Latin com

BUSINESS INTELLIGENCE ON LATIN AMERICAN WIRELESS AND BROADBAND COMMUNICATIONS

Volume 7, Number 23 December 12, 2003

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Distributed 23 times a year

ISSN no. 1094-8864

Latin America may see satellite pricing ending declines, execs say

AN 18-MONTH decline in pricing for transmission over satellites is likely coming to an end, satellite industry executives say, and Latin America will also be a beneficiary of this trend.

"Prices are not going to be dropping as dramatically as they have in the last 18 months, and they're starting to stabilize," Carmen Gonzalez-Sanfeliu, vice president for Latin America for satellite operator PanAmSat, said in a recent interview.

Because it was hit particularly hard in the sector's downturn, Latin America may stabilize a little later than other regions, said David Sprechman, CEO of satellite services provider GlobeCast Americas.

"It will tail a little bit, maybe six months to a year," Sprechman said in a recent interview. "People have been burned and I think they're going to be cautious."

Still, Sprechman said he sees enough potential in the market to hire a second salesperson for GlobeCast in Latin America. Latin America accounts for about 5% of GlobeCast America's business.

"The initial investment we made is increasing the sales force for Latin America," he said. "From there we'll see how it goes."

Transponder pricing

Research firm Frost & Sullivan, which released its most recent study on transponder pricing for Latin America earlier this year, sees the declines continuing through 2009, albeit at a much slower pace. While the price of leasing a 36MHz transponder equivalent on a Ku-band satellite dropped from $2.03 million per year in 2000 to $1.70 million in 2003, Frost & Sullivan is estimating a price of $1.69 million for 2004 and $1.67 million for 2006 (see fig.). The compounded annual growth rate for 2002-2009 is forecast to be a decline of 2% for the C-band and a decline of 1.6% for the Ku-band.

Several factors are forcing satellite transponder lease prices down.

Globally, advances in data- and video-compression technology have improved transmission efficiency, which either left companies needing less satellite capacity or kept them from having to buy more, contributing to the limited demand. In addition, the glut in new fiber-optics lines around the world caused a crash in the cost of fiber bandwidth two years ago, generating the defection of a minor portion of the satellite operators' customers to fiber. It also caused satellite prices to drop in order to compete with fiber.

New technology

New compression technologies have probably reached their limits for the time being, said Pierre Jaspar, director and general manager of The Kitchen, a broadcast services facility that's part of Miami-based Claxson In-

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Regional woes could delay stabilization, however

Mobile growth a sign of improving economy

ANOTHER YEAR OF steady growth in Colombia's mobile industry this year is helping lift the telecoms sector and may also be a reflection of better-than-expected overall economic results in the country this year, according to local press.

Colombia ended 3Q03 with 5.5 million mobile subs, representing a 35% growth rate from end-3Q02, according to figures from the country's Communications Ministry (see fig). Colombia's cellular market, which comprised two incumbents, has been driving up subs in advance of the entry of the country's third operator, Colombia Movil, in October this year.

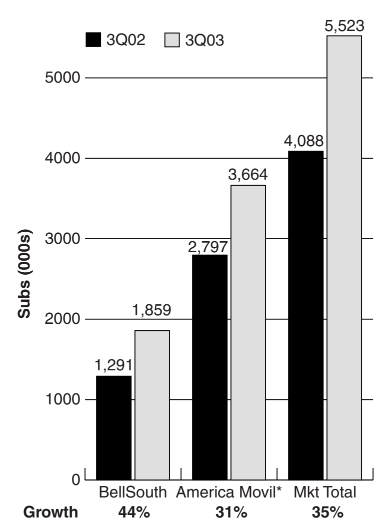
Among the two operators, BellSouth Colombia showed higher growth, lifting subs by 44% for the quarter. Operators owned by Mexico's America Movil, which include Comcel, Occel and Celcaribe, grew by 31%.

Last year Colombia's mobile subs also grew 35%.

Colombia has had plenty of room for this growth because mobile penetration is still quite low. 5.5 million subs gives Colombia 12.6% mobile penetration, up from 10.5% at end-2002, according to a recent article in daily newspaper *La Republica*.

The increase in mobile subs bodes well for the rest of the telecoms sector, the article said. Colombia's National Association of Financial Institutions, or ANIF as it is abbreviated in Spanish, had originally estimated that the telecoms sector would grow 6.5%, based on overall GDP growth of 2.3%. However, the year has come out better than forecast and Colombia is now expecting GDP growth closer to 3.2%, which should bring a growth figure improved from the originally predicted 6.5% for the telecoms sector, the article said. As of June, the telecoms sector was growing at an annual rate of about 6.8%.

Colombia's cellular market



Note: Includes operators Comcel, Occel and Celcaribe. America Movil bought Celcaribe from Millicom International Cellular earlier this year.
Source: Communications Ministry

◀ Continued from page 1

teractive Group. “The compression technology won’t allow us to keep compressing more for at least the next two years,” he said. In addition, the ongoing advance of broadband services, high-definition television and other digital services, as well as overall data transmission, is going to help boost satellite demand. It should start eating up the glut in fiber-optics capacity as well, which would also help prices across both platforms.

Demand coming back?

“With high-definititon and broadband coming on board, I see demand coming back,” Sprechman said.

Regionally, Latin America was hit particularly hard by these global trends. The crash in the Argentine peso in early 2002 and the resulting economic slump that year, followed by another currency and economic crisis in Venezuela, as well as economic sluggishness in Brazil, Mexico, and other markets, caused a meltdown in the television industry last year. Broadcasters in some countries slowed down their purchasing of content, and broadcasters take up about 80% of the transponder capacity in the region, said Karim Nour, satellite analyst at Frost & Sullivan.

