To spur investment, innovation and competition, the shackles of the "network neutrality" debate **need to be broken**. The way forward is to find the right balance of interest between internet players and network operators.

OPINION 1 : FORGET NETWORK NEUTRALITY – COLLABORATION IS THE NEW PARADIGM

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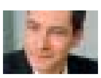

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TO DATE, the network neutrality debate has been overshadowed by headline-grabbing rhetoric, with stakeholders accusing each other of stifling access and innovation, or free-riding. It is time to focus on the real issue – the extent of any regulation governing the different market players' ability to develop multiple business models for broadband and internet services that:

- support efficient investment decisions on fixed and wireless networks
- foster innovation in new services utilizing high speed and high-quality broadband
- lead to wider choice and quality of services for all broadband consumers.

It is impossible to know what new services may emerge and how they will change the way we do business, consume media and communicate. But we are beginning to glimpse what might be possible in "cloud computing" and digital content delivery, which both require high-quality internet access.

Network neutrality sounds like a benign protection of freedom but it is, at its core, an extremely intrusive regulatory restriction on business models for the internet: whether or not network operators and internet service providers (ISPs) should be allowed to offer various prices for differentiated service.

No need to mandate neutrality

If the same restriction were to apply in other sectors, we would not benefit from the choice between first- and second-class mail or different highway toll charges for motorcycles or semi-trailer trucks. Ironically it is in the US, which we might have expected to be a natural advocate of entrepreneurial freedom, where we find the greatest support for network neutrality regulation. We do not believe there is a need to mandate "neutrality." We can afford to have faith that the right model will emerge from the everyday experimentation and competition that comes from commercial freedom. It is by these means, not by overburdening regulation, that consumers, businesses and the wider economy will be best served.

> "The difficulty is that as demand for capacity and contention on networks rises, operators are finding it **harder to realize** any incremental value from consumers on the basis of their current unmetered access."

Network operators and ISPs have been accused of trying to stifle both end-consumers' internet access and innovation in internet services through "walled-gardens," selective access, and variable wholesale and retail pricing.

However, network operators and ISPs are facing the prospect of declining core revenues as they compete with each other for subscribers. At the same time, new players have emerged that give customers ready access to the internet. The cost of bandwidth is rising with greater demand and increased broadband penetration, and operators are considering the business case for further investment. The difficulty is that as demand for capacity and contention on networks rises, operators are finding it harder to realize any incremental value from consumers on the basis of their current unmetered access.

The internet has reduced barriers to market entry, and fostered an environment of innovation and risk taking.

This has created a new breed of content creators and broadcasters, often accused of "free riding" on investments made by network operators and ISPs. However, operators and ISPs are responsible for stimulating the demand for internet access and increasing consumers' willingness to pay for access.

A vision of collaboration

To bring consumers the new range of services promised by Web 2.0, collaboration between network operators, ISPs, publishers and internet application developers is required. They need each other, and the current stalemate over network neutrality is denying consumers a potential explosion in innovation and consumption.

The key issue in the debate is the equitable sharing of value from delivering services over the internet between publishers and internet application developers on one hand, and the network operators and ISPs on the other. Both parties are making risky investments and looking for ways to innovate their services. This drives consumers' overall willingness to pay for the internet.

The critical factor is how much of consumers' overall willingness to pay is appropriated by each party: Network operators and ISPs are used to an old world where they both provided access and services (e.g. telephony); but internet publishers and application developers never had to consider the resource cost of bandwidth because capacity has always been plentiful with consumer demand below supply.

However, internet companies need network operators and ISPs to make network investments. Network operators and ISPs, in turn, need internet companies to continue innovating and to drive demand for network access services, providing the business case for capital investment.

Learning the lessons

Aligning these interests is a difficult problem to solve and one that could require careful consideration and regulation. However, it is no different from a commercial negotiation. We can learn lessons from a similar set of relationships that have evolved in the pay TV market, in which the interests of access providers and service providers are aligned to deliver a compelling range of services, differentiated for the varying demands of consumers.

In the pay TV market, consumers are offered choices and then select packages that meet their demand. Capacity is managed, and investment takes place to meet that demand, with competition for consumers' business driving innovation and quality.

Convergence is a well-used term and maybe this is what convergence actually means – as we move to a new paradigm for internet business models, we should look carefully at "old media" models to learn how collaboration can work between creative, content-driven companies and the providers of access. ●

NEXT PAGE: Regulation must be driven by consumer needs and wants