

Association CEOs Developing Aviation Health Strategies

CEOs of AIA member companies are taking steps to address issues faced by an airline industry in crisis.

In November a number of CEOs agreed to participate in a top-level Ad Hoc Committee on the Health of the Civil Aviation Industry. Any AIA member company CEO is eligible to participate.

The mission of the committee is to identify issues critical to the health of the industry and to develop strategies to address those issues. The committee also supports the implementation of the recommendations of the Commission of the Future of the Aerospace Industry that pertain to civil aviation.

The committee has identified several areas for its initial focus.

Aviation safety and security are vital to public confidence in aviation. AIA is committed to improving both but believes that security is primarily a component of national defense. As such, the committee agreed that security is an inherently governmental function and should be paid for by government.

Steps by Congress and the administration to provide relief to the airlines from security fees and unfunded mandates are welcomed by the AIA committee.

The panel is also concerned about the threat of hand-held antiaircraft missiles and has directed AIA to work with the government to help develop an effective strategy to deal with the threat.

Areas of financial concern include the need to

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AIA Source:
Bob Robeson
703-358-1080

AIA Rallies Stakeholders for Airline Relief

At the urging of the Aviation and Space Stakeholders Coalition, including AIA, Congress in mid-April added funding to an emergency appropriations bill to ease the burden of mandated security costs for beleaguered airlines and airports.

President Bush signed the measure in mid-April.

Congress expanded the president's initial request of \$74.7 billion to help pay for the Iraq War and the rebuilding of

AIA Source:
J.P. Stevens
703-358-1030

Iraq by adding \$2.9 billion in airline aid and extending unemployment benefits to laid-off airline, airport, and aerospace workers by 26 weeks.

Since September 11, 2001, the airline industry has suffered \$18 billion in losses. With the ongoing military action in Iraq, the industry's 2003 losses are expected to grow an added \$10.7 billion.

The national airline industry crisis threatens the future of 450,000 travel and tourism industry employees.

The airline aid package comes at a critical time. It suspends passenger and air carrier security fees from June 1 through September 30, provides \$2.4 billion for airline grants, and extends elements of the War Risk Insurance Program.

The Aviation and Space Stakeholders Coalition represents 80 of the aviation industry's manufacturers, airlines, other commercial air service companies and general aviation operators, airport operators, aviation maintenance providers, aircraft parts distributors, labor unions, and professional societies.

AEROSPACE FOCUS



F. Clifton Berry, author of the commemorative book inspired by AIA — Milestones of the First Century of Flight — chats with students at Ashburn Elementary School in Ashburn, Va., during an appearance in which he shared stories on the importance of flight.



WASHINGTON PIPELINE

Aerospace Vitality Hinges on a Swinging Door of Interdependence

... in sharing breakthrough innovations and solutions, the aerospace industry contributes immensely every day to the economic and national security of the United States.

reinforce each other across intersecting company, agency, and technological lines.

Military technologies, for example, have contributed to the evolution of today's economy. Software developed to guide some of our first precision-guided munitions generated applications in computer-aided design and manufacturing.

Cable and wireless technologies pioneered by the armed forces also planted the seeds for the Internet and mobile telecommunications.

In adding space innovations to the picture, we find that joint NASA and Defense Department research in the realm of lasers and optical transmission has advanced life-saving diagnostic procedures as well as land management techniques. NASA-Pentagon cooperation has further led to power and propulsion advances that should eventually increase the speed and improve the cost effectiveness of space and hypersonic aircraft transportation.

And despite the contrasting images of military dominance abroad and a struggling civil aviation segment at home, the fortunes and futures of these institutions

The positive news about U.S. and coalition military success in Operation Iraqi Freedom, paired with the negative news about the ongoing airline and civil aviation crisis, fuels the misleading impression that the aerospace industry operates as a series of unrelated businesses in which the prospects for one sector don't depend on those of another.

But the truth is that aerospace works as an interdependent industry with few clear lines of division. Our capabilities

have a common link. The FAA and industry, in going beyond the Operational Evolution Plan (OEP) to expand airport capacity by 30 percent through 2012, have begun incorporating military communications, navigation, and surveillance tools into a reformed Air Traffic Management (ATM) system that relies more on satellite networks and less on aging ground facilities.

