Sender Side Transmission Rules for the Internet

Tejas N. Narechania
tnarecha@law.berkeley.edu

Tim Wu
Columbia Law School, twu@law.columbia.edu

Follow this and additional works at: https://scholarship.law.columbia.edu/faculty_scholarship

Part of the Internet Law Commons, and the Science and Technology Law Commons

Recommended Citation
Available at: https://scholarship.law.columbia.edu/faculty_scholarship/1864

This Working Paper is brought to you for free and open access by the Faculty Publications at Scholarship Archive. It has been accepted for inclusion in Faculty Scholarship by an authorized administrator of Scholarship Archive. For more information, please contact donnelly@law.columbia.edu.
Sender Side Transmission Rules for the Internet

Tejas N. Narechania *
Tim Wu **

TABLE OF CONTENTS

I. INTRODUCTION ................................................................................................................. 468
II. BACKGROUND .................................................................................................................. 470
   A. The Original Antidiscrimination Regime ................................................................. 470
   B. From Computer II to Information Service ............................................................... 475
III. PRESENT OPTIONS ......................................................................................................... 479
   A. Sender Side Transmission Rules .............................................................................. 480
   B. Changed Circumstances ............................................................................................. 483
   C. Proceeding by Adjudication ....................................................................................... 488
IV. CONCLUSION .................................................................................................................... 490

* Julius Silver Research Fellow, Columbia Law School.
** Isidor & Seville Sulzbacher Professor of Law, Columbia Law School.
I. INTRODUCTION

Since 1966, the Federal Communications Commission has, one way or another, protected businesses that deliver services over the nation’s communications infrastructure. But in January 2014, the U.S. Court of Appeals for the D.C. Circuit struck down the FCC’s net neutrality rules contained in its 2010 Open Internet Order. FCC Chairman Tom Wheeler has since indicated that he will take up the D.C. Circuit’s invitation to implement rules that, consistent with historic practice, “will meet the court’s test for preventing improper blocking of and discrimination among Internet traffic.”

Chairman Wheeler’s statement invites an obvious question: presuming that the FCC wants its rules to survive judicial scrutiny, what is the most prudent legal course? While the Commission has a variety of legal options, we focus here on two solutions that are almost certain to survive legal challenge, while not taking any position on the merits of possible alternatives.

We propose a novel option that relies on a partial return to the powers delegated to the FCC by Title II of the Communications Act. In particular, we suggest that the Commission take seriously the asymmetric framework suggested by the D.C. Circuit based on the premise that two distinct transmissions comprise a single broadband transaction. Consider a common usage of a broadband connection: first, the subscriber—the consumer—calls an application, service, or other content provider using the carrier facilities for which she has purchased access. Second, the content provider sends a response to the consumer, which necessarily traverses the broadband carrier’s facilities to reach the original consumer. This two-stage process is the framework adopted by the D.C. Circuit; as the court emphasized, it may be “logical to conclude that [a broadband provider] may be a common carrier with regard to some activities but not others.”

---


The FCC may therefore decide, as a matter of first impression, that *response* transactions are subject to common carrier rules against discrimination and blocking. Indeed, as we explain below, none of the arguments that the information service designation applies to a broadband connection’s call service can be said to apply to the response transaction. Cabining the reach of the Commission’s *Cable Modem Order*, which designated the call transaction an information service,\(^5\) to *only* the first stage of the two-stage framework would restore the Commission’s authority to enforce network neutrality rules over broadband-delivered content. In addition, because such sender-side regulation focuses on incoming traffic, it also provides a useful framework for addressing interconnection disputes between broadband carriers and content providers.

Alternatively, the FCC could simply examine whether changed circumstances have undermined its decade-old decision\(^6\) to reclassify broadband transmissions from telecommunications services to information services. Our examination of the Commission’s analysis shows that the factual premises underlying its 2002 conclusion are now largely obsolete. That decision relied on the outdated premise that broadband subscriptions were akin to dial-up services including AOL, all of which offered a bundle of services including email access, branded web browsers, newsgroups, chat rooms, and other Internet-based services. Today, the relevance of these bundled services is highly diminished, as broadband subscribers overwhelmingly rely on third-party services and products such as Gmail, Firefox, Google Groups, Facebook, Twitter, and Instagram.\(^7\)

Thus, the FCC has at least two available paths. The first is predominantly legal: by adopting the two-stage framework articulated by the D.C. Circuit in *Verizon*, the Commission need only decide whether sender-side transmissions fit more comfortably within the statutory definition of a telecommunications service or an information service. The second path is predominantly factual: Is the Commission still swayed by its analysis, now well over a decade old, analogizing broadband subscription services to dial-up Internet access? Regardless of the path the Commission chooses, it will reach a similar destination. Either course allows the Commission to develop a regime that resembles its approach in the 1980s and 1990s—a period notable for the exponential growth of the telecommunications and Internet industries.

---

6. *Id.*
7. See discussion *infra* Part II.B.
II. BACKGROUND

For nearly fifty years, the FCC has enforced a regime whose basic purpose has been to foster the growth of network application providers and protect them from the owners of network facilities. The most recent iteration of that regime, which attempted to enforce a form of basic network neutrality norms, was contained within the Commission’s Open Internet Order, but in fact the history of that effort stretches back into the 1960s.

A. The Original Antidiscrimination Regime

The relevant history of the net neutrality regime begins with the FCC’s Computer Inquiries that began in 1966. Context is important here. The late 1960s marked the beginning of a historic shift at the Commission and the White House away from support for a regulated monopoly and toward the encouragement of competitive markets—especially in new markets. This shift was driven both by the FCC and the Office of Telecommunications Policy in the White House; its long-term effects were nothing short of monumental.

The project began with selected segments of the communications industry, primarily long-distance telephony, satellite services, attachments, and what was then called “network data processing” (now known as Internet services). In each of these areas, the FCC developed a new regulatory initiative with two overarching goals.

