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Press Release

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PHOENIX CENTER FINDS MERIT IN FEARS THAT SPRINT/T-MOBILE MERGER WILL INCREASE PRICES IN WHOLESALE MARKET

Higher retail market share of merged entity puts upward pressure on wholesale prices

WASHINGTON, D.C. – On April 29, 2018, T-Mobile and Sprint announced their intention to merge. This proposed \$26.5 billion merger of the third- and fourth- largest wireless companies would increase the Hirschman-Herfindahl Index (“HHI”) by over 400 points, easily surpassing the DOJ/FTC Horizontal Merger Guidelines’ presumption of market power threshold. One of many competitive concerns raised by the transaction is the effect on wholesale prices for mobile wireless services where both Sprint and T-Mobile are active sellers.

In a new analysis released today, Phoenix Center Chief Economist Dr. George S. Ford focuses his attention on at the potential effects of the Sprint/T-Mobile merger in the mobile wholesale market. As Dr. Ford explains, when a wholesaler supplies a retail rival, it is rational for the wholesaler to recognize that a profitable retail customer may be lost as a result. Every wholesale connection sold by the firm, therefore, has an opportunity cost that reflects this reality. Before the merger, the opportunity cost of a wholesale transaction to T-Mobile is approximately \$6.64, but rises to \$12 if the deal with Sprint is consummated. With an upper-bound of merger efficiencies of \$4 per subscriber, the claimed efficiencies from the proposed merger are inadequate to offset the incentive to raise price.

“Economics tells us that the incentive to raise price in the wholesale market depends on the retail market shares of Sprint and T-Mobile,” said study author Phoenix Center Chief Economist Dr. George S. Ford. “My preliminary analysis suggests that the merger will put upward pressure on wholesale prices even after accounting for merger efficiencies.”

A full copy of PHOENIX CENTER POLICY PERSPECTIVE NO. 18-06, *Potential Implications of the Sprint/T-Mobile Merger on Wholesale Markets*, may be downloaded free from the Phoenix Center’s web page at: <http://www.phoenix-center.org/perspectives/Perspective18-06Final.pdf>.

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