A modernized civil ATM system, in turn, will permit the closer integration of military and civil airspace management teams to move not only our uniformed personnel more efficiently but also the investors, consumers, and products so important to America's leading role in the global information economy.

What do these linkages ultimately indicate about the nature of the aerospace enterprise?

They indicate that in adapting and applying space and military innovations our companies have helped support diverse components of the U.S. economy from health care to agriculture and international trade.

They indicate that the forces that shape one aerospace enterprise or government agency at first ripple and then flow into a widening confluence of capabilities and opportunities that benefit many organizations.

Most importantly, they indicate that in sharing breakthrough innovations and solutions, the aerospace industry contributes immensely every day to the economic and national security of the United States.



A stylized, handwritten signature in black ink.

AIA President and Chief Executive Officer

WASHINGTON WATCH

AIA Tackles FSC and Other Aerospace Industry Tax Issues

The aerospace industry appears on the verge of a replacement for the Foreign Sales Corporation/Extra Territorial Income Exclusion program (FSC/ETI) that the World Trade Organization a year ago ruled an illegal subsidy.

Industry representatives appear satisfied with a proposal to provide tax rebates to manufacturers for profits derived from domestic manufacturing activities regardless of whether they export or not.

Drawbacks are that the plan wouldn't replace the FSC/ETI benefit dollar-for-dollar and could have a negative impact on the federal deficit.

In other tax-related developments AIA's Tax Matters Committee, with the assistance of the Legislative Department, is supporting legislation that would make the research and development (R&D) tax credit permanent.

A permanent tax credit is seen as a much needed incentive to encourage more private investment in R&D. More importantly, pending proposals in Congress would provide a new Alternative Simplified Credit.

The alternate credit would enable the aerospace industry to overcome the problem with the high base period of R&D investment (1984 - 1988) that the current method uses to determine the amount of the tax credit.

The existing high base period makes it extremely difficult in the current economy to exceed the base period investment in order to benefit from the alternate tax credit formula.

Depreciation allowance is another target of the Tax Matters Committee, which is pushing for an increase in accelerated depreciation in the first year from 30 percent to 50 percent and extension of accelerated depreciation into years two and three at a declining rate.

AIA Source:
Terry Marlow
703-358-1040

Unfortunately, accelerated depreciation has a perverse impact on contractors with large, long-term government contracts because of the Percentage of Completion (POC) tax calculation applicable to long-term contracts under existing laws.

The POC calculation results in higher taxes early in contracts, and the problem is exacerbated by accelerated depreciation.

Therefore, it is important that both the depreciation allowance and the POC tax calculation be revised concurrently.

House Aerospace Caucus Organizes Leadership

The House Aerospace Caucus, first organized by AIA in 2001 as a briefing forum for members and their staffs on federal research and procurement programs, has formalized its leadership for the 2003-2004 congressional session.

Rep. Dave Weldon (R-Fla.) will continue as caucus chairman.

Weldon, who secured a seat on the prestigious House Appropriations subcommittee that oversees the NASA budget, represents a central Florida district that includes Cape Canaveral and the Kennedy Space Center.

Rep. Norman Dicks (D-Wash.) has replaced Dennis Kucinich (D-Ohio) as caucus co-chair.

First elected in 1976, Dicks is a senior member of the House Appropriations Defense Subcommittee and a vigorous champion of military force projection programs. He also is a member of the Congressional Air Power Caucus, which he co-chairs, and the House Navy/Marine Corps Caucus.

Dicks' western Washington district, embracing the communities of Bremerton, Port Angeles, and Tacoma, includes a U.S. Navy

House Caucus
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Senior Positions Open at ICAO

The International Civil Aviation Organization (ICAO) has two senior positions open for bids, which close on June 2.

AIA urges member companies to inform those who might be interested in and qualified for these and other positions at ICAO, which is an aviation body of the United Nations headquartered in Montreal, Canada.

The openings are for director of the Air Navigation Bureau and director of the Legal Bureau.

In recent years the two interesting and challenging posts have been held by U.S. citizens. Normally, the United States is entitled to fill more than 25 permanent positions in ICAO, but only about 13 positions are now occupied by U.S. citizens.

