

Aerospace & Defence

Pentagon warns that mergers in arms industry put US military at risk

Extreme consolidation in defence sector since cold war has led to higher prices and threats to readiness, report finds



A General Dynamics F-16: the company is one of only five remaining prime contractors to the US military, down from 51 in 1990 © Reuters

Kiran Stacey in Washington YESTERDAY

Decades of mergers in the American defence sector have left the US military less well-equipped and needlessly overburdened taxpayers, according to a Pentagon report aimed at reversing the consolidation trend.

The Department of Defense report, released on Tuesday, detailed the post-Cold War surge in mergers which has shrunk the number of American defence prime contractors from 51 in 1990 to 5 today: Lockheed Martin, Raytheon, General Dynamics, Northrop Grumman and Boeing.

“Since 1990, there have been extreme levels of consolidation in the defence industrial base,” a senior Biden administration official said. “That has grown to threaten national security and taxpayer value.”

The report is part of a [broader push](#) by the administration to overhaul competition policy and break up concentrations of corporate power across the economy.

But it also reflects a growing sense in military circles that consolidation among defence contractors may have gone too far, resulting in higher prices and supply chain gaps.

The report found a decline in the number of tactical missile suppliers from 13 to 3, of fixed-wing aircraft suppliers from 8 to 3, and of satellite suppliers from 8 to 4. The

report said 90 per cent of missiles now come from three sources.

Much of that consolidation began in the 1990s at the direction of Pentagon planners, who urged companies to merge when the US began to reduce its military spending after the cold war.

Since then however, even the architects of that policy have admitted it went too far.

William Perry, the former defence secretary who helped trigger the wave of mergers in the 1990s at a dinner of industry executives which became known as the “last supper”, [acknowledged in 2015](#) that consolidation had reduced competition and driven up prices.

Biden administration officials say they are hoping to reinvigorate competition in the sector by scrutinising new mergers more closely, encouraging smaller companies to bid for defence contracts and building more redundancy into supply chains. They said they would also be stricter with vendors in insisting they give up more of their intellectual property.

In a sign of the new approach, Lockheed Martin [dropped its \\$4.4bn bid](#) to buy the rocket engine maker Aerojet Rocketdyne at the weekend after the Federal Trade Commission sued to block the deal, claiming it would reduce competition and raise prices in the sector.

Pentagon officials would not specifically comment on that deal, but one senior administration official said: “The president has been looking for more robust enforcement of our antitrust laws in many areas, including in this area.”