

**INTELEVENT 91**

**GOING GLOBAL: THE SHIFTING BALANCE OF POWER  
IN WORLD TELECOMMUNICATIONS**

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Session III: "Change in the Balance of Industry Power  
Through Regulatory and Trade Policy"

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**A Regulator's View of the Shifts in Industry Power**

Thanks for the gracious introduction. Generous introductions are always the most impressive part of my speaking appearances. Anyway, I'm going to speak today about advanced communications and you are supposed to listen. I just hope you don't finish before I do.

I'm delighted and honored to be here at my 6th appearance at Intelevent. It's always gratifying to have the opportunity to meet with so many knowledgeable people from so many nations around the world. Telecommunications is, of course, more and more a global enterprise and its management, from a regulatory point of view, is changing rapidly.

The great leaps forward in cable, fiber and satellite technology over the past decade are providing an abundance where there has always been a shortage. The quality and quantity of telecommunications services now available -- or soon to become available -- on a worldwide basis are indeed phenomenal. The economics of moving information and entertainment rapidly and accurately are just now becoming widely understood.

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In the United States, spectrum scarcity is the principal rationale for government regulation of broadcasting is fast being replaced by cable channel abundance. At this writing, over 60% of American homes are served by multiple channel cable systems. Then too, in early June, Hubbard-Hughes announced the actual launching of a DBS service for 1994. Hubbard Broadcasting's U.S. Satellite Broadcasting paid Hughes \$100 million dollars to lease 5 transponders on the direct broadcast satellite that Hughes will launch in 1994. The transaction represents a reality, not a memorandum of understanding. The agreement means Hughes and USSB will share the risks and burdens of starting an exciting DBS service in America. It promises to be the long awaited multi-channel competitor to cable in the United States.

New markets for the many developing telecommunications services and facilities are burgeoning. It is believed that Asia will become the largest growth market for telecommunications in the 1990s. The number of households in Asia is multiplying as three-generation households are replaced by one or two generation households with sufficient economic resources to afford some of the telecommunications largess now becoming available. Some of the Asian nations also are believed to be employing a telecommunications strategy that recognizes -- I believe correctly -- the great economic importance of moving large quantities of information efficiently.

As a regulator, I need to appreciate the changing relationships among telecommunications industries, not only on a global basis, but also within my own country. The impact of the global economy has an impact upon national industries and how they perform relative to each other. I need to consider what impact regulation has upon those interrelationships both nationally and internationally to a much greater extent than in the past. As Lord Eric Sharp pointed out in a speech last December "...in order to survive, the traditional telco will have to become a world telco serving the global village."

In a former Intelevent presentation, I included a quotation from Marshall McLuhan that seems to increase in insight with each passing year. Well over two decades ago, McLuhan said:

Electric circuitry has overthrown the regime of 'time' and 'space' and pours upon us instantly and continuously the concerns of all other men. It has reconstituted dialogue on a global scale. Its message is total change, ending psychic, social, economic, and political parochialism. The old civic, state, and national groupings have become unworkable. Nothing can be further from the spirit of the new technology than 'a place for everything and everything in its place.' You can't go home again.

Nor can regulators "go home again." It seems abundantly clear that we cannot continue to regulate our industries as though these past two decades never happened.

The communications world is expanding almost as quickly as the rate of political and social change. As we enter what President Bush called a "New World Order," we face an unprecedented range of major policy choices in telecommunications. We could name it the "New Communications Order." For example, satellite links brought the Persian Gulf War into American homes (also into enemy headquarters) as it was happening.... This was the first television eye witness to a major conflict in "real time." This first time phenomenon highlighted the capabilities as well as the need for electronic press responsibility in the use of new communications technology.

People around the world were able to sit in their homes and watch the war or conflicts in Asia, Latin America, Lebanon, Africa and terrorism in Northern Ireland. They also watched summit meetings in Washington, Moscow, London and China, the explosion of space shuttle Challenger, the fall of the Berlin Wall, the political upheaval in the Soviet Union, the starvation in Africa, the revolutions in Eastern Europe and many other momentous global events.

Back on the peace front, various parties in the U.S.A. have applied for DAB authorization -- digital audio broadcasting. Once the spectrum problems are resolved and a system adopted, this new technology could eliminate interference problems and greatly enhance radio broadcasting quality -- particularly for AM radio.

HDTV, which promises notable improvement in TV picture definition, particularly for large screens, is undergoing tests this summer. An FCC advisory committee will propose an industry

standard and a compatible service. This standard is likely to be digital. Just as DAB promises to revolutionize radio quality, HDTV could produce a dramatic improvement on video broadcasting.

Telephone companies are seeking permission to provide video, inter-active and computer age services via fiber optics.

Some of the proposed changes turn our traditional view of communications on its head. More and more telephone service is being delivered via cellular telephone and oncoming personal communications networks. Conversely, many services we normally think of as over-the-air are being delivered by wire and in the future by fiber optics.

It may be a bit early to call this a New Communications Order. We are very much in a state of transition. In America, I believe the preservation and enhancement of the all-important free universal over-the-air broadcast service is the mainspring of American mass communications. This is probably true of other "free" nations. Among the FCC's challenge will be the orderly compatible implementation of advanced technology services of DAB, HDTV and DBS. I also repeat my belief, stated some time ago, that broadcasters, cable and communications entities that have pioneered the services or who have made substantial investments should have a priority in implementing advanced technologies. It is quite a challenge to promote the new communications technology while preserving the vital local service of the old.

