$116 billion merger of US telecommunications giants Bell Atlantic and GTE

A correspondent
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Telecommunications giants GTE and Bell Atlantic completed a $116 billion merger earlier this month creating one of the world's largest telecommunications companies after obtaining final approval from federal regulators.

The combined company Verizon Communications, valued at $150 billion, has become overnight the largest provider of wireline and wireless services in the US, and a leader in data services. The new company has 232,000 employees, 63 million access lines going into 33 million households in 31 states plus Washington DC and Puerto Rico, and 25 million wireless lines with a presence in all 50 states, DC and Puerto Rico and has service in 96 of the top 100 US markets.

The new company already has 4 million long distance customers and is seeking approval to enter the long distance market in areas where the former Bell company had been barred.

Internationally, the company has operations or joint ventures in both wireline and wireless services in 40 countries and is part owner of many of the world's fiber optic links, including a major link connecting Asia and Europe.

The merger is the latest in a string of mergers in the telecommunications industry following the passage of the 1996 Telecommunication Act, which allowed what were formerly the regional Bell companies to enter the long distance market, and permitted the long distances companies to begin providing local telephone service.

The merger comes just a few weeks before the expiration of the contract between 71,000 members of the Communication Workers of America (CWA) and that section of the new company that was formerly Bell Atlantic. It covers workers in 13 states from Virginia to Maine and Washington DC.

The contract, which expires August 5, is the major set of bargaining for the CWA this year. The current pact, negotiated in 1998, is a two-year contact and is now out of sync with the contracts for 24,000 other CWA members at Verizon as well as at AT&T and the other remaining Bell companies. There are also 31,500 workers represented by the International Brotherhood of Electrical Workers whose contract also does not expire.

Neither the company nor the union is making public the content of the negotiations, and the union has not notified members of its specific demands. Reports from negotiations consist of vague generalities that the company is demanding greater flexibility and control over the workforce and that the union is demanding improved rights for workers to transfer into the company's nonunion subsidiaries.

For the past five years there has been unprecedented growth in the telecommunications industry. Fueled by the Internet, demand for almost all services—from additional access lines in the home to high-end data services—has seen record growth. Regarded as a special service as recently as 10 years ago, data communication now accounts for more than half of the traffic over the network. Fueled by this growth, every phone company has been able to amass huge profits without resorting to the job cutting that was the hallmark of the industry in the late 80s and early 90s.

However there are a number of significant warning signs that this growth may be coming to an end. New technology, such as DSL and the long promised cable modem, is now coming on line and will lessen demand for additional access lines. In addition, the major long distance companies, AT&T and MCI-World Com, have entered the local market.

Another major signal that what was once considered the “cash cow” of telecommunications—local and long

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distance service—may be on the decline is the collapse of the proposed merger between MCI-World Com and Sprint. Regulators in both the US and Europe shut down the deal because it would have left only two major long distance carriers in the US. However, World Com made clear that it was not after Sprint's long distance business but rather its highly profitable wireless holdings.

Underscoring the falling interest in long distance services was the decision by German-based Deutsche Telekom AG not to seek a takeover of Sprint. As it became clear that the World Com-Sprint deal would fall through, it was speculated that the German telephone giant would seek to enter the US long distance market by buying Sprint. Instead the company is using its $92 billion reserves to buy wireless provider VoiceStream.

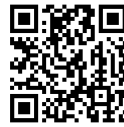
Over the weekend Deutsche Telekom made a $53 billion offer for VoiceStream which could set off a bidding war for VoiceStream with Japanese and French telecommunications companies. At the $53 billion price, Deutsche Telekom is paying more than $16,000 per line for a company that, even in the wireless business, is relatively new. VoiceStream, which uses the same technologies as the European company, has made itself a global rather than a national wireless provider.

Deutsche Telekom's bid for VoiceStream also signals the start of European and Japanese telecommunications companies aggressively entering the US market. The US is currently the largest telecommunications market in the world and until recently has been off limits to foreign firms. Both Clinton administration officials and members of Congress hinted that they would have sought to block a Deutsche Telekom takeover of Sprint, which could have escalated already growing US-European trade tensions.

Other areas of telecommunications that were once highly profitable are also coming under increased pressure. Lucent Technologies, the highly profitable equipment manufacturer spun off by AT&T four years ago, saw its stock fall by more than 16 percent after it announced that it anticipated shortfalls in its financial results for the next two quarters. Lucent commented that it had underestimated the speed with which telecommunications providers were moving from digital switching to the new ATM and router-based networks.

These events signal that the high profits made from the rapid growth of the past five years may have peaked and that companies will have to cut costs to boost profits.

Verizon is already under pressure to do so. Following a one-day honeymoon on Wall Street, its stock has stayed below the merger price and is down more than 25 percent from its pre-merger high. The company is positioning itself to meet Wall Street's demand for cost-cutting and has already spun off its wireless and long distance services. It is preparing to do the same with its fast-growing data services.



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