

FCC CHAIRMAN JULIUS GENACHOWSKI
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Thank you Senator Smith and thank you all for welcoming me.

I want to talk to you today about how much technology is changing the broadcasting industry and our economy; how these changes require that we update our communications and spectrum policies; and how one of the most important tools the FCC needs is the ability to conduct voluntary incentive auctions -- an incentive-based mechanism to use market forces to free up new spectrum to meet rapidly growing consumer demand and fuel our economy.

This idea has strong momentum, and I want to express my commitment that if Congress grants the FCC the authority to conduct voluntary incentive auctions, I will work closely with you to implement this innovative policy in a way that is good for broadcasting and good for our country.

Last year, I was here at NAB in my role as FCC Chairman. Before that, I came to NAB as a broadcaster.

I was part of a team at USA Broadcasting rolling out local TV stations.

I confess I don't remember what the FCC Chairman said in his breakfast speech at the time.

But I do remember the challenges of being successful in the broadcast industry, and I carry with me the admiration I developed for those who tackle the challenges and succeed.

Back then, when you spoke about viewers' three screens, you meant the TVs in the living room, the kitchen, and the bedroom. Now we're talking about your TV, your computer, and your mobile device.

With each of the screens connected to broadband Internet.

An average American now spends more of their free time online than they do watching TV.

More than 170 million Americans watch video online, a number that continues to increase at a fast pace.

Meanwhile, sales of broadband-enabled smartphones have surpassed PC sales.

Nearly 25 million Americans are watching video on their phones -- a 40% increase from a year ago, and continuing to rise rapidly.

And now there's a fourth screen bursting onto the scene -- tablets.

With a camera. Not only are people watching national networks, and YouTube, their phones and tablets are becoming two-way video conference devices, increasingly used not only by grandma talking to her grandson, but by businesses doing business.

We are living in a multiplatform world.

I understand that this new world creates challenges for broadcasters. It both exacerbates long-standing challenges, and creates new ones. Challenges like fragmenting audiences, and multiple pressures on ad revenue.

I'm encouraged to see that many broadcasters are tackling the challenges and seizing the opportunities of a multi-platform broadband world -- seeking to reach the audience where the audience is going -- experimenting with new technologies, new platforms, and new business models.

Mobile DTV is an example. Whether it's the Open Mobile Video Coalition led by LIN Media; Mobile Content Ventures led by Fox and NBC and including groups like ION, Gannett, Hearst, and others; or the Mobile 500, which includes a number of significant station groups.

These are all energetic efforts to capitalize on broadcasters' transition to DTV. We don't know what will work in the marketplace, but nothing the FCC is considering would or should interfere with market-based innovation around Mobile DTV.

Of course, broadcasters aren't stopping at mobile DTV. Many broadcasters are focusing effort and investment dollars developing content and reaching audiences on the Internet -- whether the audience is on mobile or fixed broadband-connected devices.

Univision has developed original shows exclusively for its website. And, last year, it launched a mobile series that lets viewers follow their favorite telenovelas on Univision's iPhone and Android apps.

ABC had one of the very first apps available on the iPad. Within 10 days of the iPad's release, it was downloaded more than 200,000 times, and served up several million ad impressions for ABC.

Some broadcasters have been pioneers in the development and creative multiplatform distribution of "hyperlocal" news. They're providing neighborhood-level coverage and content online.

For example, Raycom Media has launched 60 different community websites in Charlotte, North Carolina. Fisher is doing similar things in the Northwest. Gannett Broadcasting is launching hyperlocal sites in 10 different markets.

Many TV stations have historically been a vital source of local news, and it's an important positive development that TV stations seek to deploy their news resources to reach people in new ways. Our Future of Media team has been working to highlight this innovation as part of its assessment of the changing media landscape.

In quite a few markets, local TV stations' websites are the number one source of online local news.

And local TV stations generated \$1.34 billion of online revenue in 2010, up from \$1.08 billion in 2008.

But not all broadcasters are investing in news and new platforms.

For example, of the 28 commercial over-the-air stations in the New York market, only 6 invest in news coverage of any kind. In Los Angeles, it's 8 out of 23. Some stations choose not to invest in this type of content, and some simply can't -- it just doesn't make economic sense for them. But it does affect any objective analysis of broadcast markets in view of national spectrum needs.