Pay TV operators and programmers make up a smaller portion of the market but they also had problems. A number of operators went into default on their debt and DirecTV Latin America filed for bankruptcy earlier this year, causing a squeeze on pay TV programming being produced for the region, the Kitchen’s Jaspar said.

Still, some programmers, such as Claxson, took advantage of the slump to move more of their production down to Argentina, and broadcasters in Mexico, Colombia, Brazil and Argentina hungry for hard currency pumped up their exports, particularly in 2003. This had the effect of increasing the amount of material they were shipping over satellites, although because of compression not all of the programmers needed to take extra capacity. “It’s a better year but I don’t think they’ve recouped as much as they wanted to be able to launch new channels,” Jaspar said.

Transferred capacity

Another factor that’s helping shore up prices in Latin America is that some operators have moved satellite capacity out of Latin America and into other regions, thus decreasing the supply, Gonzalez-Sanfeliu said. PanAmSat didn’t move any of its capacity out of Latin America, she said, which is providing an opportunity for the company now. “By reducing the amount of supply, you start to have a control over pricing,” she said. In addition, consolidation among the global satellite players is also going to help reduce the pressure on prices.

While the development of high-bandwidth applications such as high-definition TV is becoming a reality globally, the lack of investment in these services so far in Latin America means demand may not be as strong as in other regions. If the region moves to develop HDTV at the same time that the new MPEG4 compression standard comes online a few years from now, the growth in demand from HDTV may be canceled out by the compression efficiencies.

Many of the global satellite players are delving into providing bandwidth to broadband operators or providing broadband services themselves, trying to ride the growth in that market. But the companies are pushing into other regions before Latin America. GlobeCast is working on a broadband offering of its own, but it will launch in North America first. Intelsat has been making a number of broadband announcements recently, but Latin America does not count among them.

Capital

“In Latin America there will be less of a recovery (in demand),” Frost & Sullivan’s Nour said. “There’s not enough capital investment. And without cash, the region is just not going to be able to create the demand that a turnaround would call for.”

GlobeCast’s Sprechman said the company has been careful about extending credit to customers in Latin America, even though it may have cost the company some business. “We held back,” he said. “You can do as much business in Latin America as you want if you extend credit, but extending credit is a dangerous thing.”

Still, he said the company is now “trying to open up a bit.”

“Everyone in our industry is looking at Latin America as a growth area in the future,” he said. “But I’m sure five years ago everyone saw Latin America as a growth area in the future as well.”

By Leslie Hillman
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Satellite pricing in Latin America, 1999-2009*

($ mil. per transponder per year)

	C-band	Ku-band
1999	1.37	2.04
2000	1.36	2.03
2001	1.30	1.95
2002	1.22	1.82
2003	1.14	1.70
2004	1.12	1.69
2005	1.11	1.68
2006	1.09	1.67
2007	1.08	1.66
2008	1.07	1.64
2009	1.06	1.62
CAGR 1999-2002 (%)	-3.8	-3.7
CAGR 2002-2009 (%)	-2.0	-1.6

*Transponder equivalent lease rates, based upon 36 MHz transponder equivalents

Source: Frost & Sullivan

ARGENTINA TELECOMS

Argentina ends telecoms congress

ARGENTINA'S Communications Secretariat Secom closed its month-long telecoms congress last week with no concrete agreements but with enough material to work towards a redraft of the country's telecoms legal framework for next year.

"All the sectors voiced their positions on topics such as licensing, spectrum management and Universal Service," said Raul Martinez Fazzalari, one of the congress' coordinators. "Although there was no consensus, the main accomplishment of the congress was to make evident the need for a new Telecoms Law. Now the challenge for Secom is to draft the new law."

The congress was meant to bring together labor unions, consumers, government, industry and operators for one month to hash out problems within the current legal and regulatory framework and provide ideas on solving them. In the committee Martinez Fazzalari participated in, one point of agreement between all parties was for Argentina's shadow regulator, the National Communications Commission or CNC, to actually regulate the industry. This would include the auditing and enforcement of regulatory requirements, the implemention of consumer defense programs and the verification of license qualifications – tasks the commission is currently not completing properly.

Now that the congress has closed, Secom is expected to appoint a joint government-industry commission to work through the drafting of a new law, research firm Convergencia Latina said. A first draft would be sent to the president first and then on to Congress by March, the firm said.

Drafting and approving the law is going to be a major undertaking, execs say. Argentina has largely ignored its Telecoms Law for the past decade and has instead used decrees to set rules for the sector. Secom is expected to put forward a plan that will untangle the web of decrees and start with a fresh new law.

BRAZIL DIGITAL TV

Brazil issues standard decree

AFTER MONTHS of consideration, Brazilian President Luiz Inacio Lula da Silva moved ahead on choosing a digital TV standard by publishing a presidential decree confirming that the country will not simply adopt a foreign standard.

The Nov. 26 decree also sets guidelines and goals for introducing a Brazilian standard, to be called the Brazilian Digital Television System or SBTVD as abbreviated in Portuguese, possibly as soon as 2006.

The decree doesn't say whether Brazil intends to develop a new standard, combine existing standards or just adapt one existing standard to meet its needs.

"It is not clear what the government wants to do," said James Gorgen, executive secretary of the FNDC, an association of communications workers' unions in Brazil.

Brazil was considering whether to adopt one of the world's three existing standards: the ATSC from the United States, Europe's DVB or Japan's ISDB. However, when Lula was elected president last year, the government started exploring the development of its own standard.

Brazil hopes to develop a system that will not only provide a digital picture but also serve its needs as a less-developed country. This includes improving the spread of information among the country's lower classes and fostering regionalization of programming. Foreign representatives have been lobbying the Brazilian government to adapt an existing standard instead of creating an entirely new one.

Lula's decree establishes the formation of a development committee, which will report back in 12 months.

Analysts said they expect the development committee probably won't be able to do more than indicate guidelines for the new system in the 12 months. But they do expect the actual system development to happen in 2005 so that the first digital transmissions could happen in 2006 or early 2007.

