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Featured Q&A With Our Board of Advisors

Q Venezuelan President Hugo Chavez last week threatened to nationalize CANTV, Venezuela's largest telecommunications company, if it does not comply with a court order to make owed pension payments. Do you think Chavez would follow through on his threat? What do his remarks mean for investors in CANTV and for the company's outlook?

A Guest Comment: Daniel Leza: "After its privatization, Venezuela's incumbent local exchange carrier, CANTV, was hit by a series of labor-related lawsuits, the latest and most important of which involved the homologation of pensions due to retired employees. After lengthy and intricate legal proceedings, an opinion issued by the Constitutional Chamber of the Supreme Court on January 25, 2005, ordered CANTV to proportionally level pensions awarded to retired workers with wage increases of active ones. This ruling was followed by a series of lower court decisions implementing its provisions, and CANTV must comply with them, starting next September. However, CANTV has stated that homologation of pensions would seriously affect its financial stability. In response, President Chavez publicly announced that he would move to re-nationalize CANTV in the event that the company did not promptly comply with the Supreme Court's decision. This is not the first time similar threats have been voiced by President Chavez against CANTV. In August of 2004, he threatened something short of re-nationalization of CANTV when rumors that the phone company would sabotage transmission of recall referen-

dum results surfaced. This type of announcement seems to be part of a larger political strategy, particularly given that this is an election year in Venezuela. President Chavez has successfully used this rhetoric to build on his strength, reputation, and appeal. Within the Venezuelan political arena, President Chavez's populist discourse carries with it huge political capital, and he has been especially skillful in exploiting similar events in the past. Despite this, certain investors appear undeterred in their plans to buy out Verizon's 28 percent stake and gain control of the company. According to Arturo Elias Ayub, Telmex's director for strategic alliances, communication and insti-

Continued on page 6

PHOTO OF THE WEEK



In thinly veiled criticism of Andres Manuel Lopez Obrador, Mexican President Vicente Fox said Tuesday that Mexicans reject "extremist solutions." See story on page 4.

Photo: Los Pinos.

Inside This Issue

FEATURED Q&A: Will Chavez Follow Through on his Threat to Nationalize CANTV?	1	Industry Briefs: Convergence in Mexico; Motorola in Brazil; Gilat-Enitel Deal.....	2	Univision Schedules Shareholder Meeting to Vote on Buyout Bid.....	3
CANTV Says to Comply with Court Ruling, Raise Pension Payments	2	Shares in Brazil's Telemar Tumble in Wake of Regulatory Ruling.....	3	Bush Notifies Congress of Intent to Sign Free Trade Deal with Colombia.....	3
Telmex Buys Companies in Colombia, Argentina	2	Research Alert: Telmex Not Likely Looking to Control Portugal Telecom—Analyst.....	3	In Attack on Lopez Obrador, Fox Says Mexicans Reject Extremism	4

INDUSTRY BRIEFS

Report: Issuance of Convergence Rules in Mexico Imminent

New regulations allowing Mexican cable television operators to offer voice services and telecom firms to offer pay television services could be issued as early as next week, local daily *El Universal* reported on Friday. Officials in the communications and transport secretariat are finalizing the so-called Convergence Agreement, and could send it on for final review before it is published in the government's official bulletin as early as Monday.

Motorola to Launch New Handset in Brazil

US mobile phone maker **Motorola** plans to launch its new thin "Motofone" handset in Brazil and elsewhere in Latin America by Christmas, the president of the company's Brazilian unit, Enrique Ussher, said Tuesday, according to Reuters. Without subsidies from operators, the Motofone will cost 110-149 reais (\$US 52-70), Ussher said. Motorola's cheapest mobile phone in Brazil costs 99 reais with subsidies.

Israel's Gilat Awarded Contract by Nicaragua's Enitel

Israeli satellite services provider **Gilat Satellite Networks** said Wednesday it was awarded a contract by **Enitel**, Nicaragua's largest telecom company, to provide a broadband satellite hub station and VSAT terminals. In a press release, Gilat said the deal would allow Enitel "to provide Nicaraguan and Latin American customers with a bundle of services, including Internet access, rural telephony, GSM trunking, fax and prepaid telephony." Terms of the deal were not disclosed.

