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STATE OF THE MEDIA MARKETPLACE

THURSDAY, SEPTEMBER 27, 2018

House of Representatives,

Subcommittee on Communications

and Technology,

Committee on Energy and Commerce,

Washington, D.C.

The subcommittee met, pursuant to notice, at 3:01 p.m., in Room 2123, Rayburn House Office Building, Hon. Gus M. Bilirakis, presiding.

Present: Representatives Bilirakis, Lance, Shimkus, Scalise, Latta, Guthrie, Johnson, Long, Walden (ex officio), Doyle, Welch, Clarke, Butterfield, McNerney, and Pallone (ex officio).

Staff Present: Jon Adame, Poicy Coordinator C&T; Samantha Bopp, Staff Assistant; Karen Christian, General Counsel; Robin Colwell, Chief Counsel, C&T; Kristine Fargotstein, Detailee, C&T; Sean Farrell, Professional Staff Member, C&T; Margaret Fogarty Tucker, Staff Assistant; Adam Fromm, Director of Outreach and Coalitions; Elena Hernandez, Press Secretary; Tim Kurth, Deputy Chief Counsel, C&T; Lauren McCarty, Counsel, C&T; Brannon Rains, Staff Assistant; Austin Stonebraker, Press Assistant; Evan Viau, Legislative Clerk, C&T; Jeff Carroll, Minority Staff Director; Jennifer Epperson, Minority FCC Detailee; Alex Hoehn-Saric, Minority Chief Counsel C&T; Jerry Leverich, Minority Counsel; Jourdan Lewis, Minority Staff Assistant; Dan Miller, Minority Policy Analyst; Kaitlyn Peel, Minority Digital Director; and C.J. Young, Minority Press Secretary.

Mr. Bilirakis. The Subcommittee on Communications and Technology will now come to order.

I would like to thank all our witnesses for being here.

Before recognizing myself for an opening statement I would like to ask unanimous consent to enter the following documents into the record: And they are a letter from the American Cable Association, a letter from the MPAA, an article by Scott Galloway on Esquire, a letter from the Consumers Union, a letter from Ride TV, and also a letter from the Recording Industry Association of America. Thank you.

There is no objection, so ordered.

[The information follows:]

******** INSERT 1-1 ********

Mr. Bilirakis. Good afternoon and welcome to today's hearing on modern media marketplace. The goal of today's hearing is to develop a factual record so we can be informed on the state of the dynamic media market. The ways the consumers interact with media and the types of content available have changed significantly in a relatively short amount of time.

As we have worked to bring broadband to more Americans, we have seen consumers increasingly use digital devices to enjoy unprecedented access to a variety of content. Not only has this resulted in more choices for consumers, but it also has led to innovation in the media market, specifically in the digital space.

Traditional media providers and new entrants alike have invested heavily in digital media platforms, offering new distribution channels to content creators. This innovation has also led to increased competition. This helps keep prices for content affordable for consumers. It is critical that the committee be informed on this important topic.

And with that, I welcome all of our witnesses here today, and I look forward to your testimony.

At this time, I yield 2 minutes to Mr. Scalise.

[The prepared statement of Mr. Bilirakis follows:]

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Mr. Scalise. Thank you, Mr. Chairman.

Mr. Bilirakis. My pleasure.

Mr. Scalise. I appreciate you yielding to me.

And I want to also thank Chair Blackburn for putting this hearing together on the video marketplace.

I also want to thank our panelists for being with us today.

While this hearing will cover the media landscape as a whole, I look forward to hearing from the panel about their viewpoints about the video marketplace. I don't think anyone here would disagree with the fact that the way American families watch television has changed. The question is, do our current laws and regulations match up with the modern marketplace? I would argue that they don't.

Much of the legacy paid TV industry that we use today is governed by the 1992 Cable Act when this was the smartphone. And I think if you look at this device, it might have worked as a smartphone back in 1992. I can't even get it to connect to a local provider today, because things have changed. In fact, if you compare your smartphone of 1992 when the current laws that we are operating under were written, this is the smartphone of today. This can do a lot more than an entire room of microprocessors could have done in 1992.

So what you have to look at is how are consumers getting their video. And the choices that they have have to be viewed against the regulations in the laws that are out there. An entirely new universe of choices for consumers has been unlocked thanks to advances in technology and agreements reached by companies through free-market negotiations.

So rather than continuing to settle for predetermined outcomes based on decades-old rules, I have introduced my legislation called the Next Generation Television Marketplace Act, which will empower consumers by enabling a truly free market approach to video content and leveling the playing field across the market instead of government picking winners and losers, which is what the case is today.

This hearing is a good starting point, Mr. Chairman, as the committee begins its work to reauthorize STELA, which expires at the end of next year. I will look forward to continuing my conversations with all the relevant stakeholders in support of a more free market and consumer-driven approach to the video marketplace.

I look forward to the questions later, and, Mr. Chairman, I yield back the balance of my time.

[The prepared statement of Mr. Scalise follows:]

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Mr. Bilirakis. I thank the gentleman from Louisiana.

And the chair now recognizes Subcommittee Ranking Member Mr. Doyle for 5 minutes for his opening statement.

Mr. Doyle. Thank you, Mr., Chairman for holding this hearing.

And thank you to the witnesses for your testimony today.

Before I start, Mr. Chairman, I am concerned that more than a year and a half into this Congress we are just now talking about the state of media marketplace, and we are doing so with a very broad brush stroke.

I don't believe that this hearing or the panel before us will give our Members sufficient opportunity to address the multitude of changes that have occurred since the last time we held such a hearing. I sincerely hope that this hearing is just the beginning of a much broader and deeper investigation into these changes.

That issue aside, I have many concerns about the state of the media marketplace. It seems that the only constant in the media marketplace is change. In the video market this year, we have seen both vertical and horizontal consolidation in the forms of the AT&T, Time Warner, and Disney 21st Century Fox mergers.

We have also seen the continued trend of consumers cutting the cord on traditional paid TV options as they embrace the over-the-top options, such as Netflix, Amazon Prime, as well as virtual MVPD options, such as Sling TV, PlayStation Vue, and others. These new options often provide consumers with greater choice and lower prices.

Virtual MVPDs offer the added benefit of finally letting consumers provide their own set-top box freeing consumers from hundreds of dollars a year in fees and eliminating a particularly annoying paying point for video subscribers.

However, the advances in this market are threatened by the FCC's repeal of net neutrality rules. ISP slowed over-the-top services such as Netflix in the run-up to the 2015 rules. And it was only due to the public outcry and the rules that were put in place under Chairman Wheeler that enabled Netflix and other streaming players to end the slowdowns they were experiencing.

These rules provided the regulatory certainty for other players, such as PlayStation Vue, to enter this market knowing full well they would be competing directly with MVPDs over their own broadband connections. Since Chairman Pai took over at the FCC, he has repealed the commission's net neutrality rules and ended the investigation into anticompetitive zero rating practices by ISPs.

In the wake of these decisions, multiple ISPs have taken to zero rating their own video streaming products while forcing consumers to use data from their limited data plans. As Mr. Moffett points out in his testimony, many of these new players operate at a loss. These new entrants are then forced to compete against ISPs that are giving their own services an unfair advantage. These practices by ISPs do not incentivize innovation or competition, and they are not in the public interest.

While I am encouraged by this nascent market, I believe that Congress should be examining how these markets have been affected by the regulatory vacuum created by the FCC's actions in far more depth and with the affected stakeholders.

I would like to shift to the market for over-the-air television, including a slew of harmful regulatory changes by the FCC. From reinstating the UHF discount, to eliminating the main studio role, these changes undercut our commitment to localism and only serve to circumvent congressionally set broadcast ownership limits. I fear that despite Sinclair's failed merger that these changes will continue to negatively affect the broadcast market for years to come.

Now, the commission is contemplating making changes to broadcasters' obligations under the Children's Television Act. These rules, otherwise known as "Kid Vid," require broadcasters to air children's programming weekly. The commission is claiming that these rules that have led to the creation of thousands of hours of high-quality, safe, educational programming can be tossed out the window without harmful consequences.

I am glad that we have Jeff Corwin here testifying regarding these proposed changes. It seems to me that the commission's proposal could have a devastating affect on the creation of new children's television content and should be looked at with great skepticism. I believe that much more examination of these issues is warranted by this committee.

Mr. Chairman, I thank you, and I look forward to the testimony of our witnesses. And I yield back.

[The prepared statement of Mr. Doyle follows:]

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Mr. Bilirakis. I thank the gentleman from Pennsylvania.

I now recognize the chairman of the full committee, Mr. Walden, for 5 minutes for his opening statement.

The Chairman. Well, thank you, Mr. Chairman. Thanks for having this hearing.

I want to welcome our witnesses as well to talk to us about the rapidly changing state of the media marketplace. It goes without saying, the consumers in 2018 have unprecedented access to high-quality media content. From the smartphones in their pockets Americans can watch hours of television programming and YouTube videos, stream millions of songs and podcasts, and pursue endless hours of content all over social media. My, how things have changed.

