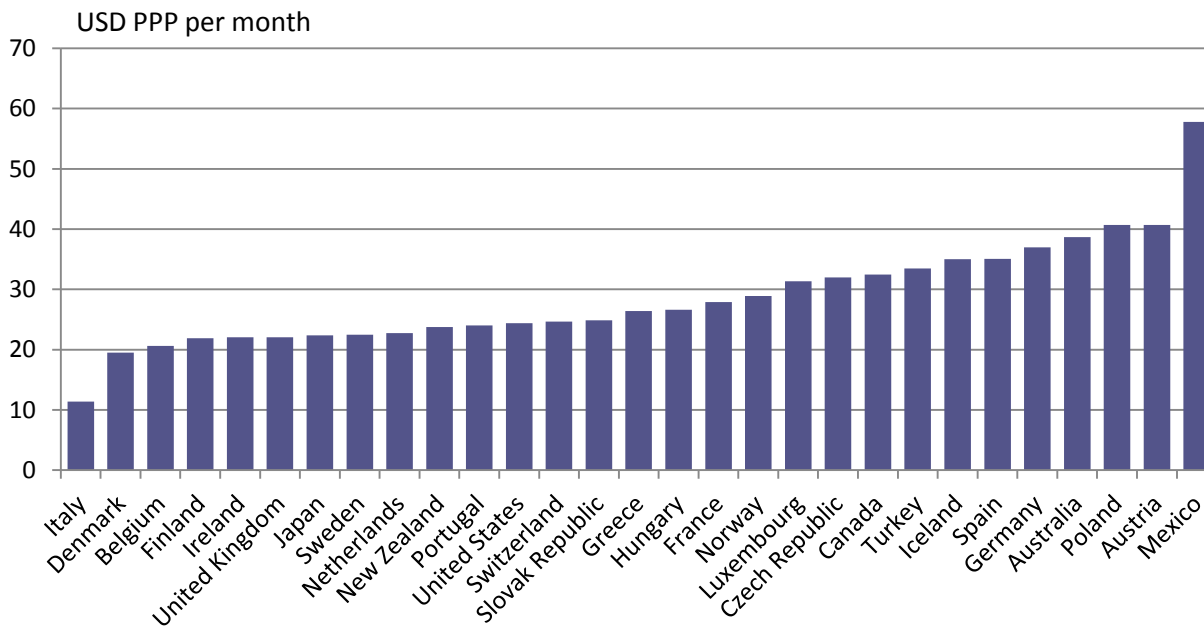
Mexico has the second lowest penetration of broadband in the OECD countries



