

Interview realized to Carlos Slim Helú, performed by Rogelio Cárdenas Estandía, published by El Financiero Dialy. October 19, 2009.

It is possible to overcome the crisis, but not only by means of reform: Slim

- Carlos Slim recommends fighting poverty with employment instead of public spending

By Rogelio Cárdenas Estandía

Mexico City, October 19th. Carlos Slim Helú is convinced that the best way to face the crisis and bring back the country to sustainable growth is to promote investment and economic activities, instead of undermining them.

In an exclusive interview with EL FINANCIERO, Slim affirms that for the past 27 years there has been no sustainable or continued growth in Mexico due to the lack of long-term policies. On the contrary, there has been a recurring use of stabilization programs, in the absence of a long-term perspective.

Slim states that for the past 15 years structural reform policies have been reduced to rhetoric, and underlines the possibility to trigger change in Mexico without necessarily limiting policy to legal reform.

He denies emphatically that poverty is to be fought through public assistance or social expenditure. In his view, the key to resolve the problem is to promote employment.

He suggests that taxes be imposed on undesirable items, but warns at the risk of over taxing the purchasing power of the population, or fooling society into paying one peso in taxes and getting back two pesos elsewhere.

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- We need to stimulate investment not undermine it

Considered the richest man in Latin America, the Mexican entrepreneur affirms that for the past 27 years there has no been no sustainable or continued growth in

Mexico due to the absence of long-term policies. On the contrary, there has been a recurring use of stabilization programs, whilst what is really needed is a long-term perspective.

He adds that for the past 15 years structural reform policies have been reduced to rhetoric, and underlines the possibility to trigger change in Mexico without necessarily limiting policy to legal reform. "I do not believe in structural reform policies. I believe one should act and adapt action in accordance to a long-term perspective, with clear goals. Regulation must be adapted so as to be efficient. Countries do not prosper by means of sole legal reform."

Slim admits that the international crisis is financial in nature while Mexico's crisis is economical.

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During the interview Mr. Slim stated that while the telecom sector is already taxed at 15% there is a new proposal to increase taxes for an additional 6%. "Telecommunications is the nervous system of our civilization and as such it is a sector to be fostered. Who could imagine adding more taxes to telecoms?"

He is critical of the federal government that, in his view, not always delivers what it promises. "The President has called for complete telecom coverage", he quotes while adding "there must be complete coverage".

"These are some of the issues where Mexico often fails thus undermining investment. This is the case of the triple play technologies where legal uncertainty has limited investment and scared investors to other countries where conditions are more appropriate." Mexico, he acknowledges, is the only country where investors face "lawsuits and red tape".

At the beginning of the nineties, why did you decide to diversify your companies and enter into the telephone industry?

My idea is to reinvest, reinvest and reinvest. When one has cash flows one is always on the lookout for other companies to invest in. Telmex was going to be privatized, but luckily it had to be kept under Mexican control while there were many foreign investors interested. We had conversations with some and two of them caught our attention: Southwestern Bell and France Telecom.

It was very difficult to reach an agreement because the board had to be under Mexican control and the decisions had to be taken in Mexico. It was a very difficult

negotiation but at the end we succeeded. We reached an agreement one month before the call for proposals and then we prepared our common offer.

"I would say that all partners were largely compatible so we decided to go together after Telmex. We had two types of experiences. France Telecom had a good experience in long distance calls and they were successful in rebuilding a company that was left in very bad conditions after the war. They knew how to work in long distance and local service. Southwestern Bell was more apt in marketing and other similar issues; they complemented each other well. We had a great experience in operating companies, not in investing, but they did."

Was buying Telmex a challenge?

There had been no investments to modernize Telmex. There were twice as many employees as needed and we had agreed not to cut jobs but to absorb them through growth. We worked hard. I think the most important part of it was the great cultural change we brought to the company, thanks to job security and modern training. The average level of school education rose from 5 and a half to 14. Training and modernization were impressive.

About that time you entered the mobile phone market with Telcel

When we started, Telcel already existed but it had around 25 thousand clients. We soon realized that this would become an important service since people would be attracted to the possibility of using a telephone anywhere.

Did you ever imagine that mobile phones would become more important than fixed telephones?

Yes. I understood this from the very beginning because there exist more individual clients than households. Mobile phones would become more important provided that technology was capable of delivering more volume at less cost. After the 1995 crisis, we realized how important it was to develop a new product, more popular and massive. We had already developed the pre-paid card for public telephones so we imagined a prepaid card for mobile phones. This is what I have called the "Gillette Plan", where Gillette subsidizes the razor and profits from the sale of blades. We had to subsidize telephones and sell cards.