AIA Source:
Bob Robeson
703-358-1080.

AIA believes it is important that these positions be filled by U.S. citizens who can bring technical expertise from the U.S. aviation system. Information on ICAO job vacancy announcements can be found at the ICAO Web site at www.icao.int.

Because ICAO is a UN body, permanent employees are entitled to significant benefits, including exemption from income tax on the first \$80,000 (U.S.) of salary, educational allowances for dependent children, post adjustments, and more.

The current highly favorable exchange rate between the U.S. and Canada provides an additional financial benefit to U.S. citizens working in Montreal. Also, ICAO recognizes 11 holidays in addition to 30 days of annual leave for all employees.

Further information on the benefits available to ICAO employees can be found on the FAA Web site at www2.faa.gov/ahr/career/profile/benefits.htm.

www.aia-aerospace.org

Southeast Regional Meeting Draws Many Members

Export control and workforce issues were singled out as major concerns of AIA members during discussions at the Southeast Regional Meeting in Orlando, Fla., in April.

They are included in AIA's 2003 Top Ten Issues and are the subject of

AIA Source:
Sandra Carney-Talley
703-358-1003

recommendations by the Commission on the Future of the U.S. Aerospace Industry, which the association supports.

Hosted by Lockheed Martin Corporation's Missiles and Fire Control unit, the event had the largest turnout of any regional meeting.

Vance Coffman, chairman and CEO of Lockheed Martin and chairman of AIA's Board of Governors, discussed his company's outlook on defense and the challenges of global business since 9/11 and through the Iraqi conflict.

Stan Arthur, president of the host Lockheed Martin unit, gave the group

an extensive overview of the Missiles and Fire Control business.

Guest speaker Darrell Kelley, president of Enterprise Florida, discussed the global and Florida commerce and expressed support for the Aerospace Commission recommendations.

AIA's Supplier Management Council brought in five new members, and several others plan to upgrade to regular membership as a result of discussions at the regional meeting.

From the evaluations and comments expressed by attendees, the networking opportunities were invaluable, information on industry trends and forecast were significant, and attendees learned how AIA benefits the aerospace industry.

The next regional meeting will be hosted by Computer Sciences Corporation July 10-11 in Falls Church, Va. A Southwest regional meeting will take place September 16-17, hosted by BAE SYSTEMS North America Inc. in San Diego.

For more information on regional meetings, contact Trish Maguder Ward at 703-358-1061.

AIA and AECMA Improving Interoperability

AIA and the European Association of Aerospace Industries (AECMA) have signed memoranda of understanding (MOU) aimed at improving global interoperability and standardization of procedures covering two international aerospace issues.

One MOU deals with common technical publications data, and the other covers certification and qualification of nondestructive testing (NDT) personnel.

Signed late last year, the first agreement was to cooperatively develop common word-for-word equivalent quality system standards for certification and qualification of NDT personnel. The two aerospace organizations will coordinate and obtain each other's approval on

revisions to the existing AIA NAS-410 and AECMA EN-4179 standards.

In addition, the two aerospace organizations will explore the feasibility of a single standard applicable to all parties.

A second MOU signed in February 2003 promotes common interoperable international technical publications data through the joint development, updating, and maintenance of an existing AECMA specification S-1000D.

Issue 2 of S-1000D, scheduled to be published in May 2003, incorporates input developed by U.S. industry and the Defense Department.

A follow-on modification, designated Change 2.1, intends to incorporate guidance from a variety of U.S. and European standards and documentation into a comprehensive document governing the global interchange of technical data.

Copies of both MOUs are available from AIA.

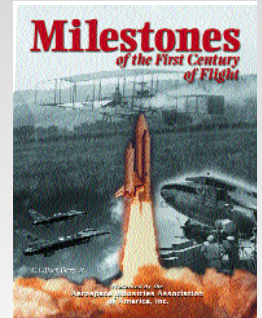
Milestones of the First Century of Flight — It Happened In May

As the 100th anniversary of flight is celebrated this year, *AIA UPDATE* is publishing features about aviation and aerospace achievements over the past century.

Highlighted in this issue are nine important aviation events that occurred in May of various years since man first took to the skies.

They are excerpts from *Milestones of the First Century of Flight*, an AIA-inspired commemorative book of historic air and space accomplishments.

