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Featured Q&A With Our Board of Advisors

Q Brazil's telecom industry is reportedly miffed that President Luiz Inacio Lula da Silva's Growth Acceleration Program (PAC)—announced last week—ignores investment in telecom as an engine of growth and instead favors greater spending on transportation and energy infrastructure. Does telecom occupy a low relative priority on the Lula government's agenda? Why? Why should the government devote as much or more investment in telecom as in transportation or energy?

A Board Comment: Tricia Paoletta: "Telecommunications in Brazil is already an engine of growth that attracts substantial private investment. Brazil has one-third of the entire region's wireless users—approximately 100 million subscribers. The growth of the telecom industry in Brazil, particularly since the privatization of the sector, is due to its private ownership and investment, and the presence in Brazil of several privately owned competitors. President Lula's PAC program focuses on industries like transportation and energy infrastructure that are characterized by a high degree of government ownership and control. Not surprisingly, due to the state ownership of these industries, they are currently more in need of economic impetus than privately owned sectors, like telecom. Since most of the proposed projects announced in the PAC are already part of the investment plans of the state-owned companies, it is questionable how much new investment is at hand. The telecom sector need not feel overlooked. While Anatel, Brazil's communications

regulator, went headless for a period, President Lula was allegedly waiting until his re-election bid was successful to install a new president. Now that he is in place, the best Brazilian plan for continued growth in the telecom sector would be to maintain Anatel as an independent regulator— independent from the communications ministry—with authority to ensure pro-competitive policies and protect end users. Where independent regulators are empowered to enforce clear competition and service rules, investment follows."

A Board Comment: Wally Swain: "Telecom has a very low priority on the Lula government's agenda, and both Lula and key ministers have made pub-

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PHOTO OF THE WEEK



Venezuelan Telecom Minister Jesse Chacon said Friday the government will seize CANTV if no deal is reached with shareholders over the firm's nationalization.

Venezuelan government file photo.

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INDUSTRY BRIEFS

Movilnet Will Be Included in Nationalization of CANTV

Jesse Chacon, Venezuela's telecom minister and president of telecom sector regulator Conatel, on Friday ruled out keeping CANTV's mobile unit, **Movilnet**, in private hands, as a result of a nationalization of the company. "We would be an irresponsible government if Movilnet was [not included in the nationalization], since mobile telephony offers the greatest profitability," Chacon said, according to a press release posted on Conatel's Web site. Movilnet is Venezuela's second-largest mobile operator after **Movistar**, a unit of Spain's **Telefonica Moviles**. As of the end of the third quarter of last year, Movilnet had 41.5 percent of the country's 16.3 million mobile subscribers, according to Conatel.

Brasil Telecom Selects Widevine for IPTV Content Security

Seattle, WA-based **Widevine Technologies** on Monday announced that **Brasil Telecom** had chosen it to protect the Brazilian operator's IPTV content. In a press release, Widevine said its security protection service, to be launched in phases, "enables subscribers to securely view a variety of premium Hollywood content and local programming on set top boxes, home media gateways and, eventually, PCs." Financial terms of the deal were not disclosed. Brasil Telecom, the first company to offer IPTV in the South American country, launched the service in the capital, Brasilia, in October, according to the press release. It has some 1.2 million subscribers to its "Turbo" ADSL broadband service in 1,200 cities, covering 65 percent of its service area.

Industry News

Minister: Govt. to Seize CANTV if No Deal Reached with Shareholders

The Venezuelan government will seize telecommunications company **CANTV** if no deal is reached with shareholders over the firm's nationalization, Telecom Minister Jesse Chacon said Friday, according to Reuters. "If we do not get anywhere with the owners, we shall act as set out by the law. In Venezuela, there is an expropriation law that can be invoked simply by citing the greater good of the public," Chacon, who is also director of telecom sector regulator Conatel, was quoted as telling reporters. Earlier this month, Venezuelan President Hugo Chavez announced plans to nationalize CANTV, the country's biggest telecommunications company. Chavez said last Sunday that the government would not compensate shareholders in CANTV until after it was

Communications, whose 28.5 percent participation in CANTV is the largest single stake in the telecom firm. US officials have said the Venezuelan government must compensate shareholders fairly for their investments. Last week, Chavez threatened to expel US Ambassador William Brownfield after the diplomat said the government should treat investors in CANTV fairly. Brownfield had told local radio that the nationalization of CANTV should proceed "in a transparent, legal manner" and that Venezuela's government must offer "fair and quick compensation to the people who are affected or the owners."

