

Authorization Bills Reflect Growing Defense Acquisition Concerns in House and Senate

The Senate and House Armed Services committees have completed work on Defense Authorization bills for fiscal 2006.

The House and Senate both authorized \$441.6 billion for national defense programs in 2006, including \$50 billion in supplemental funding for operations in Iraq and Afghanistan.

The House and Senate committees added \$1.1 billion and \$1.5 billion, respectively, to the administration's procurement authorization request. The full House has finished floor consideration of its bill (HR1815), and the Senate began floor consideration of the companion bill (S1042) in late July.

AIA Source:
Jonathan Etherton
703-358-1060

Significant acquisition policy provisions in the bills reflect a growing congressional examination of perceived deficiencies in the defense acquisition process as well as recent cost growth in some major defense programs.

Congressional concerns fall in the following areas:

Major Weapon Systems Acquisition

Section 801 of the House bill would place significant new technology maturity requirements on major defense programs before they can proceed into development and demonstration phases as a means to rein in escalating weapons costs.

Senate section 803 would require explicit congressional approval for use of FAR Part 12 commercial procedures in the procurement of major defense acquisition programs, and section 844 would restrict

*Authorization
continued
on pg. 4*

AIA Joins Chamber Counterfeiting and Piracy Coalition

AIA has joined the U.S. Chamber of Commerce Coalition Against Counterfeiting and Piracy, teaming with 74 other Washington area members.

The coalition is working with Congress and the administration to increase understanding of the negative impact of counterfeiting and piracy of manufactured goods and intellectual property and expand government efforts to address the threat.

AIA Source:
Kirsten Koepsel
703-358-1044

Goals of the coalition include:

- Promoting the "Stop Trade in Fakes" effort by identifying and encouraging the adoption of supply chain best practices.

- Working with government agencies to ensure greater detection, enforcement, and prosecution of intellectual

*Coalition
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AEROSPACE FOCUS



AIA President John Douglass points out qualities of an F-16 Fighting Falcon to AI Frink, U.S. Commerce Department assistant secretary for manufacturing and services, at the Paris Air Show. Frink led a Commerce Department group promoting U.S. aerospace.

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Special Insert:
The Suppliers' Voice



WASHINGTON PIPELINE

Leaders Must Address the Nation's Long-Term Defense Industrial Needs

**... the
American
defense
industrial
base is too
important to
ignore.**

Our industry is in the middle of a good economic run. Sales and profits are up, especially in defense-related sectors of aerospace. We added more than 27,000 new jobs last year — a healthy percentage of all new manufacturing employment. And indications from the first two quarters of 2005 point to continued success.

But there are problems in the distance to which our political leaders seem all but oblivious today. The manufacturing machine that drives this nation's security, safety, and

strength needs constant attention in the form of planning and preparation. You could even say our formidable and intimidating defense machine is fragile in some ways. But instead of addressing the issue with innovation and investment, some quarters of government seem to be going in the opposite direction.

Take Program Budget Decision 753, for example. Released in December, it proposed cutting \$30 billion from some of the most innovative and forward-thinking defense programs to deal with budget shortfalls. Most veterans of life in Washington understand that government investment decisions vary from year to year. The normal variances that come and go as budget priorities change are not an issue. What causes concern is when the changes are very large, and the rationale behind the changes shallow or nonexistent.

The defense industrial base of the United States is centered on an economic model in which our government sets requirements and private industry responds. This model has been in place for more than 200 years and has served us well in peace and war. The model works best when industry knows clearly what the government wants and needs. It tends to become dysfunctional quickly when the government's requirements shift quickly with little or no explanation of overall strategy.

We in industry can and will help adjust our national security programs to whatever threats our nation faces. We are eager to help in this regard, and we are working hard to get that message to our friends in the administration and Congress.