The volume was written by F. Clifton Berry, well-known author of a number of books on aerospace and defense and a former editor of aerospace trade magazines.



May 26, 1913: First four-engine airplane flies: Igor Sikorsky's "Grand." It was designed and built in Russia.

May 27, 1919: First trans-Atlantic crossing completed. Cdr. A.C. Read, USN, and his crew aboard Navy flying boat NC-4 reach Lisbon, Portugal, 11 days after departing Newfoundland.

May 12, 1926 to 1929: Norwegian Roald Amundsen and crew make the first flight over the North Pole in the dirigible *Norge*, May 12, 1926. Cdr Richard E. Byrd and crew make the first flight over South Pole on November 29, 1929, in Ford Tri-motor 4-AT.

May 21, 1927: Charles A. Lindbergh completes first solo trans-Atlantic flight from New York to Paris, taking off from Roosevelt Field, Long Island, at 7:52 a.m. local time on May 20 and landing at Le Bourget airport, Paris, at 10:22 p.m. local time on May 21.

May 21, 1932: Amelia Earhart is the first female pilot to make the Atlantic solo nonstop flight.

May 13, 1940: First flight of Sikorsky VS-300 helicopter. It had a large main rotor and a smaller vertical rotor on the tail boom and set the standard for helicopter design that is still in use today.

May 5, 1961: Alan B. Shepard, Jr., makes suborbital flight to become the first American in space.

May 25, 1972: NASA demonstrates feasibility of "fly-by-wire" digital flight controls with first flight of a modified Navy F-8 Crusader aircraft. "Fly-by-wire" technology came into widespread use in both commercial and military aircraft in succeeding decades.

May 25, 1973: NASA launches *SkyLab 2* space station, the first in a series of three *SkyLab* missions. *SkyLab 2* remained in orbit from May 25 to June 22, 1973. *SkyLab 4*, with astronauts William Pogue and Gerald Carr aboard, orbited more than 84 days.



The first trans-Atlantic crossing by air was completed on May 27, 1919, by U.S. Navy Cdr. A.C. Read and his crew of five aboard the flying boat NC-4, completing the 2,150-mile transit from Newfoundland to Lisbon, Portugal, in 26 hours of flight time at an average speed of 80 mph.

Copies of the 224-page hardback *Milestones of the First Century of Flight* can be ordered through [Howell Press at www.howellpress.com](http://www.howellpress.com)

The book is available to AIA member companies at half the cover price of \$34.95—under \$17.50 per copy, plus tax and shipping.

Aviation Health ensure the availability of affordable war risk insurance and passage of legislation to replace the tax provisions related to foreign sales corporations.

AIA is playing a leading role in developing an industry consensus and working with the administration and Congress on these issues.

The CEO committee is also concerned about the lack of coordination among government departments and agencies in aeronautics research and development (R&D) that is inhibiting technology insertion and affecting efforts to design the next-generation air traffic management system.

Although the current decline in demand for air travel has provided relief from the aviation gridlock that the traveling public experienced a few years ago, analysts agree that eventually long-term growth in aviation demand will exceed

the capability of the existing air traffic system.

The committee has directed AIA to assign a top priority to the development of a unified roadmap that will lead to the implementation of the next-generation air traffic management system.

There is an opportunity to create a partnership with NASA and the FAA to develop and implement a mutually agreed program for aeronautics R&D and research for infrastructure revitalization, the committee believes, and to include the Defense Department in the effort.

This will be part of a broader effort by AIA to develop and implement an integrated U.S. aeronautics technology agenda under a government/industry partnership.

Further, the committee is concerned about the state of trade relations between the United States and the European Union.

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Association Adds Hitco Carbon Composites

Hitco Carbon Composites is AIA's newest member, upgrading from the Supplier Management Council's associate member group.

The company manufactures composite structural assemblies and high-temperature materials, including fiberglass, carbon, graphite, composite, and metal materials.

Its products include aircraft and automotive brake components, jet engine flaps and seals, solid rocket motor nozzles, heat shields, and material used in making high-tech semiconductors.

AIA Source:
Amanda Lapides
703-358-1005

Romanowski Joins Civil Aviation at AIA

Michael Romanowski, a veteran aerospace industry executive, has joined AIA as assistant vice president in the Civil Aviation organization, a new position.

