Philippines: Telecom and Broadcast Industry Overview

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Summary

"Wireless" remains the future of the Philippine telecom industry, with mobile phone penetration already at 50% and growing. Telecom carriers are now looking at wireless broadband and wireless landline services as the next big wave. U.S. companies providing innovative wireless technology are expected to do well in the country. There are also opportunities for mobile content providers as well as digital multimedia. The Philippines is likewise joining the global shift from analog to digital broadcast transmission. The country is expected to switch to digital by 2015.

Market Demand

Table 1: Major Telecom Indicators for 2006

Population	Fixed-Line		Cellular Phone		Internet		Cable TV	
	# Of SS	P Rate (%)	# Of SS	P Rate (%)	# Users	P Rate (%)	# Of SS	P Rate (%)
87 million	3.6 million	4%	42.8 million	49%	14 million	16%	2.5 million **	2.8%

Notes: M - Millions, SS - Subscribers, P - Penetration, and HH - Households.
Sources:
Population – National Statistical Coordination Board (NSCB) Population Estimates
Fixed-Line & Cellular Phone Data – National Telecommunications Commission (NTC)
Internet Data – Yahoo!
Cable Data – Philippine Cable TV Association

The telecom industry remains one of the most robust sectors in the Philippines. It has come a long way since its deregulation in the 1990s. The industry has posted one of the world's highest mobile penetration rates and is still a world leader in short message service (SMS), or "text messaging", with over 300 million text messages sent daily. The National Telecommunications Commission (NTC) has not released official 2007 figures yet, but based on initial reports from carriers in the third quarter of 2007, mobile subscribers breached the 50 million mark. Wireline subscribers are expected to grow by only 2-3% from 2006 numbers.

Key highlights in the telecom industry and its structure:
- Coverage area: 2007 wireless coverage is 98% of the country (substantial growth from 84% in 2006) while Public Switch Telephone Network (PSTN) remained at its 2006 level of 58%.
- GSM is the current Philippine cellular infrastructure.
- 3G cellular technology was rolled out in 2006.
- ADSL (Full Rate asymmetrical DSL) and VDSL (very high bit rate DSL) are available. ADSL is dominant because of its affordability compared to VDSL.
- Fiber to the Curve (FTTC) is currently deployed while Fiber to the Home (FTTH) is not available but is a technology the Telco's are looking at. All carriers have FTTC, which goes only until the distribution point.
- WiFi & WiMax are available, with WiFi as the preferred technology.
- VoIP is available and is classified as a "value-added service".
- Broadband on Power Line (BPL) is being further studied by the industry and is not yet commercially available. In late 2005, a U.S. company made initial plans to partner with a Philippine independent power producer (IPP) to offer BPL service in the province of Bataan.

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Talks fell through, however, and the supposed commercial launch of BPL services did not proceed.

Broadband uptake is still slow, but growth rates in 2006-2007 were phenomenal. Industry leaders, Philippine Long Distance Telephone Company (PLDT) and Globe Telecom, both increased revenues for their broadband services. PLDT's broadband subscribers hit the 501,000 mark and total revenue contribution from broadband and internet services surged 43% to Peso5.3 billion ($130 million, at the current exchange rate of $1 equals P41) for the first nine months of 2007.[1]

Globe Telecom, the second largest mobile carrier, identified broadband as the driving force of their wireline business. Their subscriber base as of the third quarter of 2007 was twice as much as 2006 numbers for the same period. They reached 109,000 subscribers contributing P846 million ($21 million) in revenues. Globe has likewise started offering wireless landline service, which serves as an upgrade to their broadband service.

Another pioneer in the wireless landline arena is Bayan Telecommunications, Inc. The company launched their "Bayan Wireless Landline" (BWL) service in 2006 and it has helped improve the declining trend exhibited by the firm's landline business. Bayan expects to close 2007 with 140,000 BWL subscribers, with a projected 10-15% annual growth rate.

