



## FEDERAL TRADE COMMISSION

### PROTECTING AMERICA'S CONSUMERS

# FTC Imposes Conditions on Northrop Grumman's Acquisition of Solid Rocket Motor Supplier Orbital ATK, Inc.

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FOR RELEASE

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The Federal Trade Commission will require Northrop Grumman to supply solid rocket motors, or SRMs, to competitors on a non-discriminatory basis as part of a [settlement resolving charges](#) that Northrop's \$7.8 billion acquisition of aerospace and defense contractor Orbital ATK likely would be anticompetitive. The proposed settlement requires Northrop to separate the operation of its SRM business from the rest of the company's operations with a firewall. It also provides for the Department of Defense to appoint a compliance officer to oversee Northrop's conduct pursuant to the settlement.

#### The products at issue

Northrop is one of four companies capable of supplying the U.S. government with missile systems, including tactical missiles, strategic missiles and missile defense interceptors according to the [complaint](#). Orbital ATK is the premier supplier of SRMs, which propel missiles to their intended targets and are an essential input for missile systems.

#### What this means for consumers

The FTC's complaint alleges that Northrop's proposed acquisition of Orbital ATK would have reduced competition in the market for missile systems purchased by the U.S. government, resulting in less innovation and higher prices for taxpayers. By ensuring that other missile suppliers can continue to compete, the settlement preserves the procompetitive benefits of the transaction while addressing the potential anticompetitive harms.

#### The competition concerns and economic implications

According to the complaint, the acquisition would provide Northrop with the incentive and ability to harm competition for missile contracts by either withholding access to its solid rocket motors or increasing SRM prices to competitors. As a result, competitors would be forced to raise the prices of their missile systems, invest less aggressively to win missile programs, or decide not to compete at all, which, in turn, would decrease competitive pressure on Northrop. The FTC alleged that the acquisition would have violated federal law by reducing competition in the market for these missile systems.

New competitors are unlikely to enter the market soon enough or with sufficient magnitude to deter the anticompetitive effects of the acquisition, because missile systems and SRMs are high technology, defense-specific products that require specialized expertise and facilities to develop, test and manufacture, the complaint states. It would be extremely difficult and costly for a new entrant to establish the technological expertise and specialized facilities necessary to compete successfully in either of these markets.

The complaint also alleges that Northrop's acquisition of Orbital ATK's SRM business would give Northrop access to the proprietary information that missile contract competitors share with their SRM vendor. In addition, the acquisition creates a risk that the proprietary, competitively sensitive information of a rival SRM supplier supporting Northrop's missile system business could be shared with Northrop's vertically integrated SRM business.

#### The settlement preserving competition

As explained in the FTC [analysis to aid public comment](#), under the proposed consent agreement:

Northrop must make its solid rocket motors and related services available on a non-discriminatory basis to all competitors for missile contracts. The non-discrimination prohibitions of the settlement are comprehensive and apply to any potential discriminatory conduct affecting price, schedule, quality, data, personnel, investment, technology, innovation, design or risk.

Northrop must establish firewalls to keep it from transferring or using any proprietary information that it receives from competing missile prime contractors or SRM suppliers in a manner that harms competition.

The DOD's Under Secretary of Defense for Acquisition and Sustainment will appoint a compliance officer to oversee Northrop's compliance with the order. The compliance officer will have all the necessary investigative powers, including the right to interview Northrop's personnel, inspect the company's facilities, and require it to provide documents, data, and other information. The compliance officer is also authorized to retain third-party advisors, at Northrop's expense.

While the Bureau of Competition typically disfavors behavioral remedies, given the special characteristics of the defense industry, we accepted such a remedy here. Specifically, the defense industry has a single buyer, DOD, with distinct procurement processes. In addition, the DOD requires sophisticated products, such as SRMs, that are a part of complex systems subject to winner-take-all competition for programs that can last decades. The [Bureau of Competition has issued a statement accompanying the decision](#) that explains in more detail the context for the remedy and how it will preserve the procompetitive benefits of the transaction while also addressing the potential anticompetitive harms.

The Commission vote to issue the complaint and accept the proposed consent order for public comment was 5-0. The FTC will publish the consent package in the Federal Register shortly. The agreement will be subject to public comment for 30 days, beginning today and continuing through July 5, 2018, after which the Commission will decide whether to modify or withdraw the proposed consent order. [Comments can be filed electronically](#) or in paper form by following the instructions in the "Supplementary Information" section of the Federal Register notice.

**NOTE:** The Commission issues an administrative complaint when it has "reason to believe" that the law has been or is being violated, and it appears to the Commission that a proceeding is in the public interest. When the Commission issues a consent order on a final basis, it carries the force of law with respect to future actions. Each violation of such an order may result in a civil penalty of up to \$41,484.

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**PRESS RELEASE REFERENCE:**

[FTC Approves Modified Final Order Imposing Conditions on Northrop Grumman's Acquisition of Solid Rocket Motor Supplier Orbital ATK, Inc.](#)

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