



**Remarks of  
Acting Assistant Secretary of  
Commerce Michael D. Gallagher**

**Media Institute Communications  
Forum Luncheon**

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### Introduction

Thank you for inviting me here today to share the views of the Bush Administration on telecommunications, media and information issues. It is a great pleasure to join the distinguished group of individuals who have spoken at this luncheon hosted by the Media Institute. The Media Institute has performed a valuable role in fostering freedom of speech, a competitive media and communications industry, and excellence in journalism.

The Administration has been working actively to support the advancement of information technologies and has moved aggressively to create an economic and regulatory environment in which information and communications technologies can flourish. A few days ago, the Census Bureau at the U.S. Department of Commerce released their *2002 Annual Survey: Information Sector Services* report. This comprehensive annual survey found that revenues for the nation's information firms totaled \$885 billion dollars in 2002. Motion picture and video production and distribution were up 11% to \$44 billion. Television broadcast revenues were up 9 percent to \$37 billion. Radio broadcasting revenues increased 8 percent to \$15 billion. Revenues of cable and other program distribution firms increased 8 percent to \$56 billion. Finally, cable networks and program distribution revenues were up 8 percent to \$81 billion dollars.

The numbers do not lie. They tell us that the economy is coming back strong. During the fourth quarter of 2003, the American economy grew at a vigorous pace of 4 percent, continuing the exceptionally strong growth seen in the third quarter of '03 and well above the historical average. Economic growth in the second half of 2003 was the fastest in nearly 20 years, with payroll employment increasing 278,000 in the last five months of the year. This improvement reflected an emerging recovery in exports, faster growth in household consumption, extraordinary gains in residential investment and a sharp pickup in business spending on capital equipment. These are numbers that we can build on!

NTIA, under the leadership of Commerce Secretary Don Evans, serves as the President's principal adviser on telecommunications and information policy matters, but is not the regulator of telecommunications, which is the job of the independent Federal Communications Commission. Our second major function is to be the manager of the nation's airwaves, or radio spectrum, by federal government agencies, including the military. We have joint jurisdiction with the FCC over spectrum allocation and use.

Today, I will speak to three of the many areas where the mission of NTIA and the mission of the Media Institute overlap: the transition to digital television (or “DTV”); the need for broadcasters to create an entertainment environment that values American families and American children; and the impact of technology on the future of broadcasting.

#### Digital Television, or “DTV”

A spectrum application that is near and dear to the hearts of many of the individuals in this room is broadcast television. Digital television is an application that is revolutionizing the television marketplace, offering improved service quality, greater service innovation, and new capabilities for the delivery of news, education, and entertainment. Because DTV service is designed to use radio spectrum more efficiently than analog service, with the completion of the DTV transition, unused analog broadcast television spectrum will be reclaimed and reallocated for other important uses, including public safety and advanced wireless services.

Just in the past few years we have seen the explosive growth in the convergence of video, data, and voice communications with the deployment of advanced wireless services by mobile wireless carriers, the rapid adoption of WiFi technologies in the workplace and the home, and even ultrawideband product offerings. The convergence envisioned by the 1996 Telecommunications Act has occurred. But it’s not centered on the desktop – it’s centered in the palm of your hand. Those technical and market developments underscore the need for the DTV transition to take place as quickly as we can stoke the fires of the marketplace and government to make it happen.

The 1996 Telecommunications Act set a December 31, 2006 deadline for the completion of the DTV transition and the surrender of analog broadcast spectrum to the government. A provision of the Balanced Budget Act of 1997 has allowed this deadline to be extended until 85 per cent of viewers in a television market are able to watch DTV programming.

Today, more than 1155 commercial stations broadcast digital programming in 203 markets, which cover 99.42% of the nation’s 106 million TV households. Broadcasters are making great strides in meeting the challenges that the conversion poses. The FCC’s requirements for DTV tuners, plug and play, and broadcast flag have facilitated the conversion. That said, we clearly have a long way to go.

Public television is also making great strides on the way to converting its transmission facilities to digital broadcasting. As of late January 2004, two thirds of public television stations (233 of 355) were broadcasting a digital signal. NTIA and the Corporation for Public Broadcasting have provided such stations with federal funds to assist in the construction of over 100 additional digital stations. We estimate that over 90% of public television stations will be broadcasting a digital signal by the end of 2004.

Consumers are embracing DTV as well. By the end of 2003, the Consumer Electronics Association (CEA) estimates that consumers invested over \$15 billion in DTV equipment, making digital television’s growth faster than that of PCs, VCRs, CD players,

and color TVs. With the expected drop in the average price of a DTV set from \$2,000 to \$1,400 in 2004, CEA predicts sales will reach 5.7 million sets this year over last year's sales of 4.1 million DTV sets. Consumers' desires for digital, flat-screen, wireless and surround sound functionality will be wind at the back of the conversion to DTV.

Even with the steady increase in DTV and set-top box sales, and promising projections of sales reaching 8.3 million DTV sets by 2005 and 11.9 million sets in 2006, it is highly unlikely that DTV penetration, by the end of 2006, will have reached the 85% of the 106 million American homes threshold that Congress established for elimination of analog broadcasting.