First, given the long history of regulation resulting in barriers to entry, the FCC attempted to avoid overregulation of new markets to encourage competition. Second, the Commission recognized that any new entrant in these markets would necessarily depend on monopoly carriers, and would therefore be exceptionally vulnerable to anticompetitive behavior. Hence, the project’s second goal was to prevent the carriers from undermining these

---

9. See generally id.
10. See, e.g., id. at 18045 (Copps, Comm’r, concurring) (referring to the “Computer Inquiries”); Appropriate Framework for Broadband Access to the Internet over Wireline Facilities, Report and Order and Notice of Proposed Rulemaking, FCC 05-150, 20 FCC Rcd. 14853, paras. 4 & n.9, 21 (2005) [hereinafter DSL Reclassification Order].
12. Id. at 187.
13. Id. at 189.
14. Id.
new entrants. These two goals underlay the Commission’s *Carterfone* decision and the subsequent liberalization of network attachments, the various MCI and Execunet decisions, which opened to competition the long-distance telephony market, the “Open Skies” policy for satellites, and, most relevant to our purposes, the Computer Inquiries. The combined effect of these policies was to create a communications economy that relied on common carriage services as the foundation for other markets, and eventually, entire industries. Indeed, the entire Internet economy may be understood as an unexpected byproduct of the policies pursued in the Computer Inquiries.

This philosophy of opening markets on top of the network drove the FCC’s *First Computer Inquiry*. The 1966 Notice of Inquiry that began the FCC’s first foray into this space sought “information, views, and recommendations” regarding the vast “number of regulatory and policy questions” that had come to the fore through the “the growing convergence of computers and communications.” In the Notice, the Commission sought to determine “under what circumstances data processing, computer information, and message switching services . . . should be subject to the provisions of the Communications Act.”

While the technologies of this era were different, the basic architecture of the regulatory problem is familiar. Companies, such as Electronic Data Systems (founded by entrepreneur Ross Perot), located at the “ends” of the telephone network, were offering computer services that ran “over” AT&T’s wires. Conceptually, firms such as EDS occupied a position similar to

20.  *See infra* notes 22–34 and accompanying text.
23.  *Id.* at para. 18.
Netflix or Wikipedia today, while the role of AT&T is now played by such carriers as Comcast, Verizon, and AT&T.\footnote{In 2005, twenty-one years after AT&T’s court-ordered divestiture, SBC—a Regional Bell Operating Company previously known as Southwestern Bell—acquired its former parent AT&T, thus creating the nation’s largest unified telecommunications company. \textit{See} \textit{Wu}, \textit{supra} note 11, at 238–49.}

As noted, the FCC was motivated by an interest in avoiding overregulation in the new data processing market and protecting that nascent industry from the monopoly carrier. The First Computer Inquiry achieved the first goal by exempting data processing services from common carrier regulation.\footnote{Reg. \& Policy Problems Presented by the Interdependence of Computer and Comm’ns Servs. \& Facilities, \textit{Tentative Decision of the Commission,} 28 F.C.C. 2d 291, para. 24 (1970) [hereinafter \textit{Computer I Initial Decision}].} The FCC accomplished its second goal with the Inquiry’s “maximum separation” rule, which required an incumbent carrier to form an entirely separate corporate entity if it wished to offer data processing or computer networking services.\footnote{\textit{Id.} at para. 35.} The FCC believed that if AT&T was allowed to freely enter the market for network services, it could give itself unfair advantages to quickly eliminate competitors.\footnote{See \textit{id.} at paras. 25–26.} The Commission feared that the Bell companies would “favor their own data processing activities by discriminatory services, cross subsidization, [and] improper pricing,” and therefore required that any carrier seeking to provide both transmission and processing capabilities segregate its offerings into “separate corporate entit[ies].”\footnote{Id. at paras. 33, 36; \textit{see also} Reg. \& Policy Problems Presented by the Interdependence of Computer \& Comm’ns Servs. \& Facilities, \textit{Final Decision and Order,} FCC 71-255, 28 F.C.C. 2d 267, para. 12 (1971) [hereinafter \textit{Computer I Final Decision}] (maintaining decision reached in \textit{Computer I Initial Decision}); 47 C.F.R. \S 64.702(c) (2013).}

To address cases where the distinction between data “transmission” and “processing” was less clear, the FCC defined a category of “hybrid” services\footnote{\textit{Computer I Initial Decision, supra} note 26, at para. 39; \textit{Computer I Final Decision, supra} note 29, at para. 31.} that were regulated according to the regime that governed the “primary thrust” of the offering: Where transmission predominated, the service would be subject to regulation under the Communications Act; where data processing predominated, only the maximum separation rule applied.\footnote{Computer I Initial Decision, \textit{supra} note 26, at paras. 41–42; \textit{Computer I Final Decision, supra} note 29, at paras. 31–32.} Importantly, the Commission deferred further guidance on the distinction within hybrid services.\footnote{\textit{See generally} \textit{Computer I Initial Decision, supra} note 26.} Instead, the FCC offered to conduct “ad hoc
evaluations... to determine whether a particular package offering was essentially data processing or communication.”

In 1979, the FCC’s Second Computer Inquiry eliminated the confusing “hybrid” service and established a regime with just two layers: basic and enhanced services. The new taxonomy created the first clear horizontal regulatory model in FCC history, with its rough recognition of a transport layer and an application layer. Computer II put all firms offering services over the network into the enhanced category and exempted them from most regulation. At the same time, it maintained the common carriage rules for the underlying transport services that supported this growing industry.

