

FEDERAL COMMUNICATIONS COMMISSION

WASHINGTON, D.C. 20554

OFFICE OF COMMISSIONER
JAMES H. QUELLO

January 26, 1983

Mr. Les Brown
Editor-in-Chief
Channels Magazine
1515 Broadway
New York, N. Y. 10036

Dear Mr. Brown:

Your reference to my cable views in your essay titled "The Gospel According to Cable's Tooth Fairy" (January-February issue) is inaccurate and demonstrates an embarrassing lack of journalistic integrity.

Enclosed is the full text of my speech. See the marked paragraph on Page 3. You apparently didn't read the copy of the widely distributed speech I personally handed you in Venice before our panel appearance.

A brief review of the speech will make it obvious to any fair-minded reader, let alone an editor, that you criticized an insignificant point out of all proportion to the main thrust. The specific view you ridiculed was properly ascribed to "one cable expert". I didn't attribute any particular omniscience to his viewpoints.

Using this cable "ignorance" to reflect unfavorably on my FCC qualifications is of doubtful objectivity and relevance. You contributed nothing to an understanding of the issues by attempting to support your personal opinion with distortion of fact and unconscionable hyperbole.

As a staunch supporter of First Amendment rights, I believe reporters and editors have a right to be wrong and biased. I also believe that publishers and boards have the responsibility to make sure they are not wrong too often or to the point they embarrass themselves and their publications.


To paraphrase the penultimate paragraph in your essay -- I hope you really believe what you wrote because I hate to think an American

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editor went to such lengths to deceive his readers. On the other hand, I shudder to think you believe it because we in America can't afford such ignorance and incompetent editorial judgement in such critical times.

Regretfully,


James H. Quello

Enclosure

cc: Editorial Advisory Board
Media Commentary Council, Inc.

Remarks by FCC Commissioner James H. Quello
at the Prix Italia
Venice, Italy

September 28, 1982

"SATELLITES: WHAT PROGRAMMING?"

I am delighted and honored to be here in the land of my forefathers to participate in your prestigious "Prix Italia" study meetings.

Venice, an architectural wonder, rich in history and culture, is an ideal setting for your conference on programming and technology.

And Italy, the homeland of Guglielmo Marconi, whose pioneering genius introduced electronic communications to the world, is a most appropriate country to examine the program potentialities of satellite and cable technology.

And, speaking of satellites -- Wasn't it considerate of Italy to wait until the advent of satellite transmission before winning their next world championship in soccer so that millions of Italo-Americans could see the game and share the experience? As you probably know, Italy's victory elicited day-long celebrations of exuberant Italo-Americans from New York to California.

The soccer games and Olympics are notable examples of international satellite transmission of programs shared by nations throughout the world. These nations are competing in the same league, under the same rules with similar appreciation of fair play and talent. This common interest promulgated by satellite TV holds great promise of developing into a positive force for creating international mutual understanding and respect. But, I'm getting ahead of myself.

The question for your study meeting today is "Satellites: What Programming?" It is an excellent, pervasive one. European and American systems and operations may differ, but the question is universally the same. I asked myself a similar question at the Annual Convention of the American National Cable Television Association, where I expressed some concern regarding the communications glut in America.

We are in the midst of a communications explosion in America creating an unprecedented need for program product to fill the multiple channels. In the past three years, the FCC has been involved in fascinating developments in multiple channel cable, STV (subscription television), DBS, MDS microwave service, SMATV (satellite master antenna TV), teletext, low power TV, increased TV and radio drop-ins, video cassettes and discs, UHF parity, alternate funding for public television with TV advertising experiments in ten markets, advanced land mobile services through cellular radio, AM stereo, FM quadrophonic, First Amendment recommendations, network financial interest rule, etc. -- all more or less affecting program and technical decisions and development.

As you may have read, the current FCC is embarked on a program of "unregulation" stressing competitive market forces rather than government regulation. I generally favor that approach but admit a nagging perplexity about how general principles may apply to specific aspects of future developments in our multi-channel world.

Our primary Congressional mandate in this era of advanced transmission and programming remains serving the public interest. "Public interest" is a widely used general term in American regulation of communications -- I have been asked to define it. It is difficult to define --. It is a simple principle often requiring complex implementation. It means different things to different people--people of worthy intent. I think the late, respected author, Walter Lippman, generalized it as well as anyone. He said "Public interest is what people would do if they thought clearly, decided rationally and acted disinterestedly." The best I could do with a simplified version is "The best service to the most people at the most reasonable cost." Conventional basic TV in America seems to best meet these criteria at this time---but the future potential of DBS and multiple cable for additional, highly desirable services is mind-boggling!

