Is Verizon a Network Hog?

The telecommunications giant wants to devote most of its capacity to its own traffic, to Internet companies' dismay

Last November, Vinton G. Cerf wrote a letter of warning to Congress. The legendary computer scientist, now a vice-president at Google (GOOG), argued that major telecom companies could take actions to jeopardize the future of the Internet. The phone companies' networks that carry Net traffic around the U.S. are much like the highway system. Cerf wrote that they may begin setting up the equivalent of tollbooths and express lanes, potentially discriminating against the traffic of other companies. Such moves, Cerf warned, "would do great damage to the Internet as we know it."

Now, Cerf and his Net compatriots have new ammunition to back up their fears. Documents filed with the Federal Communications Commission show that Verizon Communications (VZ) is setting aside a

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wide lane on its fiber-optic network for delivering its own television service. According to Marvin Sirbu, an engineering professor at Carnegie Mellon University who examined the documents, more than 80% of Verizon's current capacity is earmarked for carrying its service, while all other traffic jostles in the remainder.

**PAYING FOR PRIORITY.** Leading Net companies say that Verizon's actions could keep some rivals off the road. As consumers try to search Google, buy books on Amazon.com (**AMZN**), or watch videos on Yahoo! (**YHOO**), they'll all be trying to squeeze into the leftover lanes on Verizon's network. On Feb. 7 the Net companies plan to take their complaints about Verizon's plans to the Senate during a hearing on telecom reform. "The Bells have designed a broadband system that squeezes out the public Internet in favor of services or content they want to provide," says Paul Misener, vice-president for global policy at Amazon.com.

Verizon argues that it needs to take such measures to earn a return on its network investments. The New York giant is seeing steep declines in its traditional telephone market, so it is spending an estimated $10 billion over seven years on new fiber lines to diversify into the TV business. Unless it can deliver seamless, high-quality TV service -- a real bandwidth hog -- Verizon says it won't be able to compete against Comcast (**CMCSA**) and other cable rivals. We "give consumers choice for video services," says Verizon Executive Vice-President Thomas J. Tauke.

At issue is what the Internet of the future will offer. Critics of the phone industry say the Net has flourished because innovators anywhere could reach consumers just as easily as deep-pocketed corporations. But if Verizon and AT&T (**T**) set up tolls and express lanes, upstarts may not be able to afford the fees. "If you deliver video the way Verizon does now, that makes it very hard for others to compete," says Carnegie Mellon's Sirbu.

**LEGISLATIVE STRATEGY.** The Net companies are trying to persuade Congress to pass a law ensuring that broadband providers, such as the Bells, don't discriminate against rivals when they charge tolls or prioritize traffic, an idea called "network neutrality."

Verizon says there's plenty of room on its network for everyone. Still, the growing controversy is giving the company second thoughts about its legislative strategy. Last year it was pushing Congress for comprehensive telecom reform. But now Verizon is paring back its ambitions. At a Jan. 27 press conference, Verizon's Tauke said it was time for lawmakers to switch gears and pick off piecemeal issues. Top on the list is a bill on local franchise approvals that would allow phone companies to offer TV service across the country more quickly.
Yang is a correspondent in BusinessWeek’s Washington bureau.

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