"We took more time than expected in developing a product to be sold in supermarkets. We began by late 95 and early 96. This is now a worldwide success story. It is a pity that we could not patent it."

"The USA have committed mistakes"

This crisis (2008) is the most important in economic history since the Great Depression of 1929. It is even larger and more complex because in 1929 the economy was smaller. However, in relative terms that crisis was more important. I think this story has yet to conclude. Nevertheless, I also believe that the big adjustments we faced during the first semester this year need not be repeated.

How do you judge the US government's response?

I think the US government has committed several mistakes. Firstly the United States and other industrialized nations underwent a severe financial and banking crisis of great dimensions. What the US government should have done was to correct that financial and banking crisis so as to stop it affecting negatively the real economy, as it was obvious, through a credit crunch. I think it all went wrong from the moment they let Lehman Brothers go into bankruptcy, but even the bailout has not been adequate. In Mexico we have not faced a financial crisis but an economic crisis.

In your opinion, what is happening in Mexico? What should be done?

I believe that for the past 27 years (since the 1982 crisis) there has been no sustainable or continued growth in Mexico, in spite of all the funds, oil production, big investments, financial capital and liberalization of foreign investments.

I think that most of the problem is that policies are drafted in the absence of a much bigger picture in mind, limiting them to stabilizing public finances and keeping inflation low. We have never really designed development policies with a vision of growth.

On the other hand, one has to realize that poverty is fought with employment, not with public assistance or social expenditure. This is important in nutrition, health, education, security, justice, etc., but it does not solve problems. To solve our problems we need economic activity, investments and employment. Employment is the key. Of course, we need education, but the solution will not be attained through public spending.

What is your opinion about the government's initiative to raise taxes?

I think we must tax what is undesirable, but we shouldn't tax away the population's purchasing power. We must not affect them by saying: "I'm taking one peso from you, but you will get two pesos back later on, or somewhere else". We need to let the population choose the best way to manage its own income. We must not restrict jobs or investment opportunities. Both elements are essential in the battle against poverty as opposed to mere social assistance.

"Some issues have to be dealt with differently. For example, we know we need healthy public finances, but at the same time, we have to be conscious about the fact that they aren't healthy. Tax collection has plunged because we are in the midst of an economic crisis. When economic activity slows down so does tax collection. Therefore we have to adopt temporary measures for two years, waiting for the economy to recover. If the VAT has decreased by 20% it is because the consumption of VAT products has also declined by 20%. What is needed is the recovery of consumption, of demand for those goods.

On the other side, investment and economic activity have to be promoted instead of being repressed. For example, let's talk about a particular tax, the one on telecommunications that stands at 15% and is not exempt of VAT as is the case with many other activities. Despite its importance as a priority for development, productivity and competition, 85 million mobile phone users will be affected, as well as 20 million households with fixed telephones, 10 million users that next year will have broadband connections, and 10 million households with restricted television. If someone wishes to use these four services he or she will be taxed 21% on mobile phone services, 21% on fixed phone services, 21% on broadband Internet and an additional 21% on restricted television. I think this is a mistake.

Where should we guide reform in telecommunications?

Well, there must be coverage, competition and convergence. This is what the President has said, but it is still to be done. This is one of the issues where we usually fail, we plan, but we don't deliver. Competition, convergence and coverage are convenient for the consumer, the country and the development of the telecommunications sector. One should avoid all measures that hinder competition, repress investment thus limiting coverage and suppress convergence.

In your opinion, why were you excluded from the triple play?

Well, I think you should ask them. For example, the Secretary has said that the telecommunications sector accounts for 9 to 10% of GDP. Telmex turnover accounts for around 1%, and the company continues to invest a lot.

Indeed, but Telmex has decreased its investments

Telmex's income has been decreasing for many years now; this is not a sustainable situation for any company. Do I explain myself? This is a company that invests important amounts of money year after year and instead of growing its income keeps decreasing.

"Moreover, current legislation is a bit debatable because it concerns video, when in reality, telecommunications is about data later being transformed into images. So in a strict sense, technically we do not deliver videos but images. We are now boosting broadband because I believe this is what society needs to progress. For many years we thought we would have access to triple play services but what has prevailed instead is legal uncertainty. As you may remember, it was during President Fox's mandate, more than three years ago, that the decree on convergence was adopted. This means we are already late by four or five years.

