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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

February 7, 2000

EX PARTE OR LATE FILED

Magalie Roman Salas  
Secretary  
Federal Communications Commission  
The Portals, 445 Twelfth Street, S.W.  
Washington, D.C.

**Re: Ex Parte Presentation – In the Matter of Implementation of the  
Satellite Home Viewer Improvement Act of 1999; Retransmission  
Consent Issues, CS Docket No. 99-363**

Dear Ms. Salas:

EchoStar Satellite Corporation (“EchoStar”) hereby submits the Comments prepared on behalf of EchoStar by noted economist Dr. James N. Dertouzos in connection with the above-referenced proceeding to implement the good faith and exclusivity provisions of SHVIA.<sup>1</sup> In his comments, Professor Dertouzos analyzes the retransmission marketplace, demonstrating that: (1) the marketplace for retransmission consent is not as competitive as many broadcasters would have the Commission believe; (2) cable operators have received retransmission consent from the broadcast networks at minimal cost; and (3) in a competitive environment – the baseline for determining what is, and what is not, a “competitive marketplace consideration” for purposes of Section 325(b) – satellite carriers should on balance be able to obtain even better terms and conditions for broadcasters’ retransmission consent than those enjoyed by cable operators, for at least three reasons: (a) the costs of carrying local broadcast signals are dramatically higher for satellite carriers than for cable operators; (b) satellite operators do not earn the local advertising revenues that normally flow to cable operators when their subscriber base increases because of distant signal carriage (thus eliminating the risk of diverting advertising revenues from the local broadcast station to the MVPD distributor); and (c) viewers who subscribe to satellite-based programming are usually switching from cable subscriptions, and thus are not obtaining significantly more viewing options that could lure them away from broadcast viewing to the same extent as when they switch from over-the-air delivery

<sup>1</sup> Act of Nov. 29, 1999, PL 106-113, § 1000(9), 113 Stat. 1501 (enacting S. 1948, including the Satellite Home Viewer Improvement Act of 1999 (“SHVIA”), Title I of the Intellectual Property and Communications Omnibus Reform Act of 1999 (“IPACORA”), codified in scattered sections of 17 and 47 U.S.C.

to a multichannel format.<sup>2</sup> Given these key differences between cable and satellite distributors, the Commission must view any attempts by broadcasters to wring more compensation out of satellite carriers extremely skeptically.

Dr. Dertouzos' comments thus support EchoStar's view that the Commission must aggressively implement SHVIA's good faith and exclusivity provisions, with a keen eye toward restraining the ability of broadcasters to extract anti-competitive terms and conditions from satellite carriers in exchange for their retransmission consent. The Commission should carefully and specifically define what constitutes a "competitive marketplace consideration" for purposes of Section 325(b), and must do so based on an accurate understanding of the realities of the retransmission consent marketplace. Moreover, the Commission must view any attempt by broadcasters to extract more onerous terms than the norm established in myriad retransmission deals with cable operators as presumptively not based on competitive marketplace considerations. The Commission should also regard as a *per se* violation of the Section 325(b) any attempt to extract additional value by, for example, tying retransmission to carriage of other broadcast signals (including digital signals).

EchoStar submits an original and one copy of these comments for inclusion in the above-captioned file.

Sincerely,



Pantelis Michalopoulos  
*Counsel for EchoStar Communications Corporation*

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

In the Matter of	)	
	)	
Implementation of the Satellite Home	)	CS Docket No. 99-363
Viewer Improvement Act of 1999;	)	
Retransmission Consent Issues	)	
	)	

**COMMENTS OF JAMES N. DERTOUZOS**

**Qualifications**

My name is James N. Dertouzos. I am employed as a senior economist by the RAND Corporation, a nonprofit public policy research institution. I am a professor of economics at the RAND Graduate School of Policy Studies and have previously taught at Stanford, UCLA, and the Annenberg School of Communications at USC, including courses on the economics of mass communications industries. Since receiving my PhD in economics from Stanford in 1979, I have conducted extensive research on topics related to the economics of the broadcasting, cable, satellite, and newspaper industries. My non proprietary policy research has been sponsored by the Federal Trade Commission, Department of Justice, the Defense Department, the National Science Foundation, the Department of Labor, and numerous other government agencies and foundations. On two occasions, I provided Congressional testimony on the causes and economic impacts of concentration in the mass media industries. I was a principal expert witness on behalf of the Federal Communications Commission in defending the

cable “must-carry” rules in Turner Broadcasting Systems, Inc. v. Federal Communications Commission, 512 U.S. 622 (1994). I have also conducted research as an independent consultant to a variety of private organizations, including the National Association of Broadcasters, the National Cable Television Association, and individual companies such as Ameritech New Media, Bell South, Lenfest Communications, TCI, and Viacom. My vita is included as Attachment A.