The Computer II approach was the governing regulatory regime during the period of the exponential growth during the 1980s and 1990s in the computer networking and Internet industries. Notably, the explosion in network services during this time casts serious doubt on the claims that any regulation under Title II is necessarily inconsistent with economic growth. To the contrary, the clever design of Computer II, which avoided overregulation of application-layer industries while simultaneously protecting them from carrier threats of blocking or discrimination, actually fueled growth in application-layer services. Thus, the Computer II model can be understood as a great boon to firms like AOL and MSN, which

33. Computer I Final Decision, supra note 29, at para. 27.
36. Computer II Final Decision, supra note 34, at para. 114 (There is “no regulatory distinction between enhanced services.”); see id. at paras. 5, 96, 109.
37. Id. at paras. 107, 119–120.
38. Id. at paras. 7, 12. Basic services included voice services. The revised rules also limited the application of the “maximum separation” rule to only AT&T and GTE (now known as Verizon).
39. See Mark A. Lemley & Lawrence Lessig, The End of End-to-End: Preserving the Architecture of the Internet in the Broadband Era, 48 UCLA L. REV. 925, 930 (2001) (“The Internet is the fastest growing network in history. In its thirty years of existence, its population has grown a million times over.”).
40. See, e.g., Christopher S. Yoo, Is There a Role for Common Carriage in an Internet-Based World?, 51 HOUS. L. REV. 545, 557 (2013) (“[T]o the extent that the Internet generates positive externalities, imposing regulation would represent the opposite policy, systematically causing the systematic bias toward underproduction to worsen.”).
provided low-cost network services simply by buying volumes of telephone numbers, as well as to the first wave of “dot-com” firms, such as Netscape and Yahoo!, which were able to reach users without paying costly termination fees to carriers.

The Computer II model survived until the early 2000s. Congress codified it in the Telecommunications Act of 1996, merely changing its nomenclature: an “enhanced service” was effectively renamed an “information service,” and “basic service” became “telecommunications service.”42 Although Computer II was largely codified in statute, some details of the regime were modified by the Commission’s lengthy Third

42. The Act’s definition of a “telecommunications service”—the commercial offering of the transmission of user information between two points without any change to the information—mirrored the FCC’s understanding of a “basic service” under Computer II. Compare 47 U.S.C. § 153(50), (53), with Computer II Final Decision, supra note 34, at para. 96 (basic service “offers a pure transmission capability over a communications path that is virtually transparent in terms of its interaction with customer supplied information.”). See also Computer II Final Decision, supra note 34, at para. 5. Similarly, the Act’s definition of “information service”—“the offering of a capability for generating, acquiring, storing, transforming, processing, retrieving, utilizing, or making available information via telecommunications”—sounds in Computer II’s “enhanced service” definition. Compare 47 U.S.C. § 153(24) with Computer II Final Decision, supra note 34, at para. 97 (in enhanced service, for example, “applications are used to act on the content, code, protocol, and other aspects of the subscriber’s information.”). See also Computer II Final Decision, supra note 34, at para. 5.

Computer Inquiry,43 which, most notably, eliminated the “maximum separation” rule.44

B. From Computer II to Information Service

Until the turn of the millennium, the Internet industry—that is, the set of application-layer data businesses that depended on networked telecommunications infrastructure—blossomed under a regime that both deregulated its services and protected them from carrier interference under Title II of the Communications Act of 1934. Shortly thereafter, the FCC sought to preserve these critical goals under a new regulatory structure. It moved to an alternative regime that reclassified all Internet services—including the underlying carrier services—as “information services,”45 while still preventing carrier abuses through the enforcement of net neutrality norms.46

In 1998, the Commission began considering how to appropriately classify broadband services, beginning with the puzzle posed by cable Internet service providers.47 Cable broadband providers vertically integrated many of the functions that were sold separately by “enhanced service” providers like AOL. In fact, one of the justifications for the AOL-Time


44. The motivation to remove the maximum separation rule was driven, in part, by a Chicago School-based understanding of the benefits of vertical integration. But as we explain further, such an understanding of vertical integration understates the possibility for network platforms to make anticompetitive use of vertical agreements by, for example, exclusion.

45. See Cable Modem Order, supra note 5; DSL Reclassification Order, supra note 10.


Warner merger in 2000 was facilitating such integration.\footnote{48} Cable providers therefore seemed to be offering what, under the Computer Inquiries model, would have been two services: a telecommunications service and an information service.\footnote{49} Consequently, based on the statutory text of the Telecommunications Act—which, as we have noted, codified the Computer II regime—the Ninth Circuit concluded that cable operators were clearly offering both services.\footnote{50}

In 2002, the FCC departed from the interpretation derived from its Computer Inquiries by reclassifying all of the layers of cable modem service as one single “information service.”\footnote{51} This designation had the critical effect of exempting it from the regulatory structure of Title II.\footnote{52} The Commission’s reclassification rested on a few critical facts. First, the Commission compared the commercial offering of a cable modem service provider with the predominant alternative at the time: a dial-up internet connection offered by an independent provider like Earthlink or AOL (before its merger).\footnote{53} Such Internet service providers typically offered a bundle of Internet services that were not themselves separable and had no separate legal status: a subscription to AOL came with access to an aol.com email address, to AOL-based newsgroups, as well as to the domain name system (“DNS”).\footnote{54} So too with cable modem service: A cable modem subscriber had access, for example, to a [provider].net email address, a DNS, and other related services.\footnote{55} Thus, because dial-up Internet services were considered information services,\footnote{56} the Commission reasoned that cable modem service must also be an information service.\footnote{57}

Critical to the FCC’s decision was its enigmatic conclusion that the “telecommunications component is not . . . separable from the data-processing capabilities of the [cable modem] service.”\footnote{58} Dial-up Internet access providers, such as AOL, sold only data processing capabilities; the transmission component was separately sold and provided by each subscriber’s respective phone company.\footnote{59} By contrast, the Commission noted that, at the time, no “cable modem service provider ha[d] made a stand-

\begin{itemize}
\item \footnote{48} Wu, supra note 11, at 264–65.
\item \footnote{49} See discussion supra Part II.A.
\item \footnote{50} AT&T Corp. v. City of Portland, 216 F.3d 871 (9th Cir. 2000).
\item \footnote{51} Cable Modem Order, supra note 5, at para. 7.
\item \footnote{52} See 47 U.S.C. § 153(51) (“A telecommunications carrier shall be treated as a common carrier under this Act only to the extent that it is engaged in providing telecommunications services.”).
\item \footnote{53} Cable Modem Order, supra note 5, at para. 10.
\item Id.
\item Id. at para. 17.
\item Id. at para. 38.
\item Id.
\item Id. at para. 39.
\item Id. at para. 9, n.19.
\end{itemize}
alone offering of transmission for a fee directly to the public.”60 Hence, the Commission found that “the telecommunications is part and parcel of cable modem service and is integral to its other capabilities” such as email and newsgroups. 61 The Commission’s conclusion that this transmission capability was inseparable from the rest of the commercial offering was questionable in 2002; today, as we discuss below, it seems clearly erroneous given the widespread demand for independent services that compete with a provider’s bundled offering. 62