Many American cable companies now propose 50 to 107 channels to gain local franchises---again eliciting the universal question---What will cable, DBS, MDS, SMATV, STV and even teletext use for programming all these channels? I guess it should be none of our (FCC) business as long as the public interest isn't adversely affected. Cable's principal source of programming still comes from TV stations they carry at extremely favorable copyright fees (copyright fees are currently being revised by Congress).

However, it seems inevitable that the U.S. public will have a choice of more program channels and delivery services than any viewer needs or that responsible communications companies can afford. In the process, TV audiences could be fractionalized and advertising support for the more expensive quality TV programming could be dissipated.

I have briefly outlined a few problems facing the American system of free enterprise financing of communications so that you can share and better understand the American experience.

However, I realize the structure and problems of European countries are markedly different. In areas without established cable, MDS or STV service, there will be a much greater need and opportunity for DBS. DBS coverage is more universal and cheaper than cable or STV. The advent of multiple channel DBS could thwart or even preclude development of cable in Europe.

In contrast, a DBS pay service in the USA faces initial severe competition from well established cable systems that already are offering 20 - 50 channels. Cable, in turn, is competing against MDS and STV and to a lesser extent, teletext.

Experience indicates that whichever service gets established first has a decided market advantage. Almost 30% of Americans are now able to receive cable -- a highly desirable service for those who can afford nominal monthly payments. It still leaves plenty of room for DBS. However, if a subscriber is already receiving 20 - 50 channels including the three major networks, public broadcasting, numerous independent stations, access and government channels, community events bulletins, news channels, finance reports, shopping catalogs, plus special pay TV movie programs---what inducement is there for a subscriber to pay for additional channels via DBS, MDS or STV? The reverse is also true, but the other services are in place and growing while DBS has an estimated starting date of late 1985 or 1986. Once in place, the universal reach and availability of DBS should make it a formidable competitor.

Cable systems today are being planned and built with more than 100 TV channels. Satellites are being planned to provide 100 more channels, some to broadcast directly into a subscriber's home as previously mentioned, and, while capacity expands, we are gradually learning how to compress bandwidth to make it possible to provide even more channels over existing transmission systems. (This increased transmission capacity must also consider the equally legitimate needs for land-mobile radio and other services).

Programming for all these channels poses a monumental challenge for the future. We do have some guidelines through the experience of the American cable industry which is eminently represented here today by Ralph Baruch, Board Chairman and Chief Executive Officer of Viacom. Viacom is also a major program syndicator and distributor in America.

No one can be certain how it will all eventually evolve, but I'd like to mention a few programming ideas that are offered now or will be offered in the future by Cable, DBS, MDS, or STV.

One cable expert foresees 220 different channels of service and entertainment by 1990. In addition to "basic" service of local and distant TV stations, he foresees channels tailored to special interests such as bridge players, stamp and coin collectors, antique dealers, artists, etc. Some channels will provide coverage of local community events and high school sports. Others could offer instruction and documentary programming on golf and tennis. More universities will offer courses for credit. Channels will be available for the ubiquitous computer games. It is generally believed that much that now appears in magazines and newspapers will be available via cable.

In terms of what is now available on the larger cable systems in the United States, there is already quite a variety of programming and services. There are new networks for the arts which produce programs of symphonic music, ballet, opera and drama. There's Cable News Network which offers news programming 24-hours a day. There's C-SPAN--the Communications Satellite Public Affairs Network--

which regularly covers the U. S. House of Representatives when in session and numerous hearings in both the House and the Senate. Services include security systems for the home, shopping systems and two-way communications, such as in CUBE, for instant surveys. There are sports channels, financial and stock reports, religious channels, children's channels, movie channels, advertising catalogs, playboy channels and the list goes on and on. There are channels for Hispanic Americans, Black Americans, and, yes, for Italian Americans. Manuele Volani-- one of Italy's major industrialists -- is president of Volani Broadcasting Company in New York. He has a network called Studio I which is targeted to the Italian American population in New York. As of a year ago, I was told the network was carried by 273 cable systems serving 635 communities in 44 of the most populous states, and it's estimated by 1985, Studio I will reach an audience of nearly 11 million. Most of its programming is produced here in Italy. There was even a rumor of a possible undertaking with RAI, but someone from RAI is better qualified to comment on that. The point is that there are still many uses for television that haven't yet been tapped. All that is needed is an audience willing to pay for the services.