New platforms in variety and content have changed the way consumers spend their time and money, and the industry is responding to those consumers accordingly. The Energy and Commerce Committee has long conducted oversight on this topic, and a lot has changed over the years.

In fact, in 2007, this committee held a media marketplace hearing, and the topics of discussion were the DTV transition and traditional media platforms transitioning to access on the internet. I think we also talked about coupons then too, so you could buy that little box.

That same year Netflix announced the launch of a streaming service to compete with Blockbuster. That was the Nation's largest provider of video rentals at the time. Well, fast forward to 2018. More people watch Netflix than any other cable network, and Blockbuster has closed nearly every one of its stores.

I say nearly every one of its stores, because there is one remaining Blockbuster store in America, and it happens to be in my district in Bend, Oregon. But wait, it could be pure coincidence -- I will defer to our expert witnesses -- but this Blockbuster store also brews beer. So talk about a new business model in the video marketplace.

So and it is not just the video marketplace that has transformed. In the early 2000s, revenue from online music streaming was just a few million dollars. In 2017 Spotify alone reported almost $5 billion in revenue and on-demand audio streaming now accounts for 54 percent of total audio consumption.

Ten years ago smartphones were new to the market, and Americans largely used their mobile devices for calling and texting. I wasn't here, but you have still got your brick phone, right. It is kind of amazing Scalise still uses that and hasn't gone to one of these.

The deployment of modern wireless technology revolutionized the smartphone market, and today Americans spend on average about 3 hours a day on these mobile devices. Nearly every network, national newspaper, major radio station has an app, and consumers have access to content anywhere anytime.

Changes in how we interact with media have caused a ripple effect on other industries as well. For example, the rise of over-the-top video streaming services has resulted in dramatic increases in demand for both fixed and mobile high-speed broadband. Online video consumption made up 69 percent of global internet traffic in 2017, and that number is expected to increase to 80 percent by next year.

Changing consumer habits have also had a profound effect on the advertising industry. Ten years ago marketers used digital platforms to interact with potential customers, but advertising dollars were primarily spent on traditional platforms.

Today brands are investing more than a third of their advertising budgets in the digital space, while print and radio account for less than 10 percent of total ads spent. Much of this shift can be attributed to mobile and social media ads.

Nonexistent 15 years ago, combined advertising through these mediums are expected to reach $55 billion in 2019. Now, we have seen unprecedented concentration in this ad space. In 2017 Google and Facebook dominated the U.S. digital market taking a combined 63 percent of total ad investment. In the U.S. no other digital ad platform has a market share above 5 percent. All signs indicate this duopoly will continue to dominate this market.

While the rise of digital platforms will threaten traditional business models, there is no denying that evolving consumer habits and new market entrants have fueled a fiercely competitive media market. The largest traditional TV networks invest up to 10 billion a year in non-sports programming, and billions of dollars of venture capital have been invested in content creation for online platforms. So it is an exciting time as a consumer. It can be an uncertain time if you are in the business. We have an excellent panel of witnesses, and I appreciate you being here.

You know, I was talking to some people the other day and they were asking about what time some show came on television. And for their kids, there is no such thing as time something comes on. They just click on their iPad and there it is. And I remember going to a video conference, a video futures conference the NAB had back in 2004, I believe, and they talked about time shifting and how Walter Cronkite may not come on just at, you know, dinner time. You could get him anytime. And that was sort of out of the realm of possibility to our thinking then, and now we just get the news whenever we want it, on whatever platform we happen to have with us.

So lots has changed. Our job is to make sure that internet works and that people have connectivity, and we have done a lot in this committee to make that happen as well.

Mr. Chairman, thank you for having this hearing. I yield back.

[The prepared statement of The Chairman follows:]

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Mr. Bilirakis. Thank you, Mr. Chairman.

And I will now recognize the ranking member of the full committee, Mr. Pallone, for 5 minutes for his opening statements.

Mr. Pallone. Thank you, Mr. Chairman.

The way Americans consume media and the variety of content available to them has grown significantly over the past decade. In addition to traditional television and radio, consumers are using their phones, computers, smart speakers, and tablets to access a variety of programs, podcasts, and videos. And today anyone can become a producer of content. Over 400 hours of video are uploaded to YouTube every minute, and over 1 billion hours are viewed every day.

Last week a woman in D.C. posted on Twitter a short video of Marines running to help residents in an apartment fire a few blocks from here. News organizations quickly started using the clip in their on-air stories, and 2 days later the footage was used by the Marines in a tweet about the heroic efforts. And this is the dynamic world that we live in today.

But at the same time, it is important to remember that not everyone has equal access to the latest technology. It is too easy to focus on the benefits of broadband new media and multitude of cable and satellite TV channels and forget how many people lack access to such opportunities, and this includes lower-income families and seniors.

According to the FCC commission's 2017 media industry report, 11 percent of television households relied exclusively on over-the-air broadcast service. That is 12.4 million households, 1 million more than the year before. According to the National Association of Broadcasters, over-the-air reliance is higher among low-income families, and for these families paying for cable may take a backseat to feeding their kids.

Meanwhile, broadband, which is necessary to access a growing wealth of educational, social, and entertainment content, also faces an economic and age divide. According to Pew Research Center, only 45 percent of people making less than $30,000 and 50 percent of people 65 and over are home broadband users. Even when you add mobile broadband users the significant device still exists both in adoption and the quality of the experience.

So as good as smartphones are, they don't provide the same functionality or experience as a large screen device. The Communications Act focuses on certain timeless principles when it comes to media, and those are localism, diversity, and competition.

In the modern age, broadband access should be added to that list. Whether it is watching videos for school projects, taking educational courses at home, engaging with friends and family, applying for a job, or utilizing government resources, broadband is becoming a necessity for all Americans. And having broadband available in your neighborhood isn't enough. Consumers should be able to afford the cost of the service and equipment necessary to use the tools of the 21st century.

Unfortunately, the current FCC has been actively undermining these principles for Americans. Chairman Pai eliminated the FCC net neutrality rules which protected consumers, small businesses, and free speech. Net neutrality protected competition and access to the media content which is the focus of this hearing.

But those protections are gone now. Chairman Pai also proposed to roll back the lifeline program in a way that could cut phone or internet service for approximately 8.3 million people. And Chairman Pai's actions are not the way to promote access, localism, diversity, and competition.

In the area of media ownership Chairman Pai sided with corporations over consumers and loosened TV ownership rules in ways that undermined competition. The changes encourage more consolidation and less local and diverse viewpoints. And I encourage the FCC to change course and focus on what is important to consumers.

For example, the FCC should rethink its bizarre -- and I say bizarre -- proposal to unwind its safeguards designed to protect children watching broadcast television known as the Kid Vid rules. The rules require that broadcasters provide 3 hours of quality education program per week on their free over-the-air service. And 3 hours out of the 105 hours of core program in a week, I mean, is that too much to ask? Apparently Chairman Pai and Commissioner O'Rielly think so.

For the 12 million over-the-air households without access to cable programming, I don't think so. For the millions of low-income families without access to broadband alternatives, I don't think so. And I appreciate Jeff Corwin being here today to discuss his experience producing children's programming and the impact the elimination of the Kid Vid rules would have on broadcast children's programming.

And I also want to thank our other witnesses for appearing before us to discuss the changing media market.

And I yield back at this point, Mr. Chairman.

[The prepared statement of Mr. Polis follows:]

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Mr. Bilirakis. The chair thanks the ranking member.

That concludes member opening statements.

The chair would like to remind members that, pursuant to the committee rules, all members' opening statements will be made part of the record.

So we want to thank all of our witnesses here today for being here. We appreciate you taking the time to testify before the subcommittee.

Today's witnesses will have the opportunity to give opening statements followed by a round of questioning from the members.

Our panel for today's hearing will include Mr. Craig Moffett, who is the founder and research -- senior research analyst at MoffettNathanson Research. Welcome, sir.

Next we have Mr. Ian Olgeirson, research director at Kagan, a media research group, within S&P Global Market Intelligence. Welcome, sir.

And next we have Mr. Jeff Corwin, wildlife biologist and executive producer of ABC's "Ocean Treks" here on behalf of the Litton Entertainment. Welcome, sir.

We appreciate you all being here today and for preparing testimony for the committee.

We will begin with you, Mr. Moffett, and you are recognized for 5 minutes for purposes of an opening statement. Thank you.

STATEMENTS OF CRAIG MOFFETT, FOUNDER AND SENIOR RESEARCH ANALYST, MOFFETTNATHANSON; IAN OLGEIRSON, RESEARCH DIRECTOR, S&P GLOBAL MARKET INTELLIGENCE: AND JEFF CORWIN, WILDLIFE BIOLOGIST, EXECUTIVE PRODUCER AND HOST OF ABC'S OCEAN TREKS

STATEMENT OF CRAIG MOFFETT

Mr. Moffett. Thank you. And thank you, Chairwoman Blackburn and Ranking Member Doyle and members of the subcommittee, for the opportunity to appear today.