Romanowski previously held engineering positions with the Pratt and Whitney and Sikorsky units of United Technologies Corporation (UTC). He represented UTC as vice chair of the AIA Civil Aviation Council and served as vice chair of the council's propulsion committee.

AIA Source:
Robert E. Robeson
703-358-1080

The incoming association executive was a major participant in the FAA's Safer Skies program as the engine manufacturers' representative on the Commercial Aviation Safety Team and has worked on many other initiatives on behalf of AIA.

AIA established the new Civil Aviation post to strengthen the association's ability to deal with critical aviation industry issues at a time of unprecedented challenge.

Romanowski will be responsible for AIA's civil aviation safety programs and regulatory issues.

Nathan Joins AIA International Staff

Remy Nathan has joined AIA as director of international affairs. Nathan had been director of Malaysia and Brunei affairs at the U.S.-ASEAN Business Council, a position in which he advised and represented U.S. multinational companies with interests and operations in Southeast Asia.

He has traveled extensively throughout Asia and worked closely with decisionmakers and opinion leaders in the United States and Southeast Asia to bolster U.S. private sector competitiveness in Southeast Asia.

AIA Source:
Joel Johnson
703-358-1070

Nathan earned a master's degree in International Economics and Southeast Asian Studies from The Johns Hopkins University School of Advanced International Studies and a bachelor of arts degree in Government and Foreign Affairs and China Studies from the University of Virginia.

He can be reached by e-mail at remy@aia-aerospace.org or by phone at 703-358-1072.

Rocket Finals Launching

A field of 100 U.S. high school teams with more than 1,000 students will compete at the Team America national rocket contest finals May 10 in The Plains, Va.

The final 100 teams come from 36 states and the District of Columbia. A list of the teams is available at www.rocketcontest.org.

The top five winning teams will share a prize pool of \$50,000 in savings bonds and \$9,000 in cash. The contest is the first national rocket competition for high school teams and is sponsored by AIA and the National Association of Rocketry (NAR).

The students were asked to design, build, and test a model rocket that could fly as close to 1,500 feet as possible with a payload of two raw eggs and then parachute the eggs back to the ground unbroken.

Watch for coverage on AIA's Web site at www.aia-aerospace.org and in next month's *AIA UPDATE* newsletter.

AIA Source:
J.P. Stevens
703-358-1030

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In the area of civil aviation, the fundamental issue is adherence to a system of fair competition that embraces rules-based trading and transparency.

AIA will develop a comprehensive program to encourage movement to global rules-based trading and will support U.S. government initiatives, such as efforts by the Commerce Department to identify foreign standards that impede U.S. exports.

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submarine base and Boeing employees.

The caucus recently welcomed two new participants, Reps. Maurice Hinchey (D-N.Y.) and Jay Inslee (D-Wash.), bringing total membership to 47.

The next caucus event will take place in June and feature update briefings on civil aviation and military modernization efforts.

ENSURE THE HEALTH OF THE CIVIL AVIATION INDUSTRY TO MEET THE NATION'S LONG- TERM NEEDS

AIA 2003 Top Ten Issue



ISSUE: Since 2001 the airlines have endured record losses as a result of economic conditions, compounded by the aftershock of the terrorist attack on the United States. The effects of the downturn in airline activity have rippled through the aviation manufacturing base of the United States, masking long-term system capacity problems that will re-emerge as the airlines return to long-term growth.

BACKGROUND: The U.S. aviation industry is suffering from the dual effects of the economic slowdown and the aftershock of the terrorist attack of September 11, 2001. As a result, the airlines have posted record losses over the last two years.

The airlines began to respond to lower demand well before September 2001, however, by grounding a significant portion of the fleet and deferring deliveries of new aircraft. Manufacturers have been directly affected by the deferrals and by lower aftermarket sales as operator maintenance requirements have declined as the result of reduced flight schedules.

A more positive result of the reduction in airline activity was an improvement in their on-time performance. In 2000, the economic and personal cost of delays caused by constrained airport and airway capacity and reduced system efficiency reached unacceptable levels. The decline in air transportation activity beginning in 2001 provided temporary relief from the underlying causes of congestion and delay. However, if nothing is done to correct the underlying problems, routine delays due to weather and capacity constraints will reoccur as air traffic returns to and surpasses earlier peak levels.