Under the Administration's current budget proposal, beginning in 2007 television broadcasters would begin paying an annual leasing fee (totaling up to \$500 million, apportioned among commercial broadcasters) for the use of analog broadcast spectrum which they still hold after the 2006 deadline. The fee is designed to encourage the expeditious transition by broadcasters to digital broadcasting so that recovered analog spectrum can be used to deploy new wireless and public safety services.

The fee represents a little over 1.4 percent of the industry's advertising revenues in 2001. If each of the more than 1,300 commercial stations continues to use their analog spectrum license beyond the 2006 deadline, each station would pay, on average, less than \$400,000. The fee would terminate when a broadcaster returned its analog spectrum license to the FCC.

### Indecency

While innovation continues in the technologies that make television possible, some of the problems transcend all media and technology. Technology has not answered the question of how we protect our children from exposure to indecent broadcast content. While I don't want to spend too much time talking about the fallout from this month's Super Bowl half-time show, it is clear to the Administration that some broadcasters are airing increasingly coarse, and at times indecent material. Nielson Media estimated that there were 6.6 million children ages 2-11 in the television audience when Ms. Jackson was exposed. Another 7.3 million teenagers ages 12-17 were also estimated to be watching. As stewards of the public airwaves, broadcasters have a statutory obligation to serve the public interest. Existing laws are meant to protect children and families from being exposed to indecent broadcast material. This latest transgression sits atop a rash of instances of bad judgment by performers, broadcasters, and radio talk show hosts – each of which is now the subject of FCC investigation and enforcement activity. When violations of the public interest occur with the frequency demonstrated in these recent events, government must act to protect our children and our families. Accordingly, the recent Congressional hearings on indecency in the House and Senate should come as little surprise. I also commend the strong response to those incidents by Chairman Powell and the other Commissioners.

The Administration strongly supports passage of H.R. 3717 which will help make broadcast television more suitable for children by imposing meaningful penalties on broadcasters that air obscene or indecent programming. By increasing the applicable penalties tenfold, the bill will empower the FCC to punish violations of our indecency laws with appropriate fines. Further, the Administration supports amending the bill to *require* consideration of the maximum available penalty when obscene or indecent programming is aired during a children's television program, as defined in the Commission's *Children's Programming Policy* or during a television program rated appropriate for children under the TV Parental Guidelines as approved by the Commission.

Before leaving this subject, I want to also point out the positive steps the industry is taking to more tightly filter indecent content from reaching the eyes and ears of our children, including:

- Viacom's "zero-tolerance" policy on obscenity for its Infinity radio stations.
- Public service announcements that increase consumer awareness of the V-chip
- CBS Television Network's 5 minute delay on the recent Grammy Awards.
- I also understand Fox had a meeting of all of its senior executives and is taking steps to drive its anti-indecency policies throughout its corporate culture.

These are examples of what needs to be done. For the sake of the companies involved and, more importantly for our families and children, I hope they are not temporary or short-term in nature.

### The Impact of Technology on the Future of Broadcasting

In the next 10 years the business and consumption of broadcasting will be dramatically different than today. Indeed, there will likely be much more change in the next 10 years than the high level of activity in the previous 10 years.

Ninety percent of US zip codes have access to broadband, and over 70 percent of zip codes have access to two or more broadband providers (FCC). Nearly 50 million Americans use broadband (Nielsen). In addition, the number of hours Americans spend viewing broadcast television is in decline, and the number of hours spent on the Internet is increasing. Personal video recorders are the rage of the consumer marketplace. As the bandwidth available to US consumers becomes faster and the content predominantly digital, we will move to a "pull" model of content delivery. Today, I receive over 800 channels of content "pushed" to my satellite dish. I can watch one channel upstairs, one downstairs, and my TiVo box can record two more. That's the limit of my consumption of content.

Consumers will move to the pull model. I understand that Microsoft is experimenting with the pull model for “television content” with targeted cable franchises in Oregon. Change will not occur overnight. Just as we are years away from full adoption of DTV by consumers, the pull model will take time to significantly change absolute market share. But, on the margins, where financial decisions are made by investors, the expansion of the pull model will dramatically change investment and the underlying economics of broadcasting. In fact, the companies present in at the Media Forum 10 years from now will likely be very different than the companies that are here today.

Pull technologies will be tailored to the customer, and will provide enhanced tools to parents to ensure they are able to create a healthy environment for the entertainment and education of their children. Just as the introduction and growth of cable television, satellite television, and the Internet have changed the broadcast market, the deeper, faster, and broader deployment of broadband (and digital content, PVR’s, etc.) will enrich the experience for American consumers – and fundamentally change the landscape for broadcasters.

### Conclusion

The Bush Administration has and will continue to advance policies that stimulate and advance our economy, including the media, and make sure the American people are getting the most out of their spectrum resource. These policies will be based on the vision of providing economic security – extending our position as the leading economy in the world and national security – defending our homeland and our interests abroad. Let me conclude by saying that I am proud to be working within this Administration to make a difference in how telecommunications and information services develop, and therefore can improve our economy and the lives of the American people. For this audience I would also add that it is a privilege for me to speak to the strength of the American people – which is the family – and to nurturing the future of our country – which is our children.