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Development of Digital TV in Europe

2000 Report

Portugal

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1 Digital TV market overview

1.1.1 The regulatory framework

Since 1997, the regulatory framework for media and telecoms in Portugal has been completely renewed taking into account the advent of interactive services, digital television and the Internet. A new Basic Telecommunications' Law (Law NR. 91/97) since August 1st, 1997, provides the legal basis for the establishment, management and exploitation of telecommunication networks, and the provision of telecommunication services.

The Government also approved on 18th September 1997 the Decree-Law Nr. 241/97, regulating the activity of cable operator distribution network for public use. This Decree-Law also partially transposed Commission Directives 95/47/EC and Directives 89/552/EEC. It allows cable operators to rent their infrastructures, to produce their own programmes and to step into interactive services, Pay-per View, Internet, etc. Therefore, since 1997 cable and satellite operators can launch their own channels (previously the operators could only distribute programmes, without any editorial control).

A new Television Law (Law NR. 31 – A/98) approved on July 14th 1998 regulates the TV market and has been considered as a national measure of transposition of Commission Directive 95/51/EC, amending Directive 90/388/EEC with regard to the abolition of the restrictions on the use of cable television networks for the provision of already liberalised telecommunications' services.

1.2 Roll-out of digital services

1.2.1 Satellite digital services

Satellite digital Pay-TV services were launched in Portugal in mid September 1998. This service is supplied by TV Cabo Portugal, the Pay-TV operator majority owned by Portugal Telecom, through Vía Digital, the Spanish Telefònica satellite platform, and broadcast from Hispasat. TV Cabo currently offers analogue Pay-TV services on cable and digital ones on satellite.

The company offers digital satellite services to clients living in areas which, for technical or economic reasons, are not covered by the Cable-TV networks. The decision to use DTH was taken for political as well as commercial reasons. Because of the transition of major sports coverage (particularly football) from Free-to-Air to Pay-TV, the need to grant equal access rights to citizens living in non-cabled areas became a major concern. Therefore TV Cabo, which had bought TV football rights, resorted to digital satellite TV to achieve immediate and complete national coverage.

Portugal Telecom and Telefónica of Spain have strategic links, which led to the choice of the Spanish platform for satellite transmissions. However TV Cabo's agreement with Vía Digital is strictly commercial.

In comparison with cable, the number of DTH subscribers is still very small: about 50,000 at the end of 1999.

1.2.2 Cable services

At the end of June 2000, **no digital TV or any other digital services** were yet supplied by cable in Portugal. The analogue cable TV market is however quite competitive.

- ✓ The TV cable network consists of optical and co-axial cables. The optical cables, used by the Cable TV Operators for their primary networks, belong mainly to Portugal Telecom (the only organisation allowed by law to rent networks). The Portuguese Law determines that the rental prices have to be the same for all operators. Therefore there is no competition between infrastructures. Cable operators instead generally own their own distribution networks.
- ✓ In 2000, there are 6 groups of companies operating cable Pay-TV distribution in the Portuguese territory. The most important group by far is TV Cabo Portugal, a holding company which owns 9 regional operators (and is in turn controlled by Portugal Telecom). TV Cabo Portugal counted in 1999 about 2 million households already passed and over half a million subscribers. Other operators include Cabovisão and Bragatel, with approximately 50,000 subscribers each and smaller companies like Lusomundo or Intercabo (two local operators) and Pluricanal (4 local operators)
- ✓ TV Cabo started operating in 1992, aiming at national coverage. But Portugal Telecom decided in 1997 to limit cable network building to completing the coverage of the major urban areas. The capital is 90% cabled. More than 60% of the Portuguese population is concentrated in a massive coastal area stretching between Lisbon and Porto. Coverage of the rest of the country could not be profitable and TV Cabo proposes a satellite service.
- ✓ Cabo TV distributes nearly 40 TV channels on its cable networks (not all available via satellite in digital) plus the two channels of the Premium TV joint venture between Telecom Portugal and private broadcaster SIC (Telecine 1 and Telecine 2). These two film channels are packaged in Brazil and are only available to TV Cabo cable subscribers, while the DTH subscribers still lack a premium film channel.
- ✓ All TV Cabo cable networks are being upgraded to support digital services, but the commercial launch of these digital services has not yet been announced.

1.2.3 Situation of MMDS

MMDS has been limited to Madeira and Azores islands, where it is difficult or uneconomical to use cable distribution (because of the low population density). The use of MMDS in the continental territory is not foreseen.

1.2.4 Situation of terrestrial digital television

In May 2000, the Portuguese government has unofficially announced that Portugal will offer only one digital licence for DTT in order to guarantee the economic viability of the project. The government's decision follows the option proposed by the ICP (the National Body for the Regulation of Communications) which delivered at the beginning of 2000 a confidential document to the Government which detailed a range of different DTT models before adopting a single-operator model.