BRAZIL PAY TV

Net CFO sees higher spending

BRAZIL'S LEADING pay-TV operator Net Servicos will almost double its investments in 2004, when it launches digital services to shore up revenues and attract high-end subscribers.

Net's 2004 capital spending will total Real120 million ($40.9 million), of which Real25-30 million will go toward the digital launch, Net Servicos CFO Leonardo Pereira said in an interview. Net's capex will be Real70 million this year and it spent Real79.5 million for 2002.

Net is in default on its debt but was able to hike its spending because the increase was accepted as part of a 10-year business plan creditors approved several months ago.

The 2004 capex figure is still lower than the Real226.8 million the company spent for 2001, before Brazil devalued its currency and before Net lost 13% of its subscribers – both of which ultimately contributed to the default.

Pereira said the digital services launch will start at end-2004 and will probably be limited to the wealthier neighborhoods of Rio de Janeiro and Sao Paulo.

"The upper classes demand this kind of service," he said.

Net already offers broadband Internet, so its network is largely upgraded already. The Real25-30 million will be used to upgrade Net's headends. Net will also have to replace digital subscribers' analog settop boxes. Subs that upgrade won't be charged for digital boxes but Net will resell their analog boxes to new subs in analog areas, Pereira said.

Net's digital services package will include more channels and more pay-per-view programming, digital audio channels and interactivity features, Pereira said.

Datapoints

Chile's mobile market is finally showing signs of its maturity, with mobile subs and revenues expected to grow at a significantly slower rate starting next year, according to the Yankee Group's most recent mobile market forecast for Chile. Yankee is forecasting revenue of $1.3 billion for 2007, up only 8% from the $1.2 billion figure for 2003. Subs growth is expected to be even slower, rising 6% from 6.7 million at end-2003 to 7.1 million at end-2007.

CARRIBBEAN MOBILE

Digicel launches GPRS faster

PAN-CARIBBEAN mobile operator Digicel said the uptake of GPRS mobile data services is strong enough to justify accelerating its timetable. It now plans to offer GPRS at the same time as it launches mobile services on each island.

Digicel, which has mobile operations in Jamaica, Aruba, St. Lucia, St. Vincent & the Grenadines and Grenada, already launched GPRS in Jamaica in mid-July and in St. Lucia and Grenada in October. The company plans to launch GPRS in Aruba and St. Vincent & the Grenadines by end-2003. New mobile launches, such as in Barbados and the Cayman Islands, will have GPRS services at the same time as voice services are launched, said Digicel CEO Seamus Lynch in a recent interview.

Lynch said he was surprised by the GPRS uptake. "Originally it was going to be a positioning tool," Lynch said, but in Jamaica the company reached its six-month goal of acquiring 10,000 GPRS subscribers in just two weeks. "We're seeing ongoing usage and new requests for provisioning," he said.

The services are being offered to users for free, but Lynch said he hopes to start charging for GPRS on most islands that already have the service during 1Q04.

The push to offer GPRS could also be a response to pan-regional competitors, such as AT&T Wireless and Cable & Wireless, which are launching GPRS immediately on all the islands they provide with GSM.

Lynch also said the company is providing full-island coverage with GPRS, instead of only offering it in certain densely populated areas as other operators in the region have done.

"Coverage would be fairly key to our strategy on all the islands," Lynch said. "If you don't offer full coverage, you'd only frustrate them if they tried to use it outside the service area."

Executives and Strategy

Televisa renames global unit

Mexico's Televisa relaunched its Televisa International global unit as Televisa Estudios, part of a bid to make a heavier push for the U.S. Hispanic market. The company reconfirmed Guillermo Canedo White, a former Televisa exec who was forced out of the company but returned to run Televisa International starting in May, as head of Televisa Estudios. The unit will sell programming, channel franchises and promote Televisa artists. Televisa is a minority shareholder in U.S. Spanish-language network Univision and already distributes a great deal of its content into the U.S. through that network.

BellSouth names LatAm exec

BellSouth's president for Latin America, Ralph de la Vega, was promoted to be COO of Cingular Wireless, the U.S.-based wireless carrier jointly owned by BellSouth and SBC Communications. BellSouth named de la Vega's replacement from inside the company by tapping Paulino Barros. Brazilian-born Barros, who joined BellSouth in 2000, has been vice president for Latin America under de la Vega for the past two years. Barros is already based at BellSouth's Latin America headquarters, which is also the site of the company's corporate headquarters, in Atlanta. The changes are effective Jan. 1 but Barros will already start filling in for de la Vega in some instances, such as speaking at the CDMA Americas conference in Miami this week.

Detecon restructuring group

Detecon, the Deutsche Telekom-controlled telecom management and engineering consulting firm, is establishing the base of its Latin America division in Miami and has beefed up its team. The company's new vice president for Latin American operations is Robert Kren, who was formerly vice president of professional services sales for the Caribbean and Latin America at Lucent Technologies. Richard Downes, who was named director of sales, came over from technology lobbying group 3G Americas and its predecessor the UWCC, as the groups' longtime Latin America and Caribbean director. Leopold Zeindlhofer is director of business development and his experience includes time in senior management positions at Detecon International, Deutsche Telekom's DeTeMobil and Siemens. The company expects to further expand its business with additional in-country staffing planned for Mexico, Brazil and other markets across the region.

Pedro Ziller tapped for Anatel

Brazil's President Luiz Inacio Lula da Silva chose Telecoms Secretary Pedro Jaime Ziller de Araujo to fill the vacant commissioner's spot at telecoms regulator Anatel. Ziller, a telecoms labor leader with two dozen years' experience at Brazilian mobile operator Telemig and former telecoms monopoly holding company Telebras, was named by Lula to the newly created telecoms secretary position earlier this year. The secretary job was created to oversee and audit the activities of Anatel, a largely independent and autonomous agency. Rumors immediately started that Lula wants Ziller to be named president of Anatel – a job any of the commissioners may be named to fill – but the Telecoms Ministry said the current appointment would only make him a commissioner, Telecom Web reported.

