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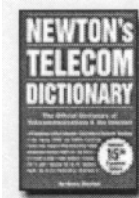
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by [Dan Gattuso](#)

Why is it that every time Germany and Italy get together there's a takeover involved? Europe's largest telecommunications company, Deutsche Telekom, has agreed to merge with Europe's fourth-largest phone firm, [Telecom Italia](#). The \$82 billion deal would create the world's #2 telephone company, behind Japan's [Nippon Telegraph and Telephone](#). As might be expected in Europe, the only ones really happy with the deal are the two companies involved and the German government, which owns 72% of Deutsche Telekom, though it has promised to reduce or give up its stake as soon as practical.

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Even the fickle Italian government, which changes ruling political parties more often than Dennis Rodman changes hair color, wasn't very gung ho about the deal until the German government promised a hands-off approach to the new company. [France Telecom](#), a long-time strategic partner of Deutsche Telekom --including the two companies' [Global One](#) partnership with [Sprint](#) --was reportedly livid upon hearing the news. France Telecom (in which the French government has a 60% stake), having learned to live peaceably with its German neighbor, is probably suffering from flashbacks and dreading the prospect of a US bailout in the form of a merger with Sprint. (Deutsche Telekom was also rumored to be considering the US long-distance company as a merger partner.)

The supposed "merger of equals" between Deutsche Telekom and Telecom Italia would leave the German side holding 56% of the new company and the Italians with the remainder. Should [Telecom Italia Mobile](#) be thrown into the deal, the merger could rival the pending [Exxon-Mobil](#) merger as the largest in history. The new company will also be able to take on [AT & T](#) and [British Telecommunications'](#) joint venture [Concert Communications Services](#) in the arena of international telecom services.

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There are, of course, a few thousand regulatory fronts the merger must break through, not to mention the fact that Telecom Italia is fending off Olivetti, the reason Telecom Italia went looking for help in the first place. This year Olivetti put forth a \$65 billion hostile takeover bid involving cash, which Telecom Italia's shareholders may prefer to owning Deutsche Telekom stock; overseas, on the NYSE, both companies' share prices fell on Thursday. The German-Italian merger has to get approval from 90% of Telecom Italia shareholders, and the Italian government has the power to cancel any merger with its minority 3.4% stake.

Even if the deal does go through, it remains to be seen how well the new comrades-in-arms will get along. The proposed company will have co-CEOs, Deutsche Telekom's Ron Sornmer and Telecom Italia's Franco Bernabe, two very different men with very sizable egos by some accounts. The chairmanship will rotate between a German and an Italian, and a 10-member board will be split evenly between nationalities. Deutsche Telekom and Telecom Italia still haven't agreed yet on an expansion strategy or a name, though it's a good bet they won't opt for anything like "Axis Telecom." But what can Dutch phone company KPN and Belgium's Belgacom be thinking?

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