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Monopolies hold back Mexico's economy with high prices, poor service

By Tim Johnson
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Enter a store in Mexico, and you're likely to find only two brands of fresh milk, Lala and Alpura. The two companies control the market. The same goes for beer. Two conglomerates have a lock.

In fresh bread, most brands belong to Bimbo, a massive company.

Pick up the cellphone on the way home, and you'll probably be enriching the world's wealthiest man, Carlos Slim Helu, who controls Telcel, Mexico's biggest cellular network. Another company Slim owns, Telmex, operates nearly all of Mexico's fixed-line telephones.

Mexico is a country of concentrated economic power, and in some cases outright monopolies. It's an arrangement that limits Mexico's hopes of a thriving economy, chokes its consumers, discourages competition and prevents better products and services from emerging in the marketplace. It's been this way for decades, and analysts caution against expecting change anytime soon.

Don't expect a serious debate about it on the television news, either. Two networks control 97 percent of the country's television viewership and even more of the advertising revenue it generates.

The impact – on Mexico and, by limiting that country's growth, on the United States – is huge. Mexico's chief anti-trust official, Eduardo Perez Motta, says poor Mexicans pay as much as 40 percent more than they should for basic goods and services because of monopolistic practices. It also hobbles the economy. Greater competition, economists say, would lower prices, create stronger companies and accelerate growth, lifting the nation more quickly.

Yet it's a topic that rarely has come up in the political campaign that culminates July 1 with the election of a new president, who'll serve a six-year term starting Dec. 1. Neither the likely winner, Enrique Pena Nieto of the Institutional Revolutionary Party, nor the candidate of the ruling National Action Party, Josefina Vazquez Mota, has raised the issue in campaign appearances. Andres Manuel Lopez Obrador, of the leftist Democratic Revolutionary Party, has campaigned against monopolies, but he's largely confined his criticism to Telmex, and, oddly, the U.S. retailer Walmart.

Experts blame Mexico's business environment squarely on the country's political system, where politicians do the bidding of tycoons, government doesn't regulate the businesses it can, and favoritism and negotiation when it comes to applying the law is the norm.

"The problem of monopolies in Mexico, epitomized by Carlos Slim, is not a problem of businessmen. It's a problem of government," said Eduardo Garcia, a veteran Slim watcher and the director of the financial website Sentido Comun, or Common Sense. "If you and I were running these companies and saw the weaknesses of the state, we'd do it, too."

Nor is it a problem just of private companies. The state also has monopolies. All gas stations in Mexico carry the green, white and red logo of Pemex, the state oil company. All electricity comes from a state utility, which gives subsidized rates to the poor but charges among the highest rates in the Western Hemisphere for the rest. Even then, the inefficient utility requires a steady stream of government cash to keep operating.

"There's no reason for it to be a public monopoly," said Ernesto M. Flores-Roux, a University of Chicago-trained statistician who works at Mexico's Center for Research and Teaching in Economics, a research center. "It's not like oil, where there's this nationalist argument."

Other areas dominated by one or two companies include cement, soft drinks, cold meats, confectionaries, cornmeal (tortillas), domestic appliances and glass. Two companies control much of the distribution of medicine and health and beauty products.

Such concentration accelerated in the late 1980s, when then-President Carlos Salinas de Gortari began selling hundreds of state-owned companies, in some cases transferring monopolies to private hands. That's how Slim came to be the owner in 1990 of Telefonos de Mexico, SA, or Telmex, which until that time had been the state-owned telephone monopoly.

Slim, the portly son of a Lebanese immigrant whose surname was Salim, was given six years to operate domestic and international long-distance service without competition, enough to fence the market. Telmex now pockets 87 percent of all revenues from fixed-line phone use. Slim, who's passed U.S. billionaires Bill Gates and Warren Buffett to top the Bloomberg Billionaires Index with a fortune of $65.7 billion, is dozens of times more wealthy than any other Mexican mogul.

"There are people who admire him. They say, 'Why criticize Carlos Slim? We should be proud,' " said Purificacion Carpinteyro, a former undersecretary of communications in the government of President Felipe Calderon.

Even as monopolists tamp Mexican growth, the 72-year-old Slim is a case study on how the impact of Mexico's dysfunctional system spills into the United States. In 2009, Slim reached into his deep pockets and bailed out an iconic institution, The New York Times, with a loan of $250 million, which it since has paid back. He also began amassing its stock. Slim and his family are the largest shareholders, after members of the company's founding family, in what's arguably the most influential news organization in the United States.

Has Slim's stake influenced the newspaper's coverage of his fortune or Mexico? A Times spokeswoman, Abbe Serphos, says emphatically no: "The New York Times maintains the highest standards of journalistic ethics."

Slim spends most of his time in Mexico City, reportedly padding around the office of his umbrella Grupo Carso in socks. But he also flies off to attend games of his beloved New York Yankees and to pass out advice, as he did in a brief speech May 20 while picking up an honorary degree from George Washington University in Washington.

"Live without fears and without guilt," he told the graduates.

Slim's fortune is equivalent to about 7 percent of Mexico's economic output, and he rules over a workforce of 209,000. His companies penetrate Mexican life from insurance and home sales to the ubiquitous Sanborns restaurants, Sears Roebuck de Mexico and El Globo pastry shops, to mention just a few.