EPM names new directors

Bogota Mayor Sergio Fajardo named a new five-member board of directors to manage Bogota-based utility EPM starting Jan. 1. The board at EPM, one of the country's largest telecoms operators, will include former Colombian Finance Minister Juan Camilo Restrepo Salazar; academics Carlos Guillermo Alvarez Higuita and Isaac Dyner Rezonzew; Tatiana Aristizabal, vice president of finance for retailer Almacenes Exito and engineer Alvaro Villegas Mejia, according to Colombian news service Economia en Red. The five board members, together with the mayor,. will choose a CEO for the company as well.

Costa Rica reconfirms Cob

Costa Rica's government reconfirmed Pablo Cob as executive president of government-owned telecoms and services utility ICE, local press reported, ending speculation about whether Cob would be forced out as the government moves toward opening the sector to competition. Cob had offered his resignation back in end-October, a few weeks after U.S. Trade Representative Robert Zoellick threatened that Costa Rica could be left out of the free trade talks if it didn't take some steps toward liberalizing the sector. Officials told Costa Rican press that Cob was reconfirmed because of his experience and knowledge of the company and his rapport with the labor unions.

Date book

Dec. 11-12: 3rd Annual CDMA Global Roaming Symposium
Miami, FL, U.S.
Information: CDG
www.cdg.org
✆ (1) 714 545 5211
fax (1) 714 545 4601

2004

Jan. 13-16: NATPE 2004
Las Vegas, NV, USA
Information: NATPE
www.natpe.org/conference
✆ (1) 310 453 4440

Feb. 10-13: ExpoComm Mexico
Mexico City, Mexico
Information: EJ Krause
www.ejkrause.com
✆ (1) 301 493 5500
fax (1) 301 493 5705

March 2-5: Telexpo 2004
Sao Paulo, Brazil
Information: Advanstar
http://www.telexpo.com.br
✆ (55) 11 3170 7000
fax (55) 11 3170 7010

March 22-24: CTIA Wireless 2004
Atlanta, GA, USA
Information: CTIA
www.ctia.org
✆ (1) 202-785-2842

March 23: Alacel conference at CTIA
Atlanta, GA, USA
Information: Alacel
www.alacel.com
✆ (1) 305 579 5444
fax (1) 305 579 5333

April 1-2: GSM Argentina 2004 Conference & Expo
Buenos Aires, Argentina
Information: Grupo Convergencia
www.convergencia.com.ar
✆ (54) 11 4345 3036

BRAZIL

Incumbents' sale triggers debate
The possible sale of Brazil's incumbent long-distance players to the country's local telephony incumbents has triggered calls for changes to the country's legal and regulatory framework, which currently forbids this type of combination. Long-distance incumbents Embratel and Intelig are both up for sale and local incumbents have expressed an interest in acquiring both of them. Creditors support these bids since they would like the companies to be purchased by entities that can assume their debt. Embratel is accepting buyout bids through Dec. 11 while Intelig has also said it expects to announce a buyer by year-end, giving Brazilian authorities a window of a few weeks if they decide to change the rules, or be forced to challenge the eventual sales in court.

Vivo's mobile content deals
Brazil's No. 1 mobile operator Vivo inked two content deals with Brazilian media in a bid to support SMS and BREW-based usage. One agreement reached with Grupo Abril allows Vivo's BREW subs to download Abril's VIP Magazine content through their handsets. A second agreement signed with MTV Brasil will launch 'MTV Tones,' which will allow subscribers to download ring tones specifically meant for their callers to hear when they're placing a call to a Vivo subscriber. This service can be activated through BREW or as an SMS.

CHILE

Mobile rate cuts challenged
Chile's regulator Subtel's announcement that it plans to cut Chile's fixed-to-mobile interconnection rates by 32.7% over five years' is being challenged by mobile operators. Mobile operators will likely have to raise their other rates to make up for the declines in revenue from fixed-line calls. Regulator Subtel estimates mobile-to-mobile rates will rise by 43% and mobile-to-fixed calls will likely rise 17%. Mobile operators claim these increases will cause them to lose at least 500,000 subs and force them to cut handset subsidies, making it harder for them to acquire new customers in an already competitive and mature market where penetration is close to 40%. SmartCom PCS, owned by Spain's Endesa, has threatened to exit the country if the rate cut is approved.

ECUADOR

Ecuador's Telecsa launches service
As promised, Ecuador's third mobile operator Telecsa launched services on Dec. 1 in Quito and Guayaquil under the Alegro brand name. Initial coverage was limited to 5 base stations in Quito and 2 base stations in Guayaquil. Alegro's entry is expected to force a cut in competitors' mobile rates since its prepaid service came in with call rates of US$0.10/min. between Alegro subs and US$0.25/min. to subs of other operators. Ecuador's two mobile incumbents Conecel and BellSouth charge rates of US$0.12-0.13/min. between their own subs and US$0.50-0.60 to those of other operators. Alegro is also offering SMS at half the rate the incumbents charge.

LATIN AMERICA

Hispamar offering b'band satellite
Norway's Nera signed a contract valued at Kronor42 million (US$6 million) to provide Hispasat's Brazilian subsidiary Hispamar with a network for providing broadband services over satellite. Hispamar, a joint venture between Brazilian incumbent telco Telemar and Spain's Telefonica-affiliated satellite provider Hispasat, plans to launch the service in Brazil first and then to offer it elsewhere in the Americas. The network uses Digital Video Broadcasting – Return Channel Solution (DVB-RCS), which would be the first of its type in the Hemisphere. Nera said the lower capital requirements of this network make it ideal for deployment in rural areas.

