

Verizon: Actually, strong net neutrality rules won't affect our network investment

By [Brian Fung](#) December 10, 2014

One of the key arguments put forward by the broadband industry in opposing federal regulation is that it would cause an enormous economic fallout. Aggressive oversight, Internet service providers argue, would [raise costs for consumers](#) and force telecom companies to [stop investing](#) in their networks. They wouldn't be able to offer new services or faster speeds.

In plain English, this roughly boils down to: "Leave us alone, or the average American gets hurt."

But at least one Verizon executive is telling Wall Street the exact opposite. Even the strongest possible rules to preserve net neutrality — the idea that ISPs should not be allowed to speed up or slow down some Web sites over others — won't change how the company upgrades its infrastructure, Verizon's chief financial officer, Francis Shammo, told investors in a conference call Tuesday.

If Shammo meant what he said, this is a big deal. It would signal that major telecom companies are readying themselves (and their investors) for a world in which broadband is regulated like traditional phone service, under Title II of the Communications Act. Broadband is currently lightly regulated under Title I, but the Federal Communications Commission is considering whether to reclassify ISPs, a move that would give it more power over the industry. Until now, the prospect of Title II has spooked many broadband providers. But in front of investors, Shammo downplayed the fear that Title II would lead to more limited investment.

Here's the money quote [from the transcript](#):

John Hodulik Got you. Obviously there's a lot of commentary coming out of Washington about this move to Title II. Obviously Verizon has been one of the more of a stiffer opponents of any sort of increased regulation, especially on the Wireless side. What's your view of that potential occurrence down in Washington and does it affect your view on the attractiveness of investing further in the United States?

Francis J. Shammo - EVP and CFO I mean to be real clear, I mean this does not influence the way we invest. I mean we're going to continue to invest in our networks and our platforms, both in Wireless and Wireline FiOS and where we need to. So nothing will influence that. I mean if you think about it, look, I mean we were born out of a highly regulated company, so we know how this operates. But related to this discussion around Net Neutrality, the FCC has the right to regulate under 765, they do not need to go to Title II, and why would you go to a 1930 piece of literature to try to regulate something that is a 21st-century technology.

And I also think that if you look at other countries who have done this, it kind of leads you down to path of total failure because it really, really slows down investment and slows down innovation. So I guess the last comment is, it's working, why do we need regulations around something that's working. And again, they can do this under the realms of their legal ability. And I think if they go all the way to the extreme of Title II, I'll quote what Randal said on stage about a month ago, which is, I think it's going to be a very litigious environment.

Shammo and Verizon are still strongly against Title II, and the industry will likely sue the FCC if it resorts to reclassification. But Shammo acknowledged that, Title II or not, Verizon would keep pouring the same money into its network as it has been.

In a statement, Verizon spokesman Rich Young said this has been the company's message all along: "Verizon has been very consistent with what we've been saying in this area. In this case our CFO's message is again clear. At this stage, no change."

In recent weeks, momentum has built for the FCC to use Title II to regulate Internet providers. That's in contrast to previous plans, which proposed a lighter touch. Advocates for stiffer regulations said Shammo's comments prove broadband providers like Verizon will be "just fine" in a Title II world and that the change in rhetoric isn't a surprise, given how the winds seem to have shifted in Title II's favor.

"They want to make an argument about [declining] investment, but the market reality is quite different," said Gene Kimmelman, chief executive of the group Public Knowledge. "They're already adjusting their behavior to reflect what you expect your political market to be. And the economic market is totally stable in that scenario."

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