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Subcommittee on Antitrust, Commercial and Administrative Law

The State of Competition in the Wireless Market: Examining the Impact of the Proposed Merger of T-Mobile and Sprint on Consumers, Workers, and the Internet

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Chairman Cicilline, Ranking Member Sensenbrenner and members of the Subcommittee. My name is Gigi Sohn. I am a Distinguished Fellow with the Georgetown Institute for Technology Law and Policy and a Benton Senior Fellow and Public Advocate. I served as Counselor to former Federal Communications Commission (“FCC”) Chairman Tom Wheeler from November 2013 to December 2016. In 2011, as President and CEO of Public Knowledge, I testified alongside then-Sprint CEO Dan Hesse at a hearing of the Senate Judiciary Committee’s Antitrust Subcommittee in opposition to the proposed AT&T-T-Mobile merger.

Thank you for inviting me to testify today on the proposed merger of Sprint and T-Mobile.

INTRODUCTION: THE SPRINT T-MOBILE MERGER: WRONG THEN AND NOW

When I was working for Chairman Wheeler in the spring and summer of 2014, executives from T-Mobile, Sprint and Softbank visited the Commission on several occasions to get Chairman Wheeler’s thoughts on a possible merger between T-Mobile and Sprint. These meetings included on at least one occasion, a detailed Power Point presentation on the alleged merits of the transaction.

Chairman Wheeler did not discourage T-Mobile and Sprint from seeking FCC approval of the merger, but he was clear that the parties would have a difficult time convincing him that such a merger would not be anticompetitive. As pioneer and an entrepreneur in the mobile wireless industry, Chairman Wheeler had seen firsthand immense consolidation in the industry: from 2003-2013, the country’s 8 mobile wireless carriers were reduced to just 4. While he believed then that the mobile wireless industry had already gotten too consolidated, he also believed strongly that further reducing the number of national wireless carriers from 4 to 3 would harm consumers through higher prices, coordinated effects and less innovation. In August 2014, following news that the parties had abandoned the deal, Chairman Wheeler issued the following statement:

“Four national wireless providers are good for American consumers. Sprint now has an opportunity to focus their efforts on robust competition.”

Chairman Wheeler was correct then to think that such a merger would be anticompetitive. Nothing in the intervening 5 years has altered the analysis that this combination would be harmful. Today, the proposed Sprint T-Mobile merger would be just as bad for consumers and the wireless industry. It would concentrate market power in the hands of three behemoth wireless companies, driving up prices and reducing innovation. The history of 4-to-3 mergers in

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1 Brian Fung, Why regulators are the big winners in the failed Sprint-T-Mobile deal, Washington Post, August 6, 2014 found at https://www.washingtonpost.com/news/the-switch/wp/2014/08/06/why-regulators-are-the-big-winners-in-the-failed-sprint-t-mobile-deal/?utm_term=.69e1ef0f08f16

2 Chairman Wheeler, and Bill Baer, who was the Assistant Attorney General for Antitrust under President Obama agree, writing in a 2017 editorial that “the merger made no sense before, and it makes no sense today.” Bill Baer and Tom Wheeler, Here’s Who Loses Big Time if Sprint and T-Mobile are Allowed to Merge, CNBC, May 19, 2017) found at https://www.cnbc.com/2017/05/19/heres-who-loses-big-time-if-sprint-and-t-mobile-are-allowed-to-merge-commentary.html
the mobile wireless industry in Europe is instructive here - in each case, consumers have had to bear the brunt of significant price increases.

The merging parties allege a number of benefits that they say will result from this merger: faster 5G buildout, increased rural buildout and more jobs. But these purported benefits are speculative, non-cognizable and not specific to this merger, and in any event do not outweigh the harms to consumers and competition that would result from this transaction.

For these reasons, and the reasons described by my colleagues on this panel and in the FCC’s record, the members of this Committee should urge the Department of Justice (“DOJ”) and the FCC to block this transaction.

I. MERGER OF T-MOBILE AND SPRINT WILL SUBSTANTIALLY LESSEN COMPETITION IN THE NATIONAL MOBILE WIRELESS/BROADBAND MARKET

The proposed merger of T-Mobile and Sprint into a New-T-Mobile is a classic 4-to-3 horizontal merger that will lead to fewer choices, higher prices, and less consumer-friendly service offerings.