In the broadcast sector, the NTC reports that, as of December 2007, Philippine broadcast media is comprised of 381 AM radio stations, 628 FM radio stations, 250 TV stations (VHF and UHF), 29 TV relay stations, 2 Pay TV stations, 57 TV translator stations, 3 TV stations operating at 40 GHz, 1501 cable stations (CATV), 3 Local Multipoint Distribution System (LMDS) stations, and 8 Multi-Channel, Multi-point Distribution System (MMDS) stations.

In early 2006, the NTC spearheaded the formation of a Technical Working Group (TWG) to study the Philippines' migration from analog to digital terrestrial television (DTT). This first TWG completed its recommendations in November 2006. From this document, the NTC released a draft Memorandum Circular (MC) for DTT. The Draft MC indicated that the compulsory transition of all analog TV service providers to DTT and for the termination of all analog TV broadcast transmission by 11:59 PM on 31 December 2015. In August 2007, a new Technical Working Group for DTT dubbed "TWG II", was created to make further studies on the socio-economic impact of the adoption of DTT technology. TWG II is divided into three sub-committees, namely; Technical, Socio-Economic Impact and Regulatory. TWG II is composed of over 50 broadcast industry representatives, and Philippine government agencies.

TWG II sent invitations to the U.S. Advanced Television Systems Committee (ATSC), Europe's DVB-T, and Japan's Integrated Services Digital Broadcasting (ISDB) to participate in the simultaneous test-broadcast of different standards using the same technical parameters for evaluation purposes. The test was conducted from November to December 2007. Apart from carefully evaluating available DTT standards, TWG II is also giving due consideration to the socio-economic impact of this migration. The sub-committee on socio-economics, led by the National Economic Development Authority (NEDA), has drafted an objective framework that is being reviewed by the working group. The TWG II's final report is expected by the first half of 2008.

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[1] Source: PLDT

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Market Data

Table 2: Telecom and Broadcast Industry Statistics (in US$)

	2005	2006	2007 (estimated)
Total Market Size	1.19 billion	1.21 billion	1.27 billion
Total Local Production *	2.46 billion	2.20 billion	2.31 billion
Total Exports	2.46 billion	2.20 billion	2.31 billion
Total Imports	1.19 billion	1.21 billion	1.27 billion
Imports from the U.S.	60 million	76 million	79.8 million

(Notes: 2005 and 2006 are actual figures taken from National Statistics Office. 2007 data are estimates based on a 5% growth rate. Post has no information on the percentage of locally manufactured goods that is retained and sold in the local market. For this reason, and for purposes of this analysis, total local production equals total exports.)

The telecom and broadcast industries are import dependent. European suppliers dominate the telecom equipment market, with U.S. suppliers a far second, followed by Japan. U.S. suppliers, on the other hand, largely dominate broadcast equipment. Local production largely refers to manufacturing activities done in Export Processing Zones and these products are exported to overseas markets.

Best Prospects

Wireless broadband technology is expected to have high demand in the Philippines, as well as products and services supporting digital multimedia. Opportunities in the industry would be in value-added services, content, and innovative applications for wireless and broadband.

The continued exponential growth of the Business Process Outsourcing (BPO) industry will also have positive effects on the telecom industry. BPO companies use a wide variety of telecom services for redundancy purposes.

Stiff competition in the broadcast industry is opening up opportunities for state-of-the-art production and post-production equipment. Plus, the planned migration to DTT by 2015 will definitely create demand for digital broadcast equipment and digital set-top boxes.

Following are some specific technologies that the local industry is looking at: IPTV, Mobile TV, 3G Long Term Evolution (LTE), WiMax on 802.16e, BPL, Next Generation DSL, FTTH, GPON, BPON, Network Security Systems, 4G, IP Multimedia Systems, SIP Servers, Application Servers, and IPv6.

