

Connecting Mexico to the world

INTERVIEW WITH GERARDO RUIZ ESPARZA

SECRETARY OF COMMUNICATIONS AND TRANSPORT, UNITED MEXICAN STATES



GERARDO RUIZ began his career in 1977 as Assistant Legal Director at the Head Office of Public Debt of the Secretariat of Finance and Public Credit (SHCP). He has held numerous posts, among them Director of Administration of the Federal Electricity Commission (CFE), and Secretary of Communications of the Government of the State of Mexico. He has been a PRI National Political Advisor, and was General Coordinator of Commitments in the electoral campaign of President Enrique Peña Nieto.

An export-based economy such as Mexico's depends on companies being able to get their products to market in a timely and efficient manner. What steps is the Government taking to facilitate this, and which projects in particular do you expect to have the greatest impact?

Our priority is to transform Mexico into a leading logistics platform that will allow companies to generate savings in both time and relocation costs.

In this administration we aim to build 46 highways, all of them with public and private capital, in order to reach nearly 3,000 kilometres, with a total investment of over US\$12.3 billion. At the end of 2014 we concluded 13 highways with government financing of US\$3.7 billion and a length of 917 km and we have initiated two more with a cost of US\$231 million and a length of 51 km.

There will be 90 construction works to modernise Federal Roads with a total investment of US\$6.9 billion. Last December we concluded 12, with an expenditure of almost US\$267 million and we have 65 more under construction with an investment of over US\$3.7 billion. With regards to rural and feeder roads, in 2014, we added 22,116 km with an endowment of US\$2 billion.

On the railroad sector, I would like to with you the progress of three projects: The Mexico-Toluca train, The Guadalajara city train, both with an estimated completion date of December 2017, and the Monterrey Subway line 3, which is 55 per cent complete and whose construction will conclude in March 2016.

In terms of airport infrastructure, modernisations are being made to 20 of them with public and private investments to the tune of US\$1.5 billion, with a focus on the improvement and enlargement of the Cancún, Chetumal, Hidalgo, Ixtepec, Jalapa, Nuevo Laredo, Tlaxcala and Toluca airports. The new Palenque Airport was finished last year and Creel's Airport is almost done.

Also deserving of a special mention is the new Mexico City International Airport, conceived to improve the country's international competitiveness and achieve the transformation of Mexico into a leading logistics platform, as I said at the outset. At the end of 2014: we chose the architectural consortium of Foster + Partners and Fernando Romero Enterprises to design the airport; we signed up Parsons Enterprises as the project manager; we obtained the pronouncement and

opinion of the environmental impact assessment and a US\$1,000 million financing was closed.

We are committed to the modernisation of 23 national seaports and the development of two integral seaport systems: the Mexican Gulf (Veracruz and Altamira) and the Pacific Ocean (Manzanillo and Lázaro Cárdenas) with a total investment of almost US\$5 billion. Our goal is to increase the operation and capacity from to 260 million tons up to more than 500.

In respect of telecommunications, during 2013 and 2014 the Telecommunications Reform was put forward to transform this sector, in order to reach the same level of competitiveness as our commercial associates.

President Peña Nieto's ambitious infrastructure plans have been costed at over US\$160 billion. Aside from the responsibilities of Banobras, Mexico's development bank, what role do you foresee for the private sector in funding the country's infrastructure requirements – and on what basis?

Of the total amount of the National Infrastructure Programme the public investment is 60 per cent, with 40 per cent coming from the private sector.

This is why this plan contemplates the promotion for investing in roads, railroads, seaports, airports and telecommunications, with a significant amount of private financing. This will be the mechanism that will allow us to realise this vision.

Given the huge economic potential of the Trans-Pacific Partnership, what plans are there to develop the port infrastructure on Mexico's Pacific coast, along with arterial roads to transport goods to the Atlantic?

The Trans-Pacific Partnership is an exciting project because of the potential spread in the maritime trade flows between Mexican, Asian and American Ports in the Pacific Ocean. Certainly, it presents a challenge to our logistics chains, both in terms of capacity and efficiency. However, it is important to say that maritime trade on the Pacific Mexican coast has been increasing for more than a decade. In 2000, Manzanillo and Lázaro Cárdenas, our biggest ports in the Pacific Ocean, handled 8 and 14 million tons of cargo, respectively, whereas in 2014 they handled more than 28 million tons. Along with the ports of Veracruz and Altamira, they managed 97 per cent of the maritime containers

in Mexico. The development of Mexican Ports in the Pacific has long been a top priority for this Ministry.