### **Conclusions**

I am submitting these comments as an independent consultant on behalf of EchoStar Satellite Corporation. I have been asked to evaluate some of the economic and public policy implications of the recently enacted Satellite Home Viewer Improvement Act of 1999 which prohibits broadcast stations from “engaging in exclusive contracts” and “failing to negotiate in good faith” in their retransmission consent dealings with MVPDs.

Clearly, healthy competition among Multichannel Video Programming Distributors (MVPDs) requires that market participants, such as cable television operators, telephone companies, and satellite providers, have access to programming at fair and competitive prices. For this reason, Congress recognized that significant differences in the terms of retransmission, to the extent they are not based on “competitive marketplace considerations,” could signal bad faith, promote the equivalence of exclusivity, and hamper the legislation’s important pro-competitive objectives.

Of course, the implementation of a competitive standard for judging market transactions raises a host of economic issues. For example, do current market outcomes reflect a competitive market place? What characterizes a competitive retransmission deal? What factors determine the structure of such deals and the flows of considerations as between broadcasters

and Multi-Channel Video Programming Distributors? To what extent do broadcasters have the incentives and ability to extract considerations that exceed a competitive level? How will this change in the future? Will different transaction terms unfairly handicap market entrants, such as satellite providers, in their efforts to compete against cable industry incumbents?

In my preliminary review of these issues I have come to the following conclusions:

- In a perfectly competitive market setting, revenues will be just sufficient to compensate providers for the costs of program creation, duplication, and distribution. Considerations paid by market participants should provide an equitable distribution of wealth and promote the welfare of consumers.
- Retransmission of local network signals by a Multi-Channel Video Programming Distributor creates benefits for both the broadcaster and the distributor. Because these benefits move in both directions, the absence of significant direct payments does not imply that programmers are not being adequately compensated and is in fact consistent with predictions of what would happen in a competitive marketplace, with the finding of the Copyright Office that the market value of local retransmission is zero in part because of the two-way benefit flows, and with findings from an empirical analysis of license fee levels in the market for cable network programming.
- In deals between broadcasters and cable operators, cable operators have typically received retransmission in exchange for very low, non-cash consideration (typically, the carriage of cable networks affiliated with the broadcaster, an agreement that has a very low opportunity cost to the cable operators). Nevertheless, the benefits to broadcasters in the form of advertising revenue are substantial.

- Unfortunately, the current market for video programming is not as competitive as is desirable. Thus, there is reason to suspect that market participants, when acting in their own self interest, can enter into agreements that will not serve the public welfare. In particular, the market is distorted both by the market power possessed by the networks and by the power exercised by cable operators.
- In dealing with satellite carriers, broadcasters may be able to wield bargaining power to an even greater extent, because their power will not be offset by the market power of cable operators, and their ability to play off one distributor against the other will, if anything, increase.
- The potential social benefits of competition between MVPD providers will be substantially offset if the broadcast networks take advantage of increased bargaining power by demanding greater considerations for their programming.
- Several of the differences between cable and satellite operators suggest that, in a competitive marketplace, the terms of retransmission might be lower than in the case of local-into-local broadcast carriage by satellite MVPDs. Important factors pointing to that conclusion include the higher costs of satellite local signal carriage, the absence of a risk of diversion of local advertising revenues from the broadcaster to the satellite operator, and the fact that the broadcaster faces less risk that the viewer's options will increase (cable retransmission may cause the transition of viewers from a broadcast-only environment to an MVPD environment, while local-into-local satellite retransmission is expected to primarily induce viewers to switch from one MVPD format to another).
- Thus, the observed retransmission term outcomes for the cable industry, though not strictly competitive, provide a benchmark or threshold that should not be exceeded in the case of

satellite carriage of broadcast television signals, and consideration that may have been extracted from certain cable operations (for example, carriage of digital signals) would be inappropriate and not based on competitive marketplace considerations if it is significant costlier to accede to for satellite carriers.