Industry News

CANTV Says to Comply with Court Ruling, Raise Pension Payments

CANTV, Venezuela's largest telecommunications company, said Wednesday it would comply with a court ruling and increase payment amounts to retired employees, effective September 1. In a press release posted on its Web site, CANTV said it would raise pension payments to the minimum wage of 512,325 bolivars (\$US 193) and continue to raise them in step with increases in the minimum wage. CANTV's announcement came after Venezuelan President Hugo Chavez last week accused the company of failing to comply with a Supreme Court order to increase the payments and threatened to nationalize the company if it did not do so [Editor's note: see related Q&A

wireless service provider Ertach for \$22.5 million, Ertach's current owner—**Sociedad Comercial del Plata**—said Tuesday, Reuters reported. In the Colombia deal, Telmex paid \$270 per customer to acquire the Bogota-based Superview, which has about 150,000 subscribers, and provides residential cable television and Internet services. Prior to its acquisition of Superview, Telmex had not entered Colombia's residential market for "triple-play" services—voice, video, and data—but serviced corporate clients through its **Telmex Colombia** subsidiary, which has offered telephony services for one year now, a Telmex source who asked not to be named told the *Telecom Advisor*. "The Superview acquisition ... has two aims," the source said. "First of all, to reach clients directly in their houses, and second,

CANTV said it would raise pension payments to the minimum wage and continue to raise them in step with increases in the minimum wage.

on page 1]. Local daily *El Universal* reported that CANTV was also awaiting calculations from the finance ministry in order to make 14 years worth of retroactive payments to retirees, per the Court order. Mexico's **Telmex** and its mobile affiliate **America Movil** have made an offer to purchase **Verizon Communications'** 28.5 percent stake in CANTV for about \$676 million. The pension issue may be holding up regulatory approval of the sale, according to analysts.

Telmex Buys Companies in Colombia, Argentina

A pair of acquisitions totaling \$62.5 million by Mexican fixed-line giant **Telmex** in Argentina and Colombia were announced this week. Telmex spokesman Arturo Elias Ayub said Wednesday that the company bought Colombian cable television operator **Superview Telecomunicaciones** for \$40 million, according to Reuters. In Argentina, Telmex signed a preliminary agreement to buy

to advance toward triple-play to be able to offer this convergence of voice, data, and video-on-demand." Superview will be included in Telmex's consolidated financial statements in the fourth quarter of this year, according to Reuters. In Argentina, the acquisition of Ertach, formerly known as Millicom Argentina, gives Telmex a wireless communications service provider with a presence in 70 Argentine cities and more than 6,000 business customers, according to Ertach's Web site. **Sociedad Comercial del Plata**, which has holdings in the energy and entertainment sectors, said it would negotiate the terms of its deal with Telmex over the next four months. The financially struggling Sociedad Comercial del Plata noted that the sale would need to be approved by the judge handling its debt restructuring. Outside of Mexico, where it is the biggest fixed-line operator, Telmex has operations in five Latin American countries: Argentina, Brazil, Chile, Colombia, and Peru. Besides the acquisitions of Superview and Ertach, Telmex also recently acquired a 3.4 stake in

Portugal Telecom [Editor's note: see related Research Alert, adjacent].

Shares in Brazil's Telemar Tumble in Wake of Regulatory Ruling

Voting shares in **Telemar**, Brazil's biggest telephone company, plunged early this week after the country's CVM securities regulator gave holders of preferred shares more rights to decide over the company's proposed restructuring, Reuters reported. The voting shares fell 20 percent on Monday to 58.80 reais in the wake of the CVM ruling, issued after markets closed on Friday. The ruling reduces the power of Telemar's controlling shareholders, which include state development bank BNDES, in a proposed share swap and strengthens the rights of minority shareholders, according to Bloomberg News. Under the proposed swap, Telemar's preferred shareholders would have to exchange stock for voting shares in a new company that combines the unit with Telemar Norte Leste, doubling the stake controlling shareholders would hold in the new company at the expense of minority investors, Bloomberg News reported, citing CVM official Pedro Marcilio. The CVM's ruling also on Monday helped send down voting shares in rival fixed-line operator **Brasil Telecom** and in the local unit of **Telecom Italia Mobile**.