Does this cause uncertainty to investors?

Not only that, this has also caused a delay in the development of telecommunications. Let them deal once and for all with, let them do whatever they

want, but there must be competition. Mexico is one of the few countries in the world where there is no competition.

Are you still interested in operating a TV channel?

This idea is untrue. Do you mean an open television channel? This is not true. We have never wanted to operate an open channel, nor have we ever wanted to run a newspaper either. I am not interested. What we want is to be able to offer our clients what they want when they need it. We do not want to kidnap our clients so as to force them to buy our contents. Not at all! if this was what we wanted, we could have done it years ago.

Why was Telmex International created in 2007?

Firstly, because of the restrictions we faced to our development, limitations we do not face in other places. Secondly because we already have a lot of experience in the telecom business. We pioneered in Latin America with America Mobile. We are now going after the South American market with Telmex International where we compete with other telephone companies. We are doing the same kind of business that cable companies. The difference is that we stay out of lawsuits and problems. The only place where we have these inconveniences is Mexico. Outside of Mexico we do not have any legal problems.

Why do you think there are so many litigations in telecommunications?

Well, to give you just an example, there was a legal battle between Cofetel and SCT. Imagine two regulating authorities fighting each other. All this happens because there is an absence of clear policies in the telecom industry. I think that the country with the best legal framework is Brazil. We've never witnessed litigations in Brazil. Brazilian authorities have moved forward in regulating without problems whereas in Mexico we face legal battles between regulators. We witness disagreements between regulators like Cofetel, Cofeco and SCT, while the Under-Secretary of SCT is suing somebody else. Just imagine.

What sort of structural reforms does Mexico need in order to grow?

They have been implementing structural reforms for 15 years. I think there are many sectors that can be developed without reforms. Mexico needs more investment in infrastructure. For example, to deal properly with water and sanitation we do not need legal changes, but nothing is done. There are many areas where no change is needed.

"Structural reforms were fashionable. Structuralists used to be monetarists and now monetarists are structuralists talking about structural reform. I personally do not believe in structural reform. I believe we must act and adapt ourselves according to a long-term program, a long-term vision with clear direction. We must

continue to adapt our laws and regulations in order to be efficient. Countries do not prosper by means of mere legal changes.

“I’ve always said that we should focus less on the external markets and concentrate more in our domestic economy.” This is the strength of Brazil and China. China has become the world’s factory hasn’t it? But still, its domestic economy is very important.

Nowadays, what role should congress and government play?

It is important to have an environment of legal certainty for investment, competition and major economic activity. Furthermore, we are in obvious need of better education in the medium and long run. We need to direct productive investments towards the domestic economy. These crises are always an opportunity to develop the domestic economy. This has always been the case, but today we are left with no other choice.

Should we focus on the domestic market in order to move forward?

I wouldn’t just call it a market. I prefer to name it domestic economy. To develop the internal market one should strengthen domestic demand. The domestic market benefits from the existence of several projects that favor consumption of domestic products. When you build a house, almost everything you consume is of national origin. If you build a refinery most of what you consume is foreign. I would give more priority to investing in infrastructure with local content thus fostering domestic or national economic effects.

In what other areas could private investment change in our country?

In everything: infrastructure, PPs, TFPES, hospitals, government buildings, highways, public services, etc.

In your opinion, why is there reticence to allow private capitals in services and other sectors?

It is common practice to remove subsidies when privatizing. I think that even in private companies there should still exist crossed subsidies. The small consumer, which stands for the majority of the population, must pay at less than cost while the larger consumers must compensate for the difference.

"For example, the first 30 cubic meters of water should cost the equivalent of one monthly minimum wage salary, more or less. After these first 30 cubic meters, the cost should rise to 20 pesos per meter. Different price scaling and crossed subsidies are important, especially in vital public services. We should aim at providing universal services, readily available to all. However, when the government sells something and takes away all subsidies to make more money, people will not accept to pay more.

Why should one continue to invest in Mexico?

The country's potential is enormous. For 50 years we grew at a pace of 6.2% (from 1932 to 1982). We have transformed from an agricultural and rural society into an urban and industrial one. At this pace we are now entering a new civilization of services and knowledge. This is why broadband Internet is being used. Today, telecommunications are the central nervous system of our civilization. Who in the world would think of taxing them?

The 1982 crisis

In the last 28 years, recurrent crises have affected our country. One of the worse ones took place in 1982. What do you recall about this crisis?