It is only natural that additional program choices from cable, DBS, STV or MDS will reduce viewing to individual TV stations. The audience fragmentation argument has gained a considerable amount of credibility recently despite the FCC's previous perfunctory dismissal of the problem.

Last December, Ogilvy and Mather, an advertising agency, reported that in the previous five years the three American television networks had lost nine percent of the viewing audience (although the raw number of people viewing had increased) and that the rate of percentage decline was increasing. Ogilvy and Mather also noted an apparent correlation in the decline of network audience share and the increase in pay television subscribers. In 1976, the agency reported network audience share to be 91 percent while pay TV subscribers numbered only 700 thousand nationwide. By 1981, network shares totaled 83 percent and there were more than 10 million pay television subscribers. Moreover, the advertising agency estimates that, by 1990, the three networks will attract only 59 percent of the audience. The implications of audience fragmentation for a system of advertising-supported broadcasting are obvious: reduced revenue and reduced program expenditures. What may not be so obvious are the implications for those terrestrial broadcasting services which are government supported. It seems likely to me that the available resources to support a shrinking audience base will decline whether these resources come from government or from private financing.

Concurrent with and encouraging the decline of terrestrial broadcasting's audience base is the increasing ability of the pay services to outbid traditional commercial broadcasting for programming. I am convinced that pay cable interests are financially capable of outbidding the networks for major sports attractions at the present time. They haven't done so for such attractions as the Super Bowl in football, the World Series in baseball, the Olympics, or the U. S. Open tennis tournament, however, because of the political problems such a successful bid would surely create. With less than thirty percent of the United States able to receive

cable television at the present time and with millions of Americans expecting to view those sports events without paying extra for the privilege, it is almost a certainty that the Congress and the FCC would receive such a storm of protest that strong legislation would result. Cable interests are very reluctant to put such a scenario in motion and, thus far, they have seen the wisdom of restraint. With the advent of Direct Broadcast Satellite service and the universal availability of that service to all TV homes in the United States, such restraint may be increasingly difficult to maintain.

While there are complex problems associated with the expanding programming capabilities of satellite broadcasting, by the time we are responding to those challenges we are likely to face a new challenge from another technology. In recent years, I have been watching with great interest the development of fiber optic transmission systems and, particularly, the advances made in single-mode fiber optic telecommunications. It seems very clear that the commercial development of single-mode fiber optics in the next decade could so expand our telecommunications capacity at such low cost as to make our present and near future capacity pale by comparison. Our friends in the United Kingdom have made great strides in this area as have scientists in several other nations. We have several operating systems in the United States of a rather limited capacity and running for comparatively short distances. The American Telephone and Telegraph Company is starting construction of a long-haul route which will extend from Cambridge, Massachusetts to Washington, D. C.

As the cost of copper goes up--as it surely will--and the cost of fiber comes down--as it surely will--it is apparent to me that the same loop that now provides only telephone service to the home will eventually provide much, much more service--including multiple television channels to meet all possible audience tastes. I don't know how many years may lie ahead before that scenario becomes a reality, but I'm convinced that it will be economically viable much sooner than most of us realize. If all electronic information services can be provided most efficiently by one inexpensive "fiber", that will raise critical regulatory questions about who will control access to that "fiber" or wire. So, while we wrestle with present problems and challenges we should be aware that other challenges, less international in scope, lie just ahead.

I won't be at the Commission when the full marvels of satellite communications impact the world. The Congress and the FCC have the responsibility of assuring an orderly, stable transition from TV communications of the 80's into the 90's with painstaking consideration of all the complex facets of serving public interest.

With vastly improved world-wide transmission, with international people-to-people communications, the potential for increased mutual understanding is heartening.

I hope we will someday arrive at the millenium---where through universal communication, international hostilities become looked upon more as intra-mural family disputes --where TV programs and experiences shared by nations throughout

the world engender mutual understanding and respect -- where, hopefully, we can confine rivalry to public TV debates, open forums and the sports arena -- and where a country like Italy can recapture some measure of the glory that was once Rome with a championship soccer team on the athletic field rather than by armies on the battlefield.

Thanks again, paisans, for inviting me to the highly esteemed Prix Italian meetings. You have my best wishes for continued achievement in the great communications era ahead.
