Antitrust suit a huge blow for AT&T: analysts

August 31 2011, by Alexander Osipovich

The decision by US authorities to challenge AT&T's $39 billion takeover of T-Mobile is a bitter blow for the US telecoms giant, but it could benefit consumers, analysts said.

The decision by US authorities to challenge AT&T's $39 billion takeover of T-Mobile is a bitter blow for the US telecoms giant, but it could benefit consumers, analysts said.

As it filed a lawsuit to block the takeover on Wednesday, the US Department of Justice said the takeover bid -- which would give AT&T a daunting 39-percent share of the US wireless market -- was anti-competitive.

Shares of AT&T plunged 4.6 percent on Wall Street after the DoJ's move was announced, even as the company vowed to contest it in court.

"There are really no good options for AT&T at this point," said Harold Feld, legal director of Public Knowledge, a digital-rights advocacy group in Washington.

"AT&T can delay the inevitable by fighting. But while AT&T still has a theoretical road to victory, I don't think anyone seriously wants to take that bet," Feld wrote in a blog post.

Critics of the takeover celebrated, saying that if AT&T succeeds in buying T-Mobile from its current owner, Germany's Deutsche Telekom, the US wireless market would be dominated by two giants, AT&T and Verizon.

Both AT&T and Verizon are descended from the 1984 break-up of AT&T, which was then a nationwide monopoly often derided as "Ma Bell" for its shoddy service and arrogant attitude to customers.

"From the outset, it was clear that this merger was anti-competitive," said Ed Black, head of the Computer and Communications Industry Association.

"We are grateful that in the end the DoJ ignored the historically unprecedented political campaign and maneuvering of AT&T, and made its decision based on the clear facts in front of them."

Moreover, the proposed merger of AT&T and T-Mobile would doom number-three carrier Sprint Nextel, said Peter Morici, a professor of business at the University of Maryland.

"Such a merger would threaten the viability of Sprint -- arguably the more aggressive of the top three wireless carriers in introducing new technology -- and solidify the grip of two legacy Bell companies," Morici said.

"AT&T and Verizon have not been quick to fully build out new technology, and an oligopoly on Internet service dominated by those two companies and cable monopolies would almost guarantee rates would not fall and consumers would have too few choices."

AT&T had lobbied hard to win approval for its takeover bid, promising that it would lead to improved broadband Internet service in rural regions and arguing that competition would be preserved in most US cities.

"We remain confident that this merger is in the best interest of consumers and our country, and the facts will prevail in court," AT&T general counsel Wayne Watts said on Wednesday.

Raising the stakes for AT&T, the company must pay a hefty $3 billion breakup fee to Deutsche Telekom if regulators reject the deal.

Some analysts noted that AT&T still had a chance of acquiring T-Mobile, though that might require some concessions to the government.

Telecommunications analysts at Barclays Capital put AT&T's probability of success at 35-40 percent after the DoJ's move was announced, a significant reduction from their initial estimate of 75 percent.

"We believe that the deal is by no means dead, as the DoJ has stated that the 'door is open' for AT&T to propose remedies," the Barclays Capital analysts said in a research note.

Jeff Kagan, an independent technology-industry analyst, agreed: "This deal is not dead, but it will be different," he said. "The question is what will AT&T have to give up."