Constitutional Reform, the Shared Public Telecommunication Network and the Public - Private Collaboration
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CURRENT SITUATION
The development of the telecommunications sector in Mexico has not been enough to improve the productivity and the well-being of its population.

Position of the telecommunications infrastructure in Mexico according to the World Economic Forum (Position of 144 countries, 2013, score 1-7)

1 = inaccessible
7 = accessible

Developed countries
Main commercial partners of Mexico
BRICS Countries
Latin America Countries
Mexico

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ASSESSMENT

The OECD reported in 2012 that “The loss of well-being attributed to Mexico’s dysfunctional telecommunications sector is around 129.2 billion dollars (2005-2009), about 1.8 % of the annual GDP”

1. Weak state’s regulatory role
   - Inadequate and obsolete legal frame
   - Deficient institutional design

2. High levels of market concentration:
   - On broadcasting a group concentrates 98 % of the advertising market
   - On telecommunications a group concentrates 70 % of mobile telephony, 68 % in fixed telephony and 67 % in fixed broadband

3. Strong entry barriers to new competitors
LOW INVESTMENTS

Mexico stands in the second to last place on public investment per capita in telecommunications within the OECD countries.

Source: OECD Communications Outlook 2013

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CURRENT SITUATION

31.1 millions of homes

- 42% Have access to fixed telephony
- 79% Have access to mobile phone
- 36% Have a computer
- 31% Have internet

46% Of the territory have a mobile coverage

94% Of the population live in 128,788 localities that are the area inside of mobile coverage

54% Of the territory does not have a mobile coverage

6% Of the population live in 63,457 localities that are the area outside of mobile coverage

5,438 Localities have rural telephone services with comunitary access

4,002 Operating
1,436 In project

9,717 Localities with rural telephony

212,663 Operators line
11,008 Project Lines

Source: INEGI Módulo sobre Disponibilidad y Uso de las Tecnologías de la Información en los Hogares 2013)
COMPARISON WITH OTHER COUNTRIES

Mexico registers low levels of penetration services in fixed and mobile broadband, at the end of 2013 they were around 11.4 and 13.9 subscriptions per 100 people.

Source: OCDE and IFT
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CONSTITUTIONAL REFORM
To improve the described situation, in 2013 the Executive Branch with the support of the main political parties filed in Congress a Constitutional Reform Bill.

Constitutional Reforms Axes

1. Increase fundamentals rights – access to TIC's and to the broadband - rights of users and of hearings

2. Improve and update the legal framework

3. Re-design and to strengthen the regulatory organs – IFT and specializing courts

4. Promote effective competition – opening to the investment - asymmetric regulation – reduce concentration - eliminate barriers

5. Universal digital inclusion – connectivity of public places, homes and SME - TDT - more persons connected in the whole country

6. More and new broadband infrastructure – backbone network - shared network - major coverage in the whole country
**SECONDARY LAWS**

The Constitutional Reform ordered to enact a law that regulates in a convergent way the frequency spectrum, the networks and the services of Telecommunications and Broadcasting.

- **Legal certainty**
  - Clear rules – frequency spectrum, networks, services - competition
  - Distribution of competitions – IFT - Federal Branch
  - Strenght of the regulator – regulation ex-before / ex-post - sanctions

- **Effective competition**
  - Interconnection regulation
  - Criteria to determine preponderant agents – measured – exit procedures
  - Additional services and transit to only granting
  - Regulation of substantial power of market
  - Disintegration of the local network
  - Criteria and thresholds for concentration

- **Barrier reduction**
  - Requirements decrease to new competitors
  - Unique granting – commercialiser
  - Direct foreign investment
  - Planning of the Spectrum – lease – transfer – change
  - Sharing with private infrastructure and public sites
  - Networks with participation of the government
  - Simple scheme for more orbital positions

- **Protection to rights of users and hearings**
  - Regulation on the subject of contents – hearings defenders
  - Profeco and IFT will act in a coordinated way
  - Specific rights of users and hearings

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# INVESTMENT OPPORTUNITIES

The sector generated an annual income of around 30 billion dollars. In last 3 years the annual investments overcame 5 billion dollars.