Bolivia's Evo Morales Confirms Plans to Retake Control of Entel

Bolivian President Evo Morales confirmed Monday that his government is studying

“If we do not get anywhere with the owners, we shall act as set out by the law.”

– Jesse Chacon

nationalized, and said the government would not pay investors the international value for their stakes. Chacon said Friday that there was not yet a fixed price for how much the government was willing to pay to take over CANTV, only saying that the government would make a "reasonable" offer, according to Bloomberg News. He also did not specify the size of the stake the government was seeking. Chacon did say, however, that the government was conducting a detailed study of the company's assets and liabilities, including pension payments owed to retirees. He also said he wanted the nationalization to take place as soon as possible, and said the government wanted to know the position of **Verizon**



Chacon
Venezuelan government file photo.

how to recover **Entel**, the country's biggest fixed-line and mobile operator, state news agency ABI reported. "There is an intense debate among our lawyers to see how to recover Entel, which before was a state company. It needs to be studied," Morales was quoted as telling a crowd of thousands of peasants in a town in the southwestern province of Potosi. "We are obligated to recover those companies that belonged to the state, and now that we are in government, why can't we recover [Entel]?" Entel is currently controlled by **Telecom Italia**, which paid \$610 million for a 50 percent stake when the company was privatized in 1995. Pension funds controlled by Spanish bank **BBVA** and Swiss insurance company **Zurich** each hold 23.7 percent stakes in Entel. Telecom Italia, which has sold much of its assets in Latin America while it tries to focus on its home market, has reportedly been looking to sell its stake in Entel for

at least a year. The Morales government first said it was looking to recover control of Entel in June, saying it would buy the stakes held by the pension funds, plus 2-3 percent more to gain majority control. But now the government appears to have switched its focus to Telecom Italia's stake. An unnamed Morales spokesman cited by local daily *La Razon* said the government would seek dialogue with the Italian company.

Calderon Wants More Competition in Mexico's Telecom Sector

Mexican President Felipe Calderon wants more competition in the country's telecom sector, according to an interview published last Tuesday in the *Financial Times*. When asked about expensive telephone charges in Mexico, Calderon agreed that prices are high, saying "I think that the way to reduce them is to create a much more competitive market structure in which there are no barriers to entry and in which whoever offers the cheapest telephone services can just do it without restrictions." Mexico's telecom sector is dominated by two players, fixed-line operator **Telmex** and its mobile affiliate, **America Movil**, both of which are controlled by billionaire Carlos Slim. To deal with the lack of competition, Calderon said "the first step is to strengthen the regulatory bodies, in particular the Federal Competition Commission (CFC), which now has more tools and more teeth to oversee markets and avoid market abuse and monopolistic practices that can form in any given sector of the economy. At the same time, it is important to strengthen the Federal Telecommunications Commission, or Cofetel, so that it is better able to regulate competitive markets in that sector," he said.

Telefonica CTC Chile Posts 9.2 Percent Drop in Annual Profit

Telefonica CTC Chile on Thursday reported a 9.2 percent decline in profit in 2006 from the previous year, Reuters reported. CTC, a unit of Spain's **Telefonica**, said net income totaled 23.353 billion pesos (\$US 44 million) last year, compared to 25.712 billion in 2005.

Subscriber Notice

Luncheon Discussion on

The Outlook for Latin America's Wireless Sector

with

Calvin Monson

Vice President, NERA Economic Consulting

Tricia Paoletta

Partner, Harris, Wiltshire & Grannis

Mindel De La Torre

President, Telecommunications Management Group

Wednesday, February 7, 2007

12:15 - 2:00 p.m.

Inter-American Dialogue

1211 Connecticut Avenue, NW Suite 510

Washington, DC

RSVP to meetings@thediologue.org

Please include your name and affiliation.