My name is Craig Moffett. I am the founder of MoffettNathanson. It is a media and telecommunications research firm. I want to emphasize, my personal focus is the physical distribution side of media, that is cable operators, satellite operators, and telephone companies that operate the physical infrastructure for media distribution. I have spent 30 years in those industries. I won't go through my bio, but it is appended.

One of the most popular aphorisms in media is that the media industry has seen more change in the past 5 years than it had in the previous 50. Never mind whether that is accurate, it is a call to action, and as a call to action it is a pretty good one. The argument being change or be left behind.

But before getting too breathless about how revolutionary all of this is, I want to focus my remarks on two of the most important trends: The emergence of so-called virtual MVPDs, and also the trend toward vertical integration like AT&T and Time Warner through a decidedly less revolutionary lens, and that is microeconomics.

I want to start with the emergence of the MVPDs. The appeal of cord cutting is simple: It is cheaper. And some might argue that it is also about greater consumer control or a step toward a la carte, but the real appeal is simpler than that. A bundle of cable networks from an MVPD with a handful of set-top -- or from a traditional cable operator with a handful of set-top boxes can typically cost about $100 a month, and the most popular MVPD packages are typically about 40.

The problem here is that the programming itself doesn't cost any less to produce just because it is being delivered over the internet, nor is it any cheaper for the aggregator, in this case a virtual MVPD, to buy the content from the content creator. In fact, virtual MVPDs usually pay more for their content, nor is it any cheaper to deliver by virtue of being delivered over the internet instead of so-called linear cable.

Remember, the underlying infrastructure remains precisely the same. And in most cases it doesn't even avoid the need for a set-top box. It simply shifts the set-top box from the traditional provider to someone like Apple or Roku.

When there is no underlying technology or business model reason why the new service is cost advantage relative to an old one, it pays to be wary. But that said, services themselves are actually cheaper, so the obvious question is why. Partly it is because the packages are smaller, but mostly it is because these services are being sold to the consumer at zero or negative profit margin.

There is an old saying among economists that when something is unsustainable it will eventually stop, and I guess the real question as we observe this as economists is whether the practice of selling these services for a loss will actually turn out to be sustainable.

But it is clear that all of this is about keeping pace with Google and Facebook. Their modernization model for these new services is not to make money on selling video but to make money on selling advertising.

It suggests that we are likely to see one of two outcomes: Either Google and Facebook will come to dominate video distribution in a model that is based on highly targeted advertising, and that raises obvious questions about privacy; or the prices of virtual MVPDs will rise significantly to become self-sustaining, and in the process these distinctions between old and new won't look at significant.

A few remarks on the other trend that I mentioned shaking the media business, and that is vertical integration. There has been widespread speculation that we will see a wave of vertical integration to follow Comcast acquisition of MBCU in 2010, and that speculation has obviously only grown with AT&T's acquisition of DirecTV in 2015 and now, of course, Time Warner.

It is important to view the trend toward vertical integration through the lens of broader migration of what I would refer to as -- to closed-media systems and consider where that is likely to take us. Closed systems dominate almost every important aspect of digital life today. Apple is a closed system once written off for dead versus PCs, but it is now an IOS universe. Facebook is a closed system, so is Uber and Google.

And what we are seeing in the media business is a migration toward closed systems where someone like Facebook produces -- sorry, someone like Netflix produces all their own content and sells it to their own consumers and in the process requires enormous scale to advertise risk.

I would suggest that that appears to be where we are headed with the digital platforms. And the real question will become for the traditional media companies, are they forced to go in the same direction, and if so, these ideas where every cable network, for example, is made available to every distribution platform will be very difficult to sustain in the face of the emergence of these kind of very large closed systems like Netflix, like what could potentially be Amazon and others.

I will leave my remarks there given the time.

[The prepared statement of Mr. Moffett follows:]

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Mr. Bilirakis. Thank you. I appreciate that very much. So thank you, Mr. Moffett.

And now I will recognize Mr. Ian Olgeirson for 5 minutes for your opening statement.

STATEMENT OF IAN OLGEIRSON

Mr. Olgeirson. Thank you.

Chairman Bilirakis and Ranking Member Doyle, thank you for inviting me to speak today. I am grateful for the opportunity to share information for this hearing. My name is Ian Olgeirson, and I am an industry analyst with Kagan, a media research group within S&P Global Market Intelligence. We provide market commentary, industry benchmarks, and analysis with a particular focus on the changing media landscape.

I have been analyzing the U.S. multichannel market for nearly 20 years. In that period we have seen online distribution fundamentally alter how consumers access content. Alternatives to legacy distribution for video and audio have clearly altered business models as well, and the corporate landscape is shifting in pursuit of increased scale.

A pair of recent events nicely illustrate the movement. Comcast's premium bid for Sky in the U.K. and Amazon's much more subtle enhancement of its Fire TV recast streaming media player in very different ways offer insight into the direction of media. Legacy providers like Comcast and AT&T are doubling down for increased scale on delivery and content, while innovators are giving consumers greater access and control of programming outside of those traditional subscription offers.

While the majority of U.S. households still maintain a traditional multichannel subscription through a cable, telco, or satellite service, often referred to as MVPDs, online alternatives have eroded the value of the classic, big subscription package driving declines in overall subscribers. Traditional multichannel subscriptions have fallen from their peak levels of nearly 102 million in 2012 to fewer than 94 million at the end of 2017. Those figures have continued to decline in the first half of 2018.

The percentage of occupied households with a traditional subscription have declined to less than 72 percent, down from a high point of 85 percent recorded in 2009. Virtual multichannel services, sometimes referred to as vMVPDs have risen considerably since 2015 offering a thinner package of channels. These services, including DirecTV Now, Sling TV, and Hulu with live TV blur the lines between online and traditional services. But it is clear that consumers looking for alternatives have never had more options.

At the fore is the programming muscle of Netflix and Amazon Prime video and the swelling investment in original and acquired content. The investment paves the way for consumers to find alternatives with increasingly fewer sacrifices.

However, the legacy providers do have substantial fortifications, including size and reach. There are significant interdependencies with networks and other content, including outright ownership. And in the case of wire line services, they own critical broadband infrastructure. As a result the video market is still in the early to mid stages of a complex process that shouldn't be over simplified.

Thank you for the opportunity to provide this statement. I welcome any questions you might have.

[The prepared statement of Mr. Olgeirson follows:]

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Mr. Bilirakis. Thank you very much, Mr. Olgeirson.

Now we will hear from Mr. Jeff Corwin. You are recognized for 5 minutes, sir, for your opening statement.

STATEMENT OF JEFF CORWIN

Mr. Corwin. Thank you for having more. I truly appreciate it.

Millions of parents, educators, and children rely on the content protected by the Children's Television Act as their most trusted outlet for educational and informational programming. There is an effort underway to dismantle one of the most important public service obligations Congress placed on broadcasters as a condition for their license serving the needs of children.

I speak today not just as a biologist, as a conservationist, explorer, and a father, but also as one of those kids who has benefited from those programs. When I was growing up my dad worked as a printer by day, delivered Dunkin' Donuts at night, and took classes to become a Boston police officer, for which he served proudly for more than 35 years.

My mom worked as a registered nurse at Quincy City Hospital putting herself through school as well. So my sister and I, we spent a lot of our time in our triple decker with our black and white TV becoming a bit of a de facto babysitter. Shows like Wild Kingdom with Marlin Perkins had a powerful impact on introducing me to the natural world and influencing my own life's journey.

The TV programs that we make are loaded with that same inspiration germinating the next generation of innovators, educators, engineers, entrepreneurs, and leaders like yourselves.

I have had the good fortune to spend the last 20 years working on shows around the world for Disney, Discovery, Food Network, Animal Planet, CNN. But I am most proud of the work that I have done with CTA.

As we know, our children are naturally curious. They thirst for learning. And our mission is to feed that innate passion, thus inspiring these children to have rewarding and productive futures, which ultimately contributes to our society.

Litton's educational programs received more than 1.5 billion views just last year, and this motivates future leaders and visionaries, and many of these begin as children in rural America or in urban environments, often without access to internet technologies. Some of them are, of course, kids that are at-risk teens.

The CTA has spurred a virtual classroom filled with a credible teachers and experts that engage millions of children every week, and we do so with enthusiasm, compassion, humor, and this deepens the learning experience. We choose, we intend our mission is to produce television for teens. We believe providing teens and their families with safe, educational, and inspirational content is vital.

Today when social media and celebrity are often considered more valuable than education and innovation and when teens are only a single click away from the digital unknown, this programming is more critical than ever. We fear that if the Kid Vid NPRM is not rectified, stations will no longer dedicate time serving our children and shows like mine, "Ocean Treks" on ABC, will be replaced from infomercials such as My Pillow Dot-Com.

However, we are confident that there is a way for the FCC to provide flexibility for broadcasters without diminishing the quality of programming and Congress' -- your commitment to our children.