The ICP report was issued after several consultations and hearings within the industry, resulting in a broad consensus that the market could not sustain more than one operator. The decision means that the future licensee will be a direct competitor to TV Cabo. The ICP suggests that there should be four national multiplexes carrying a total of at least 24 channels. There would be a must-carry obligation on the operator regarding four national channels (RTP1, RTP2, SIC and TVI). In addition, the ICP proposes to create six new channels. That leaves space for another 14 channels, which the operator could allocate either to more channels or to data – or a mixture of both. The tender for the single licence should be issued around October-December 2000.

DTT should start in the first half of 2002. The switch over from analogue to digital is foreseen in 2008.

1.2.5 Market development

Even if the global subscription market is steadily growing, mainly boosted by the roll-out of cable networks by TV Cabo, digital TV remains marginal in Portugal, as it is only proposed by satellite as a substitute for cable in some rural regions.

TV Cabo will eventually introduce Digital services over its cable networks, which are being upgraded to support them.

The launch of cable and satellite television in Portugal has originated the launch of new thematic channels.

Table 1 :The Top-10 Cable TV Channels as of 30th March 2000

(ranking by audience)

Cable TV Channels	Comments	Advertising Accepted
Hollywood	Highest audience share among higher social classes	Yes
Panda		Yes
Cartoon Network		
Eurosport	Target male audience	
CNL		
GNT		
RTP Africa		
Odisseia	Target male audience	Yes
Sport-TV	Likely purchase driver: 93% of customers choose it when subscribing to satellite service	Yes
	Target male audience	
Historia		
Others		Discovery, Viver, Sol Musica, People & Arts, CNBC, TV Galiza

1.3 Details of services

TV Cabo Portugal analogue cable bouquets are described in the table below. Within the basic cable package, 20 channels are either dubbed or with subtitles in the Portuguese language, mostly from Spain and Brazil. Several are adaptations of programmes originally made for the Spanish or the Latin American markets, not always appropriate for Portuguese viewers.

Telecine 1 and Telecine 2, the two cinema channels produced by joint venture Premium TV, are actually packaged in Brazil and beamed to Portugal. This results often in an erratic picture quality and in the fact that subtitles are in Brazilian and not in Portuguese.
Sport TV channel transmits all the football matches, with the exclusion of one match per week (which the government imposed must be diffused free-to-air) and of Benfica (the most popular club) home matches. Benfica in fact decided to sign its rights for home matches to SIC, the private free-to-air broadcaster.

Table 2 : Pricing of cable TV services

Offer	Description	Monthly Price
Cable Basic Package	44 channels	16,2 Euro
Cable Premium Channels	Sport TV	15 Euro
	ZEE TV	10 Euro
	Playboy	4,5 Euro
	Telecine 1 (recent hits), Telecine 2 (classic, popular movies)	10 Euro
Economic Package	20 channels (no subscription to Premium channels allowed)	10 Euro

The major cable-operators have launched a high speed Internet access over the cable network. Bragatel, TV Cabo or Cabovisao propose similar offers for monthly fees around 35 euros.

1.4 Operators and market structure

TV Cabo is the dominant player on the cable market and the only player on the satellite market. Taking into account the small size of the market, Portugal seems to favour the concentration of the major players. The launch of digital terrestrial television will follow a unique model in Europe, with one single operator, with the purpose to compete with TV Cabo. In the mid-term, the Portugal market should be under controlled of no more than two pay-TV operators and a few broadcasters.

1.5 Technical issues

- ✓ The satellites Intelsat 806, Eutelsat 2F1/Hotbird, Astra, Express 2, Panam and Sat 5 supply the channels for the Cable TV bouquet.
- ✓ TV Cabo uses Vía Digital conditional access system, Nagravision, and interactive applications that are based on Open TV API.
- ✓ Most DTH subscribers have installed SAGEM decoders: a minority use NOKIA or TEKA digital/analogue decoders.
- ✓ TV receivers are mainly analogue. The 16:9 television installed base remains small (around 41 000 units by end 1999).

1.6 Conclusion

Since 1998, the Pay-TV market in Portugal has grown quickly, not only because of the shift of main sports events broadcasts from Free-to-air to Pay-TV, but also thanks to the launch of new channels produced in partnership by the main cable TV operator, TV Cabo, and the traditional broadcasters RTP and SIC. The Government's decision to allow cable operators to produce their own programmes therefore paved the way to vertical integration by TV Cabo. Digital Satellite TV proved also to be successful in the areas not reached by cable.