We expect that this accelerated growth rate will be enhanced with the implementation of the TPP agreement, that is why we are constructing new multipurpose terminals as Manzanillo and Lázaro Cárdenas, so that by 2018 they can handle more than 50 million tons of cargo, twice as much as in 2012.

We are aware that bigger ports are useless if our highway and railway networks cannot absorb a substantial increase in goods mobility, that is why the increment in our port's capacity will be paired with the modernisation of our multimodal trans-oceanic infrastructure.

Manzanillo and Lázaro Cárdenas are the Pacific gateway of Mexico's central interoceanic corridor, all the way to the ports of Veracruz and Tuxpan in the Gulf of Mexico. We are modernising the railways and highways in this corridor, so that each of these four ports will be efficiently linked to one another, and to Mexico's main production and consumption centres. In Manzanillo we are constructing a new railway tunnel that will allow an uninterrupted flow of trains, in Tuxpan we just finished a highway that links to Mexico City in only 2 ½ hours, in Lázaro Cárdenas we will develop an industrial and logistics park, and in Veracruz we are building a new railway segment that will connect the expansion project to the national railway system with an investment of more than US\$5.1 billion, with two-thirds of this coming from the private sector. This will ensure Mexico's maritime capacity and efficiency for decades to come.

The contract to design Mexico City's new airport was won last September by a consortium led by the UK's Foster + Partners. What were the main factors involved in the decision, and what is the current state of play and timescales regarding the bidding and construction phases?

Given the challenge that the size and complexity of the project represented, we sought the participation of the best, most experienced Mexican and international architecture firms in its design, for this purpose there were created two Committees formed by experts on aviation, infrastructure, airport infrastructure, transportation, engineering and architecture to evaluate the proposals made by 8 joint Mexican-international ventures. The winner was the consortium formed by Fernando Romero and Foster + Partners because, in regards of the soil, hydrological and environmental conditions of the area available for construction, their project represented the best alternative in terms of sustainability, flexibility for future growth, technological innovation, creativity, functionality, budgeting and work plan, among other

elements. The proposal is simply beautiful, and I would like to take this opportunity to advertise its website: www.aeropuerto.gob.mx, where detailed information can be found.

Currently, Grupo Aeroportuario de la Ciudad de México, builder of the new airport, is designing bidding packages for different units of the project. We are aiming to start the bidding processes during the second half of this year and, of course, would like to include the best Mexican, and foreign international firms to participate.

What measures is the government putting in place to safeguard infrastructure investments and provide transparency and legal certainty to investors?

On this subject, I want to point out that for the first time SCT has electronic proof of all of the process on its mayor requests for bids that allow anyone to know, through the internet web site, all the different procedures, from the initial bid request to the final contract issued.

It is important to mention that on the most significant contracts, there has not been a single legal nonconformity and all the projects have been contracted by public biddings under the principle of a "Social Witness", appointed by the Public Function Secretary. Prestigious international specialised entities have been invited to certify the legality, the law observance and the technical validity of the bidding process.

To emphasise this concept, on January 9th, 2015 the Communications and Transportation Secretariat and the Organisation for Economic Cooperation and Development (OECD) signed an agreement to promote the integrity, transparency and public biddings good practices, for the construction of the new Mexico City International Airport.

Mexico's telecommunications sector used to be the 'poster child' for liberalisation, with dominant provider Telmex charging some of the highest tariffs in the world. How soon do you expect ordinary Mexicans to see the benefits of greater competition?

Providing benefits for the end-user is the top priority for the Telecommunications Reform. As an example, it has already delivered direct and immediate savings to Mexican families, due to the elimination of charges in telecommunication services. Since January 1st this year, costs for domestic long distance calls on wireline and wireless telephones were eliminated. Since then, these calls are billed like local calls.