At a recent House Aerospace Caucus meeting, Congress-

man Norm Dicks of Washington raised the issue of the chronic underfunding of DoD's investment accounts. He noted that the department has in recent years shortchanged its procurement accounts by tens of billions of dollars annually. The wars in Iraq and Afghanistan are making the chronic underfunding substantially worse because the level of activity is wearing out defense equipment at a rate far beyond peacetime planning levels. It is becoming increasingly clear that just to maintain the force we have today will cost billions more than the Pentagon has planned.

Another concern is the lack of next-generation programs to come after those already in development, namely in defense aviation. There is little apparent on the horizon after the F-22 and F-35 programs and a dearth of new design programs overall in the Defense Department.

Similar issues exist in shipbuilding. The Navy seems to have a new shipbuilding plan every few months, and Congress seems inclined to have a substantially different plan.

Both the administration and Congress would be well-served to look carefully at the long-term needs of the nation's security. The workforce of the aerospace and defense sector of our economy is aging and new and innovative talent will not come into the industry if individuals perceive the industry's future is in doubt.

This year Congress has shown foresight and leadership in restoring funding to several of the programs targeted by PBD 753. Members have shown a knowledge that investment in the health of our defense industry is directly related to the safety of our nation.

As we in the industry know, the long-term viability of the American defense industrial base is too important to ignore.



John W. Douglass

A stylized, handwritten signature in black ink, appearing to read 'John W. Douglass'.

AIA President and Chief Executive Officer

AEROSPACE INDUSTRIES ASSOCIATION

WASHINGTON WATCH

AIA Helps Safeguard U.S. Military Aid for Support of Egypt

The U.S. House in late June approved \$1.3 billion in military financing for Egypt, a budget item strongly supported by AIA.

By a vote of 326 to 81, House members rejected an amendment to the fiscal 2006 foreign operations bill that would have cut funding for Egypt by \$750 million.

Earlier, AIA President and CEO John Douglass urged Congress to approve the Bush Administration's Foreign Military Financing (FMF) request for the Egyptian government.

Douglass issued the association's request for support in a letter to Reps. Jim Kolbe (R-Ariz.) and Nita Lowey (D-N.Y.), chairman and ranking Democrat, respectively, of the House Foreign Operations Subcommittee.

In making the appeal, Douglass noted the extensive national security and economic benefits of the partnership between the United States and the Arab world's largest country.

"The strategic alliance between the United States and Egypt," Douglass wrote, "has permitted us to expand our airlift, sealift, and combat force projection capabilities in the Eastern Mediterranean."

Overflight and Suez Canal transit rights that Egypt extended to the Defense Department after the Camp David peace agreements of 1979 allowed the United States to deploy the initial waves of combat forces during the 1991 Persian Gulf War as well as the ensuing campaigns in Afghanistan and Iraq.

Douglass also highlighted Egypt's effort during the last two years to train Palestinian security forces in counter-terrorism operations.

"Egypt's influence on the government of the Palestinian Authority remains critical to the continuation of security-related, confidence-building measures between the PA and Israel as the latter prepares to evacuate settlements from the Gaza Strip this summer," the letter stated.

The vast majority of Egypt's FMF money returns to the United States in the form of defense equipment purchases.

As of last year, Egyptian military inventories included 800 M1A1 tanks, 220 F-16 fighters, Apache helicopters, and Hawk missile defense batteries.

These programs, Douglass said, "directly support thousands of high-wage aerospace jobs across the United States."



Action on NASA Budget Reflects Key AIA Concerns

The House and Senate Appropriations committees and the Senate Commerce and House Science committees approved top-line budgets for NASA at or near the president's

request of \$16.4 billion for fiscal 2006.

Each of the bills endorses the AIA-supported Vision for Space Exploration, first announced by President Bush in January 2004, which includes development of a new crew exploration vehicle (CEV) as a replacement for the space shuttle and a reinvigorated lunar exploration program in the next decade.

