IDATE

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Development of Digital TV in Portugal

1998 report

DATABANK

1. Digital TV market overview

1.1 Roll-out of digital services

1.1.1 The new regulatory framework

Only recently, has an adequate legal framework in Portugal properly supported new concepts such as interactive services, advanced television services, digital cable, satellite and terrestrial television broadcasting.

In fact, Portugal has had since August 1st, 1997, a new Basic Law of Telecommunications, named Law nr. 91/97. This Basic Law fixed the new legal general basis for the establishment, management and exploitation of telecommunications networks and the provision of telecommunications services.

As part of this new legal framework, a new Television Law (Law nr. 31 –A/98 of July 18th) has also been approved. This new law regulates the operation of television activities in the Portuguese national territory 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.

The Government has also approved the Decree-Law n. 241/97 of 18th September, which regulates the activity of cable operator distribution network for public use. This Decree-Law now allows the cable operators to rent their infrastructures, to produce their own programs and to step into interactive services, ìpay-TVî, Internet, etc.
This legal instrument has transposed some legal provisions of Directive 95/47/EC of the European parliament and Council of 24th October, regarding the use of standards to the transmission of television signals and of Directive 89/552/EEC (Television without frontiers).
Directive 95/47/EC has also been partially transposed through a project of Regulation, approved under the terms of Decree-Law nr 241/97 of 18th September.

Meanwhile, a new Law nr.17O/VII, was approved in the National Parliament on the 18th of June 1998. This Law intends to regulate the operation of television activities in Portuguese national territory. Its Article 7th sets out that television channels might use conditional access[1].

[1] Before the new television law entered into force there was no specific legal framework regarding "Conditional Access"; therefore, any encrypted service would have no legal support. It should also be mentioned that, under the previous law Cable TV operators were only allowed to "inject" in

1.1.2 Satellite digital services

Satellite digital services have existed in Portugal since mid September 1998. A DTH service is supplied by TV Cabo Portugal, the cable operator wholly owned by Portugal Telecom, to clients living in areas which, for technical or economical reasons, are not covered by the Cable-TV networks. The decision to deliver TV Cabo programs via DTH to reach a national coverage was determined not only by commercial reasons but it was also needed for political reasons. With soccer migrating from free-to-air TV to pay-Tv, there was no other possibility than to use DTH for immediate and complete national coverage, thus granting equal access possibilities to the citizens living in cabled cities and those in the non-cabled cities.

The strategic relationship between Portugal Telecom and Telefonica of Spain[2] left its imprints in the choice of the Spanish platform Via Digital, through Hispasat satellite, for the DTH operations.
The bouquet distributed via satellite includes 14 channels that are already available in the cable offer and the option of Sport TV channel.
In fact, TV Cabo has now two different offers, one on cable and the other on DTH, although they are priced similarly.

1.1.3 Cable services

At the end of 1998, there were 18 companies operating cable TV distribution in the Portuguese territory. The far most important group joins 9 regional operators, in the same holding (named TV Cabo Portugal), having about 2,000,000 households already connected and over 500,000 subscribers. TV Cabo Portugal is wholly owned by Portugal Telecom. Minor cable operators are Cabovisao e Bragatel, with around 50,000 subscribers each.

TV Cabo started operating in 1992 and for some years there was the widespread belief that the cable plan of Portugal Telecom would have a national coverage. In fact, Portugal Telecom decided in 1997 to limit the growth of cable to the present areas where work is now confined to completing the coverage of the major urban areas around Lisbon and Oporto. The capital is 90% cabled.

the cable networks the television programs, in real time, exactly as they presented themselves; n additional information or modifications were allowed.

[2] The relationship between TV Cabo and Via Digital is strictly a commercial agreement: TV Cabo has currently a new agreement with Via Digital under which TV Cabo acquired the rights to use approximately 12 transponders from the new satellite Hispasat 1C, to be launched by the end of 1999. This satellite will cover Portugal, Spain, Madeira, Azores and part of Brazil.

At present 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 to Portugal Telecom (the Telecommunications Public Operator) since this is the only entity allowed to rent out the use of their own infrastructures.

The Portuguese Law determines that the rent prices shall be the same for all operators. Therefore there is no competition between infrastructures. The secondary networks, as well as the client's network, individually belong to each TV cable operator.

1.1.4 Situation of MMDS

MMDS is only used in Madeira Island, wherever it is difficult or uneconomical to use cable (transmission) distribution.
The use of MMDS in the continental territory is not foreseen.

1.1.5 Situation of terrestrial digital television

The Portuguese experience with terrestrial digital TV is limited to some trial tests. No timetable of these tests has been disclosed.
However ICP (the National Body for the Regulation of Communications) and ICS (the Social Communication Institute) have launched a joint public consultation concerning the introduction of terrestrial digital television in Portugal. The consultation period ended on October 3rd, 1998 and it was directed to the general public, enterprises and all concerned directly or indirectly with the process.

