



## VCs Differ on Net Neutrality

### ***Most agree the phone companies should have the option of charging tolls, but who should pay?***

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Supporters and opponents of the phone companies' proposal that they charge Internet applications companies a toll have turned the fight into a winner-takes-all affair.

However, venture capitalist Gary Morgenthaler believes there is a middle ground in the Net neutrality debate now raging on Capitol Hill.

In an interview with RedHerring.com on Friday, Mr. Morgenthaler, a general partner with Morgenthaler Ventures, said that instead of charging companies such as Google, Skype, and Vonage a toll, they should give consumers the option of paying for better quality service.

"The consumer should determine what class of service they require and the price will be determined by the carrier and the market," he said. "The consumer will pay for it, not the content provider."

He believes that both sides in the debate have valid points of view. Those supporting Net neutrality believe the Internet has become an unparalleled generator of innovation, in part because of its openness. The diversity of content now available on the Internet is mind-numbing.

"They are saying that the system is working, so don't break it," said Mr. Morgenthaler. "They are very afraid that the phone companies will become gatekeepers and disrupt and tax the business model that they have enjoyed so far."

On the other hand, the broadband network on which the Internet runs is a 35-year-old monstrosity, seriously in need of a massive upgrade.

"You have no incentive for the carriers to invest in innovative, value-added services for which they can charge more, and that's a pretty big give-up," he said. "The status quo favors innovation at the edge of the network, not at the core. That's unfair to the telcos."

#### **Middle Solution**

He believes the solution is in the middle. The phone companies should be afforded the right to charge more for quality services, but saddling Internet application startups with an Internet toll could stymie innovation.

Consumers should have the option of paying for basic Internet access or spending more on better-quality services.

But not all VCs agree the consumer should pay. Carl Stjernfeldt, a partner with Battery Ventures, believes the phone companies should have the option of charging Internet application companies for

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better carriage, a business concept that is standard in other parts of the industry.

"That happens every day in the cable industry," said Mr. Stjernfeldt. "If you are **Disney**, you pay a significantly cheaper fee to get your content delivered by the cable companies, but if a startup came out with a cable channel, it will be pretty expensive to put it on the cable network."

The phone companies should have the option of charging companies such as Google, Skype, and Vonage traffic tolls, he believes.

"Vonage and the others have to figure out a business model that does not assume that the transport is free," said Mr. Stjernfeldt. "If you are an airline, you cannot assume that landing at every airport is free. Landing at JFK will be expensive, so you have to find a less expensive airport in the New York area. That's business."

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