Media Industry News

Univision Schedules Shareholder Meeting to Vote on Buyout Bid

Univision Communications, the US' largest Spanish-language broadcaster, scheduled a special shareholders meeting for September 27 to vote on the \$12.3 billion buyout bid won by a group of four private equity investors, Reuters reported on Monday. In June, Univision selected the bid by **Umbrella Holdings LLC**, led by media billionaire Haim Saban, over a bid by Mexico's biggest broadcaster, **Grupo Televisa**. Televisa, which has an 11.4 percent stake in Univision and also shares programming with the US broad-

Research Alert

Telmex Not Likely Looking to Control Portugal Telecom—Analyst

Mexican fixed-line giant **Telmex**'s recent acquisition of a 3.4 percent stake in **Portugal Telecom** is not likely aimed at exerting any control over PT, Ana Gabriela Ocejo, a stock market analyst with **Scotia Casa de Bolsa** in Mexico, said in a research note published Tuesday.

PT, jointly with Spain's **Telefonica**, control **Vivo**, Brazil's biggest mobile operator and the main rival in Brazil of Telmex's wireless affiliate, **America Movil**. However, Ocejo said Telmex sees the acquisition of the stake in PT more as a financial investment rather than as an effort to exert control over PT, according to Ocejo.

"[Telmex] has informed us that additional investments in this company or divestment from it are subject to market conditions and its stock price," she wrote.

"We believe that if [participating actively in the administration and operations of PT] was the intent of Telmex it would have been more logical if [America Movil] had done it, although it could also be that this is a transaction which Telmex prefers to maintain as little 'obvious' because of questions of business strategy."

Ocejo noted that Portuguese law bars Telmex from holding more than a 10 percent stake in PT. Three other companies, including Telefonica, each hold close to 10 percent stakes in PT, according to Ocejo. Telefonica is the single-largest investor in PT, 75 percent of which is in foreign hands, she said.

caster under a 1996 agreement, had bid \$12 billion. Sixty percent of Univision's shareholders must approve the buyout deal in order for it to go forward, according to Reuters. Under the merger deal, Univision would become a subsidiary of the acquiring company and shareholders would be entitled to receive \$36.25 per share, according to an investor notice published on Univision's Web site. If the merger isn't completed by April 26, 2007, the value will go up by 8 percent per share per year. When Univision rejected Televisa's bid in June, the Mexican broadcaster announced its intention to sell its stake. The move would free Televisa to "vigorously pursue its options to build its potential in the growing US Hispanic marketplace," the company said in a statement in late June. Televisa argued in a June 30 letter to the acquiring group that it would be released from the 1996 program-sharing agreement if its common stock falls below 13.6 million shares, about one-third of its current shares.

Economic News

Bush Notifies Congress of Intent to Sign Free Trade Deal with Colombia

President George W. Bush will sign a free trade agreement with Colombia, according to a statement posted on the White House Web site on Thursday. Colombian President Alvaro Uribe, often considered Bush's best ally in Latin America, traveled to Washington, DC, in February before his re-election to finalize the trade talks, but the White House had not formally presented the agreement to Congress, possibly to avoid an issue that could hurt Republican lawmakers in November's congressional elections, according to Colombian trade negotiators and Capitol Hill staffers cited by the Associated Press. Congress will not be able to vote on the deal until late November because of the Trade Act of 2002, under which the president must give Congress 90 days notice

before he signs the deal and submits it for ratification. The agreement would provide Colombia with trade benefits that would otherwise be lost when the Andean Trade Preference and Drug Eradication Act expires at the end of this year. "The United States-Colombia Trade Promotion Agreement will generate export opportunities for US farmers, ranchers, and companies, help create jobs in the United States, and help American consumers save money while offering them more choices," Bush wrote in a letter to Congress posted Thursday on the White House Web site. "The Agreement will also benefit the people of Colombia by providing economic opportunity and by strengthening democracy," the letter stated. Once the president submits the bill to lawmakers for ratification, they can recommend changes but ultimately can only give the president's bill an up-or-down vote.

