

As prepared for delivery

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It's great to be here in Chicago and feel the heartbeat of this vital industry. You know, I've been in this business for more than 40 years. When I started, the first "picturephone" call had just been made between the New York World's Fair and Disneyland. The first microprocessor was on the horizon. ARPANET, the forerunner of today's Internet, was about to be turned up. We were just about a decade away from the first cell phone. And we were hard at work laying the transatlantic cables that would begin to create a truly global economy.

Over these four decades, our industry has had an unbroken record of technological progress, expanding value for customers, and investment in America. And from where I stand, I believe that the current era of communications is one of the most dynamic and innovative in our long and proud history.

Four years ago, I stood on this stage and talked about how fiber and 3G mobile were transforming broadband and wireless. Three years ago, we talked about how IP technologies were creating a flatter, more networked global economy. Two years ago, we signaled the melding of TV and Internet by introducing you to our 1 millionth FiOS TV customer. Last year, we previewed the "everything connected" world being ushered in by 4G mobile technologies. And this year, we're seeing an explosion of new devices, applications and tools to deliver all this power to customers over the high-I.Q. networks our industry has built.

In these five years we've seen the economy boom and we've seen it bust. It doesn't matter. Communications companies are doing what we've always done: Invest, innovate and deliver service and value to customers.

This historic commitment to investment and innovation has never been more important than it is right now. In the face of a global recession, economies all over the world are looking for ways to become smarter, more productive and more competitive. The key to a smart economy is smart technology that can change business models and change society.

Our industry is building the smart networks that will be a platform for growth, not just for us but for America and the world. And Verizon is in the very center of this transformation, as we reinvent our networks around mobility, broadband and global connectivity.

In wireless, we see data traffic more than doubling every year. In four or five years, video may account for more than 60 percent of all mobile traffic. And

increasingly, mobile connections will be embedded into the physical world, built into everything we touch. So we invested in spectrum in the 700 megahertz frequency, and we're building a fourth-generation wireless network that will be up to 10 times faster than today's technology. We'll be up and running in 25 or 30 markets next year and everywhere soon thereafter, and we're already working on the new products and applications that will take the wireless experience to the next level.

In broadband, we see the Internet evolving from a text-based to a visual medium. Video will grow from about half of Internet traffic today to as much as 75 percent over the next 5 years. That requires a different kind of access network, so we're investing in the largest deployment of fiber-to-the-home in the U.S., if not the world. Five years into this project, this intelligent, ultra-broadband network is on its way to passing 18 million homes and businesses by the end of 2010, our video service is ranked number one in the latest J.D. Power survey, and we're on our way to delivering the integrated, interactive digital experience that customers have been waiting for.

In the enterprise space, we see global IP traffic increasing at an annual rate of more than 40 percent. So we've turned up high-speed undersea cables to link the world's major markets. We're deploying a mesh architecture to provide the security and redundancy these networks require. We're upgrading our backbone networks to 100 gigabit per second speeds to address the critical business needs of our largest customers and handle the explosion of video traffic we see in the years ahead.

All told, we've invested more than \$80 B over the last five years to build these platforms for growth. And that's just Verizon. On the larger scale, America's telecom companies invest more in networks every year than the Federal government invests in transportation. In fact, if you exclude real estate, investment in information, communications and technology accounted for an astonishing 43 percent of all capital investment in the U.S. last year. Since the start of the recession, these investment levels have held up better than almost any other sector of the economy – down just 2.5 percent through the second quarter of '09, as compared with a drop of more than 20 percent in private investment as a whole.

With net private investment at its lowest level in more than 60 years, the value of this infusion of capital into the world's economy is simply astounding.

Why is investment in networks so important?

For starters, because it creates growth through competition. The price of a broadband connection has fallen by half since 2001. Wireless prices are down even more. Broadband and wireless penetration levels have doubled in the last five years. Most markets have at least eight facilities-based providers, with new

entrants challenging market leaders everywhere you look. And when you add it all up, real bandwidth power in the U.S. averaged 2.4 megabits per capita in 2008 -- about 100 times what it was in 2000.

