

**Statement of
Chairman Julius Genachowski
Federal Communications Commission**

**Expanding Broadband Access, Promoting Innovation, and
Protecting Consumers in a Communications Revolution: Fiscal Year
2013 Resource Needs for the Federal Communications Commission**

**Before the
Subcommittee on Financial Services and General Government
Committee on Appropriations
U.S. Senate**

May 9, 2012

Chairman Durbin, Ranking Member Moran, and other members of the Subcommittee, I appreciate this opportunity to appear before you on the FCC's 2013 budget.

I'm proud to say that few, if any, federal agencies deliver a higher return on investment than the FCC.

Spectrum auctions have raised more than \$50 billion for the U.S. Treasury in the past two decades, and economists regard the economic value created by FCC auctions as being about 10 times that number, or \$500 billion in value. The FCC has conducted 80 auctions, granting more than 30,000 licenses. A few months ago, a group of 112 leading economists from across the ideological spectrum wrote, "The original simultaneous, multiple-round auction system implemented in 1994 was novel, but the FCC was able to implement the path-breaking auctions that were the basis for successful auctions around the world."

Shortly after the Commission delivered its budget, Congress authorized the Commission to create, develop, and conduct voluntary incentive auctions – a new market-based mechanism to repurpose spectrum for flexible use such as mobile broadband.

Incentive auctions are an opportunity to unleash vitally needed additional spectrum for mobile broadband and create tremendous value for American consumers, while raising billions of dollars for deficit reduction. It's a key part of the puzzle to unleashing the mobile broadband opportunity.

At the FCC, we're focused on faithfully implementing this new legislation and maximizing the opportunities of the new law for our economy and all Americans.

It's a privilege for the FCC to be entrusted with this responsibility, which of course will require a great deal of work and effort by the agency.

Incentive auctions are unprecedented. The U.S. will be the first country in the world to conduct them. It will be a multifaceted task affecting major parts of our economy, involving many challenging questions of economics and engineering.

FCC staff is analyzing the complex incentive auction law, assessing the challenges ahead, and just a few weeks ago we announced steps to begin implementing the law.

We will run a process that is open, inclusive, fact-based, and guided by economics and engineering. We have already formed an FCC incentive auctions task force that has brought in staff from across the Commission.

The Commission's work will be assisted by world-leading experts, including some of the world's most distinguished auction-design experts.

The work of our Task Force and staff will feed into a robust public process, which will include webinars, workshops, public notices, and rulemaking proceedings.

At our open meeting last month, the Commission took up its first policy action to put the law into effect – an order establishing a framework for broadcaster participation in a channel sharing agreement with another station in conjunction with an incentive auction.

We are aiming for Notices of Proposed Rulemaking under the new law by the fall of this year.

Incentive auctions are part of our overall agenda to unleash the opportunities of modern communications technology to benefit our economy and all Americans.

We have focused the agency on broadband communications – wired and wireless. In 2009, we developed America's first National Broadband Plan, which identified key challenges and opportunities throughout the broadband ecosystem, and proposed solutions to ensure the U.S. leads the world in broadband infrastructure and innovation. In fact, one of those proposed solutions was incentive auctions.

Since the Plan's release, we have been working on its implementation. Together with my colleagues at the FCC, we have made tremendous progress in the past three years, taking many steps to unleash investment, innovation, and job creation. These include freeing spectrum for both licensed and unlicensed use, modernizing and reforming major programs like the Universal Service Fund, and removing barriers to broadband buildout.

And indeed, investment, job creation, and innovation are up across the broadband economy. These metrics are up both when looking at broadband applications and services, and when looking at broadband providers and networks.

In 2011, the U.S. information and communications technology sector grew three times faster than the overall economy. Broadband is helping create new jobs all across the country – and not just for engineers (although it's vitally important that we lead the world in engineering talent), but also for salespeople, construction workers, and small business owners increasingly using the Internet to boost sales and lower costs.

The apps economy, which barely existed in early 2009, has already created almost 500,000 new jobs, according to expert estimates.