Political News

In Attack on Lopez Obrador, Fox Says Mexicans Reject Extremism

In some of his strongest comments yet on Mexico's disputed presidential election, outgoing President Vicente Fox said society rejects "extremist solutions," and called for respect for the country's laws and institutions. In thinly veiled criticism of left-leaning Andres Manuel Lopez Obrador, who insists he was the winner of the July 2 contest despite vote tallies favoring conservative Felipe Calderon, Fox told a group of hospital workers in Yucatan state that in a democracy respect for the law and dialogue are the only way to solve problems. "Society rejects extremist solutions, the messianic and apocalyptic visions of a political culture of the past," Fox stated, according to a transcript of the speech posted on the presidential Web site. "In the history of Mexico, those who promote division and confrontation always favor our enemies." Lopez Obrador is demanding a full vote-by-vote recount of the election, which he lost by just 0.6 percentage points, or about 240,000 votes, to the conservative Calderon of Fox's National Action Party. Thousands of his supporters have camped out in Mexico

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9:00 a.m. to 5:30 p.m.
and

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City's main square and along its Reforma boulevard to protest the election results. Earlier this month, Mexico's Federal Election Tribunal ordered a partial

recount, but the recount was not expected to overturn the results, and on Monday Fox said Calderon was the "clear winner." Despite his warnings about political

extremism, in comments to foreign journalists on Tuesday Fox sought to minimize the crisis, saying it was limited to "one street" while the rest of the country was experiencing "absolute calm," local daily *El Universal* reported.

US Protests Venezuelan Search of Diplomatic Bags

The United States on Thursday protested Venezuelan authorities' search of several US diplomatic bags at Caracas' main airport, local television channel **Globovision** reported. The spokesman for the US embassy in Caracas, Brian Penn, said the search of the bags, as well as an inspection of diplomats' personal effects, after their arrival at the airport on Wednesday was a violation of the Vienna Convention. Venezuelan Attorney General Isaias Rodriguez said it was the US which violated the Convention by not informing local authorities of the contents of the bags and accused the US of attempting to skirt customs procedures. Rodriguez said the bags arrived on a US military plane and were destined for Venezuela's armed forces, but did say what was in the bags or why the US might be delivering them to the Venezuelan military. Rodriguez did, however, suggest that the incident was linked to the escape earlier this month of four high-profile prisoners—including two military officers accused of rebellion—from a military jail. "I would not want to believe that this is an act of provocation, done intentionally at a time when the country just witnessed the escape of some very important prisoners," Rodriguez said. "If the United States cannot control the situation it



Isaias Rodriguez

ABN file photo.

could be seen as a diplomatic provocation." Venezuelan President Hugo Chavez has in the past accused the Bush administration of plotting his overthrow. Penn denied that there were any weapons in the bags, although he did say the same flight on which the bags traveled there were replacement parts for Venezuelan combat aircraft, according to **Globovision**. The search of the bags followed the US'

announcement last week that it was stepping up intelligence-gathering on Venezuela and Cuba through the creation of a "mission manager" for the two countries [Editor's note: see related Q&A in the August 22, 2006 issue of the daily *Latin America Advisor*]. On Monday, Interior and Justice Minister Jesse Chacon said the government is reconsidering its plans to sign an anti-drug cooperation agreement and other accords with the US because of the planned increase in intelligence gathering activities.

Presidential Election Poll: Support for Chavez Ally Growing in Ecuador

Popular support for a leftist presidential candidate in Ecuador who boasts of a close friendship with Venezuelan President Hugo Chavez has grown, according to a new poll released on Wednesday. The poll by **Informe**



Rafael Correa

Photo: campaign Web site.

Confidencial, published in local daily *El Comercio*, found that support for Rafael Correa has risen three percentage points to 12 percent, with less than two months to go before Ecuador's October 15 election, Reuters reported. However, Correa still trails behind left-leaning frontrunner Leon Roldos, who saw his support drop one point to 26 percent. Backing for conservative Cynthia Viteri slipped three points to 15 percent. Correa, who has caused anxiety among investors because of his promises to increase state control over natural resources, hopes to make it to a November 26 second-round run-off, which will be needed if no candidate gets at least 50 percent of the vote in the first round. Correa openly declares himself a friend of Venezuela's Chavez, a fierce critic of the United States "empire," but has been careful to downplay Chavez's influence on his campaign, according to Reuters. In presidential elections this year in Mexico and Peru, alleged or real ties to Chavez have been key to the defeat of leftist candidates because of voters' concerns the Venezuelan leader might exercise too much influence.

