Cable Carterfone

As video becomes just another application, pay TV operators should not be able to dictate the future of

The Problem

For the past 25 years, pay TV companies have been bringing new video programming options to the public. They used their networks to move America from a handful of broadcast channels to a 500-channel, pay-per-view, on-demand entertainment universe. Unfortunately, today large pay TV companies and set top box manufacturers are using their control of the industry to block anyone else from innovating.

Pay TV Controls the System

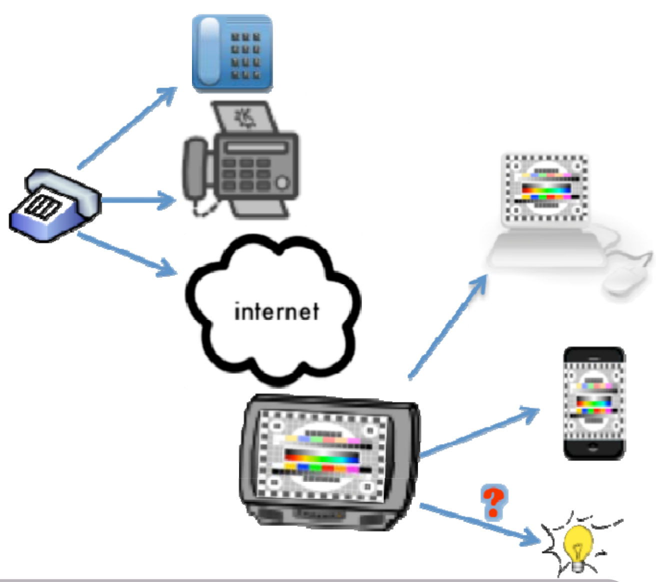
Most Americans subscribe to some sort of pay TV service. As a result, it should come as no surprise that the first innovations in online video distribution are designed to compliment, not necessarily replace, traditional pay TV offerings. These services are designed to add value to consumers' traditional services by offering additional access to internet streaming video, as well as integration with consumer-owned media and other web-based services in a single device with a single navigational menu.

However pay TV companies, along with a handful of set top box manufacturers, have worked hard to block this type of integration. Competitors have been unable to easily connect new hardware to existing systems. As a result, they have been unable to offer a unified entertainment solution. Innovators have been unable to offer consumers a single box with a single interface that integrates all of their entertainment services.

Pay TV Controls the Content

Of course, there is no reason that innovative video services must only complement existing subscriptions. A growing number of Americans are showing a desire to "cut the cord" and replace their pay TV subscription with an "over-the-top" internet based video service.

Many over-the-top video providers want to give consumers the option to mix the traditional content they like with new content. However, some pay TV companies are starting to strike deals that force consumers to pay for a full pay TV subscription *and* a full broadbroad subscription just to view certain content online, regardless of whether the content provider would prefer to make content available in another way. Deals like TV Everywhere, which give cable customers access to cable programming online only if they have both a full cable subscription and a broadband subscription, or ESPN360, which force ISPs to pay a per-subscriber fee (and is not available on an individual basis) in order to allow access to content, prevent over-the-top video providers from competing with traditional pay TV offerings.



The Solution: "Cable Carterfone"

The big pay TV companies and a handful of dominant equipment manufacturers, just like AT&T in the 1960s and 70s, are using their dominant position to block innovation while being unwilling or unable to innovate themselves. At the same time, they are trying to insert themselves into every consumer video transaction, and to make a traditional pay TV subscription the only key that can unlock online content.

The solution for pay TV today, as it was for AT&T in the past, is to create and enforce rules that allow any non-harmful device to attach to the pay TV network, and to give over-the-top competitors access to programming that currently exists on pay TV channels. The FCC must end its policy of malignant neglect that has assumed that the pay TV industry can regulate itself for the public good. It is time to establish rules that will benefit consumers, not industry incumbents.

In the 1970s, these rules for AT&T were called "Carterfone." Just as Carterfone allowed telecommunications to evolve from the ubiquitous "black phone" to fax machines, answering machines, and eventually the internet, a new "Cable Carterfone" would clear the way for any number of devices that combine traditional pay TV programming with new internet programming and services.

The Law Already Requires Pay TV to Allow Access

In 1996, Congress passed a law designed to increase video competition. It was designed to create a competitive market in third-party set top boxes, as well as to force pay TV companies to share programming with competitors. In the years since, the FCC has failed to enforce the law. Worse, it has stood by as pay TV companies implement half-baked solutions such as CableCard and do everything possible to prevent the melding of pay TV and other content in a single box or user interface.

Now that the FCC has started looking specifically at internet video as part of its National Broadband Plan, there is an opportunity to develop the rules that will force pay TV to cooperate with innovators and allow Americans to "cut the cord" by subscribing to a video service that they choose from a universe of many, instead of being chained to the one provider that happened to run a wire past their house.

Cable Carterfone will be grounded in a few simple principles:

- Prevent both wired and wireless internet access providers from discriminating against any content based on type or source. Consumers should be allowed to access the video content of their choosing over their internet connection without interference.

- Enforce existing protections designed to allow innovators to create set top boxes that integrate consumers' media and subscriptions into a single device.

- Establish rules that prevent existing video programmers from acting to block the emergence of new, internet-based competitors.

- Require the unbundling of video and broadband services so that consumers can "cut the cord" without incurring a financial penalty.