- However, other economic forces, such as increases in the bargaining power of broadcasters, could result in higher rather than lower considerations. This will hamper the satellite industry in their efforts to compete in the MVPD market. Market power increases should not be viewed as competitive marketplace considerations and should therefore not be considered as a legitimate basis for disparities in the terms of retransmission.

### **Additional Discussion**

#### **Factors that Influence the Aggregate Benefits of Carriage**

Two main factors will determine the considerations that emerge from a free market. The first is the additional economic value created for the parties in the transaction when programming is carried by the MVPD. This reflects incremental revenues net of costs. Second, the incremental value will be divided between the service provider and the program supplier based on the relative bargaining power of the two parties. In other words, the terms will depend on the size of the total pie and the direction in which various benefits flow as well as how the pie is divided up. In a competitive market, however, where the seller's and buyer's bargaining power is equal, the division will be determined by respective benefits and costs, including opportunity costs, so that all participants are earning a fair rate of return.

When an over-the-air signal is carried by a cable or satellite provider, advertising revenues for the television station could rise if previous MVPD subscribers gain better access to the broadcaster's programming. Moreover, in the case of satellite local-into-local retransmission

in particular, the retransmission may result in the switch of subscribers from cable systems to the higher quality reception typically offered by satellite system, potentially resulting in an increase in ratings for the local broadcasters as its signal becomes more attractive to users. On the other hand, non-subscribing households who shift from over-the-air reception only to MVPD services now have more plentiful viewing options. Thus, under certain circumstances, broadcasters could actually suffer a ratings decline and, therefore, an advertising loss. (As will be discussed below, transition from a broadcast-only to an MVPD environment is much less of a concern for broadcasters in the case of satellite retransmission.)<sup>1</sup>

For the MVPD operator, the benefit of adding the signal comes in the form of increased subscription revenues and, for some operators, enhanced opportunities to sell advertising. The number of subscribers will increase as will their willingness to pay a higher price for the package of services. It is also worth noting that other ancillary revenues, such as pay-per-view or premium subscriptions, could also increase with audience size.

Balanced against the potential benefits are the costs of adding a program service. These include the transmission costs (which are negligible in both the cable and satellite

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<sup>1</sup> A simple model is illustrative of some of the tradeoffs facing broadcasters. In providing distant signals,  $B_1$  represents the value to a broadcaster (in terms of advertising) of a household that does not subscribe to MVPD services.  $B_2$  represents the value to a broadcaster of a household that subscribes to MVPD services when the television signal is only available over-the-air.  $B_3$  represents the value to a broadcaster of a household that subscribes to MVPD services when the signal is carried by the operator.  $P_1$  represents the proportion of the population that does not subscribe to MVPD services in the absence of carriage.  $P_2$  represents the proportion of the population that does subscribe to MVPD services in the absence of carriage, and  $s$  represents the percentage of non subscribers who shift when the over-the-air signals are made available on the MVPD menu of services. The gain to the broadcaster is thus  $-(B_1 - B_3)sP_1 + (B_3 - B_2)P_2$ . The first term represents the loss in value from those households who shift to MVPD services. This loss is larger when many households shift and when ratings and advertising revenues are diverted to services only available via the MVPD offerings. The second term represents a gain that is larger when the percentage of subscribers is large and the broadcast ratings are

industries). More importantly, if channel capacity is all utilized, the operator can add a broadcast signal if and only if some other revenue producing program is eliminated. Thus, the incremental value of the new network is reduced by the foregone benefits or opportunities to earn revenues via the excluded service. These opportunity costs are likely to be very small for most cable systems. Statistical analyses of basic cable pricing suggest that the per-household increase in monthly revenues due to the addition of a cable network is about 20 cents (for a system providing 25 networks).<sup>2</sup> For older cable systems with limited channel capacity, it is only the difference between that revenue and the revenue associated with the addition of the broadcast signal (if any) that would be lost when a broadcast television signal is added. For newer cable systems with greater capacity, the cost is even lower because of the diminishing value of marginal networks. In contrast, since direct broadcast satellite (DBS) providers have to allocate channel capacity nationwide to achieve local-into-local retransmission in one market, and since the decision to engage in local retransmission may *trigger* must-carry obligations (whereas in the case of cable must-carry is a given either way), the cost can be many times that incurred by a cable system with the same channel capacity.