The Supreme Court ultimately reviewed the FCC’s Cable Modem Order in National Cable & Telecommunications Association v. Brand X Internet Services.63 Although Brand X is a favorite of administrative law aficionados for its discussion of judicial deference to administrative agencies under Chevron,64 the decision is, at its core, about telecommunications law. The majority in Brand X found sufficient ambiguity in the Telecommunications Act’s definition of “telecommunications service”—“the offering of telecommunications for a fee directly to the public”65—that the Court deferred to the Commission’s conclusion that cable modem service fell outside of its ambit.66 In particular, the Court noted that the critical question for the Cable Modem Order was whether “from the consumer’s point of view” the data transmission service is used “always in connection with the information-processing capabilities.”67 The Court concluded that it was: The transmission component, after all, was in the Commission’s view “part and parcel” of the rest of the service.68 Because the Court determined that “offering can reasonably be read to mean a ‘stand-alone’ offering,” it held that the Commission need not treat “the underlying telecommunications used to transmit that service” as a separate “offer” under the Telecommunications Act’s regime.69

Although the Court deferred to the Commission’s conclusion in the Cable Modem Order, some members were doubtful. Justice Breyer noted that the Commission’s interpretation “just barely” fell within the “scope of the [FCC’s] statutorily delegated authority.”70 Three justices dissented,

60. Id. at paras. 39–40.
61. Id. at para. 40.
62. See discussion infra Part III.A.
64. Chevron, USA, Inc. v. Natural Res. Def. Council, 467 U.S. 837 (1984); see also Brand X, 545 U.S. at 982–83 (under Chevron, an agency interpretation of an ambiguous statute can override prior judicial interpretation).
66. Brand X, 545 U.S. at 993.
67. Id. at 988.
68. Id. (quoting Cable Modem Order, supra note 5, at para. 39).
69. Brand X, 545 U.S. at 989.
70. Id. at 1003 (Breyer, J., concurring).
writing that “the telecommunications component of the cable-modem service retains such an ample independent identity that it must be regarded as being on offer.”\textsuperscript{71} Despite this skepticism from four justices, the Court upheld the Commission’s \textit{Cable Modem Order}. Propelled by its victory in \textit{Brand X}, the Commission extended the “information service” designation to Internet access via DSL (digital subscriber lines)\textsuperscript{72} and to other physical platforms,\textsuperscript{73} including wireless networks.\textsuperscript{74}

These various reclassification orders threatened to undermine the FCC’s long-held regulatory aim of protecting application layer companies from the threat of discrimination and blocking by carriers.\textsuperscript{75} Former FCC Chairman Michael Powell proposed that some behavior once prohibited by Title II would still be punished under a net neutrality regime that could be enforced even under the new classification. In a 2004 speech, Powell proposed four “Internet Freedoms,”\textsuperscript{76} which the Commission later codified as a policy statement,\textsuperscript{77} and which served as a baseline for the \textit{Open Internet Order}.\textsuperscript{78} Notably, in 2005, the Commission seemed to assume that it retained authority to enforce its policy statement under its Title II powers. Faced with the first major complaint regarding the blocking of Internet traffic, the Commission settled with Madison River Communications to resolve the claim that the company was blocking Voice over Internet Protocol applications in violation of Section 201 of the Telecommunications Act of 1996.\textsuperscript{79} Since reaching that settlement, however, the Commission has faced

\begin{footnotesize}
\begin{enumerate}[\textsuperscript{71}]
\item \textit{Id.} at 1008 (Scalia, J., dissenting) (emphasis added). Justices Souter and Ginsburg joined Justice Scalia’s dissent.
\item \textit{DSL Reclassification Order, supra} note 10.
\item \textit{See supra} notes 36–41 and accompanying text.
\item \textit{2010 Open Internet Order, supra} note 1, at para. 5.
\item Madison River Communications, LLC and Affiliated Companies, \textit{Consent Decree}, DA 05-543, 20 FCC Rcd. 4295, paras. 4 & 6 (2005), available at http://hraunfoss.fcc.gov/edocs_public/attachmatch/DA-05-543A2.pdf. The Consent Decree notes that the FCC was investigating “Madison River’s compliance with section 201(b) . . . with respect to the blocking of ports used for Voice over Internet Protocol (“VoIP”) applications.” \textit{Id.} at para. 1. Section 201(b) provides that “[a]ll charges, practices, classifications, and regulations for and in connection with such
\end{enumerate}
\end{footnotesize}
formidable legal challenges to its authority to enforce these principles, losing before the D.C. Circuit in 2010⁸⁰ and again in 2014.⁸¹

III. PRESENT OPTIONS

For half a century, the FCC has maintained some system for policing the power of carriers to block or discriminate against application layer businesses attempting to reach customers over carrier wires.⁸² The recent invalidation of the Commission’s Open Internet Order in Verizon⁸³ casts that basic premise into doubt for the first time in the history of modern computer networking. Unsurprisingly, the Commission has responded by indicating that it will seek to reinforce its authority by whatever means necessary.⁸⁴ The operative question, then, is how the Commission can most easily accomplish this goal.

The FCC’s decision to sweep the transmission of Internet traffic outside of the definitional scope of “telecommunications service” has significantly affected its ability to regulate such traffic.⁸⁵ The Telecommunications Act of 1996 explicitly provides that a “carrier shall be treated as a common carrier under this chapter only to the extent that it is engaged in providing telecommunications services.”⁸⁶ Thus, where a facilities owner—a carrier—is providing a service other than “telecommunications” (as the term is statutorily defined), the Commission

communication service, shall be just and reasonable, and any such charge, practice, classification, or regulation that is unjust or unreasonable is declared to be unlawful.” 47 U.S.C. § 201(b) (2006).

⁸⁰. Comcast Corp. v. FCC, 600 F.3d 642, 661 (D.C. Cir. 2010).
⁸². See discussion supra Part II (chronicling the FCC’s Computer Inquiries and the Open Internet Order).
⁸³. Verizon, 740 F.3d at 659.
⁸⁵. 2014 Open Internet NPRM, supra note 84, at para. 149.
⁸⁶. 47 U.S.C. § 153(51); see also Nat’l Cable & Telecomms. Ass’n v. Brand X. Internet Servs., 545 U.S. 967, 975 (2005) (“The Act regulates telecommunications carriers, but not information-service providers, as common carriers.

The provision was originally codified at 47 U.S.C. § 153(49), and was moved to subsection 51 following subsequent amendments to the Telecommunications Act of 1996. See Pub. L. No. 105-33, § 3001(b) (1997) (adding new (49) and renumbering) and Pub. L. No. 111-260, § 101 (2010) (renumbering).
has disabled itself from regulating that service as a common carrier. The Commission has twice sought alternative ways of regulating Internet traffic. Both attempts were squarely rejected by the D.C. Circuit. First, the Commission’s attempt to rely on its ancillary authority was rejected in Comcast; more recently, in Verizon, the court held that the Commission’s Open Internet Order imposed on broadband providers rules tantamount to common carrier regulation in violation of the Communications Act’s “specific prohibition[s]” described above.

Some have suggested that section 706 of the Telecommunications Act can provide the FCC with the authority to enforce basic network neutrality norms with some limitations. We do not express any opinion on this hypothesis. Our present focus, instead, is on the Commission’s traditional power to regulate carriers. Some have called for the Commission to overturn its 2002 reclassification decision. As explained in more detail below, we agree that the Cable Modem Order’s conclusions no longer have a substantial basis in fact. However, we begin with a more modest solution: a narrow application of the Commission’s strongest and most secure grant of congressional power: Title II of the Telecommunications Act.

A. Sender Side Transmission Rules

Over the course of Verizon’s challenge to the Open Internet Order, the FCC and Verizon articulated distinct and competing visions of the nature of the relationship between broadband carriers and content providers. The Commission argued that content providers were not, in any meaningful sense, “customers” of a broadband carrier; to the contrary, the Commission argued that broadband subscribers are the only necessary customers, and the relationship between a content provider and the carrier is simply derivative

88. See, e.g., Cellco P’ship v. FCC, 700 F.3d 534, 538 (D.C. Cir. 2012) (“The Act’s definition of ‘common carrier’ is unsatisfyingly circular . . . .”).
89. See Comcast Corp. v. FCC, 600 F.3d 642 (D.C. Cir. 2010).
93. See discussion infra Part III.B.
94. See generally 47 U.S.C. §§ 201–221.
of any request by that customer to view specified content. The D.C. Circuit rejected this construction. Instead, it adopted the view proffered by Verizon, which argued that there were two distinct, separable, and equally important commercial relationships at issue: (1) the broadband provider’s contract with “retail end-users” as well as (2) its relationship with “other providers that seek to deliver their own services over the common carrier’s facilities.” The D.C. Circuit agreed that these were better treated as distinct relationships. But in so doing, the court stated that it would be “logical to conclude that [a broadband provider] may be a common carrier with regard to some activities but not others.” In other words, by individuating these two commercial relationships, the court suggested the possibility for the distinct regulatory treatment of these separable transactions.

Therefore, rather than treat all Internet traffic as a monolithic entity subject to the same regulatory treatment, the FCC can split the facilities-based services offered by broadband carriers into two discrete transactions: first, a call by a broadband subscriber to request data from a third-party content provider; and second, a content provider’s response to the subscriber. Imposing this two-stage call-and-response framework on the structure of Internet traffic—a framework derived from the D.C. Circuit’s recent decision in *Verizon*—would allow the Commission to separately consider the appropriate regulatory treatment for each type of transaction.

This creates an obvious opportunity for the FCC to classify—in the first instance—one of these relationships as subject to some form of regulation under Title II. In particular, the Commission should consider the appropriate regulatory treatment of traffic that is sent by content providers in response to requests from retail end-users. One important reason to

---

96. *Verizon v. FCC*, 740 F.3d 623, 653 (D.C. Cir. 2014); *but see* City of Arlington v. FCC, 133 S. Ct. 1863, 1869 (2013) (under a hypothetical statute, a court must defer to agency’s definition of “common carrier”).
98. *Verizon*, 740 F.3d at 653.
100. Here, we use the term “response” somewhat loosely. We do not mean to cabin the applicability of our proposed framework to only particularized sorts of real-time “dialogues” between a user and a content provider. The framework is equally applicable to asynchronous communications (e.g., a user, who hosts her own email service, who receives an email days after an offline communication with an acquaintance). Rather, the point is that the commercial offer to deliver incoming traffic (incoming from the perspective of the access network) is distinguishable from the offer to the consumer for a broadband subscription. Happily, the offer to deliver unwanted incoming traffic, such as spam or malware, is also distinguishable,
consider distinct regulatory treatment for this aspect of the broadband transaction is that the broadband carrier is endowed with a terminating monopoly.101 That is, the content provider has no alternative to the carrier to complete its response to the calling consumer. Such terminating monopolies have traditionally been subject to enhanced regulatory scrutiny, and the Commission’s policies have, in recent years, strongly disfavored “access charges” imposed by terminating monopolists.

Classifying “sender-side” traffic as a telecommunications service is also, perhaps surprisingly, consistent with the *Cable Modem Order*. As we described above,102 the Commission’s analysis in that Order focused squarely on the broadband provider’s relationship with the end user. In considering the “business relationships” between “cable operators” and “consumers,” the Commission examined only *retail* subscribers to broadband service.103 Indeed, even the Supreme Court agreed that the critical question addressed in the *Cable Modem Order* was what a broadband subscription looked like “from the consumer’s point of view.”104 Thus, this specific focus on the set of bundled services that broadband providers sold their subscribers excluded any analysis of the opposing offer to charge for the delivery of traffic in the second stage of the two-stage framework described above.105

Despite this exclusion, both the D.C. Circuit and the FCC have proceeded on the assumption that the conclusion reached in the *Cable Modem Order* applies equally across both the call and the response transactions.106 But the decision in *Verizon* makes clear that this need not be so. Indeed, the Commission has a long history of regulating a carrier in its

---

101. See 2014 *Open Internet NPRM*, supra note 84, at para. 42 (finding that broadband providers are “terminating monopolies” for content providers needing to reach end users, because “most residential customers have only one or two options for wireline broadband Internet access service.”).

102. See discussion supra Part II.B.


105. Even to the extent that the *Cable Modem Order* considered content offered through internet service providers, it emphasized that this content is typically bundled—from the consumer’s perspective—with the broadband service. See *Cable Modem Order*, supra note 5, at paras. 52–53 (arrangements with unaffiliated ISPs offer an integrated service for which both the provider and the ISP take dual responsibility). The same cannot be said for YouTube or Netflix content that is delivered by Comcast. Cf. *The ISP Speed Index From Netflix*, NETFLIX, http://ispspeedindex.netflix.com/ (last visited April 2014) (Netflix reporting on differences among facilities owners over which it sends content).

capacity as a terminating monopolist differently than in its capacity as a vendor of retail, end-user services.107

A closer analysis of the service that a broadband provider, in its capacity as a terminating monopolist, offers to a content provider in sender-side response transactions bears none of the hallmarks of an information service as described by the Cable Modem Order.108 When Verizon delivers Netflix content to Verizon subscribers, it does not also offer Netflix “e-mail, newsgroups, and the ability to create a web page . . .”109 Instead, Verizon provides a discrete transmission service: It delivers traffic from the point of interconnection to a specified subscriber.

Verizon now wants to charge some content providers for this delivery.110 Notably, the Cable Modem Order’s conclusion rested in part on the observation that no broadband “provider ha[d] made a stand-alone offering of transmission for a fee.”111 But Verizon’s new proposal is exactly that:112 It is a stand-alone offer of “transmission” “between . . . points” that Netflix (for example) has “specified.” 113 This is paradigmatic “telecommunications service” that may be subject to regulation under Title II.114 That is, the transmission of data from the Internet to an individual subscriber not only retains an “independent identity that it must be regarded as being on offer”—it seems to be the only identity that can be regarded as on offer.115 Thus, relying on the distinction drawn by Verizon in its challenge to the Open Internet Order, the Commission can classify commercial offers to deliver sender-side traffic, beginning at the point of interconnection, as a telecommunications service under the 1996 Act.116

B. Changed Circumstances

As an alternative to the limited classification of sender-side traffic, the FCC could return to its original position that the transmission of all Internet traffic is a “telecommunications service.”117 That is, rather than simply

---

107.  See, e.g., Verizon Reply Brief, supra note 97, at 6–7.
108.  See Cable Modem Order, supra note 5, at paras. 34–37.
109.  See id. at para. 37.
110.  See Verizon, 740 F.3d at 645–46.
111.  Cable Modem Order, supra note 5, at paras. 39–40.
112.  Verizon, 740 F.3d at 646 (“[B]ut for the Open Internet Order [Verizon] would be exploring . . . commercial arrangements” to charge for the delivery of sender-side traffic).
113.  47 U.S.C. § 153(50) (2006). Here, the “user” is Netflix, and “points . . . specified” are the point of interconnection and the “calling” subscriber.
116.  See Verizon Reply Brief, supra note 97, at 1.
117.  There is one further wrinkle with regard to mobile Internet service. Section 332 of the Telecommunications Act states that providers of “commercial mobile
cabining the reach of Cable Modem Order to its original context—the call transaction—the Commission could undertake to address both stages of traffic by revisiting its conclusions in the Cable Modem Order.\textsuperscript{118}

On this point, it is important to emphasize that no legal bar prevents the FCC from undoing its decision in the Cable Modem Order. Indeed, the Supreme Court has repeatedly recognized that agencies have “ample latitude to ‘adapt their rules and policies to the demands of changing circumstances.’”\textsuperscript{119} Indeed, changed circumstances seem to have invalidated many of the factual premises underlying the Commission’s 2002 Cable Modem Order. That decision rests on a now-outdated understanding of cable-based broadband offerings: subscribers then “[d[id] not need to contract separately” for “discrete services or applications.”\textsuperscript{120} Not only were these integrated applications “part and parcel” of the subscription package,\textsuperscript{121} but—in the view of the Cable Modem Order—they formed a critical part of the value of the service to consumers.\textsuperscript{122}

Today, it is no longer clear that these additional services add measurable value to broadband subscriptions. To be sure, the Cable Modem Order acknowledged the existence of competing content at the time it was adopted; it noted that, “by ‘click-through’ access,” cable modem service offers “many functions from companies with whom the cable operator has not even a contractual relationship. For example, a subscriber . . . is free to download and use . . . a web browser from Netscape, content from Fox services” are common carriers, whereas providers of other mobile services are exempt from common carrier regulation. 47 U.S.C. § 332 (2006). The FCC has concluded that wireless transmission of Internet traffic both “is an ‘information service’ and is not a ‘commercial mobile service.’” Cellco P’ship v. FCC, 700 F.3d 534, 538 (D.C. Cir. 2012). Thus, “mobile-data providers are statutorily immune, perhaps twice over, from treatment as common carriers.”\textit{Id.}

Reclassification for wireless broadband would require undoing both layers of protection. \textit{See id.} For present purposes we focus on the question that is common to all physical platforms for the transmission of Internet traffic: the information service designation. For now, it suffices to note that the FCC would have to also address the “commercial mobile service” finding of the Wireless Classification Order. 22 FCC Rcd. 5901, para. 37 (2007). That would require the FCC to conclude that wireless internet service is “for profit,” is an “interconnected service,” and is available “to the public or . . . to a substantial portion of the public,” as those terms are defined in the Telecommunication Act. 47 U.S.C. § 332(d)(1) (2006).

\begin{itemize}
  \item \textsuperscript{118} \textit{See generally Cable Modem Order, supra note 5.}
  \item \textsuperscript{120} \textit{See Cable Modem Order, supra note 5, at para. 11.}
  \item \textsuperscript{121} \textit{Id. at paras. 11, 39.}
  \item \textsuperscript{122} \textit{Id. at para. 11 (accessing “unaffiliated” content “may require the subscriber to pay those entities an additional fee”); see also Nat’l Cable & Telecomms. Ass’n v. Brand X. Internet Servs., 545 U.S. 967, 988 (2005).}
\end{itemize}
News, and e-mail in the form of Microsoft’s ‘Hotmail.’”

The Cable Modem Order, however, de-emphasized the import of these options, suggesting that they were simply redundant because such “functions currently are all [also] included in the standard cable modem service offering.”

The FCC did, however, wisely note the inchoate nature of the broadband business and conceded that “[c]ustomers, for their part, are still learning the capabilities of cable modem service and deciding which applications they prefer.” The intervening decade of experience has provided the Commission with vast data regarding actual consumer preferences between those affiliated applications that were critical to its determination that broadband access was properly classified an information service and other unaffiliated options. These data indicate that independent email services, such as Gmail and Outlook.com (formerly Hotmail), dominate comparable services that are supplied by broadband providers. And the majority of Internet traffic is for content outside of the “services or applications” that are provisioned through the broadband subscription.

Furthermore, while the FCC once expressed concern that “additional fee[s]” might deter a broadband subscriber from accessing “unaffiliated” content, the recent proliferation of paid broadband-based services, such as Netflix, suggests that such a concern is no longer well-founded. That is, consumers are not only willing to access unaffiliated advertisement-supported content, they are also willing to pay to access content outside of that which is built into a broadband carrier’s offering.

123. *Cable Modem Order, supra* note 5, at para. 25.
124. *Id.*
125. *Id.* at para. 30.
126. See Mark Gaynor, *Network Services Investment Guide* 124–125 (2002) (“By 1999, more Web-based email boxes existed in the United States and internationally than the total number of ISP-based email accounts . . . .”); see also What Does Your ISP Say About You?, MAILCHIMP (Nov. 26, 2013), http://blog.mailchimp.com/what-does-your-isp-say-about-you/ (data from an web-based email service provider showing that web-based email services outpace the popularity of ISP-based services); *Cable Modem Order, supra* note 5, at para. 25 (contrast between outside service providers and affiliated services).
127. See Sandvine, *Global Internet Phenomena Report* 5–6 (2H 2013) (28% of traffic associated with Netflix, 17% with YouTube, 7% with BitTorrent, 3% with iTunes, 1% each for Amazon Video, Hulu, and Facebook, for a total of 58%).
129. See Sandvine, *supra* note 127, at 6 (28% traffic for Netflix, 17% for YouTube).
Taken together, this evidence suggests a consumer preference to use the provider’s transmission service to connect to third-party content services. Unlike the conclusions reached in the Cable Modem Order, end users do not use broadband transmission capabilities “always in connection” with the services offered by the provider.\textsuperscript{130} To the contrary, end users increasingly view broadband service as providing predominantly a transmission service that connects them to content services provided by other entities, rather than as an integrated information service.\textsuperscript{131} Viewed on the terms of Cable Modem Order—which emphasized the retail subscriber’s view of the commercial “offer”\textsuperscript{132}—the information service designation based on bundled services now seems quaint.

One bundled service bears special attention. Of critical importance to practically every broadband subscriber is the Domain Name System (“DNS”) service. Stated simply, DNS service allows a web user to reach a particular website; www.fcc.gov, for example, is a signifier for a unique numerical address—an IP address—such as 192.104.54.5. A DNS service acts as an automated phone book, translating between the easily-remembered website name and its unique address. Standard web traffic, which still comprises roughly ten percent of all Internet traffic in North America,\textsuperscript{133} depends on accurate DNS service. End users, then, seem to contract for DNS service when they subscribe for broadband access.\textsuperscript{134}

That broadband subscribers contract for DNS service, however, need not mean that they are purchasing an information service. Indeed, even the Cable Modem Order itself provides no clear guidance as to whether DNS services are categorized as “data processing” or “transmission” services.\textsuperscript{135} Turning to the statute, “telecommunications” is defined to mean “the

\begin{itemize}
\item \textsuperscript{130} Nat’l Cable & Telecomms. Ass’n v. Brand X. Internet Servs., 545 U.S. 967, 988 (2005).
\item \textsuperscript{131} For a list of capabilities that even the Cable Modem Order considers to be within the “basic level” transmission functions, see Cable Modem Order, supra note 5, at para. 17 (“physical connection between the cable system and the Internet by operating or interconnecting with Internet backbone facilities . . . protocol conversion, IP address number assignment, domain name resolution through a domain name system (DNS), network security, and caching”).
\item \textsuperscript{132} See Brand X, 545 U.S. at 988; see also Cable Modem Order, supra note 5, at para. 35 (examining “the functions that cable modem service makes available to its end users”).
\item \textsuperscript{133} SANDVINE, supra note 127, at 5 (HTTP traffic comprises 9% of internet traffic).
\item \textsuperscript{134} Although most DNS service comes with broadband service, it is increasingly offered on a stand-alone basis by independent entities (e.g., OpenDNS, Google DNS).
\item \textsuperscript{135} Compare Cable Modem Order, supra note 5, at para. 17 (“[B]asic “functions” to “transmit data” include “domain name resolution through a domain name system (DNS)”), with id. at para. 37 (“DNS constitutes a general purpose information processing . . . capability”).
\end{itemize}
transmission, between or among points specified by the user, of information of the user’s choosing.” DNS service, then, merely enables telecommunications: In seeking to visit a website, the user identifies the information they want (the website) and the location from which they want it (www.fcc.gov), and requests that it be transmitted back to them. Any intermediate action to translate the website name to a particular address is no more than a functional step carried out in service of that transmission.

Other policy considerations undercut the prevailing “information service” designation. The DSL Reclassification Order—one of the proceedings that followed soon after the Cable Modem Order—concluded that an “access requirement impedes deployment of innovative wireline broadband services.” The Commission has since rejected this reasoning, stating in its Open Internet Order that “openness is critical to . . . increased end-user demand for broadband, which drives network improvements.” That is, the Commission now believes that the statutory aims of the Telecommunications Act are more easily met through regulated access rules rather than deregulated access.

“Regulatory agencies do not establish rules of conduct to last forever,” the Supreme Court has explained; the “forces of change do not always or necessarily point in the direction of deregulation.” The FCC retains the ability to re-examine the conclusions it reached in the Cable Modem Order.
and its subsequent related decisions. A number of “chang[ed] circumstances” support the decision to treat broadband access as a telecommunications service. For one, consumer behavior suggests the users increasingly view broadband as a transmission service providing access to independent content providers and other subscription services, rather than as a bundle of applications that rely on an underlying faster-than-dial-up transmission service. That is, the “offer,” which has always been capacious enough to include a telecommunications service, is increasingly seen as predominantly a telecommunications service. Furthermore, the Commission’s view of how to best promote the statutory aims of the Telecommunications Act has fundamentally shifted: where the Commission once thought that a nondiscrimination rule would deter network investment, it now believes that such rules will “increase incentives to invest in broadband infrastructure.” Given these “chang[ed] circumstances,” including the shift in the “agency’s view of what is in the public interest,” the Commission can provide an amply reasoned analysis for reinstituting its classification of the transmission of Internet traffic as a telecommunications service.

C. Proceeding by Adjudication

So far we have examined two routes for the FCC to consider as it forges a path forward from Verizon. But there are more permutations to consider; the Commission has a variety of procedural options, regardless of the substantive path it chooses.

Consider, for example, section 208 of the Communications Act, which gives the Commission the adjudicatory authority to investigate and resolve complaints against common carriers. In particular, it allows the

---

144. 2010 Open Internet Order, supra note 1, at para. 40.
145. State Farm, 463 U.S. at 57.
146. 47 U.S.C. § 208 (2006). Although we briefly discuss Section 208 here, we do not mean to opine on the proper scope of the rules that the FCC should impose under Title II. We note only that the FCC has, in the past, noted that it could “forbear . . . from all but a small handful of provisions necessary for effective implementation” of its policy goals. Framework for Broadband Internet Serv., Notice of Inquiry, FCC 10-114, 25 FCC Rcd. 7866, para. 28 (2010). We do not comment on which provisions of Title II are ripe for such forbearance.
147. Section 403 offers similar authority, but allows the FCC to act sua sponte. 47 U.S.C. § 403 (2006) (“The Commission shall have full authority and power at
FCC to initiate an inquiry into conduct that is inconsistent with the Commission’s long-held goal of protecting application layer services from untoward carrier behavior. If, for example, broadband carriers were to begin to discriminate against unaffiliated competing content, the Commission might reconsider its classification decisions through a series of adjudicatory proceedings. One such proceeding might address only sender-side traffic if the alleged violation affects only incoming traffic, or if it involves an interconnection dispute. A subsequent adjudication might expand the scope of inquiry as necessary.

The Commission, of course, retains the discretion to choose the mode of policymaking that it believes best serves the public interest. So long as the Commission’s “adjudicative procedures . . . produce the relevant information to mature and fair consideration of the issues,” it is entitled to “proceed with caution, developing its standards in a case-by-case manner . . . .”

In other words, the FCC can establish by adjudication that an offer to transmit data sent by a content provider to a subscriber is a “telecommunications service” subject to regulation under Title II. And the Commission can then make an individual determination as to whether the particular practice at issue is “unjust” or an “unreasonable discrimination” against an application-layer service, and enjoin the practice as necessary. This approach has the notable benefit of allowing the Commission to operate on a case-by-case basis, thereby creating room for the flexible administration of policy in a still-evolving technological space.

any time to institute an inquiry, on its own motion, in any case and as to any matter or thing concerning which complaint is authorized to be made . . . .”)

148. See supra notes 36–41 and accompanying text.
151. See supra Part III.A.
153. We note, for the sake of completeness, that the FCC would likely be unable to impose retrospective fines in cases that present first-of-their-kind departures from governing standards (including settled expectations regarding the reach of various classification decisions). See generally Verizon Tel. Cos., 269 F.3d at 1098. Nevertheless, the FCC can clearly order injunctive relief, which is the more important—and more practical—remedy.
IV. CONCLUSION

For nearly a half-century, the FCC has attempted to nurture the growth of the various application-layer industries by protecting them from the potential for owners of basic network infrastructure to block their content and discriminate against their services. The D.C. Circuit’s decision in *Verizon v. FCC* to strike down the Commission’s *Open Internet Order* has undermined the agency’s ability to continue its efforts in service of that goal.

The FCC, however, is hardly helpless in the face of this setback. As we have explained, the Commission might follow a previously unconsidered option under Title II of the Communications Act. As Verizon itself argued, a broadband transaction can be understood as occurring in two-stages: a call and a response. This framework, which was adopted by the D.C. Circuit, allows the Commission to correctly characterize the response as no more than a telecommunications service. Such a conclusion would return the scope of the *Cable Modem Order* to its original context, while giving the Commission the ability to protect application service providers from anticompetitive carrier conduct.

Alternatively, the Commission could expand its frame of inquiry to both the call and response, and hold a proceeding to examine whether changed circumstances have undermined the Commission’s 2002 classification of broadband services. As described above, we are confident that the factual premises underling that decision are now obsolete.

As a legal matter, either possibility is less novel than it first appears. Both resemble the approach the FCC took in its *Computer Inquiries*. Furthermore, the Commission’s regulatory authority under Title II is not subject to serious doubt, but is naturally cabined to the context of telecommunications. Most recently, the D.C. Circuit mentioned that, in enacting the Telecommunications Act of 1996, “Congress clearly contemplated that the Commission would continue regulating internet providers in the manner it had previously.” 156 In short, we believe that the proposals described here represent the most straightforward and legally secure measures for ensuring the continued growth of the application industries that have blossomed while they remained insulated from the anticompetitive carrier conduct.

---

of an adjudicatory approach), *vacated sub nom.* Comcast Corp. v. FCC, 600 F.3d 642, 661 (D.C. Cir. 2010).