AT&T's Purchase of Ericsson Equipment Further Solidifies Ericsson's Global Leadership

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On December 4, 2023, AT&T agreed to purchase up to $14 billion of telecommunications (telecom) equipment from Ericsson. This executive briefing on trade (EBOT) will provide an overview of this deal, with a focus on how the deal strengthens Ericsson's position as a global leader in telecom equipment manufacturing. This EBOT will also explain how the deal supports capital expenditures in the U.S. telecom equipment market in 2023 and positions AT&T and Ericsson at the cutting-edge of Open Radio Access Networks (Open RAN) equipment technology.

AT&T's Deal with Ericsson

AT&T's announced deal with Ericsson includes the purchase of up to $14 billion worth of wireless network equipment over the next five years. This equipment will be manufactured in the United States. AT&T is the second-largest wireless carrier in the U.S. by revenue (behind Verizon) and accounted for more than 46 percent of all U.S. wireless subscriptions as of the first quarter of 2023.[1] Ericsson is a Swedish telecom provider specializing in hardware, software, and information technology services, and is one of the global leaders in fifth-generation (5G) network equipment.[2] On the day of the announcement, Ericsson's stock price closed 5 percent higher than the day before, while Nokia's stock price—one of Ericsson's main competitors—closed 4 percent lower.[3]

This deal comes during weaker demand for telecom equipment in the United States. Before this deal was announced, capital expenditures from North American wireless carriers were expected to reach $40 to $45 billion by the end of 2023, down 10 to 20 percent compared to 2022.[4] Lower capital expenditures have had a negative effect on equipment providers. For example, Ericsson's net sales in the second quarter of 2023 were down nearly $1 billion (almost 40 percent) when compared to the second quarter of 2022.[5] This weaker demand is caused by two factors. First, the U.S. market is in the later stages of 5G deployment. At the early stages of new network deployment, wireless carriers' capital expenditures are high, but then fall as deployment continues and infrastructure is built. Second, macroeconomic conditions like high interest rates and inflation have slowed capital expenditures.[6] Despite lower U.S. sales, equipment providers' revenue has been somewhat buoyed by high capital expenditures in less-mature markets such as India.[7]

Ericsson Will Manufacture 5G Equipment in the United States

Ericsson will manufacture the newly purchased telecom equipment at its "USA 5G Smart Factory" in Lewisville, Texas. This factory opened in 2020 and is the result of more than $100 million of foreign direct investment in the United States.[8] At this factory, Ericsson produces 5G and advanced antenna system radios for its U.S. customers.[9] Since opening, the factory has gained recognition from the World Economic Forum for its high degree of automation and net-zero energy consumption, both of which are facilitated

[1] Statista Research Department, "AT&T Statistics & Facts," August 7, 2023.
[2] Ericsson, "Company Facts," accessed December 11, 2023.
[3] Zaccardi, "Ericsson," December 6, 2023.
[4] Alleven, "Wireless Capex in North America Poised to Plunge," April 4, 2023.
[5] Marek, "Ericsson Struggles in Q2," July 14, 2023.
[6] PWC, *Perspectives from the Global Telecom Outlook 2023–2027*, September 28, 2023, 9.
[7] Marek, "Ericsson Struggles in Q2," July 14, 2023.
[8] Ericsson, "Ericsson Selects Lewisville, Texas," September 19, 2019.
[9] Ericsson, "AT&T to Accelerate Open and Interoperable RAN," December 4, 2023.

by 5G connections to allow for real-time data transmission and analysis.[10] Equipment built at Ericsson's U.S. factory has also received Build America, Buy America (BABA) certification. BABA certification shows that vendors meet domestic content requirements attached to funding from the Infrastructure Investment and Jobs Act, which includes the Broadband Equity, Access and Deployment (BEAD) Program. However, because the BEAD Program prioritizes fiber, not wireless infrastructure funding, industry analysts suggest that Ericsson's BABA certification may primarily be a public relations move aimed at targeting potential new 5G customers like the U.S. military, as well as a strategic move in case domestic content requirements are present in the upcoming 5G Fund for Rural America.[11]

Deal Signals AT&T's Commitment to Open RAN

This agreement with Ericsson is part of AT&T's goal for 70 percent of its wireless traffic to flow across Open Radio Access Network (Open RAN) platforms by 2026, signaling the company's commitment to leading the industry's switch to Open RAN.[12] Open RAN refers to mobile network architecture that uses interoperable components, so that multiple equipment vendors can contribute parts to a single network instead of relying on a single vendor to build a network from the bottom-up using proprietary technology. In an Open RAN system, equipment can be "swapped" for equipment from other vendors. To promote this interoperability, the O-RAN Alliance and other industry groups work together to set certain technical standards for equipment and software.[13] Open RAN is a trend in the telecom industry supported by wireless carriers who see Open RAN as a way to promote vendor diversity (thus increasing competition), increase network flexibility, lower costs, and promote innovation.[14]

The Big Picture

Ericsson, Nokia, Huawei, and ZTE, have a combined global market share for base stations of nearly 80 percent as of 2021.[15] However, as China's largest telecom equipment suppliers—Huawei and ZTE—are pushed out of certain markets due to cybersecurity concerns, the 5G equipment market is splitting along geopolitical lines.[16] Outside of China, Ericsson is emerging as a leader, while within China, Ericsson's sales are falling.[17] The deal between AT&T and Ericsson strengthens Ericsson's leadership in the 5G equipment market outside of China and further positions the company as a leader in Open RAN technology.

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[10] "Ericsson's USA 5G Smart Factory," accessed December 11, 2023.

[11] The Build America Buy America Act establishes a domestic content procurement preference for infrastructure projects receiving funding from the IIJA. The IIJA allocates federal funds for telecom infrastructure through the BEAD Program. To receive BEAD Program funding, these domestic content requirements must be met on certain goods. 41 U.S.C. 8301 note (Implementation of Buy American Act); USDOC OAM, "Build America Buy America," accessed December 11, 2023; Engebretson, "Another Vendor Gets Buy America Approval," December 8, 2023; FCC, "5G Fund," September 25, 2023; Dano, "Ericsson Targets US Military as Its next Big 5G Customer," May 16, 2023.

[12] Marek, "Ericsson Struggles in Q2," July 14, 2023.

[13] The O-RAN Alliance is a standards body started in 2018 by AT&T, China Mobile, Deutsche Telekom (parent company of T-Mobile), NTT Docomo, and Orange. Since its inception, the O-RAN Alliance has grown to a community of more than 300 operators, vendors, and researchers. O-RAN Alliance, "About Us," accessed December 11, 2023.

[14] Juniper Networks, "What Is Open RAN?," accessed December 11, 2023; Ericsson, "Open RAN," accessed December 11, 2023; Clarke, "The Benefits of Open RAN," February 8, 2023.

[15] TelecomLead, "Base Station Market Share of Huawei, Ericsson and Nokia," August 2, 2022.

[16] Browne, "Top EU Official Urges More Countries to Ban," June 16, 2023; Thompson, *Geopolitics Shake 5G Supply Chains*, July 2022, 7–8.

[17] Ericsson's sales in China fell from $1.7 billion in 2020 to $900 million in 2021. Further, as of 2022, 59 percent of China's 5G base stations were made from Huawei equipment, while only 6 percent were made from Ericsson equipment. Thompson, *Geopolitics Shake 5G Supply Chains*, July 2022, 7–8.