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Teleports in Latin America: The Contribution to Local and Regional Growth

By Robert Bell, Executive Director, World Teleport Association

Latin American telecommunications have been hurt by the economy's downturn. The satellite communications sector, however, has been steadily growing due to demand for Internet and TV channels. Satellites require at least two ground stations, teleports, transmitting and receiving. As businesses, teleports benefit from the "network effect," whose value increases with the number of users connected. As a consequence of the sector's financial stability, and the growth potential of newly liberalized Latin American markets, teleports and satellites continue to attract investment.



Robert Bell is Executive Director of the World Teleport Association, where he is responsible for the programs, finances and operations of the Association. During his tenure, Mr. Bell had led economic development missions to cities in Asia and the US; authored articles in Asia-Pacific Satellite, The Municipal Journal of Telecommunications Policy, Telecommunications and Asian Communications; and appeared in segments of ABC World News and The Discovery Channel. He is also the author of a pioneering study for WTA's Intelligent Community Forum titled Benchmarking the Intelligent Community. In addition to managing WTA, Mr. Bell is a senior partner with Alan/Anthony, Inc., a business development consulting firm, where he conducts research, creates programs and provides business development consulting to clients including AT&T, Allied-Signal, JSAT, NEC America and Globecom Systems.

It has been a brutal 12 months in the economic life of Latin America. A recent poll of 17 Latin American countries by Latino-barometro, reported in the August 17 issue of *The Economist*, shows the number of citizens describing their present economic situation as "very bad and bad" rising in most countries from 1996 to 2002.

"The number of citizens describing their present economic situation as 'very bad and bad' is rising."

The sharpest increases were in Argentina (from 63% in 1996 to over 90% in 2002), Paraguay (from 44% to over 80%) and Peru (from 38% to 60%).

From one end of the Americas to the other, telecommunications and information technology have been the sectors hardest hit by the downturn. It began with the collapse of the dot-com bubble, which exposed the pyramid scheme of companies, large and small, that traded on their booming stock valuations rather than generating revenues from customers. A series of major bankruptcies and relentless job-cutting have

left industry veterans reeling. An outplacement firm, Challenger, reported in March that the US telecom industry had already announced nearly 60,700 planned job cuts, a sizable 71% of the 85,100 cuts announced in the US technology sector. Meanwhile, the Standard & Poors telecom equipment industry sub-index fell 45% during the year through July 5, on top of a 61% price collapse in 2001.

Safe Harbor?

Within this grim context, the satellite communications sector has been the closest thing to a safe harbor. To be sure, satcom had its own Armageddon in the form of the bankruptcies of Iridium, Globalstar and ICO Global during 1999-2000. These bankruptcies caused satcom to lose favor on Wall Street. But paradoxically, they also made clear the underlying strength of the industry. As Stephen Tom, president of Teleport Consulting Group International (www.teleportconsulting.com), points out, "The satcom market is not about making a telephone call from anywhere. It is a largely a business-to-business industry. It

provides broadband connectivity for broadcast-quality video and audio, for enterprise networks, and for Internet and telephone trunking."

"Satellites are traditionally not launched until at least 60% of their capacity has been presold."

In these sectors, satcom is a stable, medium-growth marketplace, with the explosive demand for Internet and new TV channels stimulating surges of higher growth. More importantly, it is a conservatively-financed sector. Satellites are traditionally not launched until at least 60% of their capacity has been pre-sold. This helps explain how PanAmSat, the world's largest international satellite carrier, managed what CEO Joe Wright called "one of the shortest turnarounds in corporate history" in 2002. Having seen revenues decline 15% and earnings 75% in 2001 from 2000 levels, Panamsat achieved 1% revenue growth in the first half of 2002, and saw earnings before an extraordinary loss for debt reduction rise 450% from June 2001.

Teleports and the Network Effect

Satellite communications, of course, does not just take place in space. For every satellite circuit, there are at least two ground stations transmitting and receiving. Commercial ground stations are known as teleports, and they are an idea as old as the seaport or railroad station. Teleports are junction points connecting multiple streams of traffic traveling over satellite, fiber, copper and microwave.

“The more communication pathways converge at a teleport, the greater its value as a low-cost, high-function meeting point.”

As businesses, teleports benefit from the “network effect,” which describes how the value of a network increases with the number of users connected to it. The more communication pathways converge at a teleport, the greater its value as a low-cost, high-function meeting point.

A study by World Teleport Association, *Teleport Benchmarks 2001*, demonstrates this network effect in action. Large teleport operators — with more locations and more network connections — had average annual revenues of US\$357 million in 2000, versus US\$19m for smaller operators with one or two teleports. They were also more productive, generating almost \$36m for each teleport they owned, nearly four times greater than smaller operators, with just under \$10m in revenue per teleport. (The study report is available at the WTA Web site at www.worldteleport.org/NeedaTorC/TeleBenchmarks.html.)

“Teleports serve not only as businesses in their own right but also as the nerve center of intelligent real estate developments.”

Since the rise of teleports as commercial businesses in the 1980s, they have developed two roles, each with its own impact on local and regional economies. In some cases, teleports are pure-play satcom businesses operating in niches of the broader telecom sector. In other cases,

teleports serve not only as businesses in their own right but also as the nerve center of intelligent real estate developments.