Another opportunity U.S. companies should be on the look out for is the nationwide Government Broadband Network (GBN) project proposed by the Department of Transportation and Communications (DOTC). Philippine government agencies independently procure and maintain their communication systems. None of them have virtual private networks apart from a few government-owned and controlled corporations (GOCC). As a result, email and file transfers are done through Yahoo, Google or MSN. The DOTC considers GBN as the solution to these challenges. The GBN's underlying principles are intra and inter government connectivity and reduction of the government's communication expenses. It is envisioned to be a "fully integrated single IP-based platform nationwide broadband network to allow seamless voice, data and video connectivity within and among national, regional, and local government agencies, including GOCCs and Community eCenters (CeCs)[2]". The DOTC is looking at private carriers to provide this service with the necessary coverage and capacity expansion.[3] This project has been the

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[2] The CeC is a priority program under the Philippine Strategic Roadmap for the ICT Sector. It aims to provide public access points for the delivery of e-government services and affordable access to a variety of ICT services.
[3] Source: DOTC Telecommunications Office

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source of widespread media scrutiny, after an initial effort to launch the project with Chinese Government funding was tainted by allegations of mis-conduct.

Key Suppliers

Some of the major telecom equipment suppliers in the Philippines are Nokia, Ericsson, Siemens, Alcatel-Lucent, Motorola, Nortel, Cisco, NERA and NEC.

For the broadcast industry, Harris dominates the transmitter business, with the major networks as its clientele, while Grass Valley Group's products have also made their mark. Hewlett Packard servers are in use throughout the industry, while Japanese brands like Sony, Panasonic and Ikegami are popular for studio equipment. Avid (U.S.) is a well-known brand for editing/post-production. U.S. brands also dominate lighting and sound equipment (mixers, speakers, amplifiers). For satellite services, the players represented in the market are Panamsat, Indosat, and Malaysia East Asia Satellite (MEASAT). Apart from dominating the equipment segment of the broadcast industry, U.S. programming is also very popular in the Philippines. Most of the top-rated U.S. programs are available on cable while some local broadcast networks (i.e. RPN 9, ABC 5 and Studio 23) import these programs and cater to those who do not have cable subscriptions.

Prospective Buyers

The Philippine telecommunications marketplace is classified into six service supplier categories. Five of these are classified as "facilities-based suppliers", licensed to operate and install equipment and facilities necessary to provide the service. The last one is classified as a "value added service provider"; they are not authorized to build their own network. The facilities-based suppliers are:
  (1) Fixed line services (Local Exchange Carrier, Inter-Exchange Carrier)
  (2) Cellular mobile service (CMTS)
  (3) Satellite services (Very Small Aperture Terminal (VSAT), MMDS, etc.),
  (4) Broadband Services (Fiber Optic Cable, wireless broadband, satellite broadband service, etc)
  (5) International Gateways including submarine cable landing stations. At present, there are four existing authorized international submarine cable-landing stations connected to networks through the inland backhaul networks. PLDT, Globe, and Digitel own these cables.

Table 3: Major Telecom Companies in the Philippines

Company Name and Hyperlink	Brief Description	Rank in the Philippines Top 1000 Corporation List*	
		2006	**2005**
Philippine Long Distance Telephone (PLDT) Company	Largest telecom carrier in the Philippines.	8	7
Smart Communications (Subsidiary of PLDT)	Has 28.3 million wireless subscribers as of Sept. 2007.	9	8
Globe Telecom	Second largest telecom company majority owned by Ayala Corp. and Singtel. It has 19.2 million wireless subscribers, and 109,000 wireline broadband subscribers as of as of Sept. 2007.	14	15
Digital Telecommunications Philippines (DIGITEL)	Majority-owned by JG Summit Holdings Inc. Launched its Sun Cellular mobile phone service in year 2003. Digitel has 650,000 wireline subscribers while Sun Cellular has 5 million wireless subscribers.	142	122

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Bayan Telecommunications (BAYAN)	85.4% owned by the Lopez Group and Benpres, a publicly listed holding company for the Lopez Group's investments.	175	170

Source: BusinessWorld Top 1000 Corporations in the Philippines 2007, Volume 21

The Philippines' major telecom carriers cover over 90% of the country, while the remainder is divided among other telecom carriers: Bell Telecom, Capwire, Inc., Eastern Telecom Philippines, Inc., Philippine Association of Telecom Operators (PAPTELCO)[4].