MEXICO

Cofetel to be restructured
Last week, Mexico's Communications and Transport Secretariat (SCT) came out with a draft resolution providing local telecom regulator Cofetel with more autonomy. The document provides Cofetel with its own budget and limits the agency's role to overseeing the competitiveness of the industry, imposing fines and advising the SCT on issues such as spectrum allocation and the granting of concessions. The new rules follow Mexico's failure to overhaul the country's Telecoms Law. It also comes at a time when a number of sector players have expressed concern with Cofetel's inability to carry out the responsibilities under its original mandate. The resolution must still be published in the official Federal Daily register for it to be binding.

PERU

Peru issues prepaid rule
Peruvian officials took another shot at telco incumbent Telefonica del Peru with the issuing of a norm by the Communications and Transport Ministry allowing prepaid cards to be used on all operators'networks. Previously Telefonica was the only fixed-line operator that could offer prepaid services. Now new entrants will be able to compete on price and on value-added services, analysts said, which should allow them to expand their revenue and presence in the country.

URUGUAY

Uruguay prepares PCS sale
Uruguay's telecom regulator Ursec is planning to publish bidding rules for the issuing of 1.8 – 1.9GHz mobile spectrum licenses by mid-December, according to a report from BNamericas. The article said Ursec originally wanted to auction spectrum on the 1.7GHz and 2.1 GHz bands but received little interest from potential bidders and preferred to auction the PCS spectrum bands instead. The main reason cited for the bidders' lack of interest on the IMT-2000 spectrum was that the spectrum bands almost forced the implementation of UMTS/WCDMA as the network standard, due to the lack of commercially available cdma2000 equipment on these frequencies.

Date book

April 12-13, 2004: Rio Wireless International Conference
Rio de Janeiro, Brazil
Information: Network Eventos
www.networkeventos.com.br
✆ (55) 21 2492 1800

April 17-22: NAB 2004
Las Vegas, NV, USA
Information: National Association of Broadcasters
www.nab.org/conventions/nab2004
✆ (1) 202 429-5429
fax (1) 202 429-3926

April 29-30: Cono Sur Telecom Summit
Santiago, Chile
Information: IBC Brasil
www.ibctelecoms.com.br
✆ (55) 11 3017 6857
fax (55) 11 3017 6802

May 2-5: NCTA 2004: The National Show
New Orleans, LA, USA
Information: NCTA
www.thenationalshow.com/ncta2004
✆ (1) 202 775 3669
fax (1) 202 775 3689

May 13-14: Broadband Latin America
Rio de Janeiro, Brazil
Information: IBC Brasil
www.ibctelecoms.com.br
✆ (55) 11 3017 6857
fax (55) 11 3017 6802

Hutchison eyes new opportunities in region with fixed-line model

HUTCHISON WHAMPOA puts much marketing emphasis on its aggressive deployment of 3G networks across Europe and Asia. The company boasts it has 3G coverage through its networks or through affiliates in 10 countries today. The company spends much less time publicizing its 2G operations, even though they still account for the bulk of its subscribers, revenues and before-tax profits.

However, Hutchison officials were recently touting one of the 2G businesses, its fixed-wireless operator in Argentina, at IBC's GSM Americas Congress in Brazil last month. According to Hutchison, over the past three years the company has taken a basic voice-only GSM900 MHz network with average revenue per user of US$12/month and made it profitable. The company succeeded with this despite having to pass through an 11% decline in the Argentine economy in 2002 and despite having tough entrenched competition from both fixed and mobile operators in the greater Buenos Aires metropolitan area.

"We've proven that we can do business in the low end market," said Enrique Mallea, Hutchison's executive director for South America.

Mallea said Hutchison is so pleased with the results in Argentina that it's looking for opportunities to license or build its low-end fixed-wireless model in other Latin American countries as well.

"We would like to expand the model," Mallea said in an interview. "We are looking at the opportunities in Latin America."

Low profile

The company's interest in expanding its reach in Latin America comes after Hutchison has maintained an extremely low profile in the region over the past few years.

Hutchison launched services in Argentina in 2000, the same year Argentina opened its telecoms sector by simplifying the licensing process and lowering other barriers for competitors to enter. Hutchison entered the Paraguay market that same year through the acquisition of mobile operator Copesa. Hutchison relaunched the Copesa service with expanded coverage and increased subscriber capacity in March 2001. It now sells the GSM1900 MHz service under the "Porthable" brand name.

Hutchison sought to build a wireless network in Mexico in 2001 by pledging financial support to would-be Mexican operator Midicel, but when Midicel failed to garner government permission to launch, Hutchison backed out of the arrangement. In the two years that followed, Hutchison's name has not even been mentioned as a potential buyer of existing operators or of the handful of new buildout licenses that have come up for sale.

The success of the Argentine business, however, could change all that.

Hutchison survived Argentina's adverse market through a relentless focus on keeping costs low, both for itself and the consumer. The company offers a fixed-line service but since it runs a GSM network it opted to use commercially available GSM handsets, which are much less expensive and easier to get a hold of than the special wireless fixed-line terminals some fixed-wireless operators offer in other countries. And Hutchison is trying to get even cheaper handsets, which would help bring costs down further.

Even though it sells customers a mobile handset, Hutchison's service is a fixed service with little mobility. That allows the company to save a lot of capital on network costs, Mallea said. Hutchison installs one base station in a given neighborhood, which he said would comfortably provide in-house coverage to all homes within a 3km range of the base station. The company can extend its coverage out to 10km, if needed, by using extra antennas. Since the service only promises in-house coverage and doesn't promise mobility, this allows the company to get greater geographic coverage per base station, he said. Hutchison also doesn't have to provide blanket coverage of the city, which reduces capital spending.

Hutchison spent $30 million on its network, Mallea said, which as of November comprises 50 base stations and about 50,000 customers.