To inquire about phone access, send an email to ebrand@thediologue.org.

The company posted revenues for the year of 577.203 billion pesos, down 2.6 percent from the previous year. CTC reported a fourth-quarter profit of 3.6 billion pesos, up 10.2 percent from the same quarter a year earlier, despite a 2.8 percent year-on-year decline in revenues. It expects revenue growth to be near flat this year. "We believe we will reach [growth of] between zero and 2 percent in revenue in 2007, driven by broadband and pay television," Chief Financial Officer Julio Covarrubias was quoted as telling reporters. CTC, which is Chile's biggest fixed-line opera-

tor, faces increased competition following the government's awarding of fixed-wireless concessions earlier this month to **Telefonos de Mexico** (Telmex) and **VTR**, a company owned by the US' **Liberty Media**. CTC had fought to block the concessions. Telmex announced January 17 it would start building a nationwide broadband fixed-wireless network in Chile, and expects the network to cover 98 percent of the population by the end of this year [Editor's note: see related Q&A in the January 22, 2007 issue of the *Telecom Advisor*.]

Economic News

Brazil's Central Bank Cuts Selic 25 bps; Lowest Cut Since Sept. 2005

Brazil's Central Bank on Wednesday lowered its benchmark Selic lending rate by 25 basis points to 13 percent, signaling a slowdown in the pace of cuts. The rate cut by the Bank's monetary policy committee, or Copom, although expected, was the smallest since September 2005, when the Bank began a series of reductions that have since totaled 675 basis points. Rate cuts since October 2005 have been either 50 or 75 basis points. "Given the uncertainties associated with the transmission of monetary policy and considering that the effect of interest rate reductions since September of 2005 haven't fully been reflected in the economy, Copom believes the decision will contribute to increasing the magnitude of rate adjustments to be implemented," the Bank said in a statement. **HSBC** noted in a brief research report last week that the 5-3 Copom vote was not unanimous for the second straight meeting, creating some uncertainty about future interest rate moves. Inflation in Brazil was 3.14 percent last year, the lowest in eight years and easily below the Bank's target of 4.5 percent, the same target for this year. However, inflation and economic activity accelerated toward the end of 2006, creating expectations among some economists of smaller rate cuts going forward. Analysts polled by the *Advisor* last month expect 2007 inflation to come in at 3.7 percent [Editor's note: see related Q&A in the December 20, 2006 issue of the daily *Latin America Advisor*.]

Trade Powers Agree to Resume Stalled Global Trade Talks

Major powers agreed on Saturday to resume global free trade talks, six months after they were suspended. Reuters reported. "I believe we are back in business," European Trade Commissioner Peter Mandelson was quoted as saying in Davos, Switzerland, where trade ministers from 30 countries gathered on the sidelines of the annual World Economic Forum.

Advisor Profile



Brazilian govt. file photo.

Antonio Patriota

Editor's note: Antonio Patriota will replace Roberto Abdenur as Brazil's ambassador to the United States in mid-February. Brazil's senate confirmed Patriota's appointment in December.

Name

Antonio de Aguiar Patriota

Background

Born into a family of diplomats, Patriota has lived in Asia, Europe, Latin America, and the US.

He started working in Brazil's foreign ministry during Itamar Franco's 1992-1995 presidency. He then went on to work with now-Foreign Minister Celso Amorim at Brazil's mission to the United Nations and later to represent Brazil at the World Trade Organization in Geneva.

Notes

Until he assumes his diplomatic post in Washington, DC, Patriota continues as under-secretary general for political affairs in the Brazilian foreign ministry, where he is considered to be Amorim's right-hand man. The two diplomats have worked together since the mid-1990s.

Patriota pushed hard for Brazil during last summer's contentious debate over an open seat for Latin America on the UN Security Council. But he says that pushing for a seat for Brazil on the Council is not on his agenda in Washington, according to local press.

Sources: Brazilian Embassy in Washington, DC, Valor Economico, Folha de Sao Paulo.

