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PhillyDeals: With Netflix deal, Comcast solves a potential merger snag

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The Internet is designed to look simple. You watch **Netflix**, you search **Google**, you buy on **Amazon**. You pay **Comcast** or **Verizon** to make it run.

The complex, typically invisible arrangements that actually connect Websites to users were suddenly exposed over the weekend: Netflix, whose movie downloads account for up to a third of hourly Internet traffic - and which had been complaining that its shows were downloading slower and slower by the time they reached Comcast and Verizon customers online - suddenly started transferring programs directly into Comcast's network, straight to viewers.

The companies confirmed that Netflix has started paying Comcast - they won't say how much - for plugging its programs directly in to Comcast's network.

Verizon's boss said he was talking to Netflix about a similar deal.

Good for Comcast: New income. Better for Netflix and its customers: Faster downloads, at least for now.

Netflix shares rose $14.77 Monday to $447.

But bad for **Cogent Communications**, the Internet data-transport service that Netflix bypasses in its new deal with Comcast: Cogent shares were down nearly 7 percent at the close Monday. They were briefly down more than 20 percent when trading opened.

Why should anyone but those shareholders care? The change means "a fundamental shift in power in the Internet economy that threatens to undermine the competitive market structure that has served Internet users so well," wrote **Timothy Lee**, a veteran Philadelphia-based Internet scholar for the **Cato Institute** and the Website **Ars Technica**, who now writes for the **Washington Post**.

It used to be that data networks like Cogent shared back-and-forth Internet traffic with programmers, distributors, anyone with networked wire. Lee says these middlemen, by competing for Internet traffic, drove down costs and forced networks to invest in faster, more reliable systems.

If giant programmers such as Netflix now deal directly with giant distributors such as Comcast, Lee says, both sides will have less incentive to improve. Less competition can mean higher prices and a harder time for smaller programmers to get onto the Internet.

But Lee is looking ahead. The immediate goal of the Netflix-Comcast deal is to remove Netflix's complaint about download times and worry instead about distribution power from the government review of Comcast's proposed merger with **Time Warner Cable Co.**, wrote **Carlos Kirjner**, senior analyst at **Bernstein Research** in New York.

"Isn't that convenient," wrote analyst **Craig Moffett** in a report for his firm, **MoffettNathanson Research**. Comcast "wanted the Netflix problem to go away. Netflix just wanted to get a good deal."

They've solved each other's problems, for now.

When it reviews the Comcast-Time Warner deal, the Department of Justice will likely look "at the impact of the merger on other players," led by big programmers such as Netflix, Kirjner wrote. By cutting a deal with Netflix, he added, Comcast "reduces the risk that the issue will play a major role in the merger review."

That leaves big questions, Kirjner noted: Will Comcast, once it has won Time Warner, stay friendly with programmers such as Netflix? Will it more likely maximize prices?

How can the government hope to ensure, or even monitor, competition with so many big players cutting deals and joining forces?