Thus, revenues and costs will be borne by both the program supplier as well as the system operator. Subscriber fees (net of opportunity costs) will flow directly to the satellite or cable service provider. Local advertising revenues will be earned by cable television operators,

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significantly greater after the signals are carried by the MVPD operator.

<sup>2</sup> This estimate is taken from econometric analysis reported in James N. Dertouzos and Steven S. Wildman, "Regulatory Standards: The Effect of Broadcast Signals on Cable Television," in *A Communications Cornucopia: Markle Foundation Essays on Information Policy*, ed. By Roger B. Noll and Monroe E. Price, Brookings Institution Press, Washington D.C.,1998.

but are not relevant to satellite providers. Advertising revenue (national, regional, and local) may also flow to the broadcaster.<sup>3</sup>

Given the total private wealth created and the natural flows of that wealth, retransmission deals would, in a competitive market, reflect the respective levels of these benefits and costs. Indeed, partly in light of the two-way flow of benefits, the Copyright Office has found the market value of local retransmission to be zero. Ultimately, of course, the final allocation will also depend upon the relative bargaining power of the parties in the transaction. Historically, cable operators have usually received retransmission consent from network-owned stations in exchange for carriage of network-affiliated cable networks (a non-cash “fee” whose value tends to be very low – merely the opportunity cost incurred by the cable operator in not using that shelf-space to carry broadcast-*unaffiliated* cable networks).<sup>4</sup> In some circumstances (such as the initial retransmission deals with CBS), the cable operators appear to have received retransmission consent at no cost. And under other circumstances, such as an increase in the distributor’s bargaining power or shift in the relative magnitude of benefits accruing directly to the MVPD, compensation could actually flow in the opposite direction. That is, television stations would pay to have their signals carried by the MVPD operator.

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<sup>3</sup> An econometric analysis (described below) of the terms of carriage of *cable* networks indicates that each of these factors indeed affects the level of the consideration in the direction predicted.

<sup>4</sup> At the very most, such carriage has an associated opportunity cost equal to the difference between the value of any displaced programming, on the margin, minus the value of the added channel. This is likely to total only a few cents if there is any positive difference at all.

## **Monopoly Power in the MVPD Market**

There is ample reason to expect that the emerging terms of engagement will not promote competition and parity between cable incumbents and satellite providers. In particular, it is important to recognize that several of the firms that compete in providing MVPD services possess monopoly power in some markets. To begin with, the evidence suggests that broadcasters wield substantial market power in comparison to other programmers such as cable networks. They capture a much greater share of the total wealth created by the distribution of that programming primarily because they benefit from an alternative distribution option, namely over-the-air broadcasts, and because network programming is controlled by only a few sellers whereas cable programming is available from a multitude of sources.<sup>5</sup>

In dealing with satellite carriers, broadcasters may be able to exercise bargaining power to an even greater extent, because their power will not be offset by the market power of cable operators, tipping the balance of bargaining power further in favor of broadcasters. Alternative distribution options will further enhance their ability to demand more onerous retransmission terms. And, all things equal, they will have little to gain from the growth of satellite services that come at the expense of cable for anti-competitive reasons – because competition for households and advertising will reduce the total private wealth for distribution.

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<sup>5</sup> The econometric analysis reported in Dertouzos and Wildman (1998) implies that cable operators receive a much smaller portion of the total wealth created by the distribution of broadcast networks than by the distribution of cable networks. Cable operators earn no more than \$9 per subscriber, per month in additional subscription revenue because they carry the signals of over-the-air broadcasters. This compares with about \$24 dollars per household per month in advertising revenues that accrue to networks and local broadcasters (based on the annual \$25.5 billion in advertising revenues for broadcast network and spot advertising, as estimated by McCann-Erickson, divided by 100 million households). Thus, based on this rough comparison, cable operators appear to be receiving a little over one-quarter of the total wealth created. As we will see below, the split is closer to 50/50 in the case of cable networks. This

As a result, market outcomes that occur due to the pursuit of private wealth in the presence of market power available may not be consistent with public policy goals and social welfare, which includes wealth accruing to consumers. For example, the provision of network programming to satellite operators may well benefit consumers and promote competition in the MVPD market, but comes at the expense of cable revenues and will reduce the size of the private wealth available to divide between the broadcast station and cable operator. As a result, the program provider will have economic incentives to enter into exclusive contracts or demand significant considerations that maintain private wealth and the ability to extract a large share of it. This harms market entrants, such as satellite operators, and consumers who would benefit from increased competition.