The 1982 crisis was not exclusive to Mexico; there was a lot of easy money being made in petrodollars. Besides, during the seventies, bankers, quite irresponsibly, offered too many loans and financial aids. Governments were quite happy to fund themselves with these credits and pay for many of their projects, including, in some cases, their public budgets and operating expenses.

“In order to limit inflation, one of the measures taken by the US Federal Reserve was to rise interest rates above 20%. This increase caused a brutal financial crisis in every country and especially in developing countries like ours. The ones that suffered most were those deeply indebted. This happened to Mexico who had been a good credit subject, sort of speak, because it is an oil producing country.”

“In reality, even if there were some productive investments, spending was excessive. At the end, what really caused the crisis were the twenty something percent interest rates established, and the world monetary and credit crunch. In Mexico, however, instead of moderating ourselves we thought we'd continue on a bed of roses, we expected oil prices to keep increasing and we believed we just had to administer our wealth. We had a terrible year 1982, we depleted our reserves, from 1981 oil prices plummeted and then came the nationalization of the banks and the beginning of foreign exchange control. It was illegal to buy dollars in the open market and at the same time dollars were not available. The economy was practically paralyzed.”

How were your companies affected?

In 1982 the situation was very difficult. We had no money to import commodities or raw materials. We could not find any dollars, but fortunately the problem only lasted for 3 months.

However, Grupo Carso continued investing in an active and intense manner. How did Carso overcome this situation?

When this happened, many foreign companies believed that doing business in Mexico would affect prices of their international stocks. They closed many companies and sold them. We “Mexicanized” several companies that were previously under foreign control. We sold some of them to other investors; prices were ridiculous. At the end of 82, and during 83 and 84, when a corrective economic policy was already in place, prices of all assets were severely diminished.

Would you say the crisis opened a field of opportunities?

We were investing openly. We were practically the only buyers in the market and there was an opportunity to invest and to take control of other companies.

And this allowed you to control the market and diversify your group?

Yes. For example, we bought for \$158 thousand dollars 23% of Firestone and 3.5% of Anderson Clayton for \$66 thousand dollars. These companies were extremely undervalued.

“Afterwards, in 84 the sale of bank assets began. That year I bought from Mr. Manuel Espinoza a very important package close to \$60 million dollars. At the time this was a big operation, because there was obviously no outside financing and national funds were very difficult to find. That included what today is Seguros Inbursa, (formerly Seguros de México) and the bond insurer Fianzas la Guardiania, but also several important stock options in Kimberly, La Moderna (cigarettes), Loreto y Peña Pobre. We took control of these companies at 15, 20 or 25%. For example, 45% of La Moderna cost around US\$5 million. These prices were almost ridiculous. I believe there has never been a time in Mexico’s history when things had lost their value so much as in 1983.”

“THE 1987 CRISIS SHOULD NOT HAVE HAPPENED”

“There was another important crisis back in 1987. This crisis should have never happened. The government made the wrong monetary and fiscal decisions. They got scared after the famous October collapse that in other countries lasted only a few weeks. In Mexico, however, the central bank withdrew from the exchange markets and the price of gasoline increased by 85%. This had disastrous economic consequences by the end of 87 and the beginning of 88. In fact, in 30 days, from December 15th, 1987 to January 15th, 1988, inflation rose to over 30%. This crisis was extremely negative for Mexico, it was very costly and should not have taken place.”

“THE 95 CRISIS WAS A MEXICAN CRISIS”

“We were well prepared for the 1995 crisis, because we knew it was coming since the situation was not sustainable. This was basically a Mexican crisis, a crisis of excesses. It wasn’t real to have 29 or 30 billion pesos in our current account. But at the time most companies were solid and in good standing.

Did this crisis entail new opportunities?

It is important to underline that when Telmex was privatized, Grupo Carso bought a little over 5% of Telmex, which amounted for 20 to 25% of the total sold. During the crisis years (1995, 96 and 97) we were extremely aggressive in buying corporate stock. We re-bought our own stock and this is why Carso Telecom owns an important part of Telmex. But our hold of Telmex at the time was only 5%.

“It’s always been in our interest to hold important positions in the companies we manage. We do not operate companies just for the sake of it. We operate them because we want to responsibly control strategic decisions. Of course, we were interested in holding stock options. Back in 95 the economy was severely punished, because this was a Mexican crisis. I believe this crisis was due to our own excesses, an overvalued exchange rate, huge imports and an excessive current account, among other factors.