The New T-Mobile would combine two maverick firms that have, for the past 8 years, forced the two largest mobile wireless carriers, Verizon and AT&T, to lower their prices and adopt more consumer-friendly service offerings. For example, T-Mobile, the “Un-Carrier,” was the first to eliminate two-year contracts and to provide unlimited data and creative family plans. T-Mobile and Sprint were the first carriers to allow subscribers to unlock their phones. Sprint proudly took a chainsaw to its competitor Verizon’s bills and offered to cut those costs in half. Both companies have fought to match AT&T and Verizon in coverage, speed and reliability.

T-Mobile and Sprint have promoted themselves as low-cost providers and currently offer the cheapest data plans of the 4 nationwide mobile wireless carriers. As such, T-Mobile and Sprint have competed vigorously with each other as well, to the benefit of the “value consumer” seeking better rates and service plans. Just as important, the competition between Sprint and T-Mobile has had a moderating effect on AT&T and Verizon, forcing them to respond with lower prices and more attractive service options. All of this competition has benefitted consumers.

If allowed to proceed, this merger would result in a New T-Mobile with a market share closer to that of AT&T and Verizon. As a result, New T-Mobile would have reduced incentives to engage in price and non-price competition, as well as a greater incentive and ability to cooperate and collude with those companies to raise both consumer and wholesale prices. The remaining three network operators would each have the incentive to raise prices unilaterally and also to substantially increase the maximum price that carriers will be willing to initiate and match. Indeed, one analysis found that this transaction “will result in [consumer] price increases of up to 15%.”

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3 Petition to Deny of Dish Network Corporation in the Matter of Applications of T-Mobile US, Inc. and Sprint Corporation (filed August 27, 2018) at 11.
The merging parties don’t dispute that prices will go up, but argue instead without proof that the improvements to the quality of their service, no matter how minimal, will be worth the significant extra cost. That is a dicey proposition for the value and low-income consumers that are most attracted to T-Mobile and Sprint because of their less expensive postpaid and their innovative prepaid services.

These higher prices will have a disproportionate effect on customers of prepaid service, who tend to be low income customers and people of color. This merger would combine T-Mobile’s Metro PCS and Sprint’s Boost Mobile and Virgin Mobile Services, resulting in New T-Mobile controlling an estimated 43% percent of the pre-paid market. Since Verizon has negligible prepaid service, this merger would for all intents and purposes shrink the market for facilities-based prepaid wireless services from 3 to 2. The economists for the merging parties recognize that such concentration is likely to lead to higher prices for low income consumers, but argues that such consumers will be more willing to stomach price increases because they “heavily rely on their smartphone for their communication and media consumption.”

That’s a remarkable statement for a segment of Americans for whom an extra $10 a month might mean missing a few meals to pay their cell phone bills.

Many of the same concerns that caused the DOJ to file suit to enjoin the proposed AT&T-T-Mobile merger are present here. Like AT&T-T-Mobile, this merger will shrink the already concentrated mobile wireless market from 4 to 3 players. Like AT&T-T-Mobile, this merger will lead to higher prices and fewer innovative service offerings. Like AT&T-T-Mobile, this merger would eliminate actual and potential competition between the two merging firms. And instead of combining one maverick firm with a large incumbent, it combines two remaining maverick firms, making disruption less likely and coordination more likely. Moreover, this transaction would lead to unprecedented spectrum concentration: it will cause New T-Mobile to exceed the FCC’s spectrum screen in 532 Cellular Market Areas (“CMAs”), almost double the number of the proposed AT&T-T-Mobile transaction.