And similar reports estimate that over the past several years wireless innovation and investment are responsible for more than 1.5 million new jobs.

In the past three years, the U.S. has regained global leadership in mobile innovation. American-designed apps and services are being adopted faster than any others. Our mobile innovation economy is the envy of the world.

We are also now ahead of the world in deploying 4G mobile broadband at scale – with 64% of the world's 4G LTE subscribers here in the U.S. And these next-generation networks are projected to add \$151 billion in GDP growth over the next four years, creating an estimated 770,000 new American jobs.

In 2011, overall investment in network infrastructure was up 24 percent from 2010, with broadband providers investing tens of billions of dollars in wired and wireless networks.

Internet start-ups attracted \$7 billion in venture capital in 2011, almost double the 2009 level and the most investment since 2001.

In today's hyperconnected, flat world, the success of American companies, as well as global prosperity, depends on a dynamic and open global Internet. And so we are working to preserve the Internet as a free-market globally, and oppose international proposals that could stifle Internet innovation. Working with our colleagues in government and stakeholders outside government, we are seeking to head off barriers to the global expansion of cloud computing, and encouraging free flows of data worldwide.

And we are working to oppose proposals from some countries that could undermine the longstanding multi-stakeholder governance model that has enabled the Internet to flourish as an open platform for communication, innovation, and economic growth.

If adopted, these proposals would be destructive to the future of the Internet, including the mobile Internet, and the U.S. government has consistently and strongly opposed such proposals.

This is why at the OECD last year, I worked with my colleagues in the U.S. government and in other countries to respond to significant threats to Internet-driven growth by adopting a broadly supported communiqué that emphasized the need for continued support of the multi-stakeholder model which has fostered innovation and opportunity worldwide.

The health of our broadband economy would be enhanced by closing broadband gaps, and so the FCC has focused on bringing universal service into the broadband era.

Today, millions of rural Americans live in areas with no broadband infrastructure. Our plan, adopted unanimously in October, to modernize the Universal Service Fund will spur wired and wireless broadband

buildout to hundreds of thousands of rural homes in the near term, and puts us on the path to universal broadband by the end of the decade – while keeping the Fund on a budget.

Last month, we continued our work to unleash the benefits of broadband for all Americans, regardless of where they live, and consistent with fiscal responsibility. By cutting waste, we were able to repurpose \$300 million in savings and use those savings to provide an immediate boost to broadband deployment in unserved areas.

In addition to the broadband deployment gap, we are making strides on the broadband adoption gap.

Nearly one-third of Americans – 100 million people – haven't adopted broadband. The Connect to Compete Initiative enlists government, nonprofit, and private sector leaders to tackle the barriers to adoption – one of several public-private initiatives driven by the Commission to promote solutions to major challenges.

The FCC's successful E-Rate program has already helped connect virtually every library and classroom in America, and in 2010 we adopted several important modernizations of the program, including removing barriers to wireless use, and removing barriers to schools opening their computer labs as hot spots for community Internet use when students aren't in school.

Public safety is a core mission of the FCC, and the agency is working to harness the power of communications to make our communities safer.

We are working with multiple stakeholders to advance next-generation 9-1-1. And we accelerated the launch of Wireless Emergency Alerts that allows local, state and federal authorities to send targeted alerts to mobile devices of people who are in the vicinity of an emergency.

As the nation's expert agency on communications networks and technology, the FCC has always had as a fundamental part of our mission the security and reliability of communications networks. In early 2011, I charged a panel of stakeholders from across the broadband ecosystem with developing practical, non-regulatory solutions to three critical threats to our cybersecurity: botnets, Internet route hijacking, and domain name fraud. This past month, the team issued a series of recommendations to tackle these challenges in a meaningful way. ISPs serving nearly 90% of all U.S. broadband subscribers have agreed to implement these recommendations that will promote greater security in our communications networks.

Working with government, private-sector, and nonprofit partners, we also developed a Small Business Cyber Planner to help small businesses guard against cyber attacks, which are estimated to cost targeted small businesses an average of \$200,000 in damages.