Competition

As the company is not trying to cover the entire city, it doesn't have to sell to the mass market or cover the entire city with advertising. It can focus in on targeting the types of residences or businesses it wants to reach, which helps keep subscriber acquisition costs down, Mallea said. For one thing, the company tries to avoid direct confrontation with the country's two incumbent fixed-line operators, Telecom Argentina and Telefonica de Argentina, he said.

He said Hutchison has gained about 12% market share in the 3km radius area around its installed base stations, mostly by expanding the fixed-line market in those areas and not by stealing customers from competitors. The company sells the prepaid services positioned as a first line, or for families that already have a first line the Hutchison service would be positioned as a second or third line or in place of a mobile account, Mallea said.

"We chose not to enter dense fixed-line areas or highly competitive areas," he said. "We don't compete against the incumbent."

Over time with each launch in a new neighborhood, the company has established a combination of marketing tactics that are now getting new base stations filled to 80% capacity within two weeks of service launch, he said.

"Other mobile operators don't have their capacity filled up to 50%," he said. "The return also comes very

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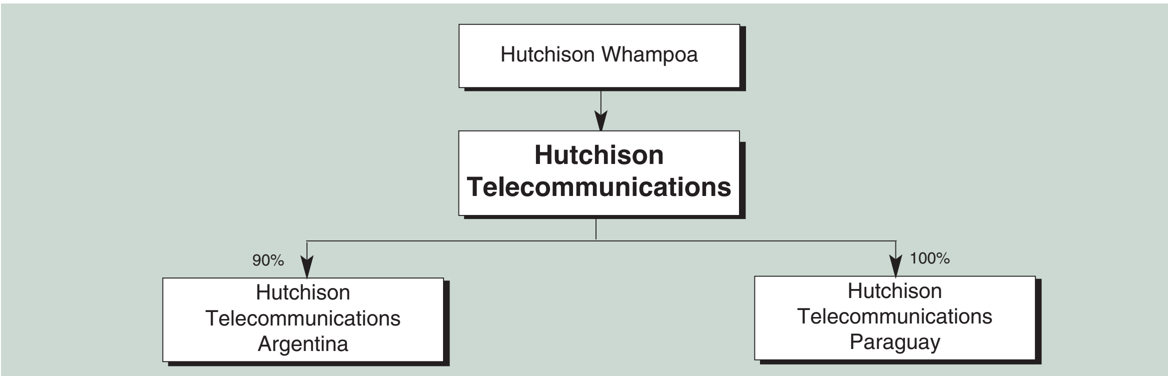

quickly."

Because the service is in place of a fixed-line phone, Hutchison is seeing a figure of about 500 minutes/month of usage, which is a rather high figure for a customer on a mobile network, Mallea said.

Still, as much as Hutchison is drumming up large traffic figures and utilitizing its capacity more efficiently than most mobile operators, it's not clear if the company is making a lot of money.

Mallea said the business is EBITDA-positive, even at an ARPU of $12/month. Still, he also said that the company's cheapest monthly plan is about Peso39 ($13), which puts ARPU just below than the cheapest monthly plan. With ARPU at $12/month and 50,000 users, the company would be bringing in revenue of about $600,000/month or about $7.2 million in revenue a year. It would take four years of revenue at this level to recoup the company's network investment of $30 million, although InfoAmericas consultant Jose Otero pointed out that the company probably has arranged with vendors to finance its network over several years' time.

"Profitability will depend on what type of payment plan they have," he said.

In addition, the company is limited in what it can offer to its customers in the near future. It does not offer GPRS mobile data services and Mallea said the company has no plans to install EDGE, which would provide faster mobile data services and spectrum efficiencies.

"Wireless Internet is expensive," he said. Since Hutchison is so heavily focused on developing UMTS around the world, he said the Argentine carrier may just wait until the UMTS market matures enough to make the services and equipment inexpensive enough to be cost-effective, and then launch UMTS services in Argentina – in three to four years' time.

In the meantime, Mallea said the company doesn't need data services in its market now anyway. "Our business is voice, not data," he said.

Exporting the model

In terms of expansion, the company could expand its services in Argentina although Mallea said the company is also looking at the rest of Latin America and would probably expand elsewhere first. He also said the company hasn't been looking at the Caribbean.

"We have to look at where the most opportunity is," he said. He also said the company is keeping its eyes open and listening to proposals but is not embarking on any sort of formal pitch of its model around the region. "We're not doing a road show," he said.

He said the model would work well in areas that incumbents don't reach, including rural areas. He said Hutchison's fixed-wireless model is also something that existing mobile operators could consider to draw more revenue out of their own spare capacity. Particularly as more operators consolidate in the market and build up bandwidth and before data-centric applications take off in Latin America, operators may find themselves with significant spare capacity to be filled.

"There's more than enough infrastructure today, there's no need to build more," Mallea said.

By Leslie Hillman
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Company data

Hutchison Telecoms Argentina Network & service facts

Network technology	GSM900
Service type	fixed voice
Data services	none
Billing model	prepaid
Network investment	$30 million
BTS installed	50
Current subscribers	50,000
ARPU/mo.	$12
Avg. MOU/mo.	about 500 mins
Service launch	2000
EBITDA breakeven	2003

Source: Hutchison Telecoms Argentina

Mexico's Internet use seen growing slower; broadband outpaces mkt

MEXICO'S MAIN communications indicators are expected to continue to grow in the coming years, but the country will continue this year's trend of showing slower growth rates in terms of lines and subscribers, according to data from Mexican research firm Select. Still, broadband accounts will show faster growth than the rest of the market.

According to a special Select study prepared for *LatinCom* with estimates from end-November, the overall Internet market is expected to post the fastest growth over the coming years. Mexico saw its total Internet users grow 44% in 2002 to 10.0 million, but that same figure is only expected to grow a strong but still slower 22% in 2003 to 12.25 million (see fig 1). The Internet users figure, which Select counts as persons with access to the Internet who surf at least three times a month, is expected to grow 16.7% in 2004 to 14.3 million.