Evidence from previous 4-to-3 mobile wireless mergers in Europe confirm the harms to consumers. In the Netherlands, the European Commission found that the 4-to-3 merger of T-Mobile Nederland and Orange in that country resulted in price increases of between 10% and 17% compared to control countries. In Austria, a merger of Orange Austria and H3G Austria

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5 Letter from Nancy Victory, Counsel for T-Mobile, to Marlene Dortch FCC, Attachment A at 18, (December 18, 2018)

6 Petition to Deny of DISH Network Corporation in the Matter of Applications of T-Mobile US, Inc. and Sprint Corporation (filed August 27, 2018) at 71 (“Second, Brattle finds that New T-Mobile would be over the screen threshold in 1,996 out of the nation’s 3,221 counties, or in 532 CMAs, covering all of the top 100 markets. By comparison, the rejected AT&T/T-Mobile merger would have caused AT&T to exceed the screen in 274 CMAs. New T-Mobile would be over the screen across 90.2% of the country’s population and almost half of its land area.”) (internal citations omitted).

also resulted in 4-to-3 consolidation. While the European Commission imposed a facilities-based condition to approving the merger, those conditions didn’t materialize, and the spectrum intended for the new entrant reverted to H3G. As a result, consumers suffered a 14-20% increase from that merger. This example is especially instructive because one of the three remaining players was T-Mobile’s affiliate, T-Mobile Austria.

Finally, a recent study by Rewheel Research looked at European markets and found that “the median gigabyte price in 3 [Mobile Network Operator] markets is 2x higher than in 4 [Mobile Network Operator markets].”

I. THE PARTIES’ PRICING COMMITMENT IS NO COMMITMENT AT ALL, BUT INSTEAD IS AN ADMISSION THAT THERE WILL BE NO CONSTRAINTS ON PRICING IF THIS MERGER IS CONSUMMATED

In response to the consensus that the proposed merger will lead to higher prices, T-Mobile’s counsel submitted an open letter to the FCC offering a “pricing commitment” that would maintain existing T-Mobile and Sprint “rate plans” for three years. Then, when merger opponents pointed out that the so-called “commitment” was riddled with ambiguities and loopholes, T-Mobile filed another 8-page letter attempting to “simplify” the offer.

First and foremost, the fact that T-Mobile had to file two letters with the FCC to explain its pricing commitment is an admission that post-merger, there would not be enough competition in the wireless market to constrain price increases.

And, in its effort to simplify the pricing commitment, T-Mobile actually sows more confusion. T-Mobile originally promised that “T-Mobile and Sprint legacy rate plans will continue as New T-Mobile plans for three years after the merger or until better plans that offer a lower price or more data are made available, whichever occurs first.” In its second letter, T-Mobile explains that a “better plan” is “the same plan with a lower price; the same plan with more data for the same price; or the same plan with a lower price and more data.”

But this begs any number of questions: What does “same plan” mean? What does “same price” mean? When does a plan become different? Would a different price per month be considered the same price if the customer receives some non-monetary benefit?

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8 Id.
10 Letter from Nancy Victory, T-Mobile Counsel, to Marlene Dortch, FCC at 4, WT Docket No. 18-197 (Feb 4, 2019)
11 Letter from Nancy Victory, T-Mobile Counsel, to Marlene Dortch, FCC at 3, WT Docket No. 18-197 (Feb. 12, 2019)
Moreover, this new filing does nothing to ameliorate concerns that this “commitment” is anything but. In addition to being time limited at 3 years, the pricing plan still has significant loopholes that could allow New T-Mobile to raise prices on consumers, including:

- increased prices through handset or device costs
- increased prices through any manner of unnamed additional fees and surcharges
- increased prices to offset claimed costs increased from “third party partners” or cancellation of benefits (like T-Mobile’s free subscription to Netflix) from those partners

And there are still many ways that New T-Mobile could exploit these loopholes\(^\text{12}\), for example:

- Make it more difficult to upgrade devices
- Increase the cost to purchase or upgrade to a new phone
- Increase the down payment for a new phone
- Remove the ability to use the phone as a hotspot

The ambiguities and opportunities for evasion in this kind of behavioral remedy (price regulation) would require strong government oversight that is generally disfavored by antitrust authorities. As Assistant Attorney General for Antitrust Makan Delrahim has explained: “In telecommunications, as in other industries, we strongly favor structural remedies. If a structural remedy isn’t available, then, except in the rarest of circumstances, we will seek to block an illegal merger.”\(^{13}\)

The challenges inherent in government oversight of behavioral remedies – and specifically price regulation - manifested itself just last month, when the European Commission alleged that Telefonica Deutschland breached its commitment to offer wholesale 4G services to all interested parties at “best prices,” as part of its acquisition of E-plus, the German mobile telecommunications business of Dutch Telecom operator KPN. This too, occurred in the aftermath of a 4-to-3 merger.