Pascal Lamy, director general of the World Trade Organization, said ministers agreed it was time to return to "full-negotiating mode" after the United States, the European Union, and other key member countries reported progress in recent bilateral talks. The WTO's Doha round of global talks were halted in July amid disagreements over agriculture issues, with the US refusing to make deeper cuts to farm subsidies and the EU and some developing countries refusing to lower tariffs on agricultural imports. In addition, developing countries such as Brazil are resisting pressure to lower industrial tariffs. However, after recent bilateral talks, signs have emerged that countries may be willing to make more concessions. US Trade Representative Susan Schwab expressed "a real sense of optimism but

also sense of realism about all the work ahead of us," while British Prime Minister Tony Blair said that a deal was "more likely than not ... within the next few months," according to Reuters. Brazilian Foreign Minister Celso Amorim said there could be a breakthrough by early April, followed possibly by definitive numbers by the end of June. He said Brazil would be flexible if the US and Europe confirmed "big signals" on agriculture, and that he saw signs of US willingness to make concessions. "My impression is that they have leeway to move," Amorim told reporters, according to Reuters. "I see a positive disposition, but if they will come as far as we need that still has to be seen." [Editor's note: see related Q&A in the January 30, 2007 issue of the daily *Latin America Advisor*.]

Brazil Fourth Worst Country for IP Protection—Survey

Brazil is the fourth worst country in the world when it comes to protecting intellectual property (IP), according to a global survey released Monday by the International Chamber of Commerce (ICC). The survey of 48 global companies spanning 27 product categories ranked Brazil only behind China, Russia, and India among countries perceived to have the least favorable environment for protecting intellectual property. Luiz Paulo Teles Ferreira Barreto, president of the Brazilian government's national anti-piracy council, criticized the report, saying it was "regrettable that once again the issue is treated in such an inappropriate manner," according to Brazilian daily *Folha de Sao Paulo*. Barreto acknowledged that piracy was a problem in Brazil, but said "few societies in the world are as united as Brazil in the fight against piracy." He said there have been record piracy-related arrests and investigations, although he did not provide figures. Paraguay, Mexico, and Colombia ranked 8th, 16th, and 21st least favorable, according to the survey, conducted under the ICC's Business Action to Stop Counterfeiting and Piracy initiative. According to the ICC survey, the United States is perceived to have the most favorable environment for protecting intellectual property, followed by the United Kingdom, Germany, France, and Japan. "The survey shows a lot more work needs to be done on enforcement. We need to educate policymakers that greater investments in IP enforcement will translate into more jobs and tax revenues, and also help them in the fight against organized crime," ICC Secretary General Guy Sebban was quoted as saying in a press release.

Minister: Ecuador Could Seek "Friendly Renegotiation" of Debt

Ecuadorean Economy Minister Ricardo Patino said Monday the government could engage in a "friendly renegotiation" of its foreign debt, local daily *El Universo* reported. Patino's comments, made during a meeting with a delegation of Argentine finance ministry officials invit-

ed to advise Ecuador on its planned debt restructuring, marked a softening of recent rhetoric by the new government of President Rafael Correa. Correa took office on January 15 vowing a restructuring of the country's \$11 billion in foreign debt to free up more resources for social programs, and said much of the debt had been illegally contracted by past governments. Patino said on January 17 that the government may only repay 40 percent of its foreign debt. The official comments have helped send Ecuadorean bonds tumbling and prompted ratings agencies to slash their ratings on the country's debt. In the wake of Patino's comments on Monday, Ecuador's bonds had their biggest gain in three months. The government's benchmark 10 percent dollar bonds due in 2030 rose 5.75 cents on the dollar to \$74, according to Bloomberg News. However, Patino did not rule out a moratorium on debt payments.

Political News

Bush Renews Call for Immigration Reform in State of the Union Speech

In a State of the Union speech before the first Democrat-controlled Congress in 12 years, US President George W. Bush last Tuesday renewed his call for comprehensive immigration reform and the creation of a temporary guest-worker program for immigrants. Bush said he had moved to beef up security on the US' borders, but said more needed to be done. "We should establish a legal and orderly path for foreign workers to enter our country to work on a temporary basis," Bush said. "As a result, they won't have to try to sneak in, and that will leave Border agents free to chase down drug smugglers and criminals and terrorists." Before the November midterm election that shifted power in both the House and Senate to the Democrats, Congress passed the Secure Fence Act, which Bush signed into law in October. The law, which calls for building 700 miles of fencing along the 2,000-mile long US-Mexico border, has been roundly condemned by the Mexican government. [Look for related Q&A in the January 31, 2007 issue of the daily *Advisor*.]

