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Billionaires vie for Mexico's telecom market

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In one corner: the world's richest man, with a fortune estimated at $74 billion. In the other: two of the biggest media moguls in Latin America, with power to shape public opinion.

It's the clash of the titans.

The three Mexican billionaires are battling to expand their already expansive empires and amass an even more massive share of a telecommunications market projected to be worth $35 billion by 2015.

The dispute pits Carlos Slim Helu, who controls most phone service in Mexico, against a couple of TV barons who command most of the eyeballs in the Mexican market. They are Emilio Azcarraga Jean, chairman and chief executive of the nation's top media conglomerate, Grupo Televisa; and Ricardo Salinas Pliego, chairman of runner-up TV Azteca and Iusacell, Mexico's No. 3 mobile phone carrier. For years, these scions coexisted peacefully, content to count their profits. Now, technology is dissolving the neat barriers that used to divide their businesses.

As the plutocrats duke it out in the courts, the marketplace and the media, Mexicans are once again reminded how much their economy is dominated by monopolies and oligopolies. It's a system that has rewarded a few at the expense of many while stunting the nation's economic growth.

"A battle that should be focused on innovation, the best way to compete and to pass on savings to consumers," said Denise Dresser, a Mexican analyst highly critical of monopolies, "is instead centered on which oligarch is going to get the biggest slice of the market."

At the top of the heap is Slim, whose vast holdings include mining, real estate and retail. But the foundation of his empire was built on telecommunications. His Telmex phone company controls about 80 percent of Mexico's fixed lines. His wireless carrier America Movil is the largest in Latin America, with its Mexican Telcel unit accounting for 70 percent of Mexico's cellphone service. And his Prodigy Infinitum is Mexico's largest Internet service provider.

Slim now wants to move into TV so he can offer his customers that service along with their phone and Internet plans - a bundle known here as "triple play." It's only fair, he contends, because Televisa and TV Azteca already offer such packages. But the government barred Slim from entering TV and radio when he bought Telmex, the former state phone monopoly, in 1990.

Meanwhile, Azcarraga and Salinas are seeking a bigger chunk of the cellphone market Slim dominates so they can deliver more entertainment content on mobile devices. Telecom competitors have complained for years about high interconnection fees charged by Slim's phone companies to complete calls on their networks. Azcarraga and Salinas are teaming up to do something about it. Televisa last month agreed to buy a 50 percent stake in Iusacell, a $1.6 billion deal aimed at bulking up the company's wireless infrastructure to better compete with Slim.

"Competing against Telmex ... is tough," Azcarraga told a Bloomberg TV interviewer recently when asked about his designs on the phone business. "We want to achieve better opportunities for our investors and users, and I believe they (Slim's companies) are looking for the same."

Slim, Azcarraga and Salinas all used to be friends, and they may still be. The latter two, for example, attended the lavish nuptials late last year of Slim's eldest son, the closest thing here to a royal wedding.

But publicly, the fight is a bitter one.

Azcarraga's Televisa in January filed a formal complaint with Mexico's anti-monopoly regulatory agency, the Federal Competition Commission, asserting that Telmex is using a satellite television service, Dish Mexico, to get around the ban on broadcasting. Telmex said it does only billing and marketing for Dish Mexico.

A few weeks later, Slim pulled millions of dollars' worth of advertising from Televisa, complaining that its ad rates were too high.

Salinas of TV Azteca then joined the fray. He said Slim's companies could not advertise on his television network unless Telcel reduces its interconnection fees. Mexican regulators recently estimated those fees to be more than 40 percent higher than the average in countries with similar gross national product.

With TV commercials and newspaper ads (including one full-page spread featuring "The Slimsons" cartoon characters, drawn in the style of U.S. cartoon sitcom "The Simpsons," struggling with a lousy phone system), the billionaire businessmen traded barbs and brickbats. And in what many see as a case of the pot calling the kettle black, they accused each other of using monopolistic business practices while failing to provide good service to the public. Televisa and TV Azteca filed complaints with regulators against Slim's Telmex. Slim responded in kind.

It all might make for amusing theater if the consequences for Mexico's economy weren't so serious. Be it beer, cement, corn meal or phone calls, a few large players dominate key industries here, elevating prices for consumers while stifling innovation.

Slim's purchase of Telmex has forever loomed as Exhibit A illustrating the pitfalls of privatization of former state industries. Critics contend that Mexico's public phone monopoly was merely replaced by a private one. Studies have shown that Mexicans pay some of the world's highest phone rates but complain they receive some of the worst service. Slim has said those studies use flawed data.

Critics also accuse Slim and his associates of hard-knuckle tactics to squelch meaningful competition. Aided by a battery of high-paid lawyers, Slim has successfully fended off rivals and stymied regulators with lengthy legal challenges.

To date, monopolies such as Slim's have flourished because the government has been unable, perhaps unwilling, to control them.

"Telmex has exercised its substantial market power unchecked," Rafael del Villar, a former No. 2 official in the communications ministry, concluded in a 476-page report for the World Bank released last year. "Because of the country's institutional weaknesses, (the government) has been unable to prevent practices that harm competition and consumers."

That may be coming to an end. Mexico's Supreme Court this month ruled that Telcel can no longer use legal maneuvering to sidestep regulators' decisions regarding interconnection rates. In the past, the firm has stalled such decisions, often for years, simply by filing an appeal. That may force Slim to lower the fees, at least in the short term.

In April, Mexico's antitrust regulator levied a $1-billion fine against Telcel - the biggest in Mexico's history - for alleged monopolistic practices. Telcel said it would appeal the "arbitrary, biased and excessive" penalty.

Separately, the Mexican Congress on April 29 approved a tough new anti-monopoly law that carries stiff fines and jail time for executives convicted of anticompetitive practices.

Whether any of this will slow down the battling billionaires remains to be seen.

"In Mexico, building empires is what makes power," said Eduardo Garcia, a journalist who runs a well-regarded financial news website. "It's what drives these men the most. Making more money is in their genes."

MEXICAN TELECOM TITANS:

Carlos Slim Helu:

-Age: 71

-Net worth: $74 billion

-Key businesses: Telmex (land lines), America Movil (wireless), Grupo Carso (Sanborns restaurants, Sears Mexico)

Ricardo Salinas Pliego:

-Age: 55

-Net worth: $8.2 billion

-Key businesses: TV Azteca, Elektra (retail electronics), Iusacell (wireless)

Emilio Azcarraga Jean:

-Age: 43

-Net worth: $2.3 billion

-Key business: Grupo Televisa