Beware of Monopolies Proposing to "Open Up" Markets:
An Analysis of Network Solution's proposal for new top-level domain names.

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New top-level domains (TLDs) are badly needed. The dot com space is getting increasingly crowded, but for five years changes in the TLD space have been stymied by political controversy.

On April 14 an official ICANN working group proposed to create six to ten (6-10) new top-level domains. The official working group report can be found at: http://www.dnso.org/wgroups/wg-c/Arc01/msg01095.html

On April 19, Network Solutions Inc. (NSI) released a proposal to ICANN to reduce the number of new top-level domains to two (2). Only one of the two proposed new domains (.shop) would compete with NSI's longstanding monopoly on registration in the .com, .net, and .org top-level domains. The other would be a restricted TLD for banks (.banc). NSI "generously" offered to operate the registry for .banc.

The NSI proposal is a step back from where ICANN should be going. It would slow the introduction of new TLDs down to a crawl and limit new domain name registries' ability to compete effectively with NSI. The proposal is designed to prolong NSI's dominance of the domain name market.

The NSI proposal can be characterized as profoundly anti-competitive for four reasons.
1. It would require the new (.shop) registry to offer exactly the same terms and prices as the NSI com/net/org registry
2. It drastically limits the number of competing registries, for no good reason.
3. Its ownership arrangements would institutionalize cartel-like controls on the name space.
4. It would put NSI in charge of the back-office services of one the .banc registry, further reinforcing NSI's dominance of the domain name registry market.

1. The proposal eliminates competitive differentiation

The proposal would have ICANN sign a contract with a new registry "substantially identical" to NSI's current registry agreement with ICANN and the US Department of Commerce. That means that the new commercial registry would be forced to offer exactly the same terms and conditions, including price, that NSI now does. If new registries are unable to charge lower prices or to differentiate their terms of service, how can they engage in real competition with the well-known NSI dot com registry?

2. The proposal drastically limits the amount of competition.

The official ICANN working group charged to develop recommendations on new TLDs reached a broad consensus that there should be at least 6-10 new TLDs this year. This recommendation commanded a two-thirds consensus of the working group members, and was supported by public comments. The 6-10 number was proposed in order to achieve a more competitive marketplace and to allow a variety of different ideas and business models to be tested. However, NSI proposed to create only two new top-level domains. Only one of them (.shop) would be an open name space similar to .com/net/org. Thus, the level of competition created by the proposal is about as minimal as it can get.

The highly publicized Network Solutions proposal was part of a deliberate effort by NSI to divert attention from the Working Group's recommendations. At the Names Council meeting April 19, Network Solutions representative Roger Cochetti led a vote to reject the broad consensus for 6-10 new TLDs.

3. Proposed ownership arrangements undermine competition and diversity

The new registry proposed by NSI would be cooperatively owned by all the existing registrars accredited by ICANN. This means that NSI, which currently controls about 80% of the registrar market and holds a monopoly on the gTLD registry market, will hold a major stake in the new registry and will profit from its success. The NSI proposal does not specify ownership and governance arrangements, but typically ownership shares are based on market share. Given its size and resources, NSI would have significant influence on the proposed new registry's pricing and policies. Working out governance arrangements among over 100 registrars, with new ones being accredited every month, will not be simple, contradicting NSI's claim that their proposal will speed up the introduction of new TLDs. Even if NSI does not dominate ownership of the new registry, neutral observers must be concerned with the spectacle of a Domain Name policy making body that is only able to award resources to its own members.

4. Collusion proposed

In its desire to protect itself from competition, NSI was not satisfied with reducing the number of new registries from ten to only two. It also proposed to run the "back-office services" for the .banc restricted TLD. In other words, one of the two new registries NSI proposed would be none other than NSI itself.

Other significant points:

"Proof of concept" a deceptive ruse

The NSI proposal is based on the false premise that authorizing a new top-level domain registry is a step into unknown territory. The small number is justified as reflecting the need for "proof of concept." But technical experts agree that there are no technical barriers to adding thousands of new names to the root. Operationally, there is nothing new or untested about adding new top-level registries to the Internet root. The TLD .int for international organizations was added a few years ago with no significant problems. The late technologist Jon Postel, who administered the DNS root for more than a decade, drafted a proposal defining procedures for adding 150 new TLDs back in 1996. In 1994 alone, 50 new country code TLDs were added to the root, and country code TLDs operate in the same way as .com/net/org TLDs. There is simply no evidence for NSI's claim that new TLDs require "proof of concept."

The European gambit

NSI's proposal to locate the new .shop registry in Europe is a calculated attempt to win political favor for the proposal. US-European rivalry has played a major role in the domain name wars, and the Europeans are extremely sensitive to their status. However, the move could also be seen as an attempt to pre-empt European efforts to create their own new registry under the .EU or .EUR TLD. A new, truly European TLD would attract much more business registrations from Europe than NSI's proposed .shop, and cut into the dominance of dot com. Shared ownership of the new registry by ICANN-accredited registrars – 60 percent of which are American – would further dilute European market share. The small number of new TLDs under the NSI proposal also shuts out other regions, such as the growing Asia-Pacific region.

Conclusions

If ICANN implements NSI's suggestions, NSI's dominance of the domain name market would be prolonged for another year or more. Management of the domain name space will take on all the features of an international cartel. The NSI proposal offers vested interests privileged access to the new name space while shutting out consumers, non-commercial organizations, and independent entrepreneurs.

Members of the public can submit comments to ICANN on the new gTLD issue at this web site: http://www.icann.org/dnso/new-gtlds-01apr00.htm