Buenos Aires International Teleport

One of the most successful pure-play teleport operators in Latin America is Norberto Alvarez Vitale, CEO of Buenos Aires International Teleport, known by its Spanish acronym, TIBA (www.tiba.com). According to Alvarez, TIBA originated as a company installing video compression equipment in the late 1980s. As this market became saturated, TIBA switched its sights to the sale of satellite transponder capacity to the same broadcast segment. One milestone in TIBA’s growth was an innovative deal it succeeded in selling to a number of Latin American broadcasters. TIBA offered to digitize and compress the then-analog and uncompressed circuits of the broadcasters at its own expense if the broadcasters would allow TIBA to use the extra capacity resulting from compression. The broadcasters agreed to this nearly risk-free deal. Successful digitization opened up substantial amounts of profitable new capacity for resale by TIBA.

The management of satellite transponder inventory has become a core competency of TIBA. The risks of this strategy can be high, because full-time transponder leases cost between US\$1.5 and \$2 million per year in Latin America, according to Vista Advisers of Paris, France. At those prices, unsold capacity can quickly destroy profits. Yet TIBA has achieved strong growth in both revenues and earnings, according to Alvarez, and has expanded its operations, with equity funding provided by GE Capital of the US. Today, TIBA has teleport facilities not only in Buenos Aires but also in Uruguay and Brazil, and serves clients in Paraguay, Chile, Ecuador, Colombia, Peru and Venezuela. Beginning in 1999, the company has added Internet and data services — no surprise, given that Latin America led the world that year in the growth of Internet hosts, according to the UN. TIBA has also successfully partnered with US-based teleports to connect with voice and voice-over-IP providers at 60 Hudson Street in New

York City, an internationally-known broadband point of presence (POP).

World Trade Center São Paulo

The coastal city of São Paulo is the economic and financial capital of Brazil. It is also home to World Trade Center São Paulo (www.wtc.org.br), a 169,000 sq. meter office building complex that includes a 25-story office tower, 300-room hotel, 5,000 sq. meter convention center and 120-store shopping mall. Located close to the domestic airport and Brazil’s major highways, WTC São Paulo houses more than 49 companies active in international trade.



World Trade Center São Paulo

Though its primary business is real estate, not telecommunications, WTC São Paulo is for all intents and purposes a teleport. Under its CEO, Jacqueline Ulmo, the complex has developed a robust broadband telecom infrastructure operated by ALTA (America Latina Telecomunicações Avancadas SA), a company offering high-quality information technology and network solutions to corporations throughout Brazil. ALTA Telecom offers telecom carriers diverse managed access to a pre-built copper and Cat 5 in-building network, and provides tenants with brokerage of broadband and satellite access as required. A partial list of carriers terminating at the WTC POP includes Embratel/Worldcom, Telefonica, Vesper, Intelig, AT&T LA, MetroRed,

ALTA Telecom, Pegasus, Impsat, Diveo, Telesp Cellular, BCP, Global One and Conexion.

This infrastructure led World Teleport Association to certify WTC São Paulo in October 2001 as a WTA World Teleport Property meeting its published standards for size, services and scope of operations.

In the case of WTC São Paulo, telecommunications creates added value for the property, which helps retain tenants as well as attracting new ones. The revenue stream earned through its partnership with ALTA is secondary to the goal of ensuring that WTC São Paulo is the premier business address in the city.

Caracas Teleport

Located in the heart of Venezuela's capital, Caracas Teleport (www.caracasteleport.com) is a "theme building," in the words of Alejandro Sucre, who developed the building with his brother Alvaro. The brothers, who also manage a construction company founded by their father, believe that Venezuela has great potential for Digital Age economic growth but is hindered by a lack of familiarity and understanding of digital opportunities among the leaders of business. Through Caracas Teleport, they hope not only to have a successful development but also to stimulate the use of IT and telecom products and services by professionals, entrepreneurs, business and government in Venezuela.

Caracas Teleport consists of a 4,650 sq. meter tower leased to tenants including Bell Canada, Infonet, Orbcomm, Comsat, Bellsouth Telcel and the Chamber of E-

Commerce, plus a 2,800 sq. meter exhibition area. The complex is pre-cabled for broadband services at 2Mbps, has its own international point-of-presence through Bell Canada, direct satellite connectivity, and is the hub of a wireless broadband network being deployed by Bell in downtown Caracas. The exposition center is key to the Sucre's strategic plan. It hosts conventions



Caracas Teleport

on IT, telecom and e-commerce, including events organized by the Sucre's themselves, and maintains permanent kiosks on the latest technology. The Teleport has also become a popular videoconferencing site thanks to its state-of-the-art facilities and superb connectivity.

The Broader Picture

In the 1990s, Latin American countries began an aggressive liberalization of their telecom markets. Progress has varied widely, but by 2000, nearly half had introduced partial or full competition in satellite services, according to the UN's International Telecommunications Union.

This deregulatory change has led to expansion in the number of satellite carriers and teleports across the region, according to Jose Cristovam Nascimento, Director of Unisat Telecom Consulting Services in Rio de Janeiro. Five years ago in the Brazilian market, Embratel was the monopoly both on the ground and in space. "Today, the main providers of teleport facilities include Vicom, Comsat, Impsat, Embratel and Intelig. Comsat and Impsat also operate teleports in Argentina and Colombia. During the last 12 months, new companies have entered the market with new platforms. Telespazio do Brazil has built a new teleport for data and video. Loral Skynet has powerful new Ku-band satellites serving Brazil, including Telestar 12, and PanAmSat, NewSkies and Intelsat are offering more options."

Latin Americans will continue to face economic challenges and political uncertainty in the coming months. As for the beleaguered telecom industry, analysts have yet to spot the long-awaited bottom of the market and start of a turnaround. But in the teleport and satellite sectors, the combination of financial stability and the growth potential of newly liberalized markets is continuing to attract investment. ■