Table 4: Major Broadcast Networks

Company Name and Hyperlink	Brief Description	Rank in the Philippines Top 1000 Corporation List*	
		2006	2005
ABS-CBN Broadcasting Corp.	ABS-CBN's flagship station in Metro Manila is Channel 2, and it also operates Studio 23, a UHF network and 35 other TV stations.	74	71
GMA Network, Inc.	GMA Network's VHF television network consists of its flagship station, Channel 7, originating stations in Cebu, Iloilo, Davao and soon in Dagupan and Naga, 42 relay stations, 2 UHF stations and 1 affiliate station nationwide.	110	117
Associated Broadcasting Company	ABC's flagship station is Channel 5. It has nine provincial affiliate TV stations and one FM radio station, Dream 106. 7.	N/A	N/A
Radio Philippines Network (RPN)	RPN is a government owned station. RPN has 13 AM stations, 7 TV stations and 4 relay/translator TV stations.	N/A	N/A
Intercontinental Broadcasting Corporation (IBC)	IBC is a government owned station with 9 AM stations, 1 FM station, 8 TV stations and 1 relay/translator TV station.	N/A	N/A
National Broadcasting Network (NBN)	NBN is the official TV station of the Philippine Government. It has 24 TV stations.	N/A	N/A

Sources: Networks' corporate profiles, NTC, and BusinessWorld Top 1000 Corporations in the Philippines 2007, Volume 21

Market Entry

The best way to market telecommunications and related equipment and services is through agents and distributors. The distributor/agent must be familiar with local regulations, must have access to key customers, and must have the capability to provide after-sales support. It is not uncommon for networks to look for alternate suppliers if they find it difficult or too cumbersome to deal with the local distributor. While having local representation is essential to penetrating the market, networks still want to have access to the U.S. manufacturer. Hence, foreign companies such as Nokia, Alcatel-Lucent, Siemens, and Harris have established representative offices in the Philippines.

Typical bidding procedures for the telecom and broadcast industries proceed first with product sampling. U.S. companies must be willing to send over samples to be tested, incurring shipping costs and, to the

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[4] PAPTELCO is described by the National Computer Center website as "an association of local exchange carriers providing basic local telephone service in the countryside."

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extent possible, not requiring the samples to be returned. If the product meets the buyer's requirements, pricing and after sales support will then be discussed. While price has a bearing on procurement, more often, telecom carriers and broadcast networks prioritize the technical specifications and capabilities of the product. Product value to price is recognized.

The NTC is the Philippine government agency tasked to regulate the telecommunications and broadcast industries. It undertakes policy guidelines designed to lead and give direction to the industry and to build awareness of the individual's rights to communication. Only commercial equipment that is type-approved/accepted by the NTC can be used in the local industry. The NTC's Equipment Standards Division (ESD) classifies telecom equipment into two categories: Customer Premise Equipment (CPE) and Radio Communication Equipment (RCE). CPE needs type approval as it passes through the existing telecom infrastructure while RCE requires type acceptance. Suppliers of CPE must be accredited by the NTC while RCE dealers need a permit. A detailed description of NTC's functions as well comprehensive information on licensing application forms and procedures is readily available from NTC's website (under e-Applications).

Market Issues & Obstacles

Imported communications equipment is subject to tariff duty rates that vary from one product to another. Rates specific to a particular product or Harmonized System (HS) Code can be obtained through the U.S. Commercial Service (CS) in Manila. Contact information is indicated at the end of the report.