Now, from personal experience, I appreciate the business challenges broadcasters face, as well as the valuable content so many broadcasters deliver to viewers. For example, I understand the push to develop another revenue stream -- retransmission consent fees -- which can certainly help the economics of those broadcasters with the ability to forgo must-carry and seek fees from cable and satellite distributors.

As you've seen over the past year and a half, I've resisted calls for FCC intervention and, instead, have encouraged private, market-driven agreements between broadcasters on the one hand, and cable and satellite providers on the other.

While a very large number of retrans deals got done quietly during this period, there were several incidents that seriously frustrated viewers, including the World Series black-out last October. And many have pushed the Commission to intervene, asking questions like: Given the changes in the marketplace, is it time to update the statute or the Commission's retransmission consent rules? And what is the impact on consumers of retrans fees for "free" broadcast TV?

The FCC launched a proceeding on retransmission consent in March to assess the landscape and determine whether the current framework serves all stakeholders, businesses and consumers. The proceeding is open, and I look forward to input from all parties.

Meanwhile, the FCC will also look at whether there are regulatory barriers that can be reduced or eliminated, or initiatives that should be considered, to support the efforts broadcasters are making to reach the audience that's increasingly relying on broadband-connected computers, smartphones and tablets.

One area for inquiry: is there anything that can be done to accelerate measurement of audience on digital platforms?

The U.S. needs a vibrant, robust and open broadband ecosystem. We need it for our economy and for our global competitiveness. We need it so that all creators of content have access to a world-class broadband infrastructure -- mobile as well as fixed -- one that protects intellectual property, and one that enables content creators to deliver their product to consumers when, where, and how consumers want it.

And that's true whether those content creators are national networks; local stations; or the tens of thousands of American businesses developing mobile applications.

The world is moving rapidly to broadband, and our job at the FCC is to identify the policies that will maximize the benefits of our communications infrastructure, including spectrum, to our economy and all the businesses it in, and to the public.

And while two years ago few people were talking about broadband, there is now very broad agreement -- among businesses, academic experts, and non-profit groups; among Republicans and Democrats -- that broadband is essential to our economy -- essential to businesses small and large, essential to driving massive private investment and innovation in the U.S., essential to growing our exports and competing globally.

Broadband is essential as well to addressing major national challenges like education, health care, energy, transportation, and public safety.

And broadband is essential to consumers. Most Americans can't imagine life without the Internet or their wireless devices. We rely on them for everything from entertainment to checking job listings to staying in touch with friends and family.

There are many strategic challenges our country faces. And across the board we're finding that the best answers lie in solutions that are market-based; that unleash private investment and innovation; that promote competition; and that ensure fiscal responsibility and efficient use of scarce public resources.

That's true in our work to transform an outdated Universal Service Fund that continues to be built around telephone service.

It's true in our work to increase the speed and lower the costs of communications infrastructure deployment.

And it's true in our work to harness the opportunities of mobile broadband and tackle the looming spectrum crisis.

This audience knows well the power of spectrum, and its strength as a platform for building commerce and providing service to the public.

At last year's NAB, I spoke about how demand for spectrum was dramatically outstripping supply -- driven by smartphones, which places a demand on spectrum that is 24 times as much as feature phones. The consensus projection at the time was that mobile data traffic would increase 35X over a 5-year period.

Well, that was before tablets were introduced and took off at a faster pace than anybody projected. This year, analysts expect 55 million tablets to be sold, making it a \$35 billion business. Already. And those tablets place a demand on spectrum that is 120 times that of old feature phones.

Mobile broadband is the fastest growing computing platform in history. Consumers and businesses are already frustrated by dropped calls and spectrum congestion. And we're still in the early innings of mobile broadband innovation and adoption.

This growing demand is not going away. The result is a spectrum crunch. No matter what happens in the marketplace, the only thing that can address the growing *overall* demand for mobile is increasing the *overall* supply of spectrum and the efficiency of its use.

As over 100 leading technology and communications companies put it: “Without more spectrum, America’s global leadership in innovation and technology is threatened.”

Of course, as a country we need to do a lot of things -- beyond broadcast spectrum -- to tackle our mobile broadband challenges.

At the FCC, we’ve launched proceedings to foster greater efficiency in spectrum use, technology and software, and to spur dynamic spectrum sharing and secondary markets.

We’ve already eliminated unnecessary restrictions on the use of certain spectrum bands, freeing up new contiguous spectrum for mobile broadband, and we are looking at other similar opportunities.

