

**Written Statement**

**of**

**The Honorable Kevin J. Martin  
Chairman  
Federal Communications Commission**

**Before the  
Committee on Commerce, Science & Transportation  
U.S. Senate**

**February 1, 2007**

Good morning Chairman Inouye, Vice Chairman Stevens, Members of the Committee. Thank you for the opportunity to be here with you today to discuss the state of the telecommunications industry. I have a brief opening statement and then I look forward to answering any questions you may have.

I have had the privilege of serving at the Federal Communications Commission for over five years, including almost two years as the agency's Chairman. During this period, my colleagues and I, following guidance from this Committee and Congress, have overseen a telecommunications industry undergoing rapid and unprecedented change.

These changes have seen the telecommunications industry transition from a period of sharp decline to a time of significant growth. Companies and consumers alike have finally found the promised land of convergence, ushered in by the broadband revolution. Telephone calls are now being made using the Internet and cable systems. Television programs are watched when and where we want them, and they are increasingly available on the Internet. Cell phones are mini-computers. They take pictures, play songs and games, send e-mail, and hopefully soon will send and receive emergency messages in times of disaster. Teens talk to one another over IM, SMS and MySpace, not the telephone. They ignore the TV and stereo, downloading songs onto MP3 players and watching and posting videos on YouTube instead. The Internet has become an invaluable tool for educating our children, treating patients, and giving a voice and creative outlet to individuals from all walks of life. As Time Magazine recognized, 2006 was the year of the individual, thanks in large part to how communications technologies and innovations have empowered us all.

Faced with such fast-paced technological change, the Commission has tried to make decisions based on a fundamental belief that a robust, competitive marketplace, not regulation, is ultimately the greatest protector of the public interest. Competition is the best method of delivering the benefits of choice, innovation, and affordability to American consumers. Competition drives prices down and spurs providers to improve service and create new products.

Government, however, still has an important role to play. The Commission has worked to create a regulatory environment that promotes investment and competition, setting the rules of the road so that players can compete on a level playing-field. For instance, shortly after I became Chairman, we removed legacy regulations, like tariffs and price controls which discouraged providers from investing in broadband networks. Since then, broadband penetration has increased while the prices of DSL and cable modem services have decreased.

Government also must act when necessary to achieve broader social goals. Thus, while I support eliminating economic regulations, I recognize that there are issues that the marketplace alone might not fully address. For instance, government should ensure that the communications needs of the public safety community are met and that new and improved services are available to all Americans, including people with disabilities, those living in rural areas and on tribal lands, and schools, libraries, and hospitals. For example, we expanded the ability of the deaf and hard of hearing to communicate with

their family, friends and business associates by requiring Video Relay Services (the preferred method of communication) to be offered 24 hours a day, seven days a week, and by recognizing IP Captioned phone service as a form of Telecommunications Relay Service.

Against this backdrop of unprecedented change, I will give a short overview of the industry and briefly discuss my priorities for the next few years.

### **State of the Industry**

I am pleased to report that the state of the communications industry is strong. As you no doubt remember, in the year 2000, the communications industry began a precipitous and far-reaching decline. Capital spending by companies followed this market decline, innovation disappeared and companies went out of business taking jobs with them.

What a difference six years make. In 2006, the communications industry experienced record growth and, by most measures, almost all sectors have rebounded remarkably. In 2006, the S&P 500 telecommunications sector was the strongest performing sector, up 32% over the previous year. Consumers and businesses – big and small – are reaping the rewards of these positive developments. According to the Telecommunications Industry Association's latest report, U.S. telecom revenue rose to \$923 billion in 2006, representing a 9.3% increase since 2005 – the most growth since 2000. TIA attributes the growth to the demand for broadband services, which has spurred providers to invest in fiber, IP technology and wireless infrastructure.

Americans are reaping the rewards of this revolution. Markets and companies are investing again, job creation in the industry is high, and in almost all cases, vigorous competition – resulting from free-market deregulatory policies – has provided the consumer with more, better and cheaper services to choose from. Consumers are certainly paying less for more. In 2005, the price for long distance service was two-thirds of what it was in 2000, wireless phone service was half its 2000 level, and the price for placing an international call was a quarter of what it was in 2000.

### **Telecommunications**

Almost all of today's innovation is enabled by broadband deployment. Broadband technology is a key driver of economic growth. The ability to share increasing amounts of information, at greater and greater speeds, increases productivity, facilitates interstate commerce, and helps drive innovation. But perhaps most important, broadband has the potential to affect almost every aspect of our lives. It is changing how we communicate with each other, how and where we work, how we educate our children, and how we entertain ourselves. Broadband deployment has been our top priority at the Commission, and we have begun to see some success as a result of our efforts.

In 2005, the Commission created a deregulatory environment that fueled private sector investment. Since then, companies have begun racing to lay fiber to our homes.