While we support efforts that lessen the burdens on television stations, we strongly oppose broadcasters move to take the EI programming multicast channel as our primary mode of distribution and rolling back the 3-hour rule. Multicast viewership is 95 percent less programming carried compared to the primary program stream. Without those viewers, we offer no value to our sponsors and to our advertisers.

For example, on the main screen primary format a commercial would sell for $2,500. On the multicast channel that commercial is reduced to $25. Congress charge broadcasters with offering educational content for children. In order to stay true to this mission, we must keep our program current. Simple, but if we move the educational program to multicast, original programming will come to an end. It will cease to exist. Our virtual classroom will be obsolete.

Broadcast television is uniquely powerful and can be a beacon for inspiration and enlightenment. I ask you just 2 percent of broadcast time. Is that too much to ask to provide for our children?

When Mr. Rogers was here 50 years ago, he discussed the impact that media is having on children, way back then in 1969. Imagine if he was here today what he would witness with the impact of media, which is why the program we deliver is so vitally important.

I thank you so much for your time today. And I look forward to your questions.

[The prepared statement of Mr. Corwin follows:]

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Mr. <u>Bilirakis.</u> Thank you.

And I thank all the witnesses for their testimony today.

And before I begin questioning, I would like to ask unanimous consent to enter the following documents into the record for Mr. Scalise: A letter for the Center for Individual Freedom, Council for Citizens Against Government Waste, and a press release from the National Taxpayers Union.

Without objection, so ordered.

[The information follows:]

******** INSERT 1-5 ********

Mr. Bilirakis. Now I would like to begin my questioning. The first question will be for Mr. Olgeirson. It is very clear that consumers have many different options to get their video content. Can you talk a little bit about how the market is impacted by generational viewing habits? For example, my district is home to many seniors in retirement. Are there certain age groups that are deriving subscriber growth or subscriber losses? I know that the youth is probably number one, but if you can explain, I would appreciate it very much.

Mr. Olgeirson. Sure. So I think that it is difficult to ascribe a specific demographic to the people that are leaving the multichannel environment. The common wisdom is that it is younger people, and that part of the decline of multichannel has to do with younger people leaving a multichannel service and the other part has to do with the fact that they are not fueling new subscribers as older subscribers turn off.

We have seen certainly evidence, survey evidence of younger people embracing over-the-top video more frequently than older people. If we look at a recent survey, it shows that the seniors sort of over 72 years old tend to be more engaged with multichannel services. They tend to be less engaged with the subscriber VOD services like Netflix, and so we certainly have that evidence.

We have also seen that both younger generations like Gen Z and Millennials tend to be about the same -- have the same satisfaction rate with their multichannel services as seniors, which is an interesting fact, an interesting finding. But seniors seem to find more value within those multichannel services. So we have seen a senior class that tends to stay closer to the multichannel services than their younger demographics.

Mr. Bilirakis. I thank you. A followup here, how are content creators and video providers adapting to these changes?

Mr. Olgeirson. Are they adapting to the changes?

Mr. Bilirakis. How are they adapting to these changes?

Mr. Olgeirson. Well, I think that we have certainly seen the multichannel service providers like Comcast, Charter integrating their own access to over-the-top features. We have seen them introduce on a limited basis their own skinny bundles. Comcast has its instant TV initiative, which is meant to look and feel similar to virtual service like a Hulu with live TV.

So we have seen that. They have invested in improved user interfaces to try to match some of the functionality that they get from Netflix. So we have seen a variety of different offerings from operators.

Mr. Bilirakis. Thank you.

My next question is for Mr. Moffett. You talked in your testimony about a transition to closed media with more and more content owners moving to a closed system like Netflix or Hulu. But consumers must have individual subscriptions with all of these providers -- that is correct, right? -- which leads to the question of subscription fatigue. Do you have any thoughts on this, how the industry can respond to the overload of subscriptions as we move to a closed system?

Mr. Moffett. Mr. Chairman, it is a fantastic question, and the answer is, I think the entire industry writ large is grappling with exactly that question. You know, Disney, for example, has talked about an expectation that they will increasingly be a direct-to-consumer company. HBO is increasingly or, in fact, arguably always has been to some degree a direct-to-consumer company as is to a degree Showtime.

But all of them are, in effect, aiming at becoming direct-to-consumer platforms that will increasingly look like closed systems, as, by the way, will Netflix where Netflix is licensing less content certainly as a share of its total business from others and producing more and more of it themselves.

So the question of what the future looks like, it is very hard for us to get our heads around the idea that we might have a model where at AT&T, for example, the only way you would be able to get CNN is if you were a subscriber to an AT&T platform and you ended up with an exclusivity platform like that.

Or the only way you could get NBC would be to be a subscriber to Comcast, and that if you had to choose between the two, it would mean I am either going to have one or the other, because adding them together may be rather unwieldy.

That is so different than the model that we have all grown up with that most people find it to be almost unimaginable. But, in effect, all of the competitors of the traditional companies are going in that direction, and so what the traditional companies are struggling with is are we going to be forced to go in that direction as well. And I don't think anybody has a good answer yet for what that looks like, how many subscriptions the average person is likely to be willing to bear. Those are all very, very open questions at this point.

Mr. Bilirakis. All right. Thank you very much. My time has expired.

Now I yield 5 minutes to the ranking member, Mr. Doyle.

Mr. Doyle. Mr. Corwin, as I understand it, TV stations contract Litton, who you are testifying on behalf of, to provide them with children's television content to meet their Kid Vid obligations, right?

Mr. Corwin. Correct.

Mr. Doyle. And the way that Litton pays to produce new content is by selling advertisements during these broadcasts, right?

Mr. Corwin. Yes.

Mr. Doyle. So now one part of the FCC's proposal regarding Kid Vid is to allow broadcasters to meet that Kid Vid obligation by broadcasting this content on one of their multicast stations. Now, I have heard that there is a pretty significant difference in value between main station and multicast revenue. Is that accurate, and if so, how big of a difference are we talking about?

Mr. Corwin. Well, there is a tremendous challenge with trying to rely on multicast as a way to broadcast. But, you know, I could tell you, you know, from my personal experience I find that people are very excited to be gauged in this material. And I hope that none of your constituents are responding to you saying they are getting too much educational television.

Mr. Doyle. Right. But what I am interested in what is the difference in the advertising revenues, whether they are broadcast or --

Mr. Corwin. They are huge. The advertising revenue can be from $2,000 plus per commercial to $25. Why does that break down so much? Well, that is because you lose your audience. Multicast is not available in cable. It is not available in satellite. It is rarely broadcasted in HD. We lose 98 percent of the market. My own children, where I live in Massachusetts, would not be able to watch my television program.

Mr. Doyle. So then my question is, do you think that you and other content producers could continue to make high-quality children's television content for broadcasters under Kid Vid if you were just working with ad revenue for multicast stations?

Mr. Corwin. We could not. In fact, what we do is we actually generate our own income which the networks do not have to pay for. We are self-sustaining. But because we would no longer have the marketplace, we no longer have the viewership, we would no longer be competitive, and we wouldn't get those ad dollars. The reason why I get the money to make the TV shows that we do is by having a strong, robust, highly competitive viewing audience, and that goes away on multicast.

Mr. Doyle. Well, representing the district where Fred Rogers lived, I will ask you, do you think there is value in children having access to safe, educational, original programming on free, over-the-air broadcast television?

Mr. Corwin. I do. There are millions of children that get this information. I can tell you, Mr. Doyle, I was filming in Pennsylvania just a couple of weeks ago filming the hellbender, which is a remarkable species of salamander that tells us all about science, technology, and research, both in the ancient past of evolution and today in modern wildlife management. We get to tell that story in a compelling way through my TV show because we have the budget to be able to travel and invest in these stories. That goes away through multicast.

Mr. Doyle. Yeah, I agree. I think there is great benefit to having that kind of program over the air on free television. And I just close by saying I am glad that Pirates don't have to play the Red Sox this year.

So, Mr. Chairman, I know we have votes being called so I will yield back.

Mr. Bilirakis. Okay. We are going to get one more in. We will get the -- I will recognize the full chairman of the committee, Mr. Walden, for 5 minutes, please.

The Chairman. Well, thank you, Mr. Chairman.

Again, thanks to our witnesses. This is part of a very vibrant discussion we are going to be having on this committee in the weeks and months and probably years ahead about the changing video marketplace and what it looks like, what it can look like, what it will look like, what we can envision it should be, and then what are the regulations in place today, do they make sense for today, do they make sense for tomorrow, who is covered, who is not. These are always the challenges in public policy we get confronted with.

I loved Wild Kingdom too. You know, it was on the air from I think it was 1963 to 1988, and we always watched it. And Mutual of Omaha's Wild Kingdom. They had that little advertising plug in there every time. I think Kid Vid actually came in 1990, so the law that you reference actually was enacted in 1990.

