

## Net Neutrality not all it's cracked up to be



By Stuart Corner

Tuesday, 25 April 2006

Opposition is growing to a proposed overhaul of US telecommunications policy that critics say will spell the end of the neutral Internet and hand control over to the likes of AT&T, Verizon and Comcast, but a new study claims that legislating for 'Net Neutrality' might exacerbate the problem it seeks to cure.

Net neutrality, if enshrined in legislation would prohibit broadband service providers from prioritising certain types of traffic such as video. Content providers support the idea of net neutrality, but the operators say they should be allowed to prioritise certain types of traffic that requires high bandwidth and low latency, and charge a premium.

The study, by the Washington DC-based Phoenix Center cautions policymakers about certain network neutrality proposals with the intent or effect of 'commoditising' broadband Internet access services. It claims that commoditisation "is likely to deter facilities-based competition, reduce the expansion and deployment of advanced communications networks, and increase prices."

The study, according to the Phoenix Center, uses an economic model that illustrates how commoditisation may reduce competition and increase prices in the presence of fixed and sunk costs. It contends that network neutrality rules that encourage commoditisation of broadband service exacerbate a tendency toward concentration in an industry that already characterised by an inherently high equilibrium industry concentration level.

The Paper cautions that when policymakers consider various network neutrality proposals, they "should be aware of the need to balance concerns about discrimination with the danger that commoditised services may lead to the monopoly provision of broadband Internet access service in many markets," It says the result would be "lower broadband penetration rates, due to higher broadband prices, and would certainly impede the expansion and technological advancement of broadband networks in the United States."

According to the Phoenix Center's chief economist and study co-author George S Ford, "network neutrality policies present a trade-off. We do not take a position in the paper on the propriety of network neutrality rules. But our model shows that proposals which would make it difficult, if not impossible, for network firms to differentiate their products may reduce the chances of entry and competition. Our model also suggests that even in the absence of anticompetitive conduct, Network Neutrality rules are not costless, because they can adversely effect competition."

Phoenix Center Resident Scholar and study co-author Thomas M Koutsky added, "When presented with a Network Neutrality proposal, the first question a policymaker should ask is: Will this proposal intentionally or unintentionally result in commoditisation of the broadband Internet access market?"

"Proponents often say that the concentrated nature of the local market justifies Network Neutrality rules," said Phoenix Center President Lawrence J. Spiwak. "But certain Network Neutrality proposals that would create even higher levels of concentration may be a cure that worsens the disease."

The Phoenix Center describes itself as "an international, non-profit 501(c)(3) organization that studies broad public-policy issues related to governance, social and economic conditions, with a particular emphasis on the law and economics of regulated industries."

A copy of the full study, Phoenix Center Policy Paper No. 24: Network Neutrality and Industry Structure is available free <http://www.phoenix-center.org/pcpp/PCPP24Final.pdf>.

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