



# TELECOMMUNICATIONS

## Issues in Providing Cable and Satellite Television Services

Highlights of [GAO-03-130](#), a report to the Subcommittee on Antitrust, Competition, and Business and Consumer Rights, Committee on the Judiciary, U.S. Senate.

### Why GAO Did This Study

Direct broadcast satellite (DBS) television service has grown to become the principal competitor to cable television systems. In October 2001, the two primary DBS companies, EchoStar and DirecTV, proposed a merger plan that is pending before the Department of Justice and that the Federal Communications Commission (FCC) recently announced that it had declined to approve. GAO was asked to examine several issues related to competition in providing subscription video services, including the competitive impact of the availability of cable modem Internet access, and the effects on cable prices and DBS penetration rates of DBS' offering local broadcast channels. GAO also examined the technical capability of the individual DBS companies to expand local channel services into more television markets. This report offers no opinion on the merits of the proposed merger.

### What GAO Found

DBS and cable companies compete for subscribers to their video services and to their Internet access services, although to date, cable modem service is the most popular method of broadband home Internet access. On the basis of a random survey of 3,000 individuals, it appears that the availability of Internet access services is important for some consumers—although not the majority of consumers—when they are considering various video service providers.

In 1999, DBS companies began to offer local broadcast channels in select television markets across the country. According to results from GAO's econometric model, the provision of local broadcast channels by DBS companies is associated with significantly higher DBS penetration rates, although GAO found no evidence that DBS provision of local channels influences cable prices. In general, GAO's model results suggest that DBS is able to compete more effectively for subscribers with cable in areas where DBS subscribers can receive local broadcast channels.

The two DBS companies have stated that if they merge, they will, as a combined entity, have sufficient satellite capacity to provide local broadcast programming in all 210 television markets and to introduce new services. GAO's technical expert's review of various documents related to the two DBS companies' satellite capacity indicates that—given current technologies and deployed assets—neither company would individually be able to offer all of the local channels in all markets. However, the decision of whether to introduce more local channels is, in the long term, a business decision. Whether the benefits would outweigh the costs for the individual companies to eventually offer local channels in all 210 television markets is not clear.

Both FCC and the Department of Justice declined to provide comments on the substance of this report because of the merger proceedings.