Mexico has the highest price of access to the Internet of the OECD countries

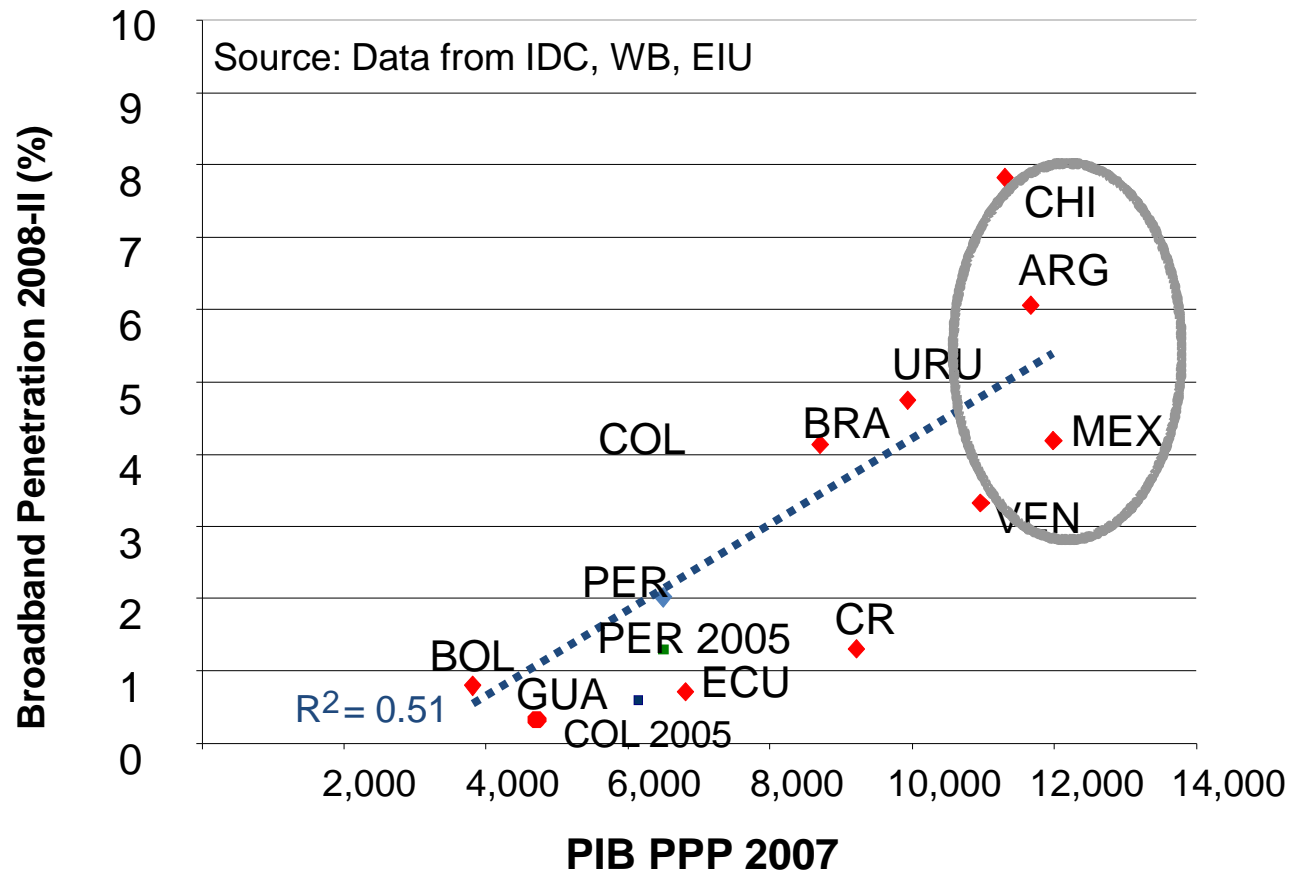
Average monthly subscription price for very low-speed connections

256 – 2 048 kbit/s advertised, USD PPP, September 2008



OECD (2009) Communications Outlook 2009. Criticism of USPPP comparison recalculates broadband Prices to around US\$ 33 per month, but I revised it to around US\$ 41, still above OECD average. Mexico penetration in broadband is around 11.3% of OECD in per capita terms (higher by income, and age

