UNITED STATES OF AMERICA

FEDERAL TRADE COMMISSION WASHINGTON, D.C. 20580

Bureau of Competition
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Michael R. Moiseyev
Assistant Director

Direct Dial

(202) 326-3106

July 6,2006

Douglas P. Larsen, Esquire
Deputy General Counsel (Acquisition & Logistics)
Department of Defense Office of General Counsel
1600 Defense Pentagon
Washington, DC 20301-1 600

Re: Proposed Joint Venture Between The Boeing Companv and Lockheed Martin Corporation (United Launch Alliance), File No. 05 1-0 165

Dear Doug:

As you know, the Federal Trade Commission staff has been investigating the above-captioned transaction since May 2005, in order to determine whether the transaction is likely to violate the federal antitrust laws. The proposed joint venture would consolidate manufacturing and development of Boeing's and Lockheed's expendable launch vehicles, as well as the sale of associated launch services to the United States. Throughout our investigation we have been in close contact with your office and have benefitted from the input of the Department of Defense as the U.S. government's primary purchaser of launch services.

Based on the structure of the deal and evidence gathered in our investigation, it appears
that the proposed joint venture is likely to have a substantial adverse effect on competition in the
market for U.S. government intermediate and heavy launch services. The anticipated result of
this anticompetitive consolidation would be to reduce the rate of innovation and other non-price
benefits and increase the prices that the government, including the Air Force, NASA and other
government agencies, would pay for these services. For this reason, absent countervailing public
interest considerations, the proposed joint venture likely would violate Section 7 of the Clayton
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Staffs analysis follows the analytical framework set out in the Horizontal Merger

Guidelines.' The starting point for that analysis is the definition of the relevant product and geographic markets at issue. Here, that analysis is relatively straightforward: based on evidence gathered in our investigation, including information provided by DOD officials, intermediate and heavy launch services constitute a relevant product market in which to assessana�(for )Tj�1.338wvely

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assuming that savings ultimately are generated, it is unlikely that a significant portion of the savings would be passed on to government customers in the absence of competitive incentives to do so, notwithstanding the auditing and sole source procurement authority that the Department of Defense has at its disposal. In light of the significant anticompetitive potential of the proposed transaction and the fact that the government is unlikely to benefit from much of the cost savings that may be generated by the transaction, we are unable to conclude that the cost savings are sufficient to reverse the transaction's potential to harm the government.

In short, the joint venture unambiguously will create a monopoly in the market for
medium and heavy launch services for the U.S. government. Monopolies almost always lead to higher prices, lower quality and inferior service. Here, the competition that would be lost is significant, and the economic benefits that may materialize are unlikely to trump the transaction's harm to competition. That being said, we are mindful of the fact that the transaction may produce non-economic benefits that could further the missions of the Department of Defense and other government customers. Indeed, we understand from our discussions that the Department of Defense has identified potential benefits of this type, including increased launch reliability. Those benefits, to the extent they are present in the proposed joint venture, clearly would impact the decision of whether the transaction is in the public interest.

Thank you again for your cooperation and assistance with our investigation. I look
forward to continuing our dialog with you and your colleagues regarding the transaction. Please feel free to contact me should you have any questions regarding this matter.

Assistant Director

Bureau of Competition