SUPPLEMENTARY INFORMATION: This is a synopsis of the Commission's Further Notice of Proposed Rule Making in MM Docket Nos. 87–8 and 91–221, FCC 94–322, adopted December 15, 1994, and released January 17, 1995. The complete text of this FNPRM is available for inspection and copying during normal business hours in the FCC Reference Center (Room 239), 1919 M Street, N.W. Washington, D.C., and also may be purchased from the Commission's copy contractor, International Transcription Service, (202) 857–3800, 2100 M Street, N.W., Suite 140, Washington, DC 20037.

Synopsis of Further Notice of Proposed Rule Making

1. This FNPRM proposes a new analytical framework within which to evaluate our ownership rules applied to television stations. This new framework provides a more structured approach to economic and diversity analyses of the rules. While the Commission found the comments received in response to the Notice of Inquiry (56 FR 40847, August 16, 1991) and Notice of Proposed Rule Making (*NPRM*) (57 FR 28163, June 24, 1992) in this proceeding useful, we believe that the issuance of this FNPRM is necessary to permit compilation of a record based upon this new framework which will enable us to make a fully informed decision in this important area. Additionally, the Commission solicits further comments in MM Docket No. 87–8, Television Satellite Stations, on the treatment of satellite television stations under our ownership rules.

2. This review of the television ownership rules originated as a result of a 1991 report developed by the Commission's Office of Plans and Policy, which found that the market for video programming had undergone tremendous changes over the previous fifteen years, and that new competition to ''traditional'' broadcast services had affected the ability of broadcast services to contribute to a diverse and competitive video programming marketplace. The Notice of Inquiry initiating this proceeding thus solicited comment on whether the Commission's existing ownership rules and related policies should be revised to enable television licensees to be more responsive in meeting this competition. The subsequent Notice of Proposed Rule Making was issued to consider changes to several long-standing structural rules governing the television industry, including the rules limiting the ownership interests that a person or entity may have in television stations on both the national and local level. The Commission also solicited comment on certain rules governing the relationship between a network and its affiliates.

3. This FNPRM considers the effects of several major developments since the 1992 NPRM that have altered the telecommunications landscape and accentuated the need to further explore the desirability of modifying the TV ownership rules. In particular, the Commission has re-regulated cable television pursuant to Congressional mandate, leading to rate reductions and raising the prospect of increased cable penetration. DBS and wireless cable (MMDS) are becoming increasingly important players in the video marketplace, and some telephone companies may soon begin to provide video dialtone service. These developments increase the number of competitors broadcast TV stations face and thus may justify loosening the restrictions on broadcast television station ownership. Thus the Commission wishes to analyze the extent to which our TV ownership rules should explicitly account for these competing media. Finally, in 1992, the Commission adopted a regulatory scheme, recently reaffirmed and clarified, governing LMA rules for radio and wishes to consider whether similar rules should be adopted for TV.

I. Competitive Analysis of Television Broadcasting

Framework for Competitive Analysis

4. The purpose of competitive analysis is to describe the markets at issue in light of established economic theory and legal precedent to determine how the current market structure and regulatory schemes affect competition and consumer welfare. The Commission's competitive analysis of the rules at issue in this proceeding focuses upon whether and to what extent market power exists and is being exercised, and what effect these rules have on the existence and exercise of this market power. This analysis requires two steps: (1) Definition of the relevant product markets, and (2) examination of these markets' structure for evidence of the existence and exercise of market power. A standard method to define the product market within which a particular firm operates is to ask the question: If this firm raised the price of its produce, to what degree would consumers continue to purchase that product or turn to the products of other firms, and what are these other products and other firms? After this set of relevant products is determined, the geographic extent of the market is outlined. In general, the geographic market refers to the area where buyers of the particular product can practicably turn for alternative sources of supply, or the area in which sellers sell this product. A useful technique in determining the geographic extent of the market is to examine the geographic region where buyers would buy and where sellers would sell in response to a ''small but significant and nontransitory'' price increase by any firm in that market. No single geographic market definition is likely to be decisive for all purposes in examining a particular industry.

5. Once reasonably interchangeable substitutes are identified and the geographic extent of the market is delineated, the participants in the relevant product market can be identified. This identification allows market shares to be calculated to characterize the market's structure and its concentration. Such calculations are useful as one component of a competitive analysis of potential market power. As with many other human activities, a firm's possession and use of market power is a matter of degree. The potential for the exercise of market power is limited by the degree to which its consumers can turn to substitutes, the competition offered by its existing competitors, the potential competition offered by new entrants, and the degree to which its suppliers can sell their product to other firms. If the relevant product markets are properly defined, the ability of consumers to turn to substitute products offered by other firms will already be reflected in their definition. Market share and concentration can only be reasonable proxies to estimate market power if the market is properly defined.

6. Market power cannot be adequately assessed by mere reference to market shares, however, because other factors, such as barriers to entry, can influence the degree to which market share conveys market power. As a result, in addition to market concentration, the conditions of entry in each market must be examined to determine whether the exercise of market power is possible.

Television Broadcasting's Relevant Markets

7. With the above principles in mind, the Commission turns to an identification of the product markets influenced by the rules under consideration. We find that TV broadcasters operate in three economic markets relevant to the rules under consideration: (1) The market for delivered video programming; (2) the advertising market, and (3) the video program production market. For each of these markets, we need to identify what