Digital Terrestrial Television will not launch before 2002. The legal framework is designed to allow for a new competitor to TV Cabo to enter the Pay-TV market. The choice of the Group that will be awarded the licence will be key to the future structure of the Portuguese market.

2 Key figures for the Portuguese market

2.1 Country fundamentals

	1994	*1995*	*1996*	*1997*	*1998*	*1999*
Population (millions)	9.910	9.920	9.940	9.950	9.960	9.980
Households (millions)	4.160	4.160	4.160	4.160	4.182	4.190
GDP (in Euro billions)	73.085	79.010	84.045	89.295	96.230	97.366

Source: INE

2.2 Equipment

As of 31 of December	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*
TV households (millions)		3.350	3.360	3.390	4.000	4.023
TV households (% of total households)		80.5%	80.8%	81.5%	96.2%	96.2%
TV Households with 2 TV sets or more (millions)		0.000	0.000	1.800	1.880	1.890
TV Households with 2 TV sets or more (% of TV Households)		0.0%	0.0%	53.1%	47.0%	47.0%
TV Households with 16:9 Television sets (millions)		0.000	0.000	0.000	0.001	0.001
TV Households with 16:9 Television sets (% of TV Households)		0.0%	0.0%	0.0%	0.0%	0.0%
VCR Households (millions)		1.260	1.630	1.810	1.850	1.932
VCR Households (% of TV Households)		37.6%	48.5%	53.4%	46.3%	48.0%
Digital STB Households (millions)		0.000	0.000	0.000	0.000	0.05
Digital STB Households (% of TV Households)		0.0%	0.0%	0.0%	0.0%	1.2%
IDTV Households (millions)		0.000	0.000	0.000	0.000	0.000
Digital TV Households (% of TV households)		0.0%	0.0%	0.0%	0.0%	0.0%
Digital Households (millions)		0.000	0.000	0.000	0.000	0.05
Digital Households (% of TV households)		0.0%	0.0%	0.0%	0.0%	1.2%

2.3 Television market estimates*

Millions Euros	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*
Analogue TV Market							
Public funding		35.2	35.9	72.3	51.6	69.8	103.8
Advertising(1)		164.5	175.7	180.2	192.3	227.4	268.8
Subscription				28.2	55.3	98.9	130.0
Total analogue TV		199.7	211.6	280.7	299.2	396.1	498.7
Digital TV Market							
Public funding		0.000	0.000	0.000	0.000	0.000	0.000
Advertising		0.000	0.000	0.000	0.000	0.000	0.000
Subscription		0.000	0.000	0.000	0.000	0.000	0.000
Total digital TV		0.000	0.000	0.000	0.000	0.000	0.000
TV Market							
Public funding		35.2	35.9	72.3	51.6	69.8	103.8
Advertising		164.5	175.7	180.2	192.3	227.4	268.8
Subscription				28.2	55.3	98.9	126.1
Total TV market.		199.7	211.6	280.7	299.2	396.1	498.7

Note 1 - only for terrestrial free-to-air TV

* *"**Public funding**" comprise grants and licence fees for RTP; "**Advertising**" also includes sponsoring expenditures whereas "**Subscriptions**" cover subscriptions to the basic multi-channel package as well as subscriptions to Premium pay-TV services.*

2.4 Details of the subscription-TV market

Cable

	1995	1996	1997	1998	1999
Home passed (millions)	0.377	0.977	1.466	1.827	2.259
of which digital (millions)	0.000	0.000	0.000	0.000	0.855
Home passed (% of TV households)	9%	24%	35%	44%	54%
of which digital (% of TV households)	0.0%	0.0%	0.0%	0.0%	20.4%
Analogue Basic Subscribers (millions)	0.0580	0.171	0.383	0.596	0.760
Digital package subscribers (millions)	0.000	0.000	0.000	0.000	0.000
Analogue Basic Subscribers (% of TV households)	1%	4%	9%	14%	18%
Digital package subscribers (% of TV households)	0.0%	0.0%	0.0%	0.0%	0.00%

Satellite

	1993	1994	1995	1996	1997	1998	1999
Satellite households (millions)		0.100	0.140	0.230	0.390	0.390	0.390
Satellite households (% of TV households)		3.0%	4.2%	6.8%	9.7%	9.7%	9.7%
Satellite subscribers (millions)		0.000	0.000	0.000	0.000	0.000	0.05
Satellite subscribers (% of TV households)		0.0%	0.0%	0.0%	0.0%	0.0%	1.2%
of which digital (millions)		0.000	0.000	0.000	0.000	0.000	0.05
of which digital (% of TV households)		0.0%	0.0%	0.0%	0.0%	0.0%	1.2%