Together with price reduction, consumers will also experience improvements in telecommunication services. Regarding mobile telephony, for instance, connection in all Mexican territory is guaranteed regardless of the service provider. Additionally, prepaid service users are now able to consult their balance

We are aware that bigger ports are useless if our highway and railway networks cannot absorb a substantial increase in goods mobility

The new competition environment and the more flexible regulation within the sector have prompted the entrance of new players to the Mexican mobile market

without cost and it will remain valid for a whole full year. Users are now entitled to bonuses and discounts in case of service malfunction and can change to the provider of their choice, keeping their equipment and number, in only 24 hours. Before the Reform measures came into effect, this shift traditionally took days and even weeks to conclude.

On the broadcasting sector, the Reform has set ground rules for the “must carry and must offer” procedure that allows broadcasters to retransmit pay TV signals with no cost for viewers, while pay TV providers are allowed to transmit broadcasted signals on their systems with no charge for the consumer, thus allowing access to the same contents for all TV viewers.

The above mentioned benefits did not come about by chance; they were the result of better competition conditions originated by the Reform. This fact is acknowledged by the Organisation for Economic Cooperation and Development (OECD). In its 2015 OECD Economic Survey of Mexico it praises Mexican regulation for being in accordance with competition, and it even places the Mexican regulation index above the OECD average.

According to the sign of the times and aligned with its strategic intent of boosting telecommunications as development and digital inclusion tools, the Federal administration is responsible of bringing this to fruition by fostering infrastructure development, creating conditions for accessibility and connectivity, and promoting the use of the Information and Communications Technologies (ITC). It is also in charge of providing suitable conditions for the development of digital skills among the population. With this, it is intended that at least 70 per cent of households and 85 per cent of micro, small and medium sized companies can benefit from high speed internet access at world class standards and affordable pricing.

These connectivity goals will be reached by embracing an ambitious infrastructure plan that guarantees greater coverage for more Mexican people. To meet the challenge, actions are being taken to expand and strengthen the Backbone broadband fibre optic network owned by the Federal Electricity Commission (CFE, by its initials in Spanish), and deploy a Shared Wholesaler Network that will provide services for both, Mobile Virtual Network Operators (MVNO’s) and concessionaires.

How would you characterise the response from foreign telecoms/internet providers to the reform so far? How soon do you expect to see Telmex divesting those assets required by the reform bill?

As one of the first major steps to enhance effective competition in the industry, the new regulation allows foreign direct investment up to a 100 per cent ceiling in

telecommunications and satellite sectors, while in the broadcasting area is capped at 49 per cent. As envisioned, foreign investment allows access to state of the art technologies and new business models for services.

Openness to foreign investment in the Mexican telecommunications market was immediately embraced by global companies. In January 2014, Eutelsat, leading global provider of satellite communications, purchased Satmex, Mexican satellite services provider. The operation involved an investment of more than 800 million dollars. That same year, on November, AT&T completed the purchase of Iusacell, a Mexican carrier with more than 4 million subscribers. In January 2015, they mentioned plans to purchase NII Holdings, Nextel Mexico. This last operation is pending of approval. Both operations involved nearly US\$4 billion.

On the other hand, the new competition environment and the more flexible regulation within the sector have also prompted the entrance of new players to the Mexican mobile market. Mobile Virtual Network Operators (MVNO’s) with global presence, like Virgin Mobile and Tuenti, from Telefónica, have started operations in the Mexican market by offering low cost service packages to pre-paid mobile users.

Enhanced competition is not limited to the telecommunications sector. In the broadcasting industry, the IFT launched the bidding bases for two new digital Television networks with national coverage and the announcement of the winner of the bidding process is expected to take place in March, according to the regulation ordered by the Federal Law of Telecommunications, the legal offspring of the Constitutional Reform. This will also benefit the users with new TV channels, with new contents, thus enhancing competition.

The Reform improves open and effective competition to reduce concentration levels, regulate upon basic structure and end unfair commercial practices. As a result, it ordered the IFT to issue specific regulation for preponderant economic agents in the telecommunications and broadcasting sectors thus ensuring fair competition conditions for all operators. On the telecommunications field, America Móvil, the flagship company for Telmex, was named preponderant economic agent.

As of now, Telmex and Telcel, the mobile branches of America Movil, have observed regulations ordered by the Federal Telecommunications Law. In January 2015, both companies published their public offerings for interconnection and infrastructure sharing. This will encourage new concessionaires to openly compete with these two major operators by providing high quality and moderately priced services; complying with this rule Mexican users will be provided with a variety of new options of more and better services. F