Mexico saw vast growth in mobile lines over the past five years as operators, particularly dominant carrier Telcel, reached out to masses of new lower-income subscribers with prepaid services and also extended coverage to reach many remote areas. However, that boom appears to be slowing somewhat and, according to the Select forecasts, the mobile sector will be seeing even slower growth than that forecast for the overall Internet market. In 2002 mobile lines grew 18% to 22.4 million, the firm said, and in 2003 there should only be 12.6% growth in mobile lines to 25.2 million. For 2004, mobile lines are expected to grow 10% to 27.7 million.

Fixed-lines growing

Growth in phone lines, on the other hand, are not far behind the growth in mobile lines, which is unusual today given that most operators focus on mobile and not on fixed services. Mexico, however, has relatively low fixed-line penetration at about 14 lines per 100 inhabitants, and incumbent telco Telmex has been investing heavily to expand coverage. Fixed lines grew 15% in 2002, are expected to grow by 10% in 2003 and to slow down to 7% growth in 2004.

As for Internet accounts, dialup still comprises the lion's share of the market (see fig.2), but broadband technologies are steadily gaining share. While dialup lines are expected to grow 24% in 2003, DSL accounts are expected to jump 204% and wireless connections are expected to rise by 119%, according to the Select figures. Cable-modem accounts are expected to grow by 37% for the year, slower than DSL and wireless but still faster than dialup and faster than the overall market.

Cable companies had an early lead in the broadband market in Mexico, while incumbent telco Telmex held back on launching DSL in favor of its higher profit-margin ISDN lines. But Telmex burst into the DSL market in earnest in 2002 and as a result DSL has already surpassed the number of cable-modem accounts this year (see fig. 3).

DSL advances

Select figures show that DSL is expected to post a compounded annual growth rate (CAGR) of 73.8% for the 2002-2006 period, although that growth is also expected to slow somewhat after this year as the market starts to mature. And Select is expecting DSL will continue to grow at a faster pace than cable-modem accounts, even though Mexico's cable companies continue to invest in digitalization and advanced services. Cablevision, for example, has embarked on a project to have 100% of its network digitalized and the company is expecting to push broadband services with greater force over the coming year or two.

Still, while cable-modem will see 37% growth this year, growth in successive years are expected to be slower – CAGR for cable-modem over the 2002-2006 period is expected to be only slightly higher than dialup – implying that their push may not yield much in the way of results.

Wireless connections

Wireless accounts, on the other hand, are also expected to grow at a CAGR of 73.7% for the 2002-2006 period, but from a very small base, and by 2006 wireless technologies will remain a small portion of the market at only about 70,000 accounts. The number of ISDN circuits, outshadowed by DSL and cable modem, will continue to shrink through 2006, when their share of the overall Internet market will be negligible.

Other interesting broadband trends from the Select figures include an analysis of where these Internet accounts can be found. For example, in Fig. 2, the Select figures show that during 2003 cable-modem accounts were increasingly being used in the business market. This trend is also taking place in other Latin American countries as well, since small and medium-sized businesses are often too small to afford a fiber connection but are increasingly opting for faster speed than dialup. The DSL market is also expected to follow this trend in 2003, particularly since Telmex has started offering special DSL packages targeted for businesses.

In terms of Internet activities, Mexicans fall in line with other countries in terms of their interests (see fig. 4). Searching for information is the No. 1 activity, closely followed by email. Overall, each of the top activities are becoming more common in Mexico as Mexicans become more familiarized with these services and overall Internet consumption rates rise. Downloads of files, such as video, audio, pictures and software, is expected to move up a notch in the ranking to displace home office work in 2003, as broadband becomes more prevalent among active users.

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Subscriber Notice

LatinCom will be taking a publication break for the Holidays. The next issue will be available on January 9, 2004.

Fig.1: Mexican infrastructure forecasts

	2001	2002	2003	2004	2005	2006	2007	CAGR (%)
PCs (000)†	7,002	8,114	9,138	9,837	10,226	10,543	10,807	9
LAN PCs (000)** †	2,258	2,674	3,067	3,339	3,500	3,639	3,712	10
Internet PCs (000)†	3,635	4,450	5,300	6,000	6,953	7,793	8,494	19
Internet users (000)*	6,954	10,033	12,250	14,290	16,349	18,397	20,444	24
Telephone lines (000)	12,298	14,191	15,628	16,728	17,732	19,242	21,144	11
Mobile subscribers (000)	18,930	22,363	25,176	27,702	30,057	31,461	32,615	11
Local Area Networks**	159,022	166,153	177,849	184,000	192,283	201,967	210,046	6
Avg LAN PCs per LAN**	14	16	17	18	18	18	18	4

*Total number of persons with access to the Internet that surfed at least three times a month; **Includes Wireless LAN; †Installed base

Source: Select

Fig 2: Mexican Internet usage, by technology

	end-2002			end-2003*			
Connection	**Active Internet accts (000)**	**Share from residential accts (%)**	**Share from business accts (%)**	**Active Internet accts (000)**	**Share from residential accts (%)**	**Share from business accts (%)**	**Growth 2003 vs 2002 (%)**
Dial Up	2,103	42	58	2,622	42	58	24.7
Dedicated Line**	10	-	100	12	-	100	20.9
Wireless	8	2	98	17	2	98	119.4
ISDN	19	49	51	13	55	45	(32.1)
DSL	67	42	58	205	48	52	204.2
Cable Modem	127	68	32	175	58	42	37.4
Totals	**2,334**	**100**	**100**	**3,044**	**100**	**100**	**30.4**

*Estimates from November 2003, figures are for year-end; **Number of active IP ports

