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The Proposed Merger of AT&T and T-Mobile: Are There Unexhausted Scale Economies in US Mobile Telephony?

May 2012

The proposed merger of AT &T and T-Mobile

BACKGROUND

- In March 2011, AT&T announced a proposed $39 billion acquisition of T-Mobile USA.
- The proposal raised serious concerns for US policy-makers, particularly at the Federal Communications Commission and the Antitrust Division of the Justice Department, which shared jurisdiction over the deal.
- The acquisition would have combined two of the four major national providers of mobile telephony services for both individuals and businesses.
- The combined firm's post-acquisition share of revenues would reportedly have been over 40%, with Verizon a strong number two at just under 40%, and Sprint a distant number three at around 20%.
- In their application to merge, the firms highlighted the very large efficiencies that were expected to result and promised immense new capacity that would provide enormous benefits to consumers.
- The firms abandoned the merger project in December 2011.

METHODOLOGY

- The authors seek to place the firms' very large merger efficiency claims in the context of the cost structure of mobile telephony and other network industries.
- The study draws on econometric analysis of scale economies for 22 mobile carriers from seven countries over the time period 1998-2007.

KEY FINDINGS

- The study does not find substantial unexhausted scale economies in mobile telephony in general, especially for firms of medium to large size. Most of the firms studied operate at their most productive scale size over their observation years, with a few exhibiting slightly increasing returns, along with a few large operators exhibiting decreasing returns.
- Analysis of the proposed merger suggests it is unlikely that T-Mobile, and very unlikely that AT&T, are currently operating in a range where large firm-level economies related to activities such as procurement, marketing, customer service, and administration would have been achievable due to the merger.
- On this basis alone, the results of the study support the decision of the Department of Justice to challenge the merger and the scepticism expressed by staff of the Federal Communications Commission.

CCP Executive Summary

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THE CCP

The ESRC Centre for Competition Policy (CCP), at the University of East Anglia, undertakes competition policy research, incorporating economic, legal, management and political science perspectives, that has real-world policy relevance without compromising academic rigour.

FOR MORE INFORMATION

The full working paper (12-7) and more information about CCP and its research is available from our website: www.competitionpolicy.ac.uk

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