Legislation reported by the Senate Commerce Committee also designated the International Space Station as a "national laboratory facility" for joint management by NASA and the White House Office of Science and Technology Policy.

In addition, the House Appropriations Committee accepted an AIA recommendation to increase NASA's budget for aeronautics research by \$52 million for a total of \$906 million.

The NASA authorization bills produced by both the House Science and Senate committees contain a second provision advocated by AIA that extends the agency's authority to indemnify the development and early testing of "experimental aerospace vehicles." NASA might need to rely on that authority to support the initial deployment of the CEV.

When the full House debated the NASA appropriations bill in mid-June, AIA and its member companies worked directly with NASA's key congressional supporters to defeat an amendment that would have reduced the budget for space exploration programs by \$200 million.

The House rejected the proposal by a vote of 230 to 196.

Workforce Issues Hold Spotlight

Briefings by government and industry on innovative workforce initiatives were the centerpiece for a recent meeting of AIA's Workforce Group. The group has determined that increasing industry involvement in workforce issues is imperative.

Representatives from Aerojet, Boeing, Northrop Grumman, Raytheon, and

Rockwell Collins along with state representatives from Washington, Oklahoma, and Maryland heard presentations by:

Workforce continued on pg. 8

AIA Source:
Patrick McCartan
703-358-1065

International Communication Lines Kept Open at Paris

Among the various networking opportunities at the Paris and Farnborough Air Shows is a traditional discussion between three or four CEOs from AIA's Executive Committee with counterparts from the Aerospace and Defense Industry Association of Europe — the association that includes 32 national aerospace and defense associations from 20 European countries.

AIA's president and leaders of the four largest European national associations also generally participate in the meeting.

Reports from this year's Paris Air Show indicate that the CEOs agreed that they hope the U.S. government and the European Union would reach a negotiated settlement on the

dispute over government subsidies to large civil aircraft.

European CEOs reiterated that their industry would forgo government launch aid to new Airbus products assuming agreement could be reached on other government benefits accorded to airplane manufacturers.

AIA Source: The CEOs further agreed to continue working on common positions with respect to technology transfer issues involving cooperative defense programs that could be advocated to their respective governments.

There was consensus as well to examine whether there are ways to cooperate on addressing environmental issues involving aerospace products, particularly with respect to civil airliners.

Authorization continued from pg. 1 the use of so-called other transactions authority for major systems development.

In addition, Senate section 806 would require a detailed study of defense management organizations overseeing systems acquisition.

Contract Management

There is a growing perception in Congress that lax management of services contracts has resulted in circumvention of taxpayer safeguards, such as open competition and management accountability.

Senate section 802 would require centralized management of all services contracting within dedicated organizations in the Defense Logistics Agency and the Army, Navy, and Air Force.

AIA has concerns about the ability of defense agencies to efficiently contract to meet urgent mission needs through such an organizational approach.

Interagency Contracting

As a result of workforce reductions

and the increase in acquisition of services, the Defense Department and other agencies have increasingly resorted to using interagency contract organizations and vehicles, such as GSA schedules and franchise funds, to acquire goods and, to an increasing extent, services to meet defense mission needs.

Concerns about accountability and compliance with agency procedures and requirements led the Senate to include section 801 that would require a thorough review by DoD and other agency inspectors general to ensure that the use of such contracts complies with all requirements.

Ethics Fallout

Continuing fallout from a business ethics case led to requirements in both House and Senate bills for reviews of existing laws relating to revolving door and contractors working for government agencies.

Section 821 of the Senate bill would require defense contractors to report information on every former Defense Department employee and former member

of the armed services to whom they provide compensation.

Acquisition Workforce

There is a growing recognition in Congress that the future needs of the government acquisition workforce are not being planned or managed.

Senate section 832 would require a strategic assessment and plan for the future of the workforce. Significantly, for the first time in a number of years the House bill did not contain a provision mandating reductions in the defense acquisition workforce.