It's his vast reach into cellular and fixed-line phones that underscores his grip on the economy. Of Mexico's 94.5 million cellular subscribers, 70 percent are clients of Slim's Telcel. The vast majority use prepaid plans that cost them as much as 28 cents per minute if they dial clients of a competing system.

Telcel rates are high, keeping many Mexicans from subscribing. Mexico has 84 cellphones per 100 people, among the lowest penetrations in the Western Hemisphere. The average for Latin American countries is 109 phones per 100 residents.

"These high prices are what is behind the fortune of Carlos Slim and what has made him the world's richest man," said Alejandro Calvillo, the head of an activist group, Power to the Consumer.

Slim's aides have fought any debate about how Telcel imposes excessive charges on competitors to use its network or about its high consumer rates.

"Any discussion of high prices leads inevitably to the discussion of its extremely high profits," said Victor Pavon Villamayor, the Oxford-trained director of new regulation at the Federal Telecommunications Commission. A report released in late January said overcharges to phone and Internet clients by Slims' companies cost Mexico $129 billion from 2005 to 2009, losses equal to nearly 2 percent of the nation's annual economic activity.

That study – commissioned by the Mexican government and conducted by the Paris-based Organization for Economic Cooperation and Development, a forum of 34 nations – was rife with "manipulation of facts and flawed economic analysis," charged Daniel Hajj, the chief executive of America Movil, a Slim-controlled cellular company that's Latin America's largest and is the parent of Telcel.

Still, under the threat of an unprecedented $1 billion fine last year, Telcel has scaled back its fees. Last month, regulators revoked the fine, saying Telcel had agreed to reduce charges to competitors for calls that ended on the Telcel network.

Slim's image is benign, however, compared with that of the man known as "El Tigrillo," or "Little Tiger," Emilio Azcarraga Jean, the 44-year-old chief of Televisa, the most successful television network in the Spanish-speaking world. In recent weeks, thousands of university students have poured into the streets in anger at what they assert is Televisa manipulation to help its favored candidate for the presidential election.

That charge has historical roots. Televisa was long associated with the Institutional Revolutionary Party, known as the PRI in its Spanish initials, which ruled Mexico for 71 years until 2000, and now appears poised to retake the presidency July 1. Azcarraga's father once famously said: "I am a foot soldier of the PRI."

Televisa's reputation for bare-knuckles defense of its vast business empire – which includes publishing, cable TV, film production, soccer teams and slot machine parlors, including a large interest in the U.S. Spanish-language network Univision – burdens Azcarraga.

"He has a huge image problem," said Garcia, the financial journalist. "Azcarraga comes off as the 'evil businessman.' "

It’s not just Televisa, which captures 68 percent of television-viewing eyeballs. It’s also the separate TV Azteca, which holds a 29 percent share, leaving only 3 percent for a smattering of remaining channels.

“Politicians are truly afraid of the television networks,” said Carpinteyro, the former federal communications official. “They don’t want to have the television networks as enemies because if they do, they would disappear from the TV screens.”

Like Soviet propaganda masters of yore, Televisa has taken reprisals against politicians opposed to its interests. The most notorious case occurred in July 2008, when a Televisa newscast twice pixelated the image of then-Senate President Santiago Creel during a debate. It later claimed a production mishap.

Creel, who’d criticized a regulatory law favoring Televisa, demanded that the network be punished. Instead, in a demonstration of Televisa’s clout, Creel’s National Action Party colleagues ousted him from a leadership post, forcing his removal as Senate president.

Televisa’s power among legislators is so great that political scientists refer to its “capture” of the legislature through nearly 20 lawmakers who do its bidding.

“They capture not only the legislative process but the whole political process at election time,” said Alejandro Castaneda, a Stanford-trained economist at the Colegio de Mexico, a Mexico City research institute.

Critics are angry at what they say is Televisa’s open support of Enrique Pena Nieto, the 45-year-old former governor who’s seeking to return the PRI to Los Pinos, the presidential palace.

“He’s made trips abroad and they’ve given him coverage like he’s already head of state,” said Calvillo, the consumer activist.

Regulators recently opened the door to creating a third national television network, perhaps within three years. As much as $1 billion may be needed to launch a new competitor, and some experts say it will have to claw hard to survive. Azcarraga says he doesn’t oppose a new network but he wants regulators to approve his investment in a small mobile competitor, Iusacell, to compete with Slim.

“It’s big elephants fighting one another,” Garcia said.

Closely watching are anti-trust officials, who won expanded powers last year that include the right to impose criminal penalties for price-fixing and to issue fines for absolute monopolistic practices equal to 10 percent of a company’s annual sales, up from a previous cap of $7.2 million.

Even so, those officials face periodic attempts at intimidation, including getting tailed by beefy unidentified men or finding packages on their desks.

“A couple of times, we got tapes of our phone conversations,” said Flores-Roux, a former chief of staff to the minister of communications and transport. “Where did they come from? I don’t know. So you get scared.”

Wary of the power of the monopolies, politicians rarely get behind trust-busting campaigns, though they do occur occasionally.

“We have the king of copper. We have the king of bread. We have the king of cement. We have the king of telecommunications. Call them kings or feudal lords. That’s what we have,” said Carpinteyro, the former undersecretary who’s now running for a congressional seat on a leftist coalition ticket. “There is no other action to take than to break up these companies.”

Flores-Roux voiced reservations, saying it’s easier said than done.

“It sounds like a no-brainer. But it’s very hard to do when these vested interests fight competition,” he said.