And I guess as I look at this marketplace, gosh, there has never been more opportunities for all kinds of programming at your fingertips as long as you have connectivity and internet. So it is a pretty exciting time unless you are stuck on your brick phone. Yeah. Yeah.

So, Mr. Moffett, critics have been -- yeah, he is still paying for AOL too.

Mr. Moffett, critics of industry -- could we have order here, Mr. Chairman.

Critics of industry consolidation have claimed that the combination of large firms who provide both content and distribution platforms is anticompetitive and puts too much power in the hands of a few. But we don't often talk about the impact that new entrants are having on the same marketplace.

Google's YouTube platform is the largest video network in the world, and it is enhanced by 2 billion Android phone devices that come pre-installed with the YouTube app. Amazon's Prime reaches two-thirds of American households now, and both of these companies have market caps several times larger than the biggest telecom media companies.

Can you comment on big tech's increasing presence in the video market and how this impacts competition?

Mr. Moffett. Yeah. Thank you for the question. Look, it is very clear that the moves that you have seen from companies like AT&T and Comcast have been precisely to respond to the fact that the scale and market power of companies like Google and Facebook are, in fact, much greater than their own.

And what I described in my witness statement of a model that -- or what an economist would call the modernization theory based on advertising and, you know, the old adage that if the product is free, you are the product --

The Chairman. Right. Right.

Mr. Moffett. -- in fact, the consumer is the product that is being sold in most of these models.

The Chairman. Right, because it is data.

Mr. Moffett. They may not be entirely free, but all of the economic value is effectively predicated on the assumption that there will be a resale of the customer data, what you watch and what you do. That is extraordinarily difficult for the traditional companies to respond to.

And what you are seeing is a sort of a different model. The consolidation is more defensive than offensive among the large companies. They are trying to respond by doing the traditional things of getting bigger and cutting cost and hoping, in the case of AT&T, that there is a path for them to be truly competitive as an advertising platform. But it is very difficult for them as a competence to be as successful in the advertising business as the digital advertisers, Facebook and Google in particular, are.

The Chairman. And you have talked about the rise of virtual MVPDs and how they are becoming popular with consumers, but you said the service is losing money so it may not be sustainable. But yet it seems like Wall Street has supported business models that lose money as long as they keep growing their user base. I think about Amazon and Snapchat and the way they leverage their capital to keep garnering market share. It is phenomenal what they have done in so many respects.

Do you think Wall Street will give virtual MVPDs the same benefit, or does a different set of rules apply?

Mr. Moffett. Well, I think for now the -- Wall Street is generally skeptical of the virtual MVPD model, at least the live version. That is distinct from the Netflix model. So the Netflix model, which is in Wall Street parlance an SVOD model, or subscription video on demand, particularly when they are producing their own content. It is a fixed cost being advertised across a larger and larger base.

The Chairman. Right.

Mr. Moffett. By contrast, the virtual MVPDs are essentially a variable cost. And so if you lose money on one customer, having 100 million customers is still going to lose money. You are losing money on every one --

The Chairman. You don't make it up in volume.

Mr. Moffett. -- and so scale doesn't help. And so Wall Street is quite skeptical, I think, for the moment of any of the virtual MVPD models. In the context of a company like Google, YouTube TV is too small for anyone to spend much time on it.

But a big part of the reason, for example, that AT&T as an equity has performed so poorly since its DirecTV acquisition isn't just that DirecTV started to shrink right after they bought it but because they started to migrate customers into a virtual MVPD of their own, DirecTV Now, that was hemorrhaging money. And so the income statement looked frankly quite awful partly because of that acquisition. So Wall Street has not been willing to fund the expansion of the traditional companies into this business.

The Chairman. I have gone over my time.

Mr. Moffett. And it hasn't paid much attention to the digital companies doing it.

The Chairman. Thank you, Mr. Chairman. I yield back.

Mr. Bilirakis. Thank you, Mr. Chairman. Appreciate it.

And now we will recognize the ranking member 5 minutes for questions.

Mr. Pallone. Thank you, Mr. Chairman.

I know that we have a vote on, so I am going to only use about half the time and I am going to limit my questions to Mr. Corwin. I want to thank you for your excellent programming that you provided to America's children over the years. And I agree with you that my concern that you share is that the SEC in considering rolling back protections that ensure kids have access to free, educational, informational TV program is a serious problem.

So let me just say, if educational children's program migrated online or to cable channel only, what groups of children would be the most affected?

Mr. Corwin. Well, the people that would benefit children would be the ones that have access to -- the people most affected are the ones that do not have access to the technology. And as we have discovered with the potential opportunities of multicast is that there is no opportunity for broadcast because we just wouldn't have our audience. So unless you are in a public library or you are in school, there are many children in our country that would not have access to this technology.

Mr. Pallone. And what's the consequence of that? In other words, children from lower-income homes, as you say, have access to fewer resources and opportunities than wealthier families. So in your experience, you know, how does exposure to educational program mandated by Kid Vid rules actually benefit the children?

Mr. Corwin. So how does it benefit children? Okay. So the only thing I could say is, in my job I don't wear a suit. This is the first time I have worn a suit. I always say, you never want to see me in a suit because you are probably in a casket. But I needed a suit. I was filming overseas. My wife got a suit. I came home. It didn't fit. I found a tailer at the last minute. She was able to do it. I didn't think she knew who I was.

I got a text from her saying you can pick it up on the 26th in the afternoon. And she said, by the way, I don't know if this is inappropriate, but would you provide a correspondence to my nephew because he serves in special ops, and he wanted you to know that when he was a teenager he was going through some tough times and your programming and others inspired him to focus and he joined the military and now has a very productive career.

I mean, that is a personal story that I have encountered. I have met many children -- I have met many -- unfortunately now that I am aging, you meet adults that come up to you and say, I became a veterinarian or I became a scientist because of shows like yours that I have experienced. So on a personal note, I have met hundreds, if not thousands of people, that have been positively impacted.

When it comes to our natural resources, I will tell you this: You can't protect and you can't wisely use what you do not love. And if you don't love it -- you will never love it if you never realize it or discover it. And that is what shows like mine do. We provide a vehicle, a safe, encouraging, rich environment for young children and young people to make discoveries that could perhaps set them on their careers of what they will do in the future.

Mr. Pallone. I think that is so important. You know, the other thing we realize more and more -- at least I do. I think most people do -- is that when you talk about STEM, right, in other words, you know, science, engineering, the things that -- that kind of education that is so important, you know, for the future in this sort of innovative technology world, what this committee deals with, that is where a lot of these kids -- we know that, you know, STEM education is something that low-income kids often don't have the opportunity, they don't hear about, don't start, you know, wondering about science and nature and all that.

And so I think it has a particular impact there because I worry so much that, you know, if people from low-income backgrounds will never get into those fields. And the sort of discovery aspect that you are talking about I think is particularly important in that respect as well. So thank you very much.

Mr. Corwin. Thank you.

Mr. Pallone. Thank you, Mr. Chairman.

Mr. Bilirakis. Thank you for yielding back.

I will now recognize the gentleman from Pennsylvania -- excuse me, Louisiana, my good friend, Mr. Scalise, 5 minutes, please.

Mr. Scalise. Thanks again, Mr. Chairman.

I appreciate the testimony that you all have given and it really describes just how much things have changed since the brick was the cellphone. This was the last time our laws were written. These are the laws. We are literally operating under 1992 laws with this technology. And I show this to show the importance of why we need to update our laws.

And, you know, obviously I filed a bill, the Next Generation Television Marketplace, to start this conversation about how we get beyond these people that want to live in the dark ages. The number one song, by the way, when the 1992 Cable Act was written, ironically was "End of the Road" by Boyz II Men. It is the end of the road for the 1992 Cable Act, but we can't keep living under it because of those companies that are fighting that change.

Mr. Moffett, you said in your statement earlier, change or get left behind. And really that is fitting because it seems like some of the people that think that they are protected by the 1992 Cable Act that want to hide behind the 1992 Cable Act and fight to protect it, they are going to fight change while they are getting left behind because the change is happening.

The problem is you have very different sets of rules that everybody is playing by. Why is it -- and I think, Mr. Olgeirson, you did some research to look at how many people are really cutting the cord, what kind of drop there is. And from what I saw, there is about a 9 percent drop, reduction in people that are staying within the old MVPD marketplace. In other words, the cutting of the cord is real and they are doing it, but they are not just stopping and watching things. They are transferring over to over the top.

And I think in your studies it was somewhere around 180 percent increase in the number of people going to over the top. And so there was a revenue study that was done by Convergence Research Group that showed a revenue change last year. A 1 percent increase in paid TV, the traditional MVPD, and a 41 percent increase in revenues by over the top.

The more alarming part of the traditional revenue, the traditional MVPD folks, you know, while they may seem to be saying, hey, you know, we had a 1 percent increase, that is a decrease in what they were getting before. But they are losing customers by a rapid, rapid rate.

RPTR MOLNAR

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[4:00 p.m.]