We’ve also released unlicensed spectrum for Super Wi-Fi and machine-to-machine devices.

And, recognizing this is a shared responsibility, we are working closely with NTIA to meet the President’s directive to free up more government spectrum for mobile broadband.

We’re working on multiple fronts to solve the spectrum crunch.

But, while significant, these steps will only meet part of the growing demand for spectrum.

I believe the single most important step that will drive our mobile economy and address consumer frustration is authorizing voluntary incentive auctions.

Of course, spectrum auctions are a proven tool that’s had extraordinary positive benefits for our economy and society.

Authorized in 1993, spectrum auctions replaced an outdated system of comparative hearings and lotteries, letting the market determine spectrum allocation instead. The big idea behind auctions was that we would use market forces to drive spectrum to its most valuable uses.

The big idea was right.

FCC auctions have raised more than \$50 billion in revenue for the Treasury; generated hundreds of billions of dollars in private investment and productivity gains; and enabled new competition that lowered prices for consumers and accelerated the pace of innovation.

The reasons for voluntary incentive auctions are as compelling as for the original auctions. We need to free up more spectrum for mobile broadband, and there are no easy reallocations ahead of us.

Voluntary incentive auctions are based on the same premise as the original spectrum auctions -- unleashing market forces to reallocate this resource in the face of increasing scarcity.

They extend auctions from the demand-side to the supply-side. They are two-sided auctions, providing for spectrum licensees who voluntarily supply spectrum to receive a share of the proceeds.

They are based on the fundamental free-market ideas. Some liken it to the position broadcasters' take in the retransmission consent context.

Over the past year since the voluntary incentive auction proposal was introduced, it's become clear that this is an idea whose time has come.

Strong momentum is building behind the proposal.

Incentive auction authority has been included in bipartisan bills in both the House and the Senate.

The President included voluntary incentive auctions as a centerpiece of his Wireless Innovation and Infrastructure Initiative.

In January, more than 2,000 companies with over \$1 trillion in revenue, joined in calling on Congress "to swiftly pass legislation allowing the FCC to conduct voluntary incentive auctions" and calling these auctions "critical to furthering innovation and growing jobs in America."

And last week, 112 of the nation's leading economists endorsed voluntary incentive auctions. The economists who signed this letter include Nobel Prize winners, former members of both Republican and Democratic administrations, and FCC Chief Economists who served under Chairmen of both parties.

These are economists from across the spectrum, so to speak. They disagree on many things, but they agree on the importance and necessity of adding voluntary incentive auctions to the FCC's toolbox.

They said in their letter to the President: "The original ... auction system implemented in 1994 was novel, but the FCC was able to implement the path-breaking auctions that were the basis for successful auctions around the world. We expect that the same will be true of incentive auctions."

This broad-based, bipartisan group of experts confirmed that voluntary incentive auctions are the right solution. It will raise billions of dollars for the Treasury -- with serious projections of near \$30 billion -- that can be put toward deficit reduction and other important uses, like public safety, R&D and broadband connectivity in rural areas.

It will generate benefits to our economy and society an order of magnitude of 10 times that amount.

And it will increase the value of the spectrum for all stakeholders -- including broadcasters -- by

ensuring the spectrum is released in a way that maximizes its marketability and reduces transaction costs and other inefficiencies.

In short, it's a win-win for broadband and broadcasters.

And a slam dunk for the public.

At the FCC over the past year, we have taken steps to set the stage for voluntary incentive auctions, moving toward allowing stations to voluntarily share channels, and examining potential improvements to digital television reception in the VHF band.

Under the excellent leadership of Bill Lake, the FCC's Media Bureau has also done extensive outreach, including many meetings and a series of webinars to describe the voluntary incentive auction initiative and get feedback.

Nearly 500 broadcasters from almost every state participated in these sessions. There were many practical questions on topics from channel sharing to the return that broadcasters offering up some or all of their spectrum would receive, and we appreciate the constructive engagement from so many broadcasters.

I've personally learned a great deal from the meetings I've had with individual broadcasters that reinforce this interest.

So where does all this progress over the past year bring us? I think it points in one direction: Incentive auctions are an idea whose time has come.

I've heard the arguments that seek to undermine the idea of incentive auctions. And while there are certainly legitimate issues to work through, I'm disappointed by arguments that are fundamentally distractions.

For example, some have argued that there's no spectrum crunch -- but the data couldn't be clearer.