1.1.6 Digital TV market development

As stated above, digital television has existed in Portugal since the last quarter of 1998.
This service is delivered on a regular basis only by the cable TV operator Tv Cabo Portugal and only through the DTH system.

The initial 14 DTH TV channels bouquet includes an encrypted sport channel, at an extra cost.

Due to legal restrictions[3], the 4 national terrestrial TV channels are not yet being included in the DTH channel bouquet. This situation will soon be modified and so, Tv Cabo intends to make the necessary agreements so that, by the end of 1999 or beginning of the year 2000, the cable TV operator will also be able to deliver the national terrestrial television channels to the clients of Digital DTH.

The sales forecast of TV Cabo regarding DTH, until the end of December 1998, is of 35,000 active subscribers.

It is not foreseen that free-on-air digital TV will be regularly operating before the year 2000.

1.2 Detail of services

As previously stated, TV Cabo has now two different offers, one on cable and the other on DTH, although they are similarly priced.

The cable basic package, that includes about 40 channels, has a monthly fee of about 14,5 ECU, the Sport TV option 13,5 and the two Premium TV channels about 12 ECU per month.

On DTH, the basic offer is limited to 14 channels out of the 40 offered via cable, and it costs 10 ECU, Sport TV is priced at 13,5 ECU while the two cinema channels are not available via satellite.
At present, the satellite service comprehends a bouquet of the following channels, thematic and generic, besides the option of Sport TV:
Hollywood, Odisseia, Travel, Panda, Sol Musica, NFFY, Cl·ssico, Tele Tiempo, 24 Horas, BBC World, BBC Prime, Bloomberg and Galiza St Hilo.

Some of those thematic channels, such as Hollywood, Odisseia, Panda and Sol Musica, are produced by the Spanish company Multicanal for the Portuguese market.

It is foreseen that this number will increase up to the same number of channels currently available by Cable TV, i.e., 44 TV channels, plus the two option channels Telecine 1 and 2.

By the end of September 1998, Internet became available on cable TV, in some districts of the north of Portugal, where Bragatel, a small Cable TV operator is operating in competition with TV Cabo Portugal.

[3] Under the contractual conditions of the Portuguese terrestrial television operators, the diffusion of the respective programming may not yet overboard the national territory. The diffusion of the terrestrial television channels by digital DTH would cover beyond the national territory also a big part of Spain.

1.3 Operators and market structure

TV Cabo is the only operator of digital TV in Portugal. It is wholly owned by Portugal Telecom.

Following the Decree-Law n. 241/97 of 18th September, that allows cable TV operators to produce their own programs, TV Cabo started its activity as a content provider. This was archieved through partnerships with both the public broadcaster RTP and with private operator SIC. As a matter of fact, during 1998 two new PAY-TV companies were created to provide TV Cabo network to the two cinema premium channels and the Sport TV channel; these being,

1 - **Premium TV** is a joint venture made up of TV Cabo, Portusat (a company owned by Globo of Brazil and Portuguese private broadcaster SIC) and film distributor Lusomundo. Sport TV (see below) has also a capital share in Premium TV.
    The company produces two cinema channels that are offered as options to cable subscribers. The two channels are Telecine 1 (most recent and relevant movies, which have not yet been shown on TV) and Telecine 2 (classic movies, which have had a great acceptance by the public). The two channels are effectively 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.

2 - **Sport TV** is another joint venture of TV cabo with public broadcaster RTP, sports broker Olivedesportos and Premium TV. The company is leveraging the rights of broadcasting soccer that was previously transmitted free-to-air by RTP, in order to gain new subscribers, both cable and satellite. However, the transmission of soccer is not totally encrypted, since the Portuguese government imposed an open match every week, and Benfica, the largest club, decided to sign with the private operator SIC for all its home matches.

Thus, during 1998, TV Cabo has evolved from cable packaging to a content providing.

A peculiarity of this market structure is that TV Cabo is operating via two different companies, Sport TV and Premium TV, that include different rivals partners (RTP and SIC).

1.4 Technical issues

As a user of the Via Digital platform, TV Cabo is dependent on Via Digital for conditional access, which is Nagravision, and interactive applications that are based on Open TV API.

Although a reduced number of clients use NOKIA or TEKA digital/analogue decoders, most DTH clients have installed SAGEM decoders.

1.5 Conclusion

The Portuguese terrestrial television has four free-on-air TV channels: RTP 1, RTP 2, SIC, and TVI.

The first two channels are public, belonging 100% to the Portuguese State; SIC and TVI are private channels.
RTP-2 shows programmes of a higher cultural level and transmits no publicity.

The programme grid of the other three, is very similar and consists of news, talk-shows, films, sports, contests and musicals shows.

