

T-Mobile and Sprint agree to \$146 billion mega-merger

Gabriel Black
2 May 2018

T-Mobile and Sprint announced a deal Sunday to combine their companies, the third and fourth largest US phone carriers, to form a new conglomerate valued at \$146 billion, including debt. Under the agreement, T-Mobile's parent firm, Deutsche Telekom, will acquire Sprint, which is owned by Japan's SoftBank group, for \$26 billion.

The merger, if allowed by the US Justice Department, will leave the US wireless market monopolized by three national carriers. The new company would have a combined subscriber base of 127 million, bringing it closer to Verizon's 150 million and AT&T's 141 million.

The announcement is the latest in a flurry of proposed or implemented mega-mergers between the largest media and telecommunications companies. The past few years have seen merger deals involving Disney and Fox, AT&T and Time Warner, and 12 separate acquisitions by Verizon, including AOL and Yahoo.

It is unclear whether the Trump administration's Justice Department will allow the merger to occur. Currently, the administration is suing AT&T to prevent its merger with Time Warner.

The T-Mobile/Sprint merger deal reflects two interconnected processes. On the one hand, all major corporations are under intense pressure from their investors to combine and consolidate, slashing jobs and cutting costs, so as to weather permanently reduced growth rates. On the other hand, there is intense pressure between companies and countries, especially in high-tech, to make the necessary investments in the newest stage of development—in this case, 5G networks. Both the massive investments required and the pressure to reduce costs fuel the drive to consolidate.

In this merger, T-Mobile CEO John Legere and Sprint CEO Marcelo Claure have emphasized the

geopolitical “criticality” of the consolidation in addition to its financial benefits.

“All roads lead to Washington,” Legere explained to CNBC on Monday. “We are behind. It's the early innovation cycle of 5G. We are behind China. This is not something we can allow.”

Claure added, “The US needs to lead in 5G. The only way to lead 5G is by combining Sprint and T-Mobile.”

5G refers to the fifth generation of mobile Internet speeds. It will provide download speeds averaging at 3.5 gbps—sufficiently fast to download a high definition movie in a few seconds and ten times faster than current LTE networks. 5G speeds are necessary for developing the so-called “Internet of Things,” or IoT, connecting a multitude of everyday and industrial items, whether it be a car, a coffee pot or an oil rig, to the Internet, primarily to enhance automation.

Legere and Claure's depiction of the merger as a question of national security is meant to increase the chances that the Trump Justice Department will approve the agreement. As the United States prepares for a confrontation with China, the financial, intelligence and military elites see 5G speeds as critical to maintaining an economic and military edge. As Aimen Mir, deputy assistant secretary for investment security at the US Treasury Department, wrote to US lawmakers last month, “a shift to Chinese dominance in 5G would have substantial negative national security consequences for the United States.”

US lawmakers have already prevented Huawei, China's largest phone manufacturer and the third-largest in the world, from launching its new flagship phone with a major US carrier. At the end of last year, Huawei was finalizing deals to sell the Mate 10 Pro via AT&T and Verizon. However, congressmen proposed a law that would ban government business on any US

carrier that used Huawei. Lawmakers also pressured AT&T to stop working on a 5G network with the Chinese company. This broke up Huawei's contracts.

In March, the *New York Times* wrote an article, "China's Huawei Is at Center of Fight Over 5G's Future," in which it warned that the company had been "pouring money into research on 5G," and had "hired experts from foreign rivals and pushed them to guide international groups that are deciding the technical standards for tomorrow's wireless gear."

Earlier this year, President Trump vetoed Broadcom's bid for Qualcomm, again with the issue of 5G front and center. Although Broadcom is a US company, albeit based in Singapore, the basis for the decision was that if the takeover went ahead, Broadcom would cut back on research and development expenditure in order to finance the deal, and this would advantage Huawei in the race to develop 5G phone technology.

These moves come as the US prepares to impose unprecedented tariffs against \$150 billion worth of Chinese imports at the end of this month.

Legere, Claire and the investors they represent, while playing off of the threat of Chinese supremacy, are chiefly concerned with the financial windfall they will reap from the merger. Speaking on the New York Stock Exchange trading floor Monday, Legere said that the gains for investors through the merger were "off the charts." He added that there would be \$43 billion in "synergies." The Communications Workers of America announced that at least 20,000 jobs could be lost from the merger.

Both T-Mobile and Sprint have huge quantities of debt, \$29.7 billion and \$32.5 billion respectively. Sprint's debt surpasses its stock value. In the words of the *Financial Times*, Sprint is a "subscale operator that would benefit from huge synergies."

Whichever company or country succeeds in developing and building the first 5G network will have definite advantages over its rivals. As Chris Lane, a telecom analyst, told the *New York Times*, "It's hard to argue that 5G is not key to the next five to 10 years. Strategically, if you're the US and you're trying to plan industrial policy, this deal makes sense."

This year, the United States government will auction off positions for two bands of next-generation wireless spectrum (24 GHz and 28 GHz). Both T-Mobile and

Sprint worry that unless they combine their financial forces, they will not be able to effectively compete in these bids. As Sprint CEO Claire told *The Street* on Monday, "We've looked at our spectrum positions and decided that this was the right time to put these companies together."

The irrationality of bidding off spectrums of wireless frequencies to companies that will build identical expensive infrastructure to compete with each other cannot be overstated. A rational approach to the development of 5G would see Chinese and American inventors working together in a unified international effort to produce a technology with profound capacities to improve life for human beings. Instead, under private ownership and the system of competing nation-states, the drive for 5G is subsumed by the American ruling class's war aims against China, dominated by the drive to improve cruise missiles, guidance systems and drones.



To contact the WSWS and the
Socialist Equality Party visit:

wsws.org/contact