Broadband in Latin America

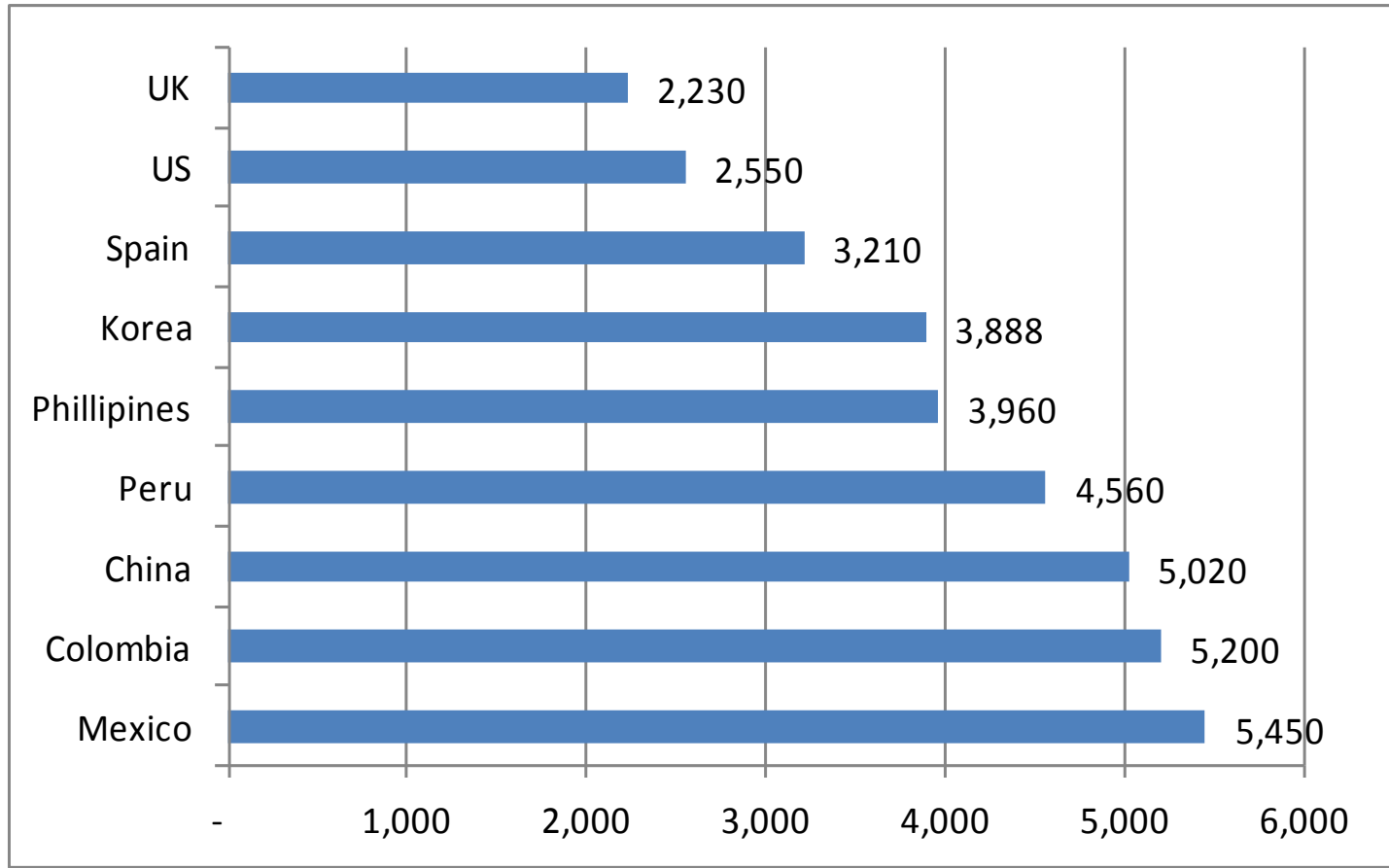


- Those countries below the line are not performing according to their economic size
- Mexico is underperforming because of the lack of alternative infrastructures

INDUSTRY PLAYERS AND THEIR STRATEGIES.

Players in Mexico see a stark divide: leading incumbents (with market power) have deep pocket advantage phenomena, while other incumbents face struggles. Somewhat blockaded new entry could be solved. Regulators face great opportunities and also challenges

Mexico's concentrated mobile market (Herfindahl Hirshman Index, 2011)



Source: Merril Lynch (2011), Global Wireless Matrix 3Q 2011

Company	Ownership	Main Target Market	Rev (US\$ 2010) EBITDA margin Mkt share	Challenges and strategies (2011-12)
Telcel	América Móvil	Mobile	Rev. US\$ 11 b Margin 55.1% Share 69% of mkt	Defensive strats. M2M for its mkt together with APNs. Faces reduction in interconnection rate
Telmex	América Móvil (100% by Nov 2011)	Fixed/ IT	Rev. US\$ 6.3 b Margin 40.5% Share 84.5 of mkt	Keep convergence agreements, to reach pay-TV. Strong IT effort
Movistar	Telefónica Móviles Mexico	Mobile	Rev. US\$ 1.8 b Margin 36.3% Share 21%	Increase spectrum capacity and increase coverage. Reduce financial exposure.
Nextel	NII Holdings	Mobile	Rev. US\$ 2 b Margin 32.4% Share 4%	PTT end and move to mobile svcs for households. Expand network to 34 cities.
Iusacell	G. Salinas/ Televisa (50%-50%)	Mobile/ Fixed	Rev. US\$ 1.2 b Margin 17.3% Share 10.1% (4.8 at buyout)	Launch FTTH, new packages with Televisa.