POLITICAL & ECONOMIC BRIEFS

Week of Panama Canal Military Maneuvers Set to Start Today

The United States, Great Britain, France, and 15 Latin American countries will today begin a week-long series of military maneuvers to practice protecting the Panama Canal from terrorist attacks, Reuters reported. The maneuvers are an annual event sponsored by the US since 2003. The Panama Canal is considered an important strategic waterway. Some 4 percent of global trade passes through the Canal, according to Reuters.

Economic Growth in Chile Slowed to 4.5 Percent in Second Quarter

Chile's economy expanded 4.5 percent in the second quarter compared to the same three months a year ago, a slowdown from growth of 5.3 percent in the first quarter, the Central Bank said Wednesday. The second-quarter expansion was led by growth in the communications, electricity, gas, and water sectors, the Bank said. For the first six months of the year, the economy grew 4.9 percent from a year ago, it said.

Argentina Posts Narrower Trade Surplus in July

Argentina's trade surplus narrowed to \$940 million in July from \$1.2 billion the previous month amid a slowdown in export growth, government statistics agency INDEC reported on Tuesday. Exports rose just 6 percent in July compared to the same month of 2005 to \$3.794 billion, while imports surged 21 percent year-on-year to \$2.854 billion. For the first seven months of the year, Argentina's trade surplus stood at \$6.875 billion, compared to \$6.762 billion for the same period a year earlier.

Featured Q&A*Continued from page 1*

tutional relations, Telmex and sister company America Movil still have the firm intention of acquiring CANTV. Nevertheless, attempting to turn CANTV into a state-owned company again would clearly be a step in the wrong direction, particularly since such measures go against the global trend in telecommunications reform and liberalization measures to introduce greater competition and investment in the sector."

A **Guest Comment: Carlos Jimenez:** "Chavez's threat to nationalize CANTV is another event that contributes to investor nervousness. If Venezuela is having an excellent time due to record oil prices and their impact on domestic consumption, private companies are remaining cautious with regard to the type of investments that they make in a country where legal guarantees are becoming all the time more difficult. The escape valve for this dilemma is investments with short-term returns that allow taking advantage of the gains from the situation without jeopardizing their long-term viability. These statements by Chavez add to the rumors that have circulated in the market regarding a possible interest in the government in taking control of CANTV and could be interpreted as a strategy to create an unfavorable climate of opinion toward the company, which helps [the government] toward that end by removing the current management or simply to win followers in an election year where it is convenient for the president to show concern for pensioners and workers. We can then say that there are several scenarios. First, that Chavez only wants to win votes in an electoral year, showing interest in labor issues. This scenario is reinforced by the recent application of the minimum wage increase and would definitely be harmless for investors, with the [America Movil/Telmex] takeover bid scheduled in the coming months. This scenario is equal in its effects in a panorama in

which statements are not part of a pre-meditated strategy but the president's spontaneous style. In our judgement, this scenario is very likely. Second, that Chavez wants to create an unfavorable climate of opinion toward the current management but will allow [telecom regulator] Conatel and [anti-trust regulator] Procompetencia to approve the transaction with [America Movil/Telmex owner Carlos Slim], a scenario in which the new investors can realize gains. This would also be a likely scenario. Third, that Chavez wants to create an unfavorable climate of opinion toward management with an eye to taking control of the company. In this scenario, the investors could see themselves negatively affected, although it does not look very likely in the short term since this is an election year and Chavez is also interested in maintaining a good image with economic actors in general. In addition, the government initiative to create a telecommunications company under the name continues advancing. In terms of CANTV's financial results, the business has already incorporated on its balance sheet a contingency for back-payment of salaries to its retirees. That is why the effect that Chavez's statements had on shares were due more to a fear related to the future of the takeover bid than the real impact on the company's financial situation. This fear is specifically related to the possible interest of the government in CANTV and a possible rejection of the acquisition by Slim. Likewise, recent statements by Conatel's director related to the "social sense" that telecom companies ought to have and future demands of the regulator in this sense, could generate additional disquiet among investors."

Daniel Leza is a Legal and Regulatory Advisor at the Telecommunications Management Group.

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