#### **Satellite vs. Cable Retransmission Terms**

While market distortions may thus lead broadcasters to seek to extract additional consideration from satellite carriers compared to the consideration they have been able to receive from cable operators, the retransmission terms determined by a competitive market should in fact be less onerous on balance for satellite operators than for cable distributors. This is due to three primary factors.

- The costs of carrying local broadcast signals are dramatically higher than the costs of cable operators. In order to serve ten local markets, a provider must allocate ten channel slots of capacity, even though each market only benefits from a single signal. This higher opportunity cost could dwarf the direct subscription revenues collected by operators from broadcast signal subscribers.<sup>6</sup>

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result supports the view that differences in allocation of the pie are due to the networks' market power.

- Satellite operators do not earn the local advertising revenues that normally flow to cable operators when their subscriber base increases because of distant signal carriage. Therefore, the risk of diversion of advertising revenue from the local broadcast station to the cable operator is absent in the case of a satellite carrier. All things equal, the absence of these revenues would reduce the license fees by a considerable amount.
- In dealing with a cable operator, the local broadcast station faces the risk that retransmission will result in increase of viewing options for more consumers that switch from a broadcast-only environment to an MVPD environment as a result of the retransmission. In the case of satellite carriers, on the other hand, the vast majority of viewers expected to subscribe to satellite offerings as a result of local-into-local retransmission will be cable subscribers, thus moving only from one MVPD format to another, a move that does not present the same increase in viewing options and therefore may create less risk for the broadcaster.

Of course, the split of revenues will be also be determined by the degree of relative bargaining power which is in turn influenced by the number of participants on both sides of the market. If the increased market power of networks were to be left unchecked by the competitive marketplace considerations, a smaller portion will be flowing to satellite operators (in comparison to cable companies), as a result of the fact that satellite companies are likely to have less leverage than cable operators in their dealings with broadcasters. In fact, these anti-

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<sup>6</sup> Empirical evidence described below suggests that the “smaller” cable networks generate about 20 cents in subscription revenue per household per month. If 10 channels were allocated for each of 4 networks, this sums up to \$8 monthly for each household that subscribes to satellite. Note, on the other hand, that the \$6 or less in revenue collected for local signals applies only to the subgroup of subscribers who request this programming.

competitive factors will tend to place upward pressure on the retransmission consideration to be demanded by broadcasters of all MPVD operators. This is because the balance of bargaining power will tip heavily in favor of the broadcasters who will now benefit from the competition for product that will occur between cable companies and multiple satellite providers. Although some commentators (see Comments of the National Association of Broadcasters) argue that the increase in competition would place downward pressure on license fees, this may not be the case. This is because increased competition will occur on the buyer's side of the market, not the seller's, thereby increasing the ability of programmers to extract monopoly considerations. Thus, although competitive marketplace conditions would result in lower considerations paid by satellite MVPDs, market imperfections caused by monopoly power would have the opposite influence.

## *ANNEX*

### **Empirical Analysis of Cable Network License Fees**

The pattern of the terms agreed upon for carriage of cable networks by cable operators suggests that the above conceptual paradigm is sensible. First, the benefits flowing in both directions do indeed affect the consideration paid by cable operators. Second, that local advertising availability (a benefit that would not be available to a satellite distributor) is a substantial benefit to the cable operator that affects its willingness to pay a higher consideration for cable programming. This suggests that the consideration broadcasters should expect from satellite operators in a competitive market should be commensurately less. Finally, cable operators receive a greater portion of the wealth created by the carriage of cable programming (about 50%) than in the case of network programming, suggesting that broadcasters wield market power even in their dealings with cable operators. I caution that these relationships are useful only by analogy since cable networks differ decidedly from broadcast networks because, among other things, the broadcasting networks look to a huge pie of advertising revenues (approximately \$25.5 billion annually for broadcast network and spot advertising based on McCann-Erickson) as the main source of their support. Accordingly, while the level and direction of license fees for carriage of cable networks does not by itself have a bearing on the level and direction of consideration for carriage of broadcast networks, the direction in which different factors such as local advertising affect the ultimate outcome of the terms of carriage is instructive.