The new legislation offers investment opportunities at national, regional or local level for:

<table>
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<tr>
<th>Opportunity</th>
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<tr>
<td>New concessionaires or comercialisation</td>
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<td>To invest in more and better infrastructure</td>
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<tr>
<td>To collaborate with the current operators</td>
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<tr>
<td>To take part in PPP with the government</td>
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<tr>
<td>To develop contents and applications</td>
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<td>To take part with foreign investors</td>
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THE TELECOMMUNICATIONS BEFORE THE CONSTITUTIONAL REFORM

- Lack of incentives
- Lack of legal certainty
- Flaws in anti trust regulations

The telecommunications in Mexico have not evolved in accordance with the citizen’s needs.
NETWORK BACKBONE AND SHARED NETWORK
SHARED AND BACKBONE NETWORK

Terrestrial network wired and wireless

Backbone Network

Shared Network

Satellite Network

Urban area

Semi-urban and rural area

2 % of the population

98 % of the population

2 % of the population
Current operators
- Quality of services
- Prices
- Low coverage
- 35% of the population are living without optic fiber access
- 15% of the population are living in access with only one optic fiber

Telecommunication Services
- Voice
- Data
- Video
- Broadband Internet (fixed and mobile)
Current operators
- Quality of services
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Backbone network
- Fiber optic
- Increase CFE
- Transport Network

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Share Network
- Wireless
- 100% new
- Shared network
- Commercial
- Band de 700 MHz

Backbone network
- Fiber optic
- Increase CFE
- Transport Network

Telecommunication Services
- Voice
- Data
- Video
- Broadband Internet (fixed and mobile)
The Constitutional Reform establishes that the State, through the Executive Branch, and in coordination with the Federal Telecommunications Institute, shall ensure the installation of a shared public telecommunication network to promote the population’s effective access to communication and broadband telecommunication services.

- It shall begin the installation before the end of 2014, which must be commissioned and operating before the end of 2018. It shall include the use of at least 90 MHz of the spectrum released by the transition to digital terrestrial television (700 MHz band), the fiber optic backbone infrastructure resources of the Federal Electricity Commission and any other State asset that can be used to install and operate the shared network.
SHAREDO NETWORK: CHARACTERISTICS

- It will give services exclusively to the commercialization companies and operators of networks of telecommunications (it will be wholesale).

- It will have a coverage of 98% of the population.

- Approximate investment of 10 billion dollars for the next ten years, using a Public Private Partnership (PPP).

- It will be operating before the end of 2018.

- It will diminish entry barriers in the market of mobile broadband.
**SHARED NETWORK: CRITICAL PATH**

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<th>ACTIVITY</th>
<th>BEGIN</th>
<th>ENDS</th>
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<td><strong>Field Tests</strong></td>
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<td>To test the standard LTE in the band of 700 MHz frequencies</td>
<td>August, 2014</td>
<td>January, 2015</td>
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<td><strong>Regulatory Policy Design (IFT)</strong></td>
<td></td>
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<td>Obligations that will be imposed on the wholesale operator</td>
<td>June, 2014</td>
<td>February, 2015</td>
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<td><strong>Shared Network’s bidding process</strong></td>
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<td>Including the necessary actions to generate and to communicate the bidding requireements and to promote the bidding process.</td>
<td>December, 2014</td>
<td>August, 2015</td>
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**Definition of the model and use of the 700 MHz band**

**Collaboration agreements SCT-IFT**

**Field tests**

**International promotion of the Project**

**Bidding process**

**Coordination group for the telecommunication’s infrastructure policy**

- IFT/SCT/SHCP
- Integration of Federal Budget for fiscal year 2015
- Formalization on October 9, 2014
- Work calendars
- Deployment process
- Promotion to attract investors, operators and manufacturers
- Studies in process
- The first meeting of the group was held on October 16
OPERATION
Disintegrated model of chain value

Company owner of Shared Network (wholesaler)

Mobile operators

Consumers

Commercializes telecommunications services

Commercializes and integrates package of voice and data

Benefits
• Price
• Quality
• Coverage
SHARED NETWORK: INVESTMENT
SHARED NETWORK: INVESTMENT
10 billion dollars for the next 10 years

Public contribution
- Spectrum (Discount fees for regulatory burdens)
- Infrastructure Passive (federal sites)

Private contribution
- Private Investment / Active infrastructure
- Design, deployment, operation and commercializes

The model does not contemplate public subsidy
BENEFITS
1. INCREASE COMPETITION:

LOWER PRICES IN:

- BROADBAND
- MOBILE SERVICES (VOICE AND DATA)
- SERVICE QUALITY
- INVESTMENT
2. INCREASE COVERAGE:

- LOCALITIES
- INTERNET
- MOBILE TELEPHONY
- OPTICAL FIBER
- NETWORKS
3. INCREASE SOCIAL DEVELOPMENT:

- QUALITY OF LIFE
- INCLUSION
- CLOSENESS WITH CITIZENS
- COMMUNICATION
- SOCIAL NETWORKS
- DIFFUSION
- DEMOCRACY
- INFORMATION
4. INCREASE ECONOMIC DEVELOPMENT:

- EMPLOYMENT
- PRODUCTIVITY
- EXPORTATION
- TAXES COLLECTION
- GROWTH
- SMES PROMOTION
5. INFRASTRUCTURE:

Infrastructure and investment → Economic Development → Job creation

Increase coverage → Social Development

Increase internet access → Well-being