The communications and program distribution of the future will undoubtedly see a competitive battle of fiber optic transmission versus direct broadcast satellite enhanced by compression techniques that will produce many more channels.

There are a number of events looming which should provide opportunities as well as challenges for governments and industries, alike. The World Administrative Radio Conference in 1992 will require our best efforts to identify spectrum choices for the decades just ahead. EC '92 will provide a foundation for a European federation which promises many benefits, not only for its members, but also for all trading partners.

The shifts in industry power referred to as the topic of my presentation today are occurring daily as local exchange carriers become major players in cable television ventures in the UK and elsewhere. U.S. program production companies are being further globalized by new foreign owners like acquisitions of Sony for Columbia, Matsushita for MCA Universal, Piretti for MGM, Fox productions by Australian News Corps. along with Japanese camera and other TV equipment dominance. In fact, it seems that the people really implementing our "Buy American" advertising are the industrious Japanese. U.S. broadcasters too are becoming more interested in the bidding for newly privatized broadcasting operations wherever they occur. Foreign carriers are entering U.S. cellular markets and interexchange markets. U.S. carriers are entering foreign cellular markets.

The entry of U.S. telephone exchange carriers into foreign markets has been criticized for using monopoly ratepayer funding to underwrite competitive entry. If true, of course, then that would not be acceptable to either foreign competitors or to U.S. monopoly ratepayers. The FCC has been careful to require accounting for ratepayer funds to ensure such cross-subsidy does not exist. We believe that we have been successful.

There is another complaint against the entry of U.S. exchange carriers into foreign markets that may have more validity. That is the charge that U.S. carriers should be spending more to enhance their operations within the United States. In recent years, construction budgets have been anemic and the Commission has been assured that more will be spent in the immediate future to ensure that our local exchange networks are capable of meeting the needs of their customers.

The trouble is there is no real agreement about what those needs are. The Bell Operating Companies insist that the nation needs fiber optic capacity to each residence and small business.

Many consumer groups and state public utility commissions insist that what we have now is just fine, except that it should be cheaper.

There is a bill in Congress, S-272, which would provide for the construction of a supercomputer fiber network to link research laboratories throughout the nation. One of the bill's proponents, Tennessee Senator Al Gore, claims the bill has "tremendous momentum" and is going to pass this year.

Over in the House, Pennsylvania Republican Don Ritter is considering offering legislation which would: (1) require the FCC to set nationwide standards for a fiber network superseding state technical requirements; (2) provide federal loans and other government-industry cooperation to aid rapid development of a nationwide fiber network; and (3) create a federal-state joint board of commissioners to consider accelerated depreciation for existing telephone plant.

The local exchange carriers have long been pursuing a strategy of constructing fiber plant for inter-office trunking and to provide feeder links from central offices. Several are actively installing fiber all the way to the local loop. Providing fiber in the local loop continues to be a problem. Furthermore, justifying construction of fiber capacity to residential locations has proved virtually impossible except for a few "experimental" trials.

The only service typical residential users now demand requiring broadband capacity is video entertainment. While the phone companies would be happy to provide such a service, they have at least three serious handicaps. First, cable television legislation approved by the Congress in 1984 prohibits telephone companies from competing with cable companies. Second, the "information services" restriction of the Modification of Final Judgment seems to prohibit the offering of such services. And, third, the cable television industry is strongly opposed to telephone company entry into the video delivery business.

There are other shifts in industry power that have caused considerable controversy in the United States in recent months. The FCC decided to take a fresh look at our so-called "Financial Interest and Syndication Rules" for television networks. The networks are currently banned from acquiring a financial interest in programming produced by non-network producers. They can only license such programming for broadcast and then the producers have the option of placing successful network programs into "syndication" for sale to individual stations both network affiliates and independents.

The rules were enacted in the early 1970s when the networks dominated television viewing in the United State. It was argued, at the time, that they were using that dominance to extract unfair ownership interests from producers in exchange for exposing programs on heavily-viewed network television. The Commission took another look at the rules in 1983 and it was my view then that not enough had changed to modify the rules. In considering Financial Interest and Syndication this year, however, I looked at the network dominance issue and concluded that network power had so eroded that there was no longer any justification for the rules. FCC Chairman Al Sikes felt much the same way. But three other commissioners -- a majority--insisted upon retaining a significant portion of the rules and continuing to limit network participation, particularly in domestic syndication. Fortunately, the majority agreed to permit network participation in foreign syndication which is the fastest growing segment of the market. Again, the globalization of the syndication market and the change in the relative power of the participants forced us to take a new look at regulation.

While the United States has been very much in favor of globalizing markets, we have been criticized for restricting foreign ownership of our radio services. Chairman Sikes recently told a New York telecommunications conference that he's ready to take a fresh look at those restrictions provided that there is reciprocity. The restrictions are statutory, however, and the most that the Commission can do is to urge the Congress to take a new look at the situation. I am certainly ready and willing to consider all of the options and to ensure that we are not unduly restricting entry. My own governing principle for international trade exchange is equal rights for exports and imports in an open marketplace.

In conclusion, I hope nations can learn from one another as we develop improved communications services both for our individual countries and for the oncoming global village. We must continue to search for ways consumers of all nations will benefit from technological advances. We must promote the free flow of information, cultural programming, sports and movies.

Programming data and information must be allowed to flow beyond our national borders to create the global village -- the kind of worldwide communications village that would produce a better informed world populace, engender universal understanding, bring nations closer together and become a major factor in assuring world peace.