From March of 2005 to the end of last year, the number of homes passed by fiber increased from 1.6 million to 6.1 million.

Just as significant for consumers, the average price of broadband has dropped in the past two years. The Pew Internet and American Life Project (Pew) found that, from February 2004 to December 2005, the average price for home broadband access fell from \$39 per month to \$36 per month. For DSL, monthly bills fell from \$38 to \$32 (almost 20%), while cable modem users reported no change from \$41 during the same period.

The decline in price was accompanied by an increase in the number of Americans subscribing to high speed connections to the Internet. Such connections have grown by nearly 600% since 2001. And according to the Commission's most recent data, high-speed connections increased by 26% in the first half of 2006 and by 52% for the full year ending June 30, 2006.

The independent Pew confirmed this trend, finding that from March 2005 to March 2006, overall broadband adoption increased by 40% – from 60 to 84 million – twice the growth rate of the year before. The study found that, although overall penetration rates in rural areas still lags behind urban areas, broadband adoption in rural America also grew at approximately the same rate (39%).

Perhaps most importantly, the Pew study found that the significant increase in broadband adoption was widespread and cut across all demographics. According to their independent research:

- broadband adoption grew by almost 70% among middle-income households (those with incomes between \$40,000 and \$50,000 per year);
- broadband adoption grew by more than 120% among African Americans;
- broadband adoption grew by 70% among those with less than a high school education; and
- broadband adoption grew by 60% among senior citizens.

Wireless service is becoming increasingly important as another platform to compete with cable and DSL as a provider of broadband. The demand for wireless services continues to grow at a rapid rate. In 1986, there were only 500,000 wireless subscribers generating only \$670 million in revenue. Today there are 219 million subscribers generating \$60 billion. Moreover, wireless rates have continued to decrease, falling 82% since 1996 and 14% from 2005 to 2006.

The Commission is making available as much spectrum as possible to put the next generation of advanced wireless devices into the hands and homes of consumers. In September the FCC closed its largest and most successful spectrum auction, raising almost \$14 billion. The spectrum offered was the largest amount of spectrum suitable for deploying wireless broadband ever made available in a single FCC auction. And we are

currently preparing to auction 60 MHz in the 700 MHz band, spectrum that is also well-suited for the provision of wireless broadband.

Moreover, the number of consumers who receive their broadband connection through satellite or wireless will continue to increase, as new satellite services are launched, rural wireless Internet service providers continue to grow, and Wi-Fi hotspots continue to sprout up across the country. Indeed, there are nearly 50,000 Wi-Fi hotspots throughout the United States, more than three times the number of any other country.

Another potentially innovative means of providing high-speed data communications is Broadband over Powerline (BPL), which uses existing electrical infrastructure to provide broadband services. BPL is a potentially significant player due to power lines' ubiquitous reach, allowing it to more easily provide broadband to rural areas. The United Power Council reports that there currently are at least 38 trial deployments and 7 commercial trials.

In sum, the United States is the largest broadband market in the world with over 56 million broadband subscribers according to the Organization for Economic Co-operation and Development (OECD). I am proud of the progress we have made in broadband deployment by creating an environment that better facilitates infrastructure investment. I also, however, hear the voice of my colleague Dr. Copps spurring us on to do better. I agree.

This Committee explicitly asks how the U.S. compares with other industrialized nations. The OECD currently ranks the U.S. as 12<sup>th</sup> in the world in terms of broadband penetration, behind Korea, the United Kingdom, and even Belgium. It is important to note that the OECD does not adjust for factors including density, which puts a country as large as ours with sizable rural areas at a significant disadvantage. For instance, New Jersey has a similar population density as Korea, ranked 4<sup>th</sup>, yet has a higher penetration rate (30 subscribers per 100 residents, versus 26 for Korea). Nevertheless, we all agree that our current standing of 12<sup>th</sup> is not good enough. We must continue to build on our efforts to encourage competition, speed broadband deployment and lower prices for consumers.

### **Media**

As is the case with the telecom sector, consumers and companies are benefiting from technological developments and innovation in media. DVR's, VOD and HD programming offer them more programming to watch at any given time than ever before. Thanks largely to new services like these, cable operators' total revenue grew from \$65.7 billion to approximately \$73 billion last year.

While consumers have enormous choice among channels, they have little control over how many channels they are able to buy. For those who want to receive 100 channels or more, today's most popular cable packages may be a good value. But according to Nielson, most viewers watch fewer than two dozen channels. For them, the deal isn't as good.

The cost of basic cable services have gone up at a disproportionate rate – 38% between 2000 and 2005 – when compared against other communications sectors. The average price of the expanded basic cable package, the standard cable package, almost doubled between 1995 and 2005, increasing by 93%. The increase in cable prices appears even more dramatic when viewed relative to the prices for a number of other communications services: prices for long distance, international, and wireless telephone service have all decreased dramatically during this same timeframe.

