



To: Clients
From: GoldsteinCope Policy Solutions
Date: September 28, 2018
Title: House Subcommittee on Communications and Technology hearing entitled “State of the Media Marketplace”

I. Executive Summary:

On Thursday, September 27, 2018 at 3:00pm, the House Subcommittee on Communications and Technology held a hearing to examine how the online and traditional media marketplaces continue to adapt. The hearing primarily focused on the state of the video marketplace. During their opening statements, the witnesses described the evolution of the video media market and discussed video content. During question and answer, the members in attendance were particularly interested in future trends in the industry and children’s programming.

II. Members in Attendance:

Rep. Gus Bilirakis (R-FL)
Rep. Steve Scalise (R-LA)
Rep. Greg Walden (R-OR)
Rep. Brett Guthrie (R-KY)
Rep. Bill Johnson (R-OH)

Ranking Member Michael Doyle (D-PA)
Rep. Frank Pallone (D-NJ)
Rep. Jerry McNeerney (D-CA)
Rep. Yvette Clarke (D-NY)
Rep. Eliot Engel (D-NY)

III. Opening Statements:

A. Representative Bilirakis

Congressman Bilirakis’ opening statement focused on the goal of the hearing: to develop a factual record on the state of the U.S. media market. He said that as broadband access has expanded to more Americans, citizens are engaging with new digital media platforms that offer new distribution channels to content creators. Congressman Bilirakis said that it is critical for the committee to be informed of developments in the market.

B. Representative Scalise

Congressman Scalise delivered a brief opening statement, stating his hope that the panelists would specifically discuss digital video media offerings. He expressed his opinion that the regulations and laws currently managing the U.S. video marketplace are outdated.

C. Representative Doyle

Congressman Doyle began his opening stating that he believes this hearing should be the first of many, being that the video marketplace is changing rapidly. He cited the consumer trend of



“cutting the cord” and moving to online content distributors such as Netflix and Amazon Prime. Moreover, Mr. Doyle lamented the repeal of net neutrality, expressing his belief that web-based distributors will be unfairly targeted by internet service providers hoping to give their own services an unfair advantage. He continued, stating that Congress should seek to mitigate barriers to entry and ensure a level playing field for all players in the market. Representative Doyle concluded his opening statement expressing his belief that Congress should act to fill the regulatory vacuum in the market.

D. Representative Walden

Congressman Walden began his opening statement listing several novel ways in which consumers may access digital and video content. He cited several changes in the video marketplace, such as the fact that the year Netflix announced the creation of its streaming service Blockbuster was the largest video provider in the United States. In conjunction with smartphone technologies, Mr. Walden stated that U.S. demand for highspeed broadband has increased precipitously and caused ripple effects throughout the economy. For example, the advertising business has changed as online advertising has come to dominate the field. He concluded his testimony stating that it is the committee’s job to ensure all Americans have access to this new media.

E. Representative Pallone

Congressman Pallone began his opening statement saying that while new media has expanded access to digital content, not all Americans have access to the highspeed broadband required to reach this new digital content. Moreover, Congressman Pallone stated that there continues to be an economic and age divide between those with and without access to highspeed broadband access at home. Congressman Pallone then echoed Congressman Doyle’s disappointment in FEC Chairman Ajit Pai’s deregulatory efforts, stating that the repeal of net neutrality and “kid vid” rules are truly “bizarre.”

IV. Witness Statements:

A. Craig Moffett (Founder and Senior Research Analyst, MoffettNathanson Research)

Mr. Moffett’s statement focused on the emergence of virtual multichannel video programming distributors (VMVPDs) and a trend of vertical integration in the industry. Mr. Moffett said the appeal of cord cutting is simple: it is cheaper. The most popular VMVPDs cost about 60\$ less per month for consumers but the underlying costs are largely the same as traditional cable companies. He continued, saying that these services are cheaper because they are being sold to consumers at zero or negative profit. He wondered if selling these services at a loss will be sustainable in the long-term. Mr. Moffett testified that there is widespread speculation that there will be a trend toward the vertical integration of creators and distributors, citing Netflix’s new business model of creating and distributing its own content.