Drivers of convergence and performance

Drivers	Status and performance
Regulation of spectrum, and regulator actions with tribunals regarding mobile and fixed interconnection (TIX)	Launched in June 2012 for 2012-2017, with 600 MHz for advanced mobile services. Other actions to reorder spectrum spaces/ bands. On March 2011, reduction from \$1 to \$.39 (60%) in mobile, and reduction IX-F from \$0.12 to \$0.04, including resale
Broadband services, wired and mobile	Penetration reached 11% in mid-2012. Mobile broadband highly promoted. QoS under review to include more elements. Deal between Movistar and Iusacell on infrastr.
Triple Play	Main cable groups Cablevisión, Megacable, and Cablemas jointly promote YOO as a low cost 3-play. Iusacell launched Totalplay
VoIP	Migration to IP networks accounts only for around 7% of voice lines
Competition in pay-TV	Dominant group is Televisa. DISH gained mkt. Share until 2012. If authorized, Telmex could acquire DISH to increase competition, with deployment of DTTH
Acquisitions	Acquisition of IUSACELL by Televisa, after moving away from bankruptcy in 2009, and integration of América Móvil, fight for the market more fierce

Source: Adapted from Pyramid Research 2011

THE REGULATOR AND ITS ENDOWMENTS; INSTITUTIONAL SETTING AND CHALLENGES.

Mexico faces a rather litigious environment and double window for regulation between SCT and COFETEL

State of regulation and improvements

- System of concessions initiated in 1991 with Telmex, and has been kept until now. System seems to need restructuring (OECD 2012), to a simpler class-permit allocation, except spectrum management.
- Appeal process and *amparo* system has blockaded regulation, asymmetric regulation, and promotion activities and new services.
- Supreme Court rulings around access rate disputes, powers to COFETEL and competition COFECO, send signals in favor of the market and welfare!
- However, regulating authority must increase its decision powers, independence and autonomy, and also transparency and accountability. SFP should also make review processes more expedite and transparent.
- In 2010, COFETEL opened public consultation over cost model. This was a dramatic advance.
- Public consultations and procedures, need to be part of COFETEL's decision process under its internal rules. Good first step in that direction!
- Fines to illegal trade practices of players should be more easily collected, with the regulation process more transparent.
- At the wholesale level, incumbents should provide service level agreements to smaller and entrant companies providing relevant indicators for access to leased lines and other network elements (OECD 2012).

Cont'd

- Prices should be adherent to cost structures at all levels.
- Regulator to increase its independence of decisions regarding audiovisual services. Telmex should be allowed to revise its concession title to increase competition in this segment (OECD 2012).
- Legal changes are needed in order to promote efficient infrastructure sharing and to remove barriers to obtaining rights of way, since the current framework has not been effective.
- Ex-ante regulation by COFETEL should be stronger and towards best practice in Mexico and its own context (Levy-Faur and Jordana 2004).
- Asymmetric regulation is necessary to curtail the market power of incumbents, but despite finding the incumbents dominant in the market, appropriate regulation has not been applied.
- In 2009, Cofetel issued a comprehensive Technical Plan considered OECD best practice, including: adoption of open network architectures, non-discrimination, unbundling of unnecessary service elements, ensuring network capacity and rate requirements. However, application has been hindered against the public interest and was suspended.

THE FUTURE AND OPPORTUNITIES FOR INCOMING PEÑA NIETO ADMINISTRATION

Environment seems ripe for upgrading and setting Mexico at the forefront of Latin America and within OECD best practices

Opportunities for the incoming government

- The new administration of Pres. Peña Nieto should take the opportunity window for reforms.
- Some postponed or abandoned measures by COFETEL should be revised and included (Interconnexión plan, extension of local areas, unbundling and technology neutrality, and permit process, at the least).
- New administration could find an opportunity for telecom regulators to review their mandate and organizational structure, including investigative endowments for market power existence (COFETEL, SCT, COFECO).
- New legislature has begun with decisions aimed apparently towards more competitiveness. Examples are a) labor reform; b) government accounting and transparency reform.
- Next are anticorruption measures, energy reform, and other.
- In the ICT sector, opportunities abound for improvement, since the sector is critical for other social policies in education, health, justice, government.
- Time is ripe for forceful stance on modernity and a stronger sector

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THANK YOU!

Q&A?