Source: Select

Fig 3: Mexican Internet forecasts, by technology*

Connection Type	2002	2003	2004	2005	2006	CAGR %
Dial Up	2,102,643	2,622,347	3,105,481	3,438,173	3,811,910	16.0
Dedicated Line**	9,939	12,017	13,957	16,421	19,011	17.6
Wireless	7,673	16,831	30,064	48,951	69,798	73.7
ISDN	19,382	13,159	9,154	6,591	4,877	(29.2)
DSL	67,366	204,926	338,109	471,736	614,363	73.8
Cable Modem	127,300	174,951	203,468	227,885	246,115	17.9
Total	2,334,303	3,044,231	3,700,234	4,209,757	4,766,075	19.5

*Estimates from November 2003, figures are for year-end; ** Number of active IP ports

Source: Select

Fig.4: Mexico's most popular Internet activitiesFig.4: Mexico's most popular Internet activities

2002			2003		
Activities	**Users (000)**	**% Active users**	**Activities**	**Users (000)**	**% Active users**
Seeking information	7,377	73.94	Seeking information	9,757	80.15
Email	7,297	73.13	Email	10,528	86.48
News	3,735	37.43	News	6,397	52.54
Entertainment	2,916	29.22	Entertainment	4,891	40.18
Home office work	2,842	28.48	Home office work	3,577	29.39
Downloads (video, audio, pictures, software)	2,827	28.33	Downloads (video, audio, pictures, software)	4,737	38.91
Chat rooms	2,445	24.50	Chat rooms	4,741	38.94
Total Internet users*	**10,033**	**100.00**	**Total Internet users***	**12,250**	**100.00**

*Total number of persons with access to the Internet that surfed at least twice a week

Source: Select

LatinCom's 2004 broadband & fixed outlook

EACH YEAR *LATINCOM* makes predictions on the outlook for the Latin American mobile market going forward, and starting this year we will also offer our calls for the region's fixed-line and broadband market. Here are our predictions:

Sector growth: Economically for the region, 2003 was a better year than 2002, and now 2004 is shaping up to be even better, although GDP growth is still expected to come in at modest single digits in most major markets. Even Venezuela, which is expected to show economic contraction again in 2003, is forecast to show growth again in 2004. What will this mean for the telecoms sector? Typically the telecoms sector in Latin America has outperformed the overall economy, even during the financial problems of the past few years. In most of the major telecoms markets, the telecoms sector can probably be expected to grow in the mid- to upper-single digits next year.

Financial woes lifting: The inevitable string of bankruptcies and defaults that followed from the sector's capital crunch led to much consolidation and restructuring among carriers. Most of those restructuring processes are now either completed or should come to a close in 1H04 in Latin America, so next year will be a key one to watch. Operators that emerge from this process are coming out with lower-cost business models and are largely stripped of their debt, making them stronger and more viable competitors in the market – and better able to invest since they'll have better access to capital now. In addition, the consolidation has reduced the number of competitors and this will likely take some of the pressure off of price competition next year as companies seek to demonstrate greater profits to shareholders.

Broadband uptake continues: Broadband penetration rates vary in Latin America. Some markets, such as Colombia, still have single-digit penetration rates for broadband as a percentage of overall Internet accounts, while in Mexico broadband accounts already make up about 13% of all Internet accounts at end-2003. Brazil's rate is even higher than that. What will be common among most markets is that broadband growth will continue to outpace the larger Internet market and most likely the telecoms sector overall, especially now that operators are recovering from their financial woes and some capital is expected to start flowing into the sector again next year. Brazil, the region's largest telecoms market, is expected to continue its role of leading the broadband market in subs, accounts and investment in the coming years.

DSL vs. Cable: DSL has snapped up a leading share of broadband in many Latin markets, including even Argentina where cable has upwards of 50% penetration of TV homes, because incumbents have been doing most of the investing. Some cable operators have restarted investment this year but it is likely that their offerings may come too late to block the freight train that is DSL development across the region. In some countries, such as Chile, where cable TV providers got an early start and continued to invest through the last two years, cable TV providers will be strong competitors but DSL will still gain share from them over time.

Wi-Fi deployment: Wi-Fi deployment has taken off among fixed and mobile operators in Latin America this year. Rather than wait for independent Wi-Fi networks to develop and prove the market, telcos are taking their cues from the growth of the hotspot market elsewhere and have jumped into providing their own public and private Wi-Fi network services, this year and next year as well. They are also seeing it as a value-added service that can improve their access portfolio for the lucrative business customers that all operators in Latin America – incumbents and competitive carriers alike – are going to be targeting heavily next year.

Voice over IP: Voice over IP has generated less noise than Wi-Fi this year but it continues to be deployed in Latin America, and the region is still said to be a solid market for IP technology. Competitive carriers and incumbents are increasingly using IP-based networks to carry their long-distance traffic, particularly outside the country, through carrier's carriers such as ITXC. This coming year will also see a greater focus on managed services to target the smaller businesses that can't afford their own IP networks. We'll also see deployment of Voice over IP local phone services by cable operators, with Liberty Cablevision of Puerto Rico and VTR of Chile being two that have committed to launching the technology.

Fixed-wireless' comeback: Fixed-wireless access had a cooling-off period for a while in Latin America as capital dried up and as operators waited for technologies that were more robust, less expensive to deploy and provided greater bandwidth. Last year witnessed a moderate return of interest in fixed-wireless networks, demonstrated by Anatel's successful sale of wireless broadband licenses in the 3.5GHz and 10.5GHz bands in Brazil, and this year should continue that trend. Mobile operators have entered this segment, such as pan-regional mobile operator BellSouth offering fixed services in Venezuela, Argentina and Peru using CDMA networks. Regulators in Peru are approaching mobile operators as part of their quest to improve fixed-line coverage in rural and remote areas; VSAT wireless technology is also being deployed.

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