II. THE PURPORTED BENEFITS OF THIS MERGER ARE SPECULATIVE, NON-MERGER SPECIFIC AND NON-COGNIZABLE, AND WOULD NOT OUTWEIGH ITS HARMs

In recognition of the harms that this transaction will bring to consumers and competition, the merging parties allege three benefits to this merger: better rollout of 5G services, greater rural coverage and an increase in jobs. But the parties have failed to show either that these benefits

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\(^{12}\) For a non-exhaustive list of examples, see Letter from Pantelis Michalopolous, Counsel to DISH Network to Marlene Dortch, FCC at 4-6, WT Docket No. 18-197 (Feb. 7, 2019)

\(^{13}\) Assistant Attorney General Makan Delrahim Delivers Remarks at the Federal Telecommunications Institute's Conference in Mexico City (Nov. 7, 2018) found at https://www.justice.gov/opa/speech/assistant-attorney-general-makan-delrahim-delivers-remarks-federal-institute
will ever materialize or that they are specific to this merger. Nor have they shown that the benefits will outweigh the harm to consumers and competition that would result from this transaction.

A. 5G Deployment is Already Happening and Will Continue Rapidly With or Without this Merger

The merging parties alternatively make two claims – that this transaction is necessary to accelerate the rollout of new 5G wireless services (and therefore make the US the leader in 5G connectivity) and also that neither company alone has the wherewithal to build a nationwide 5G network.

Neither of these claims are true. With regard to whether this merger is necessary to speed the deployment of 5G and win the so-called “race” to 5G (presumably with China), AT&T responded in its comments to the FCC on the merger applications that:

“In fact, the U.S. is already the world leader in 5G, and AT&T and the other major facilities based wireless carriers are in the midst of a race to deploy next generation 5G services – a race that began long before T-Mobile and Sprint announced their merger plans.”

US Policymakers like FCC Chairman Pai and Commissioner Carr have also boasted that the US is the world leader in 5G deployment. A study released late last month by ABI Research, which provides analysis on transformative technologies, found that as a result of the financial health of the four nationwide carriers and forward-looking FCC policies, the US is currently the leader in 5G rollout and will continue to be for at least two years.¹⁴

But don’t just take it from AT&T, FCC Commissioners and expert analysts. Listen to the merging parties’ representatives themselves and what they said prior to the merger about their ability and timing to build new 5G networks. Prior to the merger announcement in February 2018, T-Mobile stated that it “will be the first to give customers the truly transformative, nationwide 5G network they deserve[.]”¹⁵ It also announced that it would accelerate its 600 MHz rollout in 2018, while laying the foundation for the country’s first nationwide 5G network by 2020. In its annual 10-K filing for 2017, T-Mobile explained that it is “rapidly preparing for the next generation of 5G services” by creating a “network that will allow us to deliver innovative new products and services with the same customer focused and industry disrupting mentality that has redefined wireless service in the United States.”¹⁶

¹⁴ABI Research, 5G in the United States, 1Q 2019, found at https://www.abiresearch.com/market-research/product/1031420-5g-in-the-united-states/
Just two weeks ago, at the Mobile World Congress in Barcelona, Sprint announced that it would be the first company to provide “mass market” 5G mobile services in 4 major cities (Dallas, Atlanta, Chicago and Kansas City) this May, with another 5 cities (Washington, DC, Phoenix, Los Angeles, New York and Houston) starting in June.\(^\text{17}\) In addition, the company’s CEO has boasted that it has “the BEST spectrum and assets to build an incredible nationwide #5G network that our customers will love.”\(^\text{18}\) And it said pre-merger that “I have never seen a company with such a rich spectrum which is a sweet spot for 5G, I guess that gives us a tremendous opportunity for the years to come.”\(^\text{19}\)

Both companies are independently putting their money where their mouths are by heavily investing in 5G deployments. Both companies each have already committed to investing $5-6 billion annually until 2020 into their respective 5G deployments. In fact, their projected combined spend is roughly the sum of what each intended to spend on its own. And, evidence in the record indicates that the companies aren’t admitting how much it will cost for New T-Mobile to upgrade to 5G: Independent analysis suggests it will cost more than if Sprint did it alone.

