

**ANALYSIS OF AGREEMENT CONTAINING CONSENT ORDER
TO AID PUBLIC COMMENT**

*In the Matter of The Boeing Company, Lockheed Martin Corporation, and United Launch Alliance
File No. 051-0165*

I. Introduction

The Federal Trade Commission (“Commission”) has accepted, subject to final approval, an Agreement Containing Consent Order (“Consent Agreement”) from The Boeing Company (“Boeing”), Lockheed Martin Corporation (“Lockheed”), and United Launch Alliance L.L.C. (“ULA”). The purpose of the proposed Consent Agreement is to remedy the anticompetitive effects resulting from the formation of ULA, a joint venture of Boeing and Lockheed that will provide launch services to the Department of Defense (“DoD”) and other U.S. government customers, that are not necessary to achieve the national security benefits that DoD believes will flow from the creation of ULA. The proposed Consent Agreement requires that: (1) ULA cooperate on equivalent terms with all providers of government space vehicles; (2) the space vehicle businesses of Boeing and Lockheed provide equal consideration and support to all launch services providers when seeking any U.S. government delivery in orbit contract; and (3) Boeing, Lockheed, and ULA safeguard competitively sensitive information obtained from other providers of space vehicles and launch services.

The Consent Agreement has been placed on the public record for 30 days for receipt of comments by interested persons. Comments received during this period will become part of the public record. After 30 days, the Commission will again review the Consent Agreement and the comments received, and will decide whether it should withdraw from the proposed Consent Agreement or make it final.

Pursuant to a Joint Venture Master Agreement, dated May 2, 2005, Boeing and Lockheed agreed to form a joint venture to be called ULA (“Proposed Joint Venture”). The Proposed Joint Venture would consolidate manufacturing and development of Boeing and Lockheed’s Expendable Launch Vehicles (“ELV”). Sales of launch services to the U.S. government will also be merged into ULA. Boeing and Lockheed will not exchange any cash in the transaction, but

The U.S. markets for government MTH launch services and government space vehicles are highly concentrated. In the U.S. government MTH launch services market, Boeing and Lockheed are the only competitors, and their consolidation will result in a monopoly. Space Exploration Technologies Corp. (“SpaceX”) is attempting to enter the MTH launch services market, but the timing of its possible entry and the reliability of its MTH launch vehicles is uncertain. Additionally, DoD and other government customers would require several validation launches before purchasing MTH launch services from SpaceX, further postponing the market impact of SpaceX’s potential entry. In the U.S. market for government space vehicles, three firms, Boeing, Lockheed, and Northrop Grumman (“Northrop”), account for the large majority of sales.

IV. Entry

Entry into the government MTH launch services market and the government space vehicle market is extremely difficult. For MTH launch vehicles and government space vehicles alike, design and development alone require many years and cost in excess of a billion dollars. Government space vehicles cost approximately \$1 billion and take approximately five years to produce. Moreover, because the costs of a launch failure or a space vehicle malfunction are extremely high in terms of dollars and delays in vital national security or scientific services, the U.S. government only procures MTH launch services and space vehicles from firms with an established track record

Atlas ELV if assured access to space is later determined not to require two separate families of launch vehicles.

National security issues, however, are also a vital element of an analysis of the Proposed Joint Venture. To understand the unique national security implications of the Proposed Joint Venture, the Commission has consulted closely with the DoD and other federal agencies.¹ Indeed, as the primary customer of government MTH launch services and space vehicles and the government agency ultimately responsible for the security of the United States, DoD's views on ULA were particularly significant. Under these unique circumstances, the Commission placed a great deal of weight on DoD's position as to whether ULA would benefit national security and whether the Commission should challenge the Proposed Joint Venture.

DoD has informed the Commission that the creation of ULA will advance U.S. national security interests by improving the United States' ability to access space reliably. DoD considers access to space "essential" given the military's increasing dependence on space-based reconnaissance, communication, and munitions-guidance systems. Maximizing the reliability of launch vehicles that provide access to space is of paramount importance to DoD. A single launch failure can result in the loss of a mission-critical payload and threaten military programs by delaying future launches until the cause of the failure is discovered and remedied.

ULA will improve launch vehicle reliability in several ways. First, the single ULA workforce will benefit from a launch tempo (the number of vehicles assembled and launched per year).¹⁴TTd(Doutionamemtemss94expectingggp

¹⁴TTd(Doutionamemtemss94expectingggp

its parents' space vehicle businesses to the detriment of other space vehicle manufacturers, such as Northrop. Today, competition between Boeing and Lockheed for launch services induces the companies to cooperate with other space vehicle suppliers, notwithstanding the fact that each has incentives to favor its own space vehicle business, out of fear that the other would cooperate and win the launch. The proposed transaction eliminates that threat, and, as a result, reduces the incentives for ULA to optimize its launch vehicles for use with Northrop space vehicles, to the detriment of Northrop and the government.

Second, DoD believes that Boeing and Lockheed may utilize their positions in the space vehicle market to raise barriers to entry in the government MTH launch services market. In this regard, one type of space vehicle procurement presents a problem. Occasionally, DoD requires a space vehicle supplier to select a launch service and provide one price for the space vehicle as well as the launch. In these so-called "delivery in orbit" procurements, DoD is concerned that Boeing and Lockheed will have an incentive to defend ULA's monopoly by refusing to consider on equal terms any other launch service competitors that may emerge, such as SpaceX.

Third, the creation of ULA increases the likelihood that competitively sensitive information from third parties will be disclosed among ULA, Boeing, and Lockheed in a manner that harms competition. For example, as vertically integrated suppliers, Boeing and Lockheed may have incentives to share confidential Northrop information obtained as a launch vehicle services supplier with their respective space vehicle businesses. Similarly, Boeing and Lockheed may have an incentive to share with ULA confidential information that their space vehicle businesses may learn from any future launch vehicle service competitors. This concern arises because third parties, such as Northrop, will no longer be able to utilize competition between Boeing and Lockheed in the MTH launch services market to negotiate the creation of firewalls and other protections for their confidential information.

VI. The Proposed Consent Agreement

To allow the United States to obtain the national security enhancements offered by ULA, the proposed Consent Agreement does not attempt to remedy the loss of direct competition between Boeing and Lockheed Martin under these unique circumstances. Instead, the purpose of the proposed Consent Agreement is to address ancillary competitive harms that DoD has identified as not inextricably tied to the national security benefits associated with the creation of ULA. To ensure that the provisions of the proposed Consent Agreement are followed, it provides for a compliance officer who will be appointed by the Secretary of Defense. The compliance officer will have broad investigative and remedial powers and may interview respondents' personnel, inspect respondents' facilities, and require respondents to provide documents, data, and other information.