Employing an econometric model, I attempted to explain the level of per subscriber monthly license fees as a function of the variables listed in Table 1.<sup>7</sup> Data were gathered from Paul Kagan and Assoc., *The Economics of Cable Networks*, 1996. Variables included indicator variables for the different years (these turned out to be insignificant), measures of program expenditures (expressed in natural logarithms to allow for diminishing returns), measures of cable household penetration (to account for the increased relative importance of advertising with greater audience size), and variables measuring program types. An indicator variable equal to one if the network was generating a negative cash flow (it would be difficult for a cable operator to extract high fees from a network that was a start up and losing money) was also included. Finally, a variable measuring the local advertising per subscriber that was generated on a monthly basis for each network. This ranged from zero to over thirty cents.

The model estimates were quite consistent with theoretical expectations. As indicated by the "adjusted R-squared," fully 93.3 percent of the variance in considerations can be explained by the included variables. The number of subs was negatively related to fees, indicating a higher relative importance of national advertising to cable networks, and suggesting in turn that a fee would be of even less importance to the broadcast networks. Program costs were positively correlated with fees, again suggesting that the increased value to subscribers creates more wealth to divide between all parties.

Finally, local advertising opportunities appear to affect the observed outcomes in the cable programming industry. On average, a one dollar increase in local revenue is correlated with a 52 cent increase in the fee paid to the networks that provide programming. Although I would hesitate in calling this "causal" evidence, the correlation is not surprising. Given a total

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<sup>7</sup> I decided to use average fees actually paid rather than "top-of-the rate" cards that

amount of benefits generated by programming (the sum of enhanced subscriber fees, local ads and national ad revenue), higher local ad revenues confer more of the wealth to the cable operators. Thus, the license fee adjusts upward to create a more equitable distribution of wealth.

**Table 1**  
**Explaining Monthly License Fees Per Subscriber**

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<i>Explanatory Variable</i>	<i>Parameter Estimate</i>	<i>Standard Error</i>
Intercept	0.0704**	0.0288
year = 1991	0.0020	0.0102
year = 1992	0.0028	0.0102
year = 1993	0.0009	0.0103
year = 1994	0.0020	0.0119
year = 1995	0.0076	0.0119
log of subscribers (mil)	-0.0358***	0.0100
log of program costs (mil)	0.0353***	0.0052
local ad dollars per sub	0.5218***	0.0554
Observations:	132	
Adjusted R-squared:	.933	

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\* Indicates statistical significance at 90% confidence level

\*\* Indicates statistical significance at 95% confidence level

\*\*\* Indicates statistical significance at 99% confidence level

Note: Model also controlled for programming mix (sports, movies, off-network TV reruns)

Table 2 provides data on the revenues created by cable network programming as well as the distribution of those revenues. Revenues are expressed as monthly per household cents for an average network. Total national advertising revenues, which go directly to the 24 cable networks sampled, amounted to about \$7.5 billion in 1999. On a monthly basis, this amounts to about 39 cents per cable household. During the same period, license fees averaged 27 cents for cable networks, on average. Thus, the total benefits accruing to cable network

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do not reflect the sizable discounts generally given.

programmers summed to 66 cents. At the same time, local operators earned 15 cents from selling spots on cable network slots. The portion of subscription revenues attributable to cable networks amounted to 80 cents on average. Deducting the transfer of the license fees that average 27 cents and one is left with a total benefit of 68 cents, about half of the total wealth created. Thus, cable operators receive about one-half of the total wealth created by the carriage of cable networks compared to a much lower percentage (roughly one quarter, *see* above) for broadcast networks, again suggesting the possibility of market power wielded by the broadcast networks.

**Table 2**

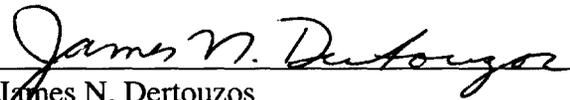
***Distribution of Benefits from Average Cable Networks, 1999 projections.***

	<b><i>Average Cable Network Monthly Per Household Revenues</i></b>
Benefits to Programmer: Advertising	39 cents
License Fees Rec'd	27 cents
Total Benefits	66 cents
Benefits to Operator:	
Local Ads	15 cents
Subscriptions	80 cents
License Fees Paid	- 27 cents
Total Benefits	68 cents
Total Wealth Created:	\$1.24
Share to Programmers	51%

Source: Paul Kagan and Associates, *Economics of Basic Cable Networks*, 1998.

***DECLARATION***

I, James N. Dertouzos, certify under penalty of perjury that the foregoing Declaration is true and correct to the best of my information, knowledge and belief.