POLITICAL & ECONOMIC BRIEFS

US Envoy in Venezuela Says Bags are Packed, Hopes for Better Ties

US ambassador to Venezuela William Brownfield on Friday told reporters that his "suitcases are packed and ready" to leave the country after President Hugo Chavez said the day before that Brownfield could be expelled over statements relating to Chavez's plans to nationalize state utilities. But Brownfield added that he considered it "important ... to concentrate on bilateral questions" and to "improve bilateral relations," according to Reuters. [Editor's note: look for Q&A on US-Venezuela relations in this Friday's issue of the daily *Latin America Advisor*.]

Mexican Central Bank Holds Interest Rate Steady

Mexico's central bank held its benchmark overnight interest rate at 7 percent on Friday, according to a Web site press release. The decision not to move rates was anticipated by the market, but analysts suggest that higher food prices could put pressure on rates in the coming period.

Ecuador's Econ. Min. Appointed to Defense Post Temporarily

Ecuadorean President Rafael Correa on Sunday appointed Economy Minister Ricardo Patino to temporarily also serve as defense minister following the death last week of Guadalupe Larriva in a helicopter accident, according to a statement posted on the defense ministry's Web site. The 50-year-old Larriva, her 17-year-old daughter, and five military officers were killed last Wednesday in the port city of Manta. Larriva had been defense minister for just nine days, having taken office on January 15 when Correa was sworn in as president.

Featured Q&A*Continued from page 1*

lic statements questioning the privatizations made by previous governments. Many moves by BNDES, especially with Brasil Telecom and Telemar, seem to be re-establishing political control of the sector. But simply ignoring the sector or wishing it were not privatized will not drive growth. Since its inception, the government has fiddled with Anatel's structure and mandate, and changed appointees to suit its political purposes.

“... Simply ignoring the sector or wishing it were not privatized will not drive growth.”

– *Wally Swain*

The latest appointment, Ronaldo Sardenberg, appears to have been made as part of ongoing maneuvering to achieve a majority in Congress, rather than for his particular qualifications for the job. But all this is symptomatic of a wider breakdown between Anatel and the communications ministry caused primarily by the lack of a shared plan for the sector. Obviously, telecommunications is an integral part of the economy's basic infrastructure. It brings direct investments to the country and drives other sectors' growth, since it is a fundamental service for all industry verticals. Any strategy to diversify exports away from commodities needs to have telecom at its center. To push telecommunications sector growth, the government should have a very well defined regulatory agenda to implement new technologies and services (3G, WiMax, etc.), to provide more favorable investment conditions, and bring new possibilities to the market.”

A **Guest Comment: Diego Bubillo:** "Taking into account the absence of incentives for development of telecommuni-

cations infrastructure in the PAC, one can infer some stances and contradictions in the Lula administration with regard to the sector. In the first place, telecommunications does not represent a priority sector of the economy for the government, and its view of national development is outdated, as it includes incentives for sectors such as transportation and electricity, but leaves out telecommunications. The government, through the PAC, showed support for those segments it believes necessary to stimulate, such as digital TV, production of computers, and development of semiconductors, but it appears to be in a deficit in terms of the telecommunications sector. Here one glimpses a contradiction by the government, which tries to expand digital conclusion projects without promoting developing the networks that allow its implementation or without a plan to expand use of broadband to the entire country. This lack of incentives will not have a negative impact on the sector's infrastructure, but could create some problems like the delay of some auctions like WiMax, for example, the liberalization of pay TV to allow telephony companies to offer the service, or the delay of the sector's urgent regulatory discussions.”

Tricia Paoletta is a member of the Telecom Advisor board and a Partner at Harris, Wiltshire & Grannis.

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