SIC has the highest audience, followed by RTP-1, TVI and finally, RTP-2;
Publicity on Television, with the exception of the channel "QUANTUM" on cable TV, is at present limited to the free on air TV.
The total income from publicity on terrestrial television reached in 1996, 100 million contos (494,5 MEuros).

During 1998, the traditional broadcasters fuelled the pay TV industry providing contents through joint ventures with TV Cabo, that has expanded its activity in content providing. In fact, the Government's decision to allow cable operators to produce their own programs has paved the way to vertical integration: the main cable TV operator has become a content provider in partnership with traditional broadcasters.

Although, at present, DTH subscribers have no access to the Portuguese terrestrial TV channels, some audience share is being shifted from the current TV market to the new DTH system and a major shift is predictable when the four terrestrial channels are included in the digital satellite package, especially in areas where the terrestrial reception of free-to-air channels is of poor quality. The shift of audience was also supported by the offer of exclusive channels such as Sport TV.

TV Cabo has been very successful during the last two years, and for the first time the terrestrial broadcaster started to feel the competition as viewership of the cable channels grabbed around 4% share of the audience. Some channels included in the cable TV bouquet have audience share levels very close to the ones of SIC.

2. Key figures for the Portuguese market

2.1 Country fundamentals

	1993	1994	1995	1996	1997
Population (millions)	9,89	9,91	9,92	9,94	9,95 (a)
Households (millions)	4,16	4,16	4,16	4,16	4,16 (b)
PNB (billions ECU's)	65	69	78	83	88 (c)

(a) Estimated by INE (National Institute of Statistics)
(b) As per last census (1991)
(c) 1 ECU = 202.229 PTE

2.2 Equipment

As of 31 of December	*1993*	*1994*	*1995*	*1996*	*1997*
TV households (millions)	N/A.	3,35	3,36	3,39	4,00
TV households (% of TV households)	N/A.	80	81	82	96,2
TV households with 2 TV sets or more (millions)	N/A.	N/A.	N/A.	1,80	1,88
TV households with 2 TV sets or more (% of TV households)	N/A.	N/A.	N/A.	53,0	47,0
TV households with 16:9 TV sets (millions)	N/A.	N/A.	N/A.	N/A.	0,001 (d)
TV households with 16:9 TV sets (% of TV households)	N/A.	N/A.	N/A.	N/A.	0,025
VCR households (millions)	N/A.	1,26	1,63	1,81	1,85
VCR households (% of TV households)	N/A.	38	49	53	46,2
Digital STB households (millions)	0	0	0	0	0
Digital STB households (% of TV households)	0	0	0	0	0
Digital TV households (millions)	0	0	0	0	0
Digital TV households (% of TV households)	0	0	0	0	0
Digital households (millions)					
Digital TV households (% of TV households)	0	0	0	0	0

(d) Estimation

2.3 Television market estimates*

(1 ECU = 202.229 PTE)

Millions ECUs	*1993*	*1994*	*1995*	*1996*	*1997*
Analogue TV Market					
Public funding	N/A	N/A	N/A	N/A	74
Advertising	264	342	393	496	602 (e)
Subscriptions	0	0	0	0	70
Total Analogue TV	264	342	393	496	758
Digital: non existent by the end of 1997					
Public funding	0	0	0	0	0
Advertising	0	0	0	0	0
Subscriptions	0	0	0	0	0
Total digital TV	0	0	0	0	0
TV Market					
Public funding	N/A	N/A	N/A	N/A	74
Advertising	264	342	393	496	602
Subscriptions	0	0	0	0	70
Total TV market	264	342	393	496	758

(e) According to publicity price tables

* *"**Public funding**" comprise grants and licence fees; "**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 Distribution mechanisms

Cable

	1993	*1994*	*1995*	*1996*	*1997*
Home passed (millions)	N/A.	0,1	0,38	0,98	1,47
of which digital (millions)	N/A	0	0	0	0
Home passed (% of TV households)	N/A	3,0	11,3	29,0	37,0
of which digital (% of TV households)	N/A	0	0	0	0
Home connected	N/A	0,02	0,06	0,17	0,38
Home connected (% of TV households	N/A	0,06	1,81	5,0	9,5
Digital package subscr. (millions)	N/A	0	0	0	0
Digital package subscr.(% of TV households)	N/A	0	0	0	0

Satellite

	1993	1994	1995	1996	1997
Satellite households (millions)	N/A	0,10	0,14	0,23	0,39
Sat. households (% of TV households)	N/A	3,0	4,7	7,6	9,7
Satellite subscribers (millions)	N/A	0	0	0	0
Sat. subscribers (% of TV households)	N/A	0	0	0	0
of which digital (millions)	N/A	0	0	0	0
of which digital (% of TV households)	N/A	0	0	0	0