

1995

Central America: Privatization of Telecommunications in Central America

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Recommended Citation

Fernando Berguido & Carlos Vasquez, *Central America: Privatization of Telecommunications in Central America*, 1 LAW & BUS. REV. AM. 165 (1995)
<https://scholar.smu.edu/lbra/vol1/iss3/12>

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Beyond NAFTA— Central America

Privatization of Telecommunications in Central America

The privatization of national telephone companies in Central America has advanced great strides. Multinationals spanning the width of the globe, such as AT&T, Telefónica Internacional de España, France Telecom, Chile's Intel, Britain's Cable-Wireless, Korea Telecom have shown a more than casual interest in this process.

With the sole exception of Costa Rica's Radiográfica Costarricense S.A. (RCSA), all Central American governments have drafted law bills, some of which have already been presented to their respective legislative houses.

For example, in Panama, the legislative assembly recently enacted a law that establishes and authorizes the creation of a corporation named INTEL, S.A. Initially, the State will be the owner of 100% of the shares of this company and, so long as this remains the case, the company will be subject to supervision by the Office of the Comptroller General of the Republic.

However, the Ministry of Finance and Treasury has been authorized to sell up to 49% of INTEL, S.A.'s shares through a public bidding. Several mechanisms are in place to ensure a smooth sale. For example, the shares must be sold to a company or consortium of renowned worldwide experience in the telecommunications industry; the value of the sale must be the market value of the shares as calculated by a firm or company of known prestige or experience; and the bidding must comply with certain formalities, such as the drafting of a list of charges and specifications, pre-qualification, negotiation of public bidding documents and the bond for tenders and the signing of concession and purchase of shares contracts by bidders.

The new company will assume all of INTEL's employees together with all the corresponding labor obligations. Additionally, 2% of INTEL, S.A.'s corporate capital will be placed in trust for the benefit of the employees; the corpus of the trust's dividends will be distributed among its beneficiaries.

In addition, the law is very progressive in the social arena. The income arising from the sale of the 49% of INTEL, S.A.'s shares must be allocated to social investments.

The developments in the other Central American nations have not flowed at the same pace. Nevertheless, all the governments seem to agree that the approval of the privatization process must be encouraged and pursued in the legislative assemblies. Many of the law bills that have been presented, have been blocked by labor unions or reached an impasse with the alleged reason being the inherent controversial and difficult nature of the topic.

In Nicaragua, for instance, the law bill that will allow the sale of 40% of the Instituto Nicaraguense de Telecomunicaciones y Correos (TELCOR) has been frozen in the legislative institution since August 1994 without the legislators being able to agree on anything other than the strong emotions it generates. The approval of this bill is of utmost importance for Nicaragua because the granting of a considerable amount of credits by the International Monetary Fund and the World Bank is conditional on the successful privatization of TELCOR.

In addition to the telephone company privatization, Panama has enacted a law with the purpose of improving efficiency in the rendering of electric power services in the country and attracting private investment in the development of the electricity sector. The law allows the generation and purchase of electricity from private producers through administrative concessions. However, the participation of private enterprise in the generation of electric power may not exceed forty-five percent (45%) of the total capacity of the national electrical system. Likewise, electric generation for self consumption or for sale to IRHE or third parties is allowed, priority being given to projects that do not pollute the environment.

In spite of the local hurdles the privatization process is experiencing, it is expected that the success of the initial offerings will pave the way for the others. For the time being, however, the governments must concentrate on the concerns expressed by the opposing labor unions and the political pressure wielded by opposition legislative members questioning the procedures to be followed and demanding a clearer definition of the participation and responsibility the government will have in the administration of the private companies.

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