  
James N. Dertouzos

Dated: 2/7/00

## JAMES N. DERTOUZOS

### EDUCATION

Ph.D., Economics, 1979, Stanford University B.A., Economics, 1972, Rutgers University

### PROFESSIONAL EXPERIENCE

September 1979-present — Senior Economist (1987-present), Assoc. Corporate Research Manager (1990-1994), Resident Scholar in Economics (1990-1994), Assoc. Head Economics & Statistics Department (1985-1990), RAND, Santa Monica, California  
Spring 1981-Present — Professor of Economics, RAND Graduate School of Policy Studies  
Winter 1993 - Adjunct Professor, Annenberg School of Communications, University of Southern California  
September 1980-1988 — Visiting Professor, University of California at Los Angeles  
Spring 1979 — Visiting Lecturer, Stanford University  
September 1978-79 — Post-Doctoral Research Analyst, National Bureau of Economic Research  
Spring 1977 — Visiting Lecturer, University of Santa Clara  
September 1972-73 — Economist, Bureau of Labor Statistics, U.S. Department of Labor

### RESEARCH AREAS

**Economics of Mass Media Industries and Advertising.** Dr. Dertouzos has worked on several topics related to mass media, property rights, and advertising markets. A particular focus has been on the industrial organization and competition within mass media markets, including cable television, broadcasting, satellites and newspapers. Different policy analyses have been supported by a variety of sponsors, including the National Science Foundation, Federal Trade Commission, U.S. Department of Labor, the Small Business Administration, the National Cable Television Association, the National Association of Broadcasters and the U.S. Department of Justice. In addition, Dr. Dertouzos has directed several studies on the effectiveness of advertising on behalf of the U.S. Army and Office of the Secretary of Defense. Finally, he has studied the economic implications of concentration in a variety of local markets, including retail, employment, and entertainment advertising.

**Public Sector Management.** Dr. Dertouzos has conducted research for numerous foundations and Federal agencies on issues related to public sector management. For example, he has been examining the probable consequences of proposed block grant legislation on the delivery of social services (e.g., welfare, Medicaid, and job training) for states and counties. He led three separate projects that provided technical assistance to local policy makers in Colorado, Missouri, and California. In addition, he recently completed a project that studied organizational barriers to reforming the process by which the government procures goods and services from the private sector. In earlier work for the Department of Defense, Dr. Dertouzos examined some of the principal-agent problems associated with the management of military recruiting personnel.

**Labor Markets.** Dr. Dertouzos has made several contributions to the literature on labor markets. In work sponsored by the Defense Conversion Board, he has studied the labor market consequences of aerospace procurement cuts. In work funded by the National Science Foundation, he has analyzed the impact of market conditions and work force characteristics on union preferences for employment versus wages. Research conducted on behalf of the U.S. Department of Labor focused on the effect of technological change on employees displaced from newspaper composing rooms. With support from the Sloan Foundation, he has also conducted research on the legal and economic consequences of the increasing labor market liability of employers.

#### **OTHER PROFESSIONAL ACTIVITIES**

- September 1979-present - Independent consulting services provided to a broad set of private and public sector organizations, industry associations, and lawyers in matters related to regulatory, anti-trust, and other legal issues.
- June 1982 — Testimony on Tax Laws and Mergers in the Newspaper Industry (House Ways and Means Subcommittee on Select Revenue Measures)
- March 1980 — Testimony on the Impact of Media Concentration (House Small Business General Oversight Subcommittee)
- March 1979-August 1979 — Consultant to National Association of Broadcasters (Study of the Recording Industry)
- August 1978-December 1979 — Consultant to Federal Trade Commission (Overview of Economics of Mass Communications Industries)

#### **EXTERNAL PAPERS AND PUBLISHED ARTICLES**

- "Workforce Resistance to Acquisition Reform" *Defence and Peace Economics*, co-authored, forthcoming.
- "The Problems with Penetration Standards for Cable," *Journal of Communications Law and Policy*," coauthored, forthcoming
- "Regulatory Standards for Effective Competition: The Effects of Broadcast Signals on Cable Television," in *A Communications Cornucopia: Markle Foundation Essays on Information Policy*, Roger Noll and Monroe Price, eds., Brookings Institution, coauthored, 1998.
- "The Implications of Employment Liability for Welfare Reform," *Research in Labor Economics*, coauthored, Spring 1998.
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