On September 19, 1989, Carlos Salinas de Gortari, Mexico's President, ordered the state-run company Teléfonos de México privatized. The government will become a minority partner, foreign investors will be able to hold up to 49% of the company, while Mexican private investors, with a marginal participation of the Telephone Workers Union, will be majority owners of the company. This move is expected to attract new capital that is needed to improve services and delivery, to expand the present network and to invest in R&D.

The State will retain authority over the telecommunications sector, through the legal network standards and regulations. TELMEX will control local and long distance telephone service based on a new concession. Concessions in new technologies, such as fiber optics and cellular telephones, will be granted to private investors. Other services will be open to competition, such as the construction and operation of complementary public telephone networks, radiotelephone service, installation and operation of telephone booths, high quality private networks, private satellite services and the manufacture and distribution of equipment, among others.

Privatization and concession of TELMEX are subject to the following conditions:

1. That the state retains authority over telecommunications through the definition of the regulatory framework for TELMEX and the supervision of the company's operations. The regulatory framework will be based on the existing General Communications Law. The new concession, valid for 30 years, will be reviewed every five years. SCT also will review and approve the tariffs for TELMEX's services to promote efficiency and international competitiveness. This integral telecommunications system will be open to competition in those areas not exclusively concessioned to TELMEX based on two criteria: efficient service and financial balance of TELMEX.

2. That TELMEX improves telephone service significantly through the expansion and modernization of the telephone network in order to provide both households and commercial establishments greater access to high quality telephone service. By 1994, TELMEX will be required to: provide long distance telephone service to all towns with more than 500,000 inhabitants (10,000 locations have no phone at present); to increase to 100,000 the number of public telephones to reach 2 for every 100 inhabitants (vs 40,000 at present); to reduce the number of lines out of order; to speed up repair service and to answer all operator-assisted calls within 10 seconds (now only 70% of calls are answered within that time).

3. That the firm continues to respect the worker's rights and improve their conditions as spelled out in the terms and conditions of the agreement for the modernization of TELMEX signed by the government, the workers union and TELMEX. This agreement specifically takes into account productivity and technological change. Workers also will participate on an equity basis in the company.

4. That it continues to expand and modernize the telephone system according to an annually published five year plan spelling out the minimum coverage and modernization goals. Starting in 1990, the public telephone network will increase from five to ten terminal lines per 100 inhabitants by 1994 and to 20 by 2000; during the first five years TELMEX will install four million new terminal lines, representing a 12% annual increase; starting in 1992, TELMEX will provide telephone service to small rural locations within six months of their request for service and will provide connection to all private and public telecommunications systems in any city with automatic service; the local urban telephone network will be expanded and modernized through the substitution of obsolete switching systems with digital systems (digital technology is expected to represent at least 60% of the telephone network and 100% of the new overlay network in 22 cities by 1994).