Ten years ago the satellite industry was nascent. Today, Direct Broadcast Satellite (DBS) provides consumers an important competitive choice. And satellite offerings are sometimes the only multi-channel video option for rural Americans. Between 2000 and 2006, DBS subscribership grew 100% and average revenue per user grew 32%. Like DBS, satellite radio also has experienced significant growth. Subscriptions have increased from 1.6 million in 2003 to 13.6 million subscribers in 2006.

The transition from analog to digital technology poses both opportunities and challenges for the broadcast sector. The new and better services that digital technology enables are great for consumers, who will have access to more free news, information and entertainment. With digital technology, television broadcasters can offer high-definition programming, multiple programming streams, data services, and video over mobile devices. Radio broadcasters can offer crystal clear sound (even on the AM band), as well as data such as local traffic and weather, stock updates and news, and artist identification. But many of these business plans are in their infancy, with revenue streams uncertain, while the costs of the transition are large and immediate. And those costs come at a time of increased competition for advertisers from other media – many of which, unlike broadcasters, have a subscription revenue stream in addition to advertising revenue.

### **Looking Forward**

While we have made significant progress in creating an environment that facilitates investment and ensures the American people realize the full benefits of our world-class communications system, there is more to be done. I see four areas that deserve particular attention.

#### **First, we must continue to increase access to communications services.**

I will continue to make broadband deployment the Commission's top priority. As I previously touched upon, the ability to share increasing amounts of information – at greater and greater speeds – increases productivity, facilitates interstate commerce, and encourages innovation.

We will continue to encourage deployment of broadband from all providers using a variety of technologies. As wireless technologies become an increasingly important platform for broadband access, it is critical to ensure that there is adequate spectrum available for providing broadband service. Spectrum auctions will continue to be an important part of our strategy for facilitating the build-out of mobile broadband networks.

We are working to ensure that our upcoming auction of the 700 MHz spectrum meets the needs of both large and small rural companies and proceeds in an efficient, effective and timely manner.

The Commission is also considering an order that would classify wireless broadband Internet access service as an information service. This action would eliminate unnecessary regulatory barriers for service providers. This classification also would clarify any regulatory uncertainty and establish a consistent regulatory framework across broadband platforms, as we have already declared high speed internet access service provided via cable modem service, DSL and BPL to be information services. This action is particularly timely in light of the recently auctioned AWS-1 spectrum for wireless broadband and our upcoming 700 MHz auction.

The United States and the Commission have a long history and tradition of making sure that rural areas of the country are connected and have the same opportunities for communications as urban areas. In the 1996 Act, Congress explicitly required that the Commission ensure that consumers in all regions of the nation have access to services that "...are reasonably comparable to those services provided in urban areas." Specifically Congress required the Commission to establish Universal Service Fund mechanisms that are "... specific, predictable and sufficient...to preserve and advance universal service."

It is critical that all Americans stay connected to state-of-the art communications services. The Universal Service Fund is the lifeblood of this goal. Without this source of funding we cannot continue to meet these commitments. But this system is in need of reform. Changes in technology and increases in the number of carriers who are receiving universal service support have placed significant pressure on the stability of the fund. We should improve the way the Commission administers the fund and reform the collection and disbursement systems. We need to move to a contribution system that is technologically neutral and a distribution system that is more efficient.

The Commission will also do its part to ensure that all Americans, including those who live in the most remote areas of the country, receive first-rate medical care. We recently took action, through our adoption of a Rural Healthcare Pilot Program, to support the construction of state and regional networks dedicated to health care. In the first half of 2007, the Commission will be selecting participants for the pilot program, and in 2007 and 2008, the Commission will oversee the program. The deployment of such a network will create numerous opportunities for delivering telehealth services, including telemedicine applications that have the potential to revolutionize the current healthcare system throughout the nation. This is particularly true in rural and underserved areas, where distance often separates patients from the medical care they need. Under the pilot program we adopted, patients anywhere on the network will have greater access to critically needed specialists in a variety of specialties.

**Second, we must continue to promote real choice for consumers.**

In December of last year, we took steps to implement Section 621 of the Communications Act, which prohibits local authorities from unreasonably refusing to award a competitive franchise. We will continue to take steps to remove regulatory impediments to the entry of new service providers into the video market by, for instance, ensuring that consumers living in apartment buildings are not denied a choice of cable operators.

Competition and choice in the video services market will benefit the consumer by resulting in lower prices, higher quality of services, and generally enhancing the consumers' experience by giving them greater control over the purchased video programming. We need to continue our efforts to create a regulatory environment that encourages entry into this market and more choice for consumers. This includes making sure that competitive providers have access to "must-have" programming that is vertically integrated with a cable operator.