Mr. Scalise. And so, if you look at where we should be trying to go, we should be trying to go to a marketplace where everybody has the same set of rules. One of the reasons that those traditional MVPDs can't go find ways to get more customers that are getting better choices -- I mean, customers do what they always do. They look for better choices and they look for lower costs, and they are finding both in the over-the-top, but they can't get it in the traditional MVPD because there are laws in the 1992 Cable Act, like must-carry, like basic tier. There are actual laws that prevent you from providing the services that customers are looking for.

So they are cutting the cord because they can go somewhere else. So, Mr. Moffett, what I want to ask you, is, as I have described that marketplace, explain to me, maybe, why you see some of these traditional MVPDs fighting change that -- frankly the change, they are going to be Blockbuster. You know, Chairman Walden, I know he gave that example of Blockbuster. Blockbuster died for a reason, because they fought the change that was happening. It happened anyway. And so as people moved away, Blockbuster went away because they fought the change. If they maybe would have said, let's go be like Netflix then maybe they could be like Netflix today instead of being the dinosaur. So if you want to maybe touch on that, Mr. Moffett.

Mr. Moffett. Well, thank you for the question. I would say, in fact, part of the reason that the change has seemed, particularly to people in the tech community, has seemed a bit glacial for the traditionals is precisely as you say. There are very real limitations on their degrees of freedom, right? As a traditional MVPD, a Comcast or a charter or something, I might want to, for example, respond to the emergence of so-called skinny bundles among the OTT players, by saying, well I have to have skinnier bundles of my own with fewer networks. Well, your contracts don't allow that, so you probably can't.

Mr. Scalise. And maybe that worked when you were the monopoly. You know, again, in 1992, you didn't even have satellite. Stella --

Mr. Moffett. That is right.

Mr. Scalise. -- you surely didn't have Roku and Hulu and all those other services. You had one place to go. You were the only game in town, and so it was a great relationship with the networks. They were a monopoly, you were a monopoly, and everybody could only go to you. It doesn't exist anymore.

Mr. Moffett. And by the way, the negotiating leverage, as you can imagine, in those days, was quite different. One of the challenges for the traditional MVPDs in competing, is, as they think about the retrans rules, for example, you have a very clear asymmetry in the negotiating leverage. The media company, the local -- I should say, the local broadcast affiliate, particularly in NFL markets where they have the rights to -- to a local football game, is dealing with a product that -- for which there is no substitute.

By law, there is no one else allowed to sell that NFL game, for example, in that market. And they are negotiating with a player on the -- on the multichannel video side, a cable operator or satellite operator, for whom there are very obvious and identifiable substitutes. So that is quite different than the situation in 1992, and not surprisingly --

Mr. Scalise. And I apologize, I know I am out of time, but just to say -- to wrap it up, Mr. Chairman -- let's get back to a free market where everybody is paid for their content. I mean let's go to pure copyright. We are not talking about somebody giving away their product for free, but let's not have the Government tell you that you have to provide content one way, but this other actor over here, that is going through the internet can operate in a completely different set of rules and environment and take your customers away, but you are trapped in the old system.

Let's have a free market for everybody, where you get fully compensated for your content, but update the laws, because, my gosh, why are we still operating under these laws? It is the end of the road.

Yield back.

Mr. Bilirakis. All right, thank you. Thank you, Mr. Scalise. And as you know, votes have been called, so we will take a slight recess. This subcommittee will recess for, well, a few minutes.

[Recess.]

Mr. Guthrie. [Presiding.] The subcommittee will reconvene. At this time I am going to recognize Mr. McNerney for 5 minutes for questions.

Mr. McNerney. I want to thank the chairman, and I am glad to be back after votes here today. Mr. Corwin, about 21 percent of the households in my district have an annual income of less than $25,000 a year. What types of -- why are the types of educational and informational programming that you describe in your testimony so important for kids in these households?

Mr. Corwin. Well, I think why it is so important is because if you can provide anything for young people that are in a disenfranchised or disadvantaged situation where they may not have access to technology that allows them to be omnipresent in the digital universe, I think what we can do is provide those kids with a sense of hope, that we can inspire them with places around the world. These kids, when they watch my shows, I literally imagine in my brain, they are my sidekick companion, and we are on an adventure together. And we can show them places around the world. We can show them scientists that are doing ground-breaking stuff, not just your classic scientists, but scientists from all walks of life.

Many of them have had moments of adversity in their lives that are doing groundbreaking, life-changing things to not only advance science, but to wisely manage our natural resources. So I think, in the end, that is something we provide. We empower them with knowledge. We show people like them, who have made great successes of themselves and are contributing. We give them hope, and I figure the hope that I got, for example, when I watched David Attenborough, when I watched Marlin Perkins, but wanted to be Jim, you know, when I watched all that stuff, it inspired me, and I hope we can inspire them.

Mr. McNerney. Thank you.

Well, more than 56,000 households in my district participate in the Lifeline Program, which you must be aware of, and that enables low-income families to stay connected. The FCC chairman is currently proposing the changes to the Lifeline Program that will eliminate 70 percent of the households that participate in Lifeline. Do you think cutting off households from Lifeline will be harmful?

Mr. Corwin. I think not only is it harmful, but it isolates children. It does not give them access to resources, pedological and educational and informational opportunities, that could ultimately be a stepping stone to inspire them to become engineers, explorers, or scientists. So they lose that conduit to another world, and they become isolated.

Mr. McNerney. Thank you.

Mr. Olgeirson, in recent years, we have seen a number of vertical and horizontal mergers in the media marketplace. We know that most Americans still get their news from local sources, local broadcasting stations, local radio, and hometown newspapers, but increasingly many of these outlets are being consolidated by a handful of companies.

Localism is still important in our Nation's communications policy. It produces more robust democracy.

Do you think that the FCC's decision to allow a single broadcaster to own more than one -- one top-four stations in a market could result in less unique local voices in the market?

Mr. Olgeirson. I couldn't speak to the consolidation within the broadcast markets.

Mr. McNerney. Okay.

Mr. Olgeirson. I could -- I could offer you a data point on -- to your last point, talking a little bit about where lower income households come in. We have certainly seen a significant increase in the average revenue per unit and the cost of a multichannel subscription, which puts a -- which certainly puts a -- the statistics you mentioned about the lower-income households in your district, would put them outside of the affordability of a multichannel service and being able to access that.

Mr. McNerney. Okay, thank you for that.

Mr. Moffett, privacy is an area of great concern for me and a lot of Americans, a lot of people around the world really. Americans increasingly feel they are losing control of the information they share online.

I understand the FTC has a general enforcement policy under Section 5 to go after unfair and deceptive practices. I also understand the Communications Act has certain privacy provisions that apply to cable and satellite operators. Do cable and satellite privacy protections in the Communications Act apply to online mPVPDs?

Mr. Moffett. I think it is generally assumed by most of the carriers. I think a good example is Verizon. That they are subject to -- to stricter privacy rules than are the edge providers, as they are referred to, the Googles and Facebooks. And that asymmetry is problematic. I wouldn't want to -- it is a legislative question, rather than an analytical question, to say which model is the preferable model. That is, is it more appropriate -- while it is more complicated than this, it boils down, in many ways, to an opt in versus opt out, but there are obviously many nuances beyond that.

I wouldn't suggest that -- I would suggest that it is a legislative and -- a legislative question to decide whether it is -- whether one is preferable to the other. But there is certainly a strong economic argument for ensuring that everyone operates under the same set of rules.

And historically that has been solved to some extent in that now when the previous net neutrality rules were in place, it created some additional complexity because -- because of the exemption of -- that had come from almost a century ago, about net neutrality and jurisdiction of the Federal Trade Commission. At least that has been taken away, so that the Federal Trade Commission has jurisdiction over both, but the presumed rules are still different.

And, for example, Verizon is struggling with the acquisition of AOL and Yahoo, in part because their expectation is, we have to abide by privacy rules that are stricter than those rules that are adhered to by a Google or a Facebook.

You have another -- one more obviously, you have another very big challenge, which is, especially the social media companies are global and are now being asked to respond to different rules in Europe and different rules in Asia, and in fact, individual countries in Asia. And it makes it extraordinarily difficult to think about all these different regimes.

Mr. McNerney. Thank you for your opinion.

I yield back.

Mr. Guthrie. The gentleman's time has expired and he yields back. And I will recognize myself for 5 minutes for questions.

So, Mr. Olgeirson, this subcommittee has talked a lot in this country about the importance of winning the race to 5G. And Doris Matsui of California and I, with the Congressional Spectrum Caucus, have been looking at the spectrum -- the block phone is coming back -- the spectrum questions, which are central to 5G. And since we are talking about media today, one of the many uses that 5G will enable is an enhanced mobile broadband capability, vitally important to high-quality video, among other things.

I have been told about the incredible amount of bandwidth that online video consumes on all networks, including the mobile. My question is, since we are already seeing consumers transition towards mobile content consumption, do you think the deployment of 5G will accelerate this trend and, in particular, when it comes to video?

