Broadband groups cut capex despite net neutrality win

US industry had argued that scrapping Obama-era rules would unleash investment boom

By Kiran Stacey, Financial Times

The big four US broadband companies invested less in capital projects last year than they did in 2017, undermining one of the rationales for a controversial decision by the Trump administration to remove so-called net neutrality protections.

Earnings reported in recent weeks show the four companies — Verizon, AT&T, Charter Communications and Comcast — collectively undertook slightly less capital spending in 2018 than in 2017, the first time there has been a drop in three years. They spent $56.9bn in 2018, compared with $57.1bn the previous year and $56.1bn in 2016.

The findings call into question one of the main arguments the industry used in its successful campaign to have the Federal Communications Commission overturn the Obama-era net neutrality regulations — a move that sparked anger among internet companies, activists and Democratic politicians.

Companies such as AT&T and Verizon had argued for years against net neutrality rules which forced them to treat all internet traffic equally. The companies said that without such restrictions, they would be able to charge companies more for delivering their internet traffic faster, bringing in money they could use to invest in their networks.

In late 2017 Ajit Pai, the Donald Trump-appointed FCC chairman, announced his organisation would repeal the rules, in one of the most significant pieces of deregulation undertaken by the Trump administration.

Mr Pai said at the time the previous rules had "depressed investment in building and expanding broadband networks and deterred innovation".

However, the 2018 figures suggest that the change has not led to an immediate investment boom.

Following the introduction of the net neutrality rules in 2015, the big four telecoms companies increased overall capital spending in both 2016 and 2017. Last year, however, investment slipped by 0.4 per cent.

AT&T and Verizon, the biggest two telecoms companies in terms of customer numbers, both spent less on capital projects in 2018 than in 2017. AT&T's investment slipped from $21.6bn to $21.3bn, while Verizon's fell from $17.2bn to $16.7bn.

Verizon said its capital spending reduction was "due to the availability of 5G equipment and the company's more efficient capital management processes".

Comcast, which said in 2017 it would invest "well in excess" of $50bn over the next five years as a result of both the Trump tax cuts and the net neutrality changes, made $9.8bn in capital spending last year, adjusting for its acquisition of British broadcaster Sky. This was up very slightly from the $9.6bn it spent in 2017. The company's spending just on networks increased a more sizeable 8 per cent, however.

One company that did increase capital spending significantly was Sprint, which is smaller than its largest four rivals. It raised capital investment in its networks from $2.5bn in 2017 to $3.8bn last year. The company told the Financial Times that the rise “has nothing to do with net neutrality” and was instead based on a longer-term plan to invest in its networks, including a 5G mobile network.

There is little expectation that capital spending will rise dramatically in 2019. Craig Moffett, a telecoms analyst and founding partner at MoffettNathanson, said: “You have to ask whether any sane person would make long-term investments based on a change in FCC policy, especially one that is subject to so much legal and political volatility.”

Mr Moffett estimates the industry will increase its capital spending by 3.3 per cent this year, something he called “relatively restrained” given the favourable tax and regulatory regime the Trump administration has tried to put in place.

US Telecom, the telecoms industry body, argued the effects of the FCC’s changes will be felt in the longer term. A spokesperson said: “The question is not what happens to broadband investment from one period to the next, but what long-term investment would look like under a different regulatory regime.”

The FCC also defended the deregulation, in a statement. “Fibre (fibreoptic internet) was made available to more new homes in 2018 than any year ever, and fixed broadband speeds increased by over 35 per cent — meaning more and more Americans are getting access to high-speed broadband,” it said. “The commission’s policies are working.”

The capital spending figures will add weight to the claims of internet companies such as Google and Facebook, who argued vociferously against dropping the net neutrality protections.

The search engine Mozilla has been leading a legal case against the FCC’s decision, the hearings for which began in Washington this month. Meanwhile, Democratic politicians are also keen to push the issue.

Mike Doyle, a Democratic representative and member of the House commerce committee, recently told an industry conference that the repeal of the net neutrality rules had been a “massive, well-funded attack on our democratic process”, and should be investigated.

Those investigations will start on Thursday when Mr Doyle’s committee will quiz two former heads of the FCC, as well as activists in favour of restoring the net neutrality rules.