Promoting competition and choice must be our priority in the voice arena, as well. We need to continue to ensure that new entrants are able to compete with incumbents for telecommunications services. For example, new telephone entrants need access to local telephone numbers and the ability to interconnect with incumbents to deliver local calls to them.

We also need to ensure that existing service providers are not standing in the way of the innovations currently occurring in the consumer electronics space. Consumers want to be able to walk into a store, buy a new television set or TiVo, take it home, and plug it in as easily as they do with a telephone.

**Third, we must continue to protect consumers.**

We must always be on alert for companies intentionally or unintentionally harming consumers. Among the issues the Commission must turn its attention to is the ability of unauthorized users to gain access to callers' phone records, or pretexting. The Commission intends to strengthen its privacy rules by requiring providers to adopt additional safeguards to protect customers' phone record information from unauthorized access and disclosure. Specifically, the Commission would prohibit providers from releasing call detail information to customers except when the customer provides a password. Similarly, we propose to modify our current rules to require providers to obtain customer consent before disclosing any of that customer's phone record information to a provider's joint venture partner or independent contractor for marketing purposes.

Recently, concerns about preserving consumers' access to the content of their choice on the Internet have been voiced at the Commission and Congress. In its Internet Policy Statement, the Commission stated clearly that access to Internet content is critical and the blocking or restricting consumers' access to the content of their choice would not be tolerated. Although we are not aware of current blocking situations, the Commission remains vigilant and stands ready to step in to protect consumers' access to content on the Internet. Moreover, to better assess how the marketplace is functioning and address any



potential harm to consumers, I have proposed the Commission examine this issue more fully in a formal Notice of Inquiry which is presently pending before my colleagues.

Perhaps no other issue before the Commission garners more public interest than our quadrennial review of our media ownership rules. This attention is understandable given that the media touches almost every aspect of our lives. We are dependent upon it for our news, our information and our entertainment. Indeed, the opportunity to express diverse viewpoints lies at the heart of our democracy. We must make sure that consumers have the benefit of a competitive and diverse media marketplace. At our public hearings, the Commission has heard a consistent concern that there are too few local and diverse voices in the community. Certainly, we need to protect localism and diversity in the media. We must balance concerns about too much consolidation and too little choice, however, with appropriate consideration of the changes and innovation that are taking place in the media marketplace.

Critical to our review of our media ownership rules is the collection of objective facts and an open dialog with the public. We have commissioned multiple economic studies and are engaging in hearings across the country in a range of markets. The goal of these hearings is to fully and directly involve the American people in this process. We held our first hearing in Los Angeles, where we focused on the ability of independent television producers to gain access to distribution. We also held a hearing in Nashville, in which we focused on the concerns of the music industry. The Commission's efforts to collect a full public record will continue in the months ahead, with five more hearings, including one specifically focused on localism.

**Fourth and finally, we must enhance public safety.**

The events of September 11, 2001 and the 2005 hurricane season underscored America's reliance on an effective national telecommunications infrastructure. Thus, public safety has been and will continue to be one of the Commission's and my top priorities. We must make sure that the public has the tools necessary to know when an emergency is coming and to contact first responders. And we must enable first responders to communicate with each other and to rescue the endangered or injured. And the public and private sectors must work together so that our communications system can be repaired quickly in the wake of a disaster so that affected people can reach out to locate or reassure one another. We recently created a Public Safety and Homeland Security Bureau to focus exclusively on this important need.

As Chairman Inouye and co-sponsors Senators Stevens, Kerry, Smith, and Snowe of S. 385 obviously recognize, one of the most pressing public safety problems is the need for interoperability within and among public safety systems. I thank the Chairman for his efforts in this regard, and look forward to any guidance the Congress may provide.

The Commission recently asked for comments on creating a nationwide, interoperable broadband network for public safety officials in the 700 MHz band. In the meantime, technology is available now that could provide a temporary solution to the need for more interoperability. By adding IP-based technologies to existing public safety

network equipment (a so-called “IP patch”) and deploying portable IP-based network equipment where necessary, public safety officials would achieve functional, if not full, interoperability. If Congress made sufficient funds available now, such functional interoperability for public safety communications systems could be available in selected areas in the near term and throughout most of the nation within four years.

### **Conclusion**

As you can see, on the whole, the state of the communications industry is strong, and growing stronger. Innovation, in all sectors, is back, and competition has enabled consumers to get newer and more innovative technologies and communications services at ever-declining prices.

Sadly though, one service has gone the way of the dinosaur. 2006 marked the end of an era, when Western Union discontinued its telegram delivery service, which it began in 1856.

Thank you for your time and attention today. I appreciate the opportunity to share with you some of the recent progress the Commission has made. With that, I would be happy to answer any questions you may have.