Mr. Olgeirson. Thank you for the question. I think that, first of all, when we think about the consumption of video, we still see the primary location in consumption of video being the home. So even though consumers may be technically using a mobile device, and they maybe experience a certain degree of mobility because they are not tethered to a wire, they are on the home Wi-Fi. And that is where the majority of usage for video is at the moment.

We have certainly seen different service providers targeting a true mobile service and looking to leverage that, and capacity would certainly increase their ability to put that out there. Under the current sort of 4G network's mobile video, in an uncongested 4G network's mobile video is not necessarily a gating factor. But bandwidth is not necessarily a gating factor to getting that video. But we do anticipate that a more robust mobile network would lead to, you know, more data usage, including video.

Mr. Guthrie. More demand for it.

Mr. Moffett, would you have any comments on that?

Mr. Moffett. No, I would agree with that answer, that the -- I am not sure that video alone -- there is obviously a tremendously -- a tremendously rapid growth in consumption of data, and, therefore, all the wireless operators are applying all different kinds of strategies to increase the capacity of their networks. And video is a very large driver of that growth. But I think it would be a little bit of a stretch to argue that video consumption will be the economic basis of 5G. I think there has to be something that is a separate and unique revenue stream associated with that business. Because video is already a revenue stream that the 4G network allows them to capture, as Mr. Olgeirson said, with reasonably good efficiency.

Mr. Guthrie. Okay, thanks.

And this is Mr. Olgeirson's testimony, but anyone can answer this. I will go to Mr. Olgeirson first, but in today's testimony we heard about the significant shifts in media marketplace and how different the industry is now, compared to even 10 years ago. But you said that we are still in the early to mid stages of complex transition. If we are only in the early stages -- put on your analyst hat here -- and if you are only in the earliest stages now, what can we expect the marketplace to look like in the late stages?

Mr. Olgeirson. Well, I think that we see a continued progression of subscribers moving outside the umbrella of the big subscription package that is represented by cable, Telco, and satellite services that we know today. Those services -- those subscribers will be in a position of self-aggregating their content through different services like a Netflix or a Hulu.

We will also see an increasing move toward direct-to-consumer delivery by video conglomerates who are looking to sort of move beyond having a distributor middle man in that section. So I think that we see a progression of subscribers outside of this big package. We see the traditional operators continue to have significant leverage within that discussion, because of their wireline networks, and in many cases, because of the wireless networks that they will develop on top of those wireline networks. But nonetheless, the video package migrates outside.

Mr. Guthrie. Okay. I have a few seconds, do you want to comment, Mr. Moffett?

Mr. Moffett. You know, I can -- I think the key thing to focus on is really what is happening to consumption trends, and while people are watching more and more video, they are watching less and less what we consider scripted video, and that sort of thing. So you have got this period where there is more scripted shows than ever but fewer and fewer people watching them. And that is not a sustainable model.

I think if you project out forward, you are likely to see that a lot of what we think of as linear television today just disappears, to be replaced with much more on demand, and with a much more limited offering of linear TV, linear news, and linear sports. But that it may not be -- there may not be a need for any other linear channels. Everything else may eventually be sold in on-demand packages. And I think younger people are sort of scratching their head over why are we spending so much time thinking about linear television and the migration of linear television because --

One of the better quotes that I heard was from a young person, who when faced with a virtual MVPD, which is sort of pitched at people like that, said, why would I want a bunch of networks that only my father watches? That is not the way they consume television or consume video. And even the idea of consuming television is a bit anachronistic.

Mr. Guthrie. Well, thank you. My time has expired. I appreciate your answers.

Next up is my friend, the gentle lady from New York, Ms. Clarke.

Ms. Clarke. Thank you very much, Chairman Guthrie, and to Ranking Member Doyle for convening this important hearing on the media marketplace.

Viewpoint diversity is an important principle that has long informed communications policy in the United States. While online platforms provide new channels for voices to rise to the surface, it remains vital that our media outlets and the content they distribute reflect the diversity of voices and opinions that make up America. Minority media ownership remains abysmally low, and I worry that the current FCC's rollback of media ownership rules meant to promote diversity of voices will do nothing but make the problem worse.

So, Mr. Moffett and Mr. Olgeirson, does media consolidation have a negative effect on the number of minority-owned media outlets?

Mr. Moffett. My focus is not really on the broadcast side, which I think is, if I understand your question, to some degree where you are focusing, because those are the places where the media ownership rules are the most relevant. And so I am afraid it is outside of my area of expertise.

Mr. Olgeirson. It is also outside of my area of expertise. I would note that the -- that the dynamics that have been described up here of sort of an increasingly on-demand delivery of content and sort of the erosion of that big subscription package have different impacts on people seeing diverse views. Because you are self-selecting the content, you are less likely to run into -- into a view that might not be your own.

But at the same time, there is an easier path toward distributing those views, because you don't have the gatekeeper of a 60-channel lineup from a cable operator that you can't crack, because your network is really the 61st most popular one.

Ms. Clarke. Yeah, and I just think that with the diversity of ways in which people are accessing their video or their content, it still disadvantages those who are not in ownership positions. So I was wondering whether any of you can speak to that.

Mr. Olgeirson. I don't think so, but thank you.

Ms. Clarke. Oh, okay, just thought I would ask. Maybe we should look into it.

Are you aware of any efforts to promote diversity or increase the number of minority-owned opportunities out there? Either -- anyone?

Mr. Olgeirson. I am not, no.

Ms. Clarke. Okay.

Mr. Corwin, you are familiar with diversity in another sense, the diversity of wildlife inhabitants that populate our planet. I am interested in hearing from you why you think it is so important to bring the natural world to children and young people via television programming.

Mr. Corwin. Well, that is a great question. There are a number of objectives that we are looking at. One is to not only inspire a sense of stewardship to make that natural connection, but ultimately by building that relationship of stewardship, we encourage the next generation of leaders, of users of resources to maybe learn from our mistakes, to ensure that we have a biologically rich and healthy planet.

And as we know today, we face tremendous challenges with endangered species, habitat loss, and climate change. In addition, we try to strive and reach out to above and beyond our audience. Recently we just received a letter from the Department of Defense and the American Forces Network. And the American Forces Network commended us in our ability to connect with our armed servicemembers and to try to be a resource for them.

So, for example, we reach more than a million soldiers and their families around the world, a success point so embraced that they are now using our TV shows in schools that our men and women who are fighting for our country can educate their children in a positive way.

We face tremendous challenges. We live in what is called the six extinction. We lose a species on our planet once every 20 minutes --

Ms. Clarke. So let me ask you something. According to Nielsen, 45 percent of African Americans and 36 percent of Hispanic Americans don't own streaming devices. So the FCC has suggested that Kid Vid rules are not necessary because educational content for children is available online. How would this impact those communities?

Mr. Corwin. Well, it will be impacted in a huge and an almost asteroid-like fashion. What the asteroid did to the natural history of our planet over 60 million years ago, we are doing that with communications. The multicast program basically removes more than 98 percent of our audience. Children and families that live in the inner cities will not be able to watch our shows because it is not on multicast, broadcast and cable, or satellites. Not even in HD. My own children, who I try to provide a nice life for, will not be able to watch my TV shows if this continued trend moves forward.

Ms. Clarke. Very well. I thank you very much, gentlemen, for your feedback. It is a lot to think of and consider there.

And, Mr. Chairman, I yield back the balance of my time.

Mr. Guthrie. Thank you. The gentle lady yields back.

The chair recognizes Mr. Johnson of Ohio for 5 minutes for questions.

Mr. Johnson. Thank you, Mr. Chairman.

And this is indeed an important topic, and, Mr. Corwin, for the record, I enjoy your shows. So I am one of those kids that you are taking on those journeys in your mind, because I really enjoy them.

So thanks to all of you for being here today, because it is such an important topic, the current state of the media marketplace.

As everyone knows, the media landscape has changed significantly in the last two decades, even in the last few years. And I have faith that American innovation will continue to develop exciting new technologies and platforms that will continue to change and expand the media marketplace in the future. So it is important for us to take a look at the media marketplace more broadly, understand the new ways that people are listening to or viewing media content, and also the continued role of traditional over-the-air broadcasting.

This hearing is just the start of a needed conversation to examine these topics and ensure policy and regulations reflect the current marketplace and provide a fair playing field for all the industries involved.

With that as a backdrop, Mr. Moffett, for years, we have been hearing about a la carte offerings in which viewers could pay for the programming they want and not pay for programming they don't want. Yet the cable bundle lives on. Indeed it now appears that even new online products like Sling and Hulu are starting to recreate the familiar cable bundle. Why is this happening?

Mr. Moffett. Well, the first thing -- thank you for the question. I guess the first thing I would say is, when we talk about a la carte and unbundling, it is important to be articulate about where in the value chain we are unbundling and what we are unbundling from what. So today shows are created by television studios. Those tend to be bundled together into linear networks. Linear networks are bundled together into media conglomerates. Media conglomerates are bundled together into the package that is sold to consumers. And in theory, unbundling could happen at any one of those levels.

