

The modern age telecommunications began in Brazil only in 1972 with the formation of the Telebras system, benefiting from a concession granted by the Federal Government of a virtual monopoly for the public telecommunications services in Brazil. The terms of the Telebras concession are described in Law No. 5792 of July 11, 1972 and Decree No. 74.379 of August 8, 1974. These define that Telebras must provide telecommunications services to all areas of Brazil, under a rate structure determined and supervised by the Executive Branch, through the Ministry of Communications and in conjunction with policies determined by the Ministry of Economy.

The Telebras holding company has incorporated and gradually replaced the more than 600 then privately owned operating companies, existing at that time, by 28 state owned subsidiaries, one for each of the existing federal states and territories, and one long distance operator, Embratel.

In the almost 20 years of existence, Telebras accomplishments are quite impressive. Promoting extraordinary growth of telecommunications, Telebras has accounted for several relevant achievements: Installed telephone lines increased from 1.4 million in 1972 to 9.3 million in 1991; The number of localities served by telephone service has increased from 2,200 to more than 13,990 in the same period. Telex services increased from 3,200 lines to 142,990, also in the same period. The monopoly served the Government's objectives to standardize operational procedures and technical standards, reduce costs of services and equipment and increase the industrial park, up to the present annual capacity of more than 2 million lines of switching systems, cables and peripherals. The telecommunications sector has followed the overall performance of the Brazilian economy, entering, in the second half of 80's, into a crisis period, which in turn lead to poor quality of service, backlog for installation of telephone lines, and the consequent low performance its of the industrial segment.

A.2 - PUBLIC TELEPHONE SYSTEMS

The legal and regulatory environment supporting this period of accelerated development with relatively conflicting performance, has several aspects discussed hereafter. Industrial development and procurement policies have jointly privileged the local Brazilian industry and equipment suppliers.

The Ministry of Communications issued two major Resolutions ("Portarias"), which had the global procurement as primary objective. In fact, these acted more as indirectly enforced industrial and technological policies, instigating local industry to invest in R&D and increasing local content for all telecommunications products: