**INTELEVENT 86**

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**Panel Presentation and Discussion**

**"Government and Industry Cooperation"**

**By Commissioner James H. Quello**

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I am one of five members of the Federal Communications Commission in the United States. The Commission is a collegial body which is governed by the Communications Act of 1934 and is subject to oversight by the Congress. Our policy positions are usually the result of give-and-take in an attempt to reach consensus. However, there are occasions when no consensus is possible and, in such cases, the majority rules.

Generally speaking, the FCC does reach consensus on major policy matters. We have all agreed that competition in telecommunications services is a worthy goal since it tends to drive these services toward cost. Introducing competitive services to replace those provided by monopolies does tend to cause some confusion and disruption but, on balance, it appears to us that competition is generally beneficial. The move toward competition in U.S. telecommunications services was complicated by the divestiture of AT&T which, in itself, would have been a monumental undertaking.

I hasten to point out that I was not an advocate of either competitive switched telephone services or the divestiture of AT&T. I felt then, as many of my European counterparts may now, that the monopoly service was generally good in quality and reasonable in price. I have come to the view, however, that technology was moving so rapidly to eliminate most of the technical barriers to entry into telecommunications markets that it probably was not realistic for the United States to attempt to maintain artificial, regulatory barriers.

My background is broadcasting and I am most comfortable discussing broadcasting issues. I am aware of issues involving Direct Broadcast Satellites in Europe and I can certainly understand some of the difficulties such issues entail. As you may know, the FCC has authorized Direct Broadcast Satellite service in the United States but, after several years of planning, we still do not have such a system. Some of those proposing DBS have dropped out. Others are proposing to ease into DBS through indirect means. Still others are providing a form of DBS through medium-power satellites which were designed for other purposes.

I agree with Dr. John Abel of the National Association of Broadcasters who has concluded that DBS, in the United States, is likely to develop through the C-band back yard dish market. The backyard dish market has been growing dramatically.

But that growth has now been reduced by the increasing trend toward scrambling or encrypting the signals. Satellite programmers are becoming increasingly restive about what they consider to be theft of their signals by backyard receivers which now total some 1.7 million. The issue of scrambling has been raised in Congress which is seeking a resolution through possible legislation in the next session. The back yard dish owners generally do not oppose scrambling but they insist that the price they pay to get a descrambled signal should be reasonable. Reasonable is generally defined as less than--and certainly no more than--cable subscribers pay for the same signal. Part of the controversy was generated when programmers, who principally supply cable systems, began marketing to back yard dish owners through the cable systems. The dish owners complained that the markup imposed by the cable operators was excessive and was at least partially caused by the cable operators' desire to eliminate any competition back yard dishes might offer.

Cable penetration in the United States as of last July had reached 47.8 percent of the households. Many observers believe that cable's ultimate penetration will not exceed about 55 percent.

Pay cable has been growing slowly since 1984 probably because of the large number of video cassette recorders in U.S. households. It appears that 1986 will have about 13-million VCR sales up from only 4.1 million in 1983. It's estimated that about 38 percent of the TV households in the United States now have at least one VCR. The video recorders are clearly very popular both for recording off-the-air and for playing back movies and other popular fare from the local rental store.

Broadcasters are users of other telecommunications services. In 1985, for example, about three-quarters of all U.S. radio stations were users of private lines. That number dropped to less than two-thirds in 1986 largely because carriers were increasing their charges for private lines. The carriers contend that such increases are necessary to bring the return for private lines more in line with the return for switched services. Generally, the Commission has required the carriers to earn their authorized rate of return on a service-by-service basis so that the return on one service does not subsidize another service. In order to avoid some of these cost increases, radio stations are searching for substitutes and one of those appears to be cellular radio. About two-fifths of the radio stations are using cellular phones and nearly forty percent of them are using them for remote broadcasts.

It's expected that there will be about 740,000 cellular subscribers in the United States by the end of this year and that number is expected to grow to about 3.6 million by 1990. After a rather late start, cellular radio is rapidly gaining ground as services improve and prices come down. The FCC, again to foster competition, authorized two cellular systems in each community. One system was authorized to local exchange carriers and the other system was granted to operators not associated with wireline carriers. The Commission has ruled that this dichotomy was useful for original allocation purposes but that there are no bars to acquisition of either system by other parties provided that no one party attempts to acquire both systems in a given community. In fact, there have been a number of these acquisitions, principally by telephone exchange companies.

Broadcasters not only are customers of common carriers but, in some cases, competitors. The FCC has authorized the use of FM broadcasting subcarriers to provide various data services and several vertical blanking intervals of TV stations are being used for data transmission. About 45 percent of the FM stations in medium and large markets are using their subcarriers. By 1988, TV stations will have 9 VBI lines available for data at a data rate of about 120,000 bits per second. Whether all of this capacity will be immediately useful remains to be seen.

Speaking of capacity, the carriers in the United States are constructing fiber optic plant at a very rapid rate and thousands of miles of fiber are already in use. Present construction is principally for backbone trunks and to very-high-density users. However, one Bell Regional Holding Company has estimated that, in less than five years, it will be cheaper to provide voice-only service on glass than on copper which seems to suggest that local loops, at least in new construction, will tend to be fiber. Indeed, Bell South is using fiber in a new housing development near Orlando, Florida. I understand that there are developmental programs in Europe using fiber optics for residential subscribers which are considerably further along and I hope that we can benefit from your experience. There are many implications, of course, that such use of fiber entails. Given its very high capacity, one must assume that a large number of data and video services will eventually be available over the same line which provides voice service.

I understand that the theme chosen for this panel is "Government and Industry Cooperation." We at the FCC attempt to cooperate with industry in formulating our policy. I do believe government regulation is best conducted in a spirit of mutual cooperation with regulated industries. I believe progress can best be achieved with a constructive government attitude that provides incentives for innovation, growth and improvement in

service and products for the public. We should reserve adversary proceedings for major unresolved disagreements of egregious violations. In return, we should expect that telecommunications companies, because of their great impact on the American way of life, maintain a strong sense of social consciousness.

Broadcast licensees, and for that matter, all business and corporations, have inherent responsibilities as public trustees. In America, all corporations exist by the will of the people. It behooves all corporations, acting in their own self interests, to conduct themselves with a keen sense of social purpose, not only economic purpose. In a democracy, any economic or social system can be legally altered by the people at the polls. So, the people have a right to expect reasonable benefits, fair treatment and equitable distribution of wealth for the public good. The great majority of American telecommunications and broadcasting corporations have reasonably fulfilled most expectations by providing the American people with one of the best communications services in the world and its employees with a high standard of living. In our own self interest, one of our highest government priorities must be to preserve America's markets and our prominent position in world communications to assure healthy, progressive industries with gainfully employed Americans.

The regulation of monopoly industries requires, of course, that excessive profits be prevented but, at the same time, it's important to try to keep them fiscally healthy enough so that their costs are minimized--also that they have sufficient funds for research, development and technological innovation. I consider this approach to be cooperative as opposed to adversarial. The Commission regards such cooperation as a means to ultimately benefit consumers, to given them more choices at lower prices. At least some of our efforts appear to be paying off. Long distance telephone service has dropped more than twenty percent in price over the past few years and more and more services are becoming available with each passing day.

We recognize that each nation has its own needs and priorities and we don't wish to impose our view of the telecommunications world on other sovereign nations. We do hope to persuade you to consider our approaches and observe the results, as we will yours, in a mutual effort to improve the world's ability to communicate rapidly and inexpensively in the years just ahead.

Thank you for your attention.