Time Warner pulls the plug on ABC: Flashpoint in economic war among media giants

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The decision of Time Warner to cut ABC, the highest-rated US TV network, from its cable system is indicative of the ruthless struggle that is under way among media and telecommunications conglomerates for control of both traditional markets and those emerging as result of the development of the Internet.

At midnight Sunday, April 30 some 3.5 million homes in 11 US cities, including New York, Houston and Los Angeles, were greeted with a notice saying "Disney has Taken ABC Away From You" when they tried to view ABC channels.

In fact, Time Warner denied access to the ABC channels as part of a long-running contract battle with ABC's owner, Walt Disney. The contract between the two companies had initially expired on December 31, 1999 and several temporary extensions had been granted to continue carrying the channels on Time Warner's cable network. Disney is said to want Time Warner to carry some of its programs as part of the cable company's basic service, rather than as a premium service, something Time Warner has been reluctant to do.

The timing of Time Warner's action is significant. The company cut off ABC during a crucial "sweeps" period, which TV stations use to set advertising rates. The May sweeps began last week and run through May 24.

Services were restored after 39 hours as the Federal Communications Commission was set to rule in favour of Disney's request to force Time Warner to restore the signal until the end of the current sweeps month.

The settlement came in the midst of a press conference called by Time Warner to propose a new deadline of October 15 for compensation talks. On receipt of the letter making the proposal, Disney simply changed the date to July and faxed it back to Time Warner executives. After an impromptu huddle at the press conference, the executives announced acceptance of the July deadline during questions about their October proposal. Time Warner referred to the acceptance of ABC's date as a "gesture of good faith."

Time Warner had said it was willing to carry the extra cable channels to keep the TV stations, but argued that the price was too high. Time Warner Cable executives have said the cost of the ABC deal would be $300 million over several years. Disney told Time Warner last week that it was also raising the rates for its sports channel ESPN.

Time Warner maintains that Disney had made new demands following the announcement by the leading Internet company, America Online, that it planned to merge with the cable company. Some analysts believe that Disney wanted to bring the conflict to a head in order to focus government attention on the merger.

When the AOL-Time Warner merger was announced in January this year, Disney began approaching members of Congress in an attempt to spark further scrutiny of the deal. The company is concerned that the merger between the largest Internet and media companies would exclude rival entertainment companies from reaching Internet consumers. It also expressed concern that AOL-Time Warner might limit access to its high-speed Internet network.

Time Warner spokesman Michael Luftman told *cnet.com* that while the obvious thing may have been for the company to avoid precipitous action while the merger was going through, Time Warner did not have that luxury.

"Disney was counting on that," Luftman said. He went on to accuse Disney of "blackmail," saying Disney negotiators said they would end their lobbying against the AOL merger if Time Warner agreed to their demands.

Future negotiations look set to be equally contentious, as Disney executives announced the company would go ahead with a joint plan with DirectTV in which Disney will repay consumers the entire $189 cost of the purchase and installation of satellite dishes.

Disney has had a similar deal in Houston, resulting in more than 15,000 homes signing on with DirectTV. Time Warner made this a feature of the current negotiations, demanding that Disney pay a fee for every customer lost to DirectTV in Houston.

The immediate source of the conflict between Disney and Time Warner is to be found in the emergence of broadband technologies as a powerful means of distributing entertainment. Disney thought it had addressed many of its distribution needs through the acquisition of Capital Cities/ABC Inc. four years ago. This gave Disney control of the ABC network and the sports channel ESPN as well as a number of local television stations. In the four years since then, however, cable and the World Wide Web have overtaken ABC's distribution method, a broadcast network.

More fundamentally however, the conflict reveals the growing tensions that exist within sections of corporate America. The conflict between Time Warner and Disney is a further expression of the type of economic warfare shown in the Microsoft lawsuit.

Over the past several years there has been an enormous process of consolidation in which existing telecommunications and media giants have merged with others to form massive entities, controlling vast amounts of capital. These corporations straddle various sectors of the entertainment and communications industry. Notwithstanding the attempts of the US Justice Department in the Microsoft case to pose as the defender of free competition and democracy, the Clinton administration has given either open or tacit support to this process.

The Federal Trade Commission approved May 5 the biggest media merger to date, that between Viacom and CBS. It is also expected to approve in the coming weeks the merger of AT&T with cable company Media One.

The fact that Time Warner has the power to withhold from the airwaves one of the major networks and is prepared to use it provides a dramatic warning as to the inherent dangers of commercialisation and monopolisation to the Internet.

Private ownership poses an increasing threat to the openness of this new medium. Web sites deemed to be at odds with the interests of Time Warner and big business in general will be increasingly shut out.

It has been reported that between six and nine corporations control most of the world's entertainment in the form of television, cinema, books and magazines. Time Warner is already the biggest media conglomerate in the world. Its extension into the Internet through the merger with AOL poses an inherent threat to the democratic potential of the Internet.

Such a degree of concentration in private hands is inherently antagonistic to the free exchange of ideas. The openness and democratic potential of this new medium is increasingly threatened by private capitalist ownership. The more the Internet becomes the province of big business, the more it will be subject to political censorship.