B. Ian Olgeirson (Research Director, Kagan Media Research Group, S&P Global Market Intelligence)

Mr. Olgeirson's testimony focused on the shift away from traditional media distributors, saying that increased scale has become an important trend in the marketplace. He stated that consumers continue cutting the cord, with nearly 10 million households ending their cable subscriptions since 2012. He testified that the trend toward massive investment in original content creation, with companies such as Netflix and Amazon Prime leading this initiative, will make it more difficult for traditional cable companies to continue competing for subscribers. He concluded his opening statement saying that it is impossible to understate the fundamental shift occurring in the media marketplace.

C. Jeff Corwin (Wildlife Biologist and Executive Producer, ABC's Ocean Treks, Litton Entertainment)

Mr. Corwin stated that millions of parents and educators rely on the content protected by the Children's Television Act, which requires broadcasters to provide three hours of educational content per week in exchange for their licenses. He used personal experiences to elucidate his point that educational programming inspires children to have rewarding and productive futures. He stated that the investment in American children's future through the Children's Television is an important investment in the United States' future and that educational programming is more important than ever as social media with mindless entertainment monopolizes children's time. He concluded his opening statement expressing his hope that Congress will choose to protect these educational programs.

V. Question & Answer:

A. Consumer Choices

Representative Bilirakis asked **Mr. Olgeirson** if specific demographics are leaving multichannel services more than others. **Mr. Olgeirson** stated that there is evidence that younger people embrace new media more than older seniors but that generally the division is not as stark as commonly reported.

Representative Walden asked if Wall Street is ready to support VMVPD providers. **Mr. Moffett** testified that Wall Street has not been willing to fund these providers like they do Snapchat and Amazon (both produce net losses).

Congressman Guthrie asked **Mr. Olgeirson** if the move to 5G will accelerate the move to mobile media consumption. **Mr. Olgeirson** stated that while many consumers are increasingly using mobile platforms to access video media, most people watch entertainment video in their homes. **Mr. Moffett** stated that video will play an important role in the move to 5G but that it will not be the most important economic driver toward the adoption of 5G technology.



Congressman Johnson asked **Mr. Moffett** how unbundling will be achieved. **Mr. Moffett** stated that unbundling can occur at multiple levels of the media pipeline and that the main chokepoint is that content creators tend to require that distributors buy access to all of their networks or none of them.

Congressman Engel asked the panel if consumers can expect to be subject to increasing network blackouts. **Mr. Moffett** and **Mr. Olgeirson** both agreed that consumers will likely be faced with more blackouts as competition in the markets increase.

B. Vertical Integration

Congressman Bilirakis asked **Mr. Moffett** how the industry will deal with “subscription fatigue” as media companies move toward a closed business model (creating and distributing their own content). He stated that the industry is currently grappling with this question as large media companies move to become direct to consumer companies. **Mr. Moffett** stated that these are all very open and important questions.

Representative Walden asked **Mr. Moffett** if consolidation in the marketplace reduces competition. **Mr. Moffett** stated that is clear that moves made by Comcast and AT&T are designed to compete with large digital advertisers such as Facebook and Google.

Representative Clarke asked the panel is vertical integration will reduce the number of minority-owned distribution channels. The panelists declined to specifically respond to the question because they did not feel qualified to answer the question.

C. Media Regulations

Representative Pallone asked **Mr. Corwin** which children will be most impacted if the Children’s Television Act is repealed. **Mr. Corwin** said that low income children will be most negatively affected because they are not able to afford internet access to web-based educational programming.

Representative McNerney asked **Mr. Corwin** if it is a good idea for the FEC to shut down the Lifeline Program. **Mr. Corwin** stated that this idea is a bad one, as it will limit access to low income children’s access to educational content.