Some have argued that we should spend more money and years on even more detailed inventories before moving forward. But the Commission's extensive prior work on spectrum and baseline spectrum inventory made clear that there are only a few major opportunities to unleash spectrum, and that there is no big swath of unused spectrum that we've missed.

Some have argued that there is massive warehousing of spectrum. But market forces and build-out requirements are designed to ensure that those who paid for spectrum at auction will put it to its highest and best use. And beyond that, the projections of a growing spectrum gap assume that all previously auctioned spectrum will be built out.

Some have argued that incentive auctions would stop mobile DTV, but it won't. The current standard and Commission rules permit it, and indeed encourage experimentation and the development of mobile DTV business models. Even if 120 MHz of the 294 MHz allocated for broadcasting were freed up as a result of an incentive auction, a healthy and robust broadcast

system would remain, and nothing would change the terms of use of a 6 MHz channel, including mobile DTV.

Some have argued that we should wait -- up to a decade or more -- until a new broadcast standard is adopted. I note that other broadcasters have argued against moving to a new standard, but in any event we don't have a decade to wait, and the transmission standard issue is separate and distinct from incentive auctions, which don't affect the transmission standard for a 6 MHz broadcast channel one way or the other.

Some argue that incentive auctions would hurt rural America to help urban America. This massively misses the mark.

The incentive-auction tool is necessary to ensure continued innovation around mobile devices -- necessary for the next generations of smartphones, tablets and other devices. It's necessary to keep bringing these benefits to all Americans, wherever they live. This attempt to create a rural-urban divide simply shortchanges rural America.

It also ignores the reality that, with respect to broadcast stations and viewers, incentive auctions will have little if any effect in rural America -- because spectrum supply is much less of an issue in less populated areas.

Now, this brings me to an important issue that merits working together on a productive path -- repacking, or what some are increasingly calling realignment. I understand that many of you who don't plan on participating in the incentive auctions are asking: What about us? What happens after the auctions?

First of all, it's essential that broadcasters be treated fairly. That means, for example, that broadcasters should be fully compensated for any costs of any channel changes, and that any moves from UHF to VHF should be voluntary.

And voluntary means not only that no broadcaster will be forced to offer up spectrum for auction. It means that those who do choose to participate will know exactly what the deal is before relinquishing any rights.

At the same time, however, voluntary can't mean undermining the potential effectiveness of an auction by giving every broadcaster a new and unprecedented right to keep their exact channel location. This would not only be unprecedented, it would give any one broadcaster veto power over the success of the auction -- and be neither good policy for the country, nor fair to the other participants.

I should also note that disruption to consumers -- and to your brands -- will be minimized because the DTV transition has allowed broadcasters to move radio frequencies while keeping their virtual channels the same.

I'm confident that, working together, we can resolve relocation issues, as multiple relocation issues have been resolved since the FCC held its first auctions nearly twenty years ago. I'm committed to working with you and Senator Smith on this, as well as being a resource to Congress.

But it is vital that we move forward quickly.

We all know that in Washington, the tactic of choice is often delay. It's an understandable tactic that's been frequently employed on many issues.

And, let's be honest, it's been deployed around spectrum in the past.

When spectrum auctions were first proposed in the early 1990s, some, including broadcasters, had serious reservations. But spectrum auctions have been a resounding success.

When the DTV transition was on the table, many broadcasters expressed significant concerns. But that transition has benefited broadcasting and the country.

There's no need to debate the costs of delay in the past. I do want to be clear of my strong belief that costs now of delaying voluntary incentive auctions would be severe.

Not only because mobile demand is growing so fast and delay will lead to consumer frustration with service and higher prices.

But also because we are now in a different global competitive landscape.

Other countries -- our global competitors -- are focused on mobile opportunities in a way that simply hasn't been true in the past. The world is flatter. They are on our tail, on this the subject of mobile. Our economic and innovation leadership has to be earned anew every day in the global economy.

If we wait until there's a crisis to reallocate spectrum, we'll have waited too long -- for consumers, for our global competitiveness -- and I believe, for broadcasters. Turning back to prior experience, what history shows us is that when broadcasters, the FCC, and Congress worked together in a straightforward and fair way that was focused on solving problems, we reached solutions that delivered tremendous benefits to our country.

As we move forward, my commitment to you is to be straight and fair and focused on problem solving.

I ask the same of you.

I look forward to working together for you and for our country.

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