

Appeals court upholds Pentagon's supply-chain-risk label on Anthropic

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Industry

Anthropic will remain a Pentagon-designated supply-chain risk, thanks to federal judges who ruled that the Defense Department can prohibit its employees and contractors from using the AI company's products for DOD business. The designation has been in force since March, when the department sought to alter its contract with Anthropic to replace prohibitions on using its tools for domestic mass surveillance and fully autonomous weapons with allowances for "all lawful use." The department has used two statutory justifications for labeling Anthropic a supply-chain risk, a designation typically applied to firms suspected to be working for adversarial governments. Anthropic beat back one of the justifications in an August ruling in the Northern District of California, but did not prevail in a lawsuit heard by the D.C. Circuit Court of Appeals. Friday's ruling was issued by Judges Gregory Katsas and Neomi Rao, both appointed during the first Trump administration, with a dissent by Judge Karen LeCraft Henderson, who was appointed by the first President Bush. "This was not an unexpected outcome given the composition of the panel that heard the case" said Charlie Bullock, senior research fellow at the Institute for Law & AI think tank. "Historically, both Katsas and Rao have shown a great deal of deference to the Trump administration's assertions of executive authority on matters of national security. If Anthropic had drawn almost any other two judges from the D.C. Circuit for that panel they would have stood a good chance of winning, because I think their legal position is overwhelmingly strong." "I think Anthropic's chances on appeal if they get to appeal either to the en banc D.C. Circuit or the Supreme Court are good. But they're not guaranteed to be heard,

because the appeals process is discretionary,” Bullock said. In a statement to The Washington Sun , an Anthropic spokesperson said, “We respectfully disagree with the court’s decision. Another federal court has already held the government’s parallel designation unlawful.” Anthropic added, “We remain confident in our position and are considering all options, including further review.” Defense Undersecretary Emil Michael wrote in a statement on X, “The hammer of justice has smashed @AnthropicAI arguments. They are a supply-chain risk to the defense industrial base serving the @DeptofWar. Warfighters will sleep better knowing that no private company will insert their opinions in the chain of command. @SecWar was right!” The ruling will likely keep the Pentagon and its other contractors reducing their use of Anthropic’s products, such as its Claude tools. Overall, however, the company’s revenue is growing about tenfold per year, and plans an IPO in November that some expect to value the company at a record \$2 trillion . Michael and Defense Secretary Pete Hegseth have been critical of Anthropic in public statements. In January, Hegseth stated in remarks at a SpaceX event, “Department of War AI will not be woke. It will work for us. We’re building war-ready weapons and systems, not chatbots for an Ivy League faculty lounge.” DOD issued an ultimatum on Feb. 24 demanding the company permit its AI to be used for all legal purposes by Feb. 27, which Anthropic refused. Hegseth announced his direction that DOD designate Anthropic a supply-chain risk Feb. 27, and it was formally announced on March 3.

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