Mr. Johnson. What effect does it have on prices and broadband offerings --

Mr. Moffett. So right now, the reason -- and I think it is actually lost on many of your constituents, because when I talk to consumers, they often blame the distributor. But the reason that you can't do a la carte as a customer, and by most people, when they say a la carte, what they mean is unbundling cable networks from each other. Again it is not obvious. That should be what it means, but that is what most people assume.

The reason you can't do that is because the media conglomerates don't allow the distributors to buy individual networks. They require you to take all of them or none of them.

Mr. Johnson. What do you think we do about it?

Mr. Moffett. Well, it is a very difficult problem in some ways, because at least the legal question, as I understand it, has always been, on the one hand, anti-trust laws would suggest -- would say that looks a lot like illegal tying. On the other hand, first amendment rights say that they are first amendment speakers and that you can no more tell Disney that they can't bundle their channels together than you can tell The Washington Post that they can't bundle the business section with the editorials. And so you have this tension between first amendment rights and antitrust rules.

Mr. Johnson. So what you are saying, it is not easy?

Mr. Moffett. It is not an easy problem to solve. The marketplace may eventually solve it but very, very slowly.

Mr. Johnson. Okay. Well, earlier this year the FCC relaxed its local television ownership rule to permit broadcast television companies to own, within certain limits, two stations in a single television market. In its decision, the FCC pointed to the fact that consumers are increasingly watching video programming from cable and satellite operators and online content distributors.

Given the rise of these other mediums, do you believe that free, over-the-air TV broadcasters compete only against other TV broadcasters in the same geographic market for viewers and advertising dollars?

Mr. Moffett. Clearly not. And, in fact, I think that speaks to, while there are perfectly legitimate arguments to be made about diversity of voices and keeping two -- the two-station rules being problematic in some way, the economic reality is that these companies are competing against social media and streaming --

Mr. Johnson. Sure.

Mr. Moffett. -- models, and so the question is, can they fund the news-gathering function with the economics available to them on a single station? Or do they need synergies? And those are really tough questions.

Mr. Johnson. Yeah, we could talk for days about some of this. I know I have got very limited time, but I want to give each of you a chance to answer this question.

What suggestions do you have for this committee to ensure that the marketplace continues to evolve, to innovate, and provide robust competition?

Mr. Olgeirson. I think boiling it down to a single suggestion is a daunting task. I think that, you know, at this point, what we have seen is that consumers are essentially driving the market. They are making decisions about a la carte. They have asked for a la carte. Operators have told them that it is probably not in their best interest, and we look at the economic models and determine that a la carte is not in their best interest. And yet they are moving toward a la carte models already.

So I think that what we will see is -- basically the market is answering those questions.

Mr. Johnson. Mr. Corwin, I know you got to go quickly, but do you have a response to that?

Mr. Corwin. Well, I can just tell you this, making children's television programming isn't easy. We are very limited on the things we can express, the tools we can use because of the audience we are trying to reach. But if you give us the platform, we will succeed. We have this great ability to reach millions and millions of people, and we do so by providing a competitive, engaging, and entertaining, and informational product. And you give us that platform, we will continue to do what we do.

Mr. Johnson. Okay. Mr. Chairman, I wish I had more time, but I yield back.

Thank you, gentlemen.

Mr. Guthrie. Thank you. The gentleman from Ohio yields back, and the chair now recognizes Mr. Engel of New York, 5 minutes for the purpose of asking questions.

Mr. Engel. Thank you, Mr. Chairman, and Ranking Member Doyle.

I know and hear regularly from my constituents who complain about poor cable service, high bills and being forced to pay for bundled programming that they don't really want. And with that in mind, I want to start by talking about television blackouts, which means not showing a particular channel or a particular show in a given market. It can be extremely frustrating to consumers who pay their bills and expect to be able to watch the programming of their choice, and yet we have seen more and more business disputes that result in a particular show, channel, or content provider being blacked out for consumers sometimes for long periods of time. So let me ask Mr. Moffett and Mr. Olgeirson, in your opinion, are consumers likely to see more or fewer blackouts in the future?

Mr. Moffett. I think -- and thank you for the question. My suspicion is that we will see more. And, in fact, not just more temporary blackouts, but we will start to see more permanent blackouts. That is, we will start to see more networks, particularly cable networks, being dropped entirely because the economic model for them to be distributed by an individual distributor just doesn't make sense anymore.

And that, again, speaks to the economic tensions are mounting. And when the economic tensions in a business system like this one mount, you tend to get more and more of these kind of extreme examples of dysfunctional economics.

Mr. Engel. Mr. Olgeirson, would you agree?

Mr. Olgeirson. Yes, I agree. I think the only -- the only lever there that wasn't brought up is that consumers do have an increasing option to move away from -- from that service and, therefore, have a solution to those blackouts.

Mr. Engel. We are seeing content producers, broadcasters, and multichannel video programming distributors consolidating, getting larger, the MVPDs. Do these consolidations impact the likelihood of blackouts? Either one of you -- or both.

Mr. Moffett. In theory, they would, particularly, and in fact, that was the -- if you think about the AT&T/Time Warner case, that was actually the most important theory put forth by the Department of Justice and, in fact, was why the DOJ appealed the case, was that they felt that Judge Leon in that case had failed to acknowledge that that was the likely outcome. I am slightly spinning that a little differently than they put it, but that was effectively the argument that they made.

Now, as it happens, in that particular case, for the time being, they are bound by a voluntary consent decree like commitment to make their content available and to -- and not have blackouts. But in theory, yes, the economics of withholding content from a direct competitor are more attractive, or are more tenable, if, in fact, you will get some economics back by virtue of some of their customers leaving them and coming to you. That is the nature of the economic argument, and it seems to me, on its face, that it is correct, at least to some degree.

Mr. Olgeirson. I don't have anything to add to that.

Mr. Engel. Okay, well, let me -- I would like to address the cost of traditional cable and satellite service. So let me ask you again, either one of you who -- or both who might want to answer, do you think that the subscription cost to a traditional cable or satellite service are likely to increase or decrease for consumers in the near future?

Mr. Moffett. I think the answer remains, as it has been for 30 years, that the -- there are very strong inflationary pressures. One of the things that is unique about this model, I used to describe it as -- because it is -- the wholesale prices are delivered to the multichannel distributors by the content owners and are invisible to the consumer.

One of the few models that that looks like is the healthcare system. If we wonder, you know, why we have runaway healthcare costs, it is because the end user is not even aware of the wholesale cost of individual services. The only other model you can find that looks like that is the media business, where we have the same model.

And in particular, when you have this -- what I described in response to an earlier question, you have this asymmetry of negotiating leverage between local broadcasters, in particular, that own the rights to sports, for which there is no substitute, and a negotiation with a multichannel provider for which there is an obvious substitute. That is a recipe for natural escalation in prices, and that has been the primary driver for the last, roughly, 10 years. The primary driver of escalating prices to end users has been that asymmetry.

Mr. Engel. Do you think that the new online streaming services, where people are watching more of the broadcast, will lead to lower costs?

Mr. Moffett. Temporarily, I think that it puts pressure on the multichannel distributors to try to respond to the fact that there are these low-cost options. But as I described in my opening remarks, there are very real reasons to be doubtful about whether the selling that service -- those services without any margin will turn out to be a sustainable model.

It will depend on how successfully they can monetize advertising and how well they can exploit the customer data for a very targeted advertising. My suspicion is that that won't be sufficient to offset the cost of maintaining those services at no margin, and that you will start to see those prices start to escalate, and if anything, take some of the downward pressure off of the pricing of the traditional multichannel providers.

Mr. Engel. Thank you.

I have one final question I would like to address to Mr. Corwin. You touched on it before when the question was asked. In the FCC's repeal, if they were to repeal Kid Vid protections, if that is finalized, people say it is done because kids don't watch education programs anymore; they have so many other things to do. How do you answer that?

Mr. Corwin. Well, we know that children and teenagers, which we target for our audience, do watch this programming. My ratings are very competitive, 1.6 shares, watch, and Nielsen ratings, which allows us to get the revenue streams to make the shows we do.

But if we are crippled by the multicast broadcast situation, we will no longer have that audience, which means we will not get those resources, which means, we can't make the shows that engage our audience, inspire them to a path forward in science and technology.

Mr. Engel. Thank you.

Thank you, Mr. Chairman.

Mr. Guthrie. Thank you. The gentleman's time is expired.

Seeing no other members wishing to ask questions for the panel, I thank all of our witnesses for being here today. It has been very informative, and I appreciate it.

Pursuant to committee rules, I remind members that they have 10 business days to submit additional questions for the record and ask that witnesses submit their responses within 10 business days upon receipt of the questions. Seeing no further business before the subcommittee today and without objection, the subcommittee is adjourned. Thank you.

[Whereupon, at 5:00 p.m., the subcommittee was adjourned.]