Broadband investment also creates jobs – 500,000 new jobs for every \$10 B increase in digital investment. Or to put it another way, for every one percent increase in broadband penetration in a state, employment goes up 2 to 3 percent a year.

The reason we have such a big impact is that our technology is inherently productive, which has a multiplier effect throughout the economy. The economist Robert Atkinson says that all of the acceleration in productivity growth since 1995 has been due to the IT revolution. And a new study by Frost and Sullivan confirms the fact: in a survey of 3,600 enterprises across ten countries, they found that every dollar invested in IP technologies and collaboration tools generated four dollars in return.

But the most important thing communications investment does for the economy is expand the capacity for innovation by building intelligence into the core of the network like never before. This stimulates demand for richer content, more advanced software and more sophisticated electronics. And it puts a whole new set of tools in the hands of customers, which enhances the quality of life today and promises new solutions to the biggest issues we face as a society going forward.

At Verizon, growing through innovation is at the heart of our future.

In wireless, for example, we are aggressively priming the pump for the coming explosion of smart devices, multimedia applications and machine-to-machine communications.

- Through our Open Development Initiative, we've certified more than 60 devices to run on our 3G network, ranging from inventory-management to smart energy meters to wireless medical charts.
- We created an LTE Innovation Center in Waltham, Massachusetts to develop products for 4G wireless networks.
- We published specifications for applications and software developers who want to market their innovations to our wireless customers and plan to launch our 4G apps "storefront" by the end of the year.
- We formed a joint venture with Qualcomm to develop machine-to-machine devices and services.

- And we just announced that we're partnering with Google to develop smart devices based on the open Android operating system.

By working with inventors and entrepreneurs and investing in new spectrum and new technology, we grow ... and so does everybody else.

The same dynamic is at work as we create the fully-fiberized home of the future. Customers today may have as many as 30 digital devices in the home – and the distinctions between them are rapidly disappearing. People want access to their digital media – whether it's video, photos, music or documents -- anytime, anywhere, and on any device they have at hand. To do that, we're using our technology to tie together this whole digital environment. Our broadband routers, interactive media guides and multi-room DVRs have already changed the way FiOS TV customers manage their digital lives.

And the really exciting thing is that we're beginning to use this new platform to realize the long-held promise of truly interactive TV. We've started with some small Internet applications called widgets that run weather and traffic reports, headline news, even Facebook and Twitter on the TV screen. To encourage more of these services, we'll be publishing a software development kit that will open our platform to third-party developers, much as we've done in wireless – encouraging innovation around the biggest, best and most under-utilized screen in the house: the wide-screen high-definition TV.

The fiber-enabled smart home will continue to evolve – ultimately becoming a platform for managing every function of the digital ecosystem, from home security and energy management to medical monitoring, telework and distance learning. And it doesn't take a huge leap of imagination to go from smart homes to smart energy grids, smart factories, smart transportation systems, smart health care ... all powered by the high-I.Q. networks and the new universe of applications they make possible.

In short, the combination of increasingly powerful networks and ever-more intelligent edge devices is a whole new way to run a home, an enterprise, a community or an economy. That's why broadband, wireless and global IP technologies must be at the heart of our search for real economic growth and real competitive advantage for the future. *Newsweek* calls it "a new kind of recovery." Steve Ballmer calls it "the new efficiency." IBM calls it the "smart economy."

Whatever term we use, they all reflect the growing recognition that we need to retool our workforce, infuse intelligence into all our systems, make businesses and government more efficient and create new jobs.

Communications must be part of the solution to the big challenges we face as a society.

The American Consumer Institute estimates that expanded use of broadband technology over the next ten years could reduce greenhouse emissions by more than a billion tons, which would represent 11 percent of annual U.S. oil imports.

Using smart grids and mobile technologies to manage electric power could create 280,000 new jobs and cut carbon emissions by more than 20 percent by 2020.

Ninety percent of health care records in this country are kept in paper form. Fixing this problem through a modern health IT system will save \$165 B a year and dramatically improve the quality of the health care system.

And we have scarcely begun to explore how broadband technologies can revolutionize education to create the most critical strategic resource of all: a smart workforce capable of competing in the global marketplace for talent and ideas.

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If, like me, you've been coming to Supercomm for many years, you know that our industry has building toward this new broadband future for a long time. What's different now is the ability to deploy on a large scale. According to the International Telecommunication Union, everyone in the world who wants a mobile phone will have access to one within the next five to ten years. Some form of broadband will be widespread, even in developing countries. The magazine *The Economist* wrote, "It is now clear that the long process of connecting everyone on Earth to a global telecommunications network, which began with the invention of the telegraph in 1791, is on the verge of being completed." And with this monumental technical progress, we have the opportunity to create massive change on a scale the world has never seen before.

But while this hopeful future is imminent, it is not inevitable, and the decisions we make today -- as an industry and as a country -- will determine whether the benefits of these transformational networks will be felt sooner ... or much, much later.

Tomorrow the FCC will release its order on net neutrality. We have not seen the final language of the order yet, but certainly the terms of the debate on this issue have been troubling, to say the least. The proponents of net neutrality have a world view which suggests, at bottom, that network providers like Verizon and applications providers like Google, Amazon and others occupy fundamentally different parts of the Internet ecosystem -- a binary world of "dumb pipes" on the one hand and "smart applications" on the other.

This is a mistake, pure and simple: an analog idea in a digital universe. It fundamentally misreads how innovation happens in a dynamic and collaborative industry. It understates the role of sound network management practices in the smooth functioning of the Internet today. And it ignores the very real benefits that smart networks deliver for customers.

Why does network I.Q. matter?

The Verizon security team tells me that they monitor more than 5 billion – that’s “billion” with a “b” – security events per day on the global Internet. Because of the way they’re designed, our networks intercept the vast majority of those breaches before they harm us or our customers. If we can’t differentiate between packets, we can’t prioritize emergency communications for first-responders ... telesurgery or heart-monitor readings for digital medicine ... videoconferencing over spam for telecommuters. The truth is, we have never provided “dumb pipes” -- and as more and more commerce takes place on the Internet, customers will rely even more on the quality of service, reliability and product differentiation that network operators provide.

More broadly, if we can’t earn a return on the investments we make in broadband capacity, our progress toward a connected world will be delayed, if not halted altogether. This is ironic, in that the same digital elites and Silicon Valley investors who advocate net neutrality regulations are also pushing for faster mobile connections, more broadband deployment, and faster progress toward a 100 megabit society.

If this burdensome regime of net regulation is imposed on all parts of the Internet industry, it will inject an extraordinary amount of bureaucratic oversight into the economy’s main growth engine for the future. If it applies only to us, the government will in effect be favoring one set of competitors over another. As you recall, the last time that happened we got a regime of unsustainable investment and artificial competition that led to ill-fated financial speculation and even, one could argue, to the excesses of WorldCom – all of which took us years to recover from.

Rather than impose rigid structural rules on a rapidly changing industry, the FCC should focus on creating the conditions for growth. We need to increase the availability of spectrum. We need to streamline the process for the siting of cell towers. We need to overhaul the outdated subsidy system supporting universal service and the outmoded payment system for the exchange of traffic. And we need to protect consumers by insisting on transparency in the provision of products and services by all Internet providers, including applications developers.

I do believe the government can play a constructive role in promoting a healthy, competitive communications industry. But public policy should be about ends, not means. Our industry has shown that we can work with the government as

well as our partners and competitors to achieve our mutually desirable goals of more competition, consumer choice and broadband expansion.

But we can't achieve these ends if we interrupt the flow of private capital and delay the cascading productivity impacts of a more networked world.

We can't create a smart economy by dumbing down our critical infrastructure.

We can't move forward by pitting network providers and applications developers against each other in a zero-sum game, when the real promise of broadband is an expanding pie for everybody.

I'm proud to be part of an industry that provides society with the tools to shape our own future and create our own destiny. Verizon looks forward to helping unleash every sector of our economy to reinvent itself to produce real growth, real innovation and real change for our customers and our citizens.

Thank you, and have a great conference.