The FCC also provides value by protecting and empowering consumers.

Smartphone theft is on the rise, and poses a real threat to consumers. In DC, New York, and other major cities roughly 40 percent of all robberies now involve cell phones. Last month, together with the wireless industry and law enforcement from around the country, we announced the launch of a new database that will allow consumers and carriers to disable stolen smartphones and tablets dramatically reducing their value on the black market.

Working with wireless providers, we found a common-sense solution to bill shock, a problem that has cost millions of consumers tens, hundreds, and sometimes thousands of dollars in unexpected charges, and recently we introduced a new online tool to help consumers track implementation of the commitments made by wireless carriers to provide usage alerts.

At our April Open Meeting, the Commission adopted an order to put an end to abusive, third-party charges on phone bills, what's commonly known as cramming. Previously, the Commission's Enforcement Bureau issued \$12 million in fines against four companies that had engaged in widespread cramming, part of a record-breaking year for our Enforcement Bureau, which logged \$67.2 million in monetary penalties and settlements on behalf of consumers in 2011.

I want to highlight not only what the FCC has accomplished, but how we conduct our work. The FCC is committed to smart, responsible government, and we have taken significant steps to modernize our programs and ensure that they are efficient and fiscally responsible -- saving billions of dollars.

Our work to modernize USF and Intercarrier Compensation will not only spur broadband buildout, it also eliminates billions of dollars in hidden subsidies from consumers' phone bills.

Our work to reform the Lifeline program is expected to save up to \$2 billion over the next three years. Even before this order was adopted, we made changes that eliminated 270,000 duplicate subscriptions, saving \$35 million.

We reformed our Video Relay Service Program, which provides vital communications for people who are deaf or hard-of-hearing, saving \$250 million per year without reducing availability of service.

In addition to our programmatic changes, we have also reviewed the agency's rules and processes -- asking tough questions to make sure the agency is operating efficiently and effectively.

In connection with this review, we've already eliminated more than 200 outdated rules and five unnecessary data collections. We have identified two dozen more data collections for elimination.

We estimate that internal reforms like consolidated IT maintenance and new financial system have already saved the agency almost \$8 million.

And we've done everything I've listed and more with the lowest number of full-time employees in 10 years.

Maximizing the ability of 21st century communications technology to deliver value to the American people, and doing so in a smart and responsible way. That's the FCC's record the past three years, and that's our plan for the year and years ahead, as reflected in our fiscal 2013 requested budget.

To implement our responsibilities under Communications Act, the Commission's budget requests a two percent increase over the previous year level, from \$339,844,000 to \$346,782,000. This proposal is essentially flat adjusting for inflation.

As in previous years, this amount will be derived entirely from fee collections. These funds will ensure the successful operation of the Commission's core activities, including the strategic goals outlined in the Performance Plan submitted with the FCC's budget.

The requested amount is based on internal cost savings applied to essential ongoing projects, and necessary adjustments to our baseline.

The budget includes a few new initiatives – primarily technology investments designed to save money, and public safety investments aimed at saving lives.

The budget also provides a flat number of full-time employees, which represents the lowest number of FTEs in 10 years, despite increasing workloads in many areas. Last year, a senior Apple executive wrote the FCC advocating for additional staffing for the FCC's Office of

Engineering and Technology – OET. This office certifies that wireless devices use spectrum efficiently and don't create harmful interference, among other things. The number of applications for certified devices has grown at an annual rate of nearly 12 percent each year – from 3,671 in 2001 to 13,645 in 2011 – and the explosive growth of complex devices like smartphones has significantly increased demands on OET staff in recent years. Apple's executive wrote, "If OET can complete its work efficiently, companies building innovative devices can get those new products to customers quickly. But if applications for innovative devices are delayed because OET staff are overtaxed, consumers are the losers."

In conclusion, the wired and wireless broadband sectors are critically important to our economy and global competitiveness. I look forward to working with the Committee on implementing the new incentive auctions law, and unleashing the opportunities of communications technology for our economy and the American people.

Thank you.