\textit{B. The Companies’ Claims that the Rural Americans Will Benefit are Unsubstantiated}

The merging companies claim that if allowed to merge, rural Americans will “win big.” But the companies provide little support for this assertion other than hand-waving. T-Mobile’s owned LTE facilities currently serve 83.1% of the rural US population, while Sprint serves just 56.2%. So, adding Sprint to the New T-Mobile adds nothing to T-Mobile’s current rural coverage. Having spent nearly $8 billion to buy low band spectrum at the FCC’s incentive auction in 2017, T-Mobile already has plans to extend its reach in rural areas. Importantly, this coverage doesn’t include whatever spectrum T-Mobile may buy at upcoming auctions.

Even as the carriers move to 5G, the claim that rural coverage will significantly increase is unsubstantiated. First, the parties can’t seem to make up their minds whether Sprint will help T-Mobile’s rural 5G coverage at all. On the one hand, the parties claim that Sprint’s 2.5 GHz spectrum will enhance rural deployment for New T-Mobile. On the other hand, they argue that Sprint’s 2.5 GHz spectrum is inadequate and that Sprint, standing alone, will “not be a major competitor in most of rural America in the foreseeable future.”\(^\text{20}\)

Finally, and perhaps most important, the merging parties, like their national mobile wireless/broadband brethren, understate the challenges and costs of bringing 5G connectivity to rural areas. In places where population density is low and the challenges of steep terrain and thick fauna are high, deployment is both a technological challenge and expensive and revenues

\(^{17}\) Eli Blumenthal, \textit{Sprint’s 5G Network will go live this May in Chicago, Atlanta, Dallas and Kansas City}, USA Today (Feb. 25, 2019) found at https://www.usatoday.com/story/tech/2019/02/25/sprint-5g-network-goes-live-in-may-in-four-cities/2973150002/

\(^{18}\) Marcelo Claure (\textit{@marceloclauere}) Twitter (Mar. 9 2018 12:24 PM)

\(^{19}\) Transcript, Sprint Presentation at Deutsche Bank Leveraged Finance Conference, Fair Disclosure Wire (Oct. 2, 2018)

\(^{20}\) Applications of T-Mobile US, Inc. and Sprint Corporation for Consent to Transfer Control of Licenses and Authorizations, WT Docket 18-197 at 65 (June 18, 2018)
are hard to come by.\textsuperscript{21} Moreover, the high speed “special access” lines needed to bring 5G connectivity to rural America are also expensive and largely in the control of 3 companies – AT&T, Verizon and Century Link. Indeed, because of the cost of these broadband data services and other infrastructure, many rural areas still don’t yet have 4G connectivity. Policymakers should be extremely wary of any promise to bring 5G to significant parts rural America in the absence of significant subsidies any time soon, if ever.

C. The Entire Point of a Merger is to Lower Costs and Create Efficiencies, Which Necessarily Include Eliminating Jobs

On the question of whether this merger will result in more jobs, I defer to the testimony of Chris Shelton, the President of the Communications Workers of America, as well as CWA’s comprehensive filings at the FCC, for a full accounting of the number and types of jobs that will be lost as a result of this merger. The numbers are significant – CWA estimates that 30,000 jobs will be lost.

I wish only to note that significant numbers of new jobs rarely, if ever come from massive mergers of this kind. Like other merging parties, T-Mobile and Sprint boasted when the deal was first announced that the combined companies will have “lower costs, greater economies of scale” and “cost synergies.” The way that most merging companies achieve these goals is by eliminating redundancies, which typically means cutting jobs, among other things. One needn’t be an economist to figure out that duplicative retail stores and call centers will be closed and that there is no need for two sets of middle managers and C-Suite executives.\textsuperscript{22}