Piracy is another major economic challenge for the industry. According to the Philippine Cable TV Association (PCTA) there are 2.5 million cable subscribers in the Philippines. 1 million are legitimate cable subscribers while 1.5 million have illegal connections. The Cable and Satellite Broadcasting Association of Asia (CASBAA) claims that cable piracy in the Philippines cost the industry over US$1 billion in 2005. The CASBAA conducted a study that showed that "widespread resale of pirate signals is sapping the vitality of the legitimate cable TV industry and handicapping potential competition from new transmission means such as DTH (direct-to-home) or IPTV (Internet protocol television) services. As a result, the Philippine industry remains undercapitalized and mired in old (analog) technology."[5]

The Philippine Government has undertaken several telecom projects to bridge the digital divide. However, most of these projects were either not completed or were not properly implemented, and as a result, millions worth of equipment is wasting away in warehouses. Moreover, the government continues to pay the amortization for loans used to finance the projects. This has led to the government's lack of credibility in managing telecom-related projects. Some of the more controversial multi-million projects that the industry classifies as failures are the following:

(1) "Telepono sa Barangay" (TSB) - this P60 billion project aimed to provide telephone connections to far-flung villages in Mindanao, parts of the Visayas, and the Cordillera and Sierra Madre mountain ranges on Luzon. Millions worth of equipment and telephone receivers are gathering dust in warehouses rented by the government. According to a Philippine Senator, the outlay for foreign loan repayment for this project is P250 million ($6.1 million).[6]

(2) Global Maritime and Safety System – a P781 million ($19 million) project which began in 1998, and was shelved in 2000 with only 70.29 percent of the project accomplished. The only reason given was, "the renegotiation fell apart." Again, millions worth of communications equipment have gone to waste.[7]

(3) Philippine Administrative Network Project (PANP) – a P739 million ($18 million) satellite-based nationwide broadband network supporting the government's information machinery. It enables the government to feed press releases and information on government policies and events to the

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[5] Source: CASBAA: Regulating for Growth – The Philippines
[6] Source: Philippine Daily Inquirer, "Phone Equipment Worth $200M Rusting in Warehouses", Dec. 28, 2007
[7] Source: Philippine Daily Inquirer, "Carcasses of Telecoms Glitches Litter RP Scene", Dec. 27, 2007

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public through the Philippine Information Agency's (PIA) 10 regional offices, the state television network NBN 4 and 17 stations of "Radyo ng Bayan." The Office of the Press Secretary (OPS) is making use of the PANP but some components of the system, such as video-streaming, are not availed of as a result of budgetary limitations. The efficiency of the system went down from 80 percent to 50 percent over time, again due to maintenance budget cuts.[8]

These projects fail for a variety of reasons and among the key issues identified were the lack of budgetary support from Congress for maintenance and upgrading of equipment, the projects being overtaken by the rapid changes in information technology, mismanagement, bureaucratic delays and lack of technological expertise.

Trade Events

COMMWORLD 2008 - August 21-23, 2008, SMX Convention Center

Resources & Key Contacts

National Telecommunications Commission (NTC)
Kapisanan ng mga Brodkasters sa Pilipinas (KBP) or Broadcasters Association of the Philippines
  Website: http://www.kbp.org.ph (Note: As of the report's release, the KBP website is under maintenance)
    Tel: (63-2) 892-4129; 815-1990 to 93 / Fax: (63-2) 815-1989, 815-1993 / kbp@pacific.net.ph
Philippine Cable Television Association (PCTA)
Philippine Chamber of Telecom Operators (PCTO)
Philippine Electronics and Telecommunications Federation (PETEF)

For More Information

Please contact Yna Capatayan of the U.S. Commercial Service in Manila, Philippines via e-mail at: Manila.Office.Box@mail.doc.gov; Phone: +632-888-4088; Fax: +632-888-6606 or visit our website: www.buyusa.gov/philippines.

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[8] Source: Philippine Daily Inquirer, "Arroyo's Press Office Prefers Cellphones to P739M Grid", Dec. 29, 2007

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