The United States has the most extensive aviation system in the world. Airports are the gateways for this system in which commercial aviation plays an important economic role, and the air traffic management system is the conveyor belt allowing safe, seamless, on-time performance. However, the ability of civil aviation to foster economic growth and facilitate social mobility is not guaranteed.

During the last 30 years of rapid aviation growth, only three domestic airports have been added to the system. Further, the FAA's operational evolution plan to modernize the air traffic system, at best an intermediate step toward meeting the increased demand over the next 30 years, is underfunded.

Continued long-term, aggressive investment in our air transportation infrastructure is needed to ensure a more secure air system and to save tens of millions of hours in potential passenger and cargo delays. Without the initiation of sustained investment in the nation's aviation infrastructure during this lull in air traffic, the flying public and those who rely on cargo services face increasing delays and costs in the near future. This will not be a mere inconvenience; it will be a brake on U.S. economic growth.

AIA ACTION: Working with the government and other aviation stakeholders, AIA will help develop and promote legislative and policy changes to ensure that airline operations are safe, secure, and profitable.

Key areas for this effort include:

- Immediate relief from taxes and unfunded mandates imposed on the airlines and traveling public.
- Accelerated development of a more efficient traffic management system.
- A focus on safety and regulatory initiatives based on cost-effective risk management.

Sources: Bob Robeson, 703-358-1080, and Howard Aylesworth, 703-358-1085

2002 Aerospace Orders, Shipments Drop

AIA Source: David Napier 703-358-1015

Despite gains in the military market, overall aerospace industry orders and shipments declined in 2002.

AIA reported that industry orders declined \$7 billion, or 5 percent, to \$138 billion, while shipments declined \$6 billion, or 3.7 percent, to \$146 billion from a year earlier.

On the other hand, military orders, which have risen for five straight years, increased \$3.3 billion, or 6 percent, to \$63 billion, and military shipments jumped \$8.5 billion, or 17 percent, to \$59 billion.

The dollar value of civil orders and shipments, however, was higher than military orders and shipments. Civil orders totaled \$75 billion — down \$10 billion, or 12 percent, and shipments fell \$14 billion, or 14 percent, to \$86 billion.

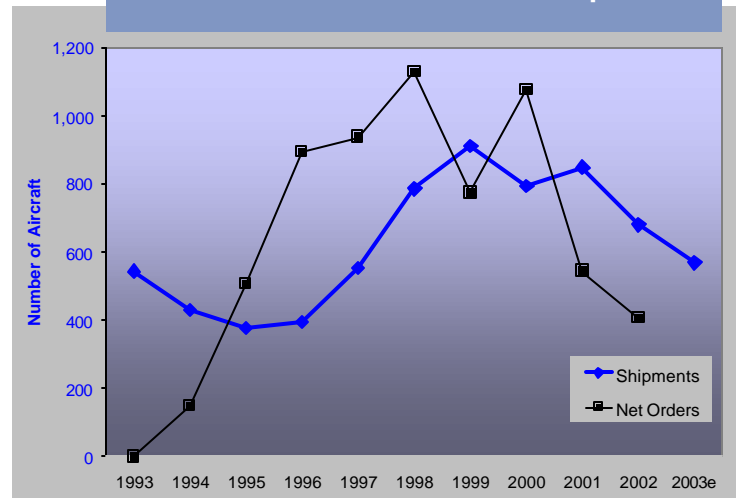
Net orders booked last year by the two large commercial transport aircraft manufacturers totaled 407 — down from 545 in 2001 and 1,077 in 2000.

Shipments of large commercial aircraft also declined to 682 — down from 851 in 2001 and 796 in 2000.

At the end of 2002, the number of large commercial aircraft ordered but not delivered stood at 2,657, representing more than four years of production.

More up-to-date aerospace industry economic data and

Commercial Aircraft Orders & Shipments



analysis are available on AIA's Web site at:

www.aia-aerospace.org/stats/aero_stats/aero_stats.cfm.

Also, e-mail delivery of data is available as it is released by subscribing at no cost online at:

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