

2. MARKET ASSESSMENT AND FORECAST

2.1 PUBLIC TELEPHONE MARKET:

In order to understand the dynamics and size of the public telephone systems market, it is necessary to describe and analyze the monopolistic Telebras system of operating companies, which is dominant in the voice and data services and equipment markets. (All the information and data in this chapter was sourced at Telebras, and is, therefore, of public domain).

2.1.1 Telebras System Structure and Legal Aspects

Telebras, through its 28 operating companies, is the primary supplier of telecommunications services in Brazil and owns 94% of all public exchanges and 91% of the nationwide network of local telephone lines. Through its subsidiary Embratel-Telebras owns and operates 100% of the interstate and international long-distance telephone transmission facilities in Brazil. Telebras also provides other telecommunication related services such as telex and telegraph transmission, mobile cellular service, videotext and computer data transmission. (Telebras, with assets of US\$ 11.6 billion as of December 31, 1991, is the third largest company in Brazil).

As of April 30, 1992, the Brazilian telephone system was comprised of 16,2 million telephone sets in service and 10,8 million installed lines (10,3 million in service). Of the installed lines, 99,9% were connected to automatic exchanges, including 16% connected to digital SPC exchanges. Telebras and its subsidiaries had 266,000 pending applications for new telephone installations, (representing 2.6% of total lines in service).

Telebras and its subsidiaries, are subject to extensive regulation by the Ministry of Transport and Communications (through the National Communications Secretariat) in conjunction with the Ministry of Economy. Telebras was incorporated as a mixed-capital company with limited liability on November 9, 1972, pursuant to Law No. 5792 of July 11, 1972 for the principal purposes of:

1. Acting as a holding company for companies acquired or formed by Telebras to supply telecommunications services in Brazil;
2. Implementing policies of the Executive Branch of the Federal Government of Brazil (Executive Branch) in the modernization and expansion of the Brazilian telecommunications system.