IV. SPRINT IS NEITHER A FAILING NOR EVEN AN AILING FIRM

It is axiomatic that companies seeking to merge will tell regulators in Washington, DC one thing and Wall Street another. In September 2018, Sprint told the FCC, among other things, that “[d]espite achieving substantial cost reductions and stabilizing its financial position, Sprint has not been able to turn the corner with respect to its core business challenges….Sprint tried a more localized approach in an attempt to drive growth, but continues to face declining subscribers and revenue[.]”\textsuperscript{23} Just 3 months later, Sprint issued a year-end press release touting “a banner year for the Sprint network” in which it made “a massive investment to drive strong improvements in our network performance.”\textsuperscript{24}

One need only look at what Sprint told Wall Street earlier this year, through its recently released earnings from the 3\textsuperscript{rd} quarter of 2018, to see that it is not only not a “failing firm” for purposes of

\textsuperscript{21} See generally, Larry Thompson and Warren Vande Stadt, 5G Is Not the Answer for Rural Broadband, Broadband Communities (March/April 2017) found at https://www.bbcomag.com/rural-broadband/5g-is-not-the-answer-for-rural-broadband
\textsuperscript{22} While T-Mobile has promised to open 5 new call centers housing 1000 new employees each, this seems no more than a desperate PR stunt to win political support. T-Mobile may call these “additional” jobs, but they fail to say is how many call center and other jobs will be lost if the transaction is approved.
\textsuperscript{23} Letter from Regina M. Keeney, Counsel for Sprint Corp., to Marlene Dortch, FCC, WT Docket 18-197, Attachment C at 2 (Sept. 25 2018)
\textsuperscript{24} Dr. John Saw, Celebrating a Year of Sprint Milestones on our Path to 5G (Dec. 18, 2018) found at https://newsroom.sprint.com/2018-milestones-on-path-to-5g.htm
scrutinizing a merger, it isn’t even ailing. In fact, Sprint is about as healthy a company as it has been in many years. As Sprint CEO Michel Combes said on January 31, “[w]e delivered solid financials, increased network investments as we prepare for our mobile 5G launch, and the continued digital transformation of our company.”

Sprint’s Q3 results showed, among other things, its second consecutive quarter of year-over-year growth in wireless service revenue and its sixth consecutive quarter of postpaid additions. The number of postpaid additions in the quarter were 309,000, an improvement of 53,000 year-over-year.

In addition, Sprint’s postpaid service revenue grew year-over-year for the first time in five years and its pre-paid service revenue grew year-over-year for the fifth consecutive quarter. The company also reported its 12th consecutive quarter of operating income and the highest fiscal third quarter adjusted EBITDA (Earnings before interest, tax, depreciation and amortization) in 12 years.

Sprint’s quarterly network investments of $1.4 billion more than doubled year-over-year and increased approximately $150 million “as the company made continued progress on executing its Next-Gen Network plan.”

The merger proponents, however, point to negative adjusted free cash flow of $908 million Sprint reported for Q3. But this was primarily due to ramped up capital investment of $1.4 billion. In fact, in the immediate prior quarter (FY Q2 2018), Sprint reported a positive cash flow of $525 million. Despite this recent drawdown, Sprint currently has almost $9 billion of liquidity, including $6.8 billion in cash.

Finally, Sprint hasn’t acknowledged the additional measures that could be used to strengthen the company’s financial position even further. For example, Sprint’s owner SoftBank holds more than $31 billion (more than 3 trillion yen) in cash and cash equivalents across its portfolio that can be invested into Sprint. And, SoftBank’s Vision Fund has more than $90 billion (10 trillion yen) in capital from both SoftBank and third parties, which it uses to invest in cutting-edge technology companies.

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26 Sprint Q3 2018 Report, supra
27 Sprint Q3 2018 Report, supra
28 Sprint Q3 2018 Report, supra
Policymakers should absolutely believe what Sprint has told Wall Street – its financial picture gets brighter with each quarter, and its continuing network improvements will take the company to even greater success in the future as a stand-alone firm.

CONCLUSION

I am a proud and loyal T-Mobile customer and a big fan of both its CEO and its Government Relations staff. But I’m not a fan of this merger, because the harms to consumers who value good service and innovative service plans far outweigh the supposed benefits. Thank you again for inviting me to testify.