AIA is analyzing the impact of the proposed changes on the ability of member companies to provide goods and services to DoD in an efficient and cost-effective manner.

The association will present an industry position on each of the proposals as well as on similar reviews and proposals from DoD.

U.S. Aerospace and Defense: Strategic Contributor to America's Strength, Prosperity, and Security.

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AIA's staff will answer your questions and receive your comments on articles appearing in **AIA UPDATE**.

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A Clear Eye for Aerospace Cash Balances and Profits

By David Napier, Director of AIA's Aerospace Research Center

In April, during the corporate earnings reporting season, an aerospace and defense trade publication reported that the aerospace industry was, to paraphrase, cash-rich and, perhaps, making excessive profits.

Using financial data for the first quarter of 2005 (1Q05) provided by the U.S. Census Bureau, the following is a comprehensive review and comparative analysis of aerospace to clarify and bring into perspective some common misunderstandings about aerospace cash balances and profits.

A Look at Cash Levels

Cash (including demand deposits, time deposits, and negotiable certificates of deposits) increased to \$9.6 billion in the first quarter for corporations classified under Aerospace Products & Parts Manufacturing — up from \$7.8 billion as of year-end.

Cash balances, on the other hand, have declined \$1.3 billion from their peak in 2004's second and third quarters.

Aerospace cash balances as a percentage of total assets for 2004 and the first quarter of 2005 were lower than the All Manufacturing, All Durable Manufacturing, and most other industries' averages. Only Chemicals and Electrical Equipment, Appliances & Components showed lower percentages for both periods while the Primary Metals group was lower for 2004 but not 1Q05.

Using a different measure — Cash-to-Current Liabilities Ratio — the aerospace figure was the least of all selected industries

AIA VIEWPOINT

and below both the Durable and Nondurable Manufacturing averages for 2004 and 1Q05.

Current Ratio, which measures current assets against current liabilities, shows aerospace with the second narrowest of margins of all selected durable manufacturing sectors.

It is clear, therefore, that aerospace's relatively high gross cash levels are modest-to-low when expressed as a percentage of total assets or when compared to current liabilities and other manufacturing sectors.

A Look at Profit Levels

Profits — both operating and net — increased in 2004 and 1Q05 for corporations classified under Aerospace Products and Parts manufacturing. The combined operating profit reached a near record \$12.6 billion in 2004 and \$13.2 billion (annual rate) in 1Q05 while net profit totaled \$9.5 billion in 2004 and began the year at a record-high pace of \$10.9 billion in 1Q05.

Despite these high gross levels, the industry's operating margin — operating profit as a percentage of sales — was below the average margin for nondurable manufacturing industries for 2004 and 1Q05 and below those posted by the Primary Metals and Fabricated Metal Products sectors. The aerospace operating margin, however, did surpass the other selected durable manufac-

turing sectors and the Durable and the All Manufacturing averages.

Net Profit Margin, which measures profit after interest and taxes as a percentage of sales, fell for aerospace below the returns of most selected industry groups and both the Durable and Nondurable manufacturing sector averages. Only Plastics & Rubber Products, Machinery, and Motor Vehicles & Parts posted worse.

When expressed as a percentage of equity, the aerospace average fell below the All Manufacturing average due to the strength of the Nondurable Manufacturing average. The aerospace return on equity surpassed the Durable average and many of the selected sectors but ran behind Primary Metals, Fabricated Metal Products, and Electrical Equipment, Appliances & Components.

And finally, the industry's return on assets was third lowest — ahead of only Plastics & Rubber Products and Motor Vehicles again. Aerospace's high gross profit levels are low-to-average compared to other manufacturing sectors when expressed as a percentage of sales, assets, or equity.

The Bottom Line

The aerospace industry's consolidated cash balances and corporate profits are historically high in gross amounts but aren't excessive when expressed as a percentage of total assets or other standard financial measures and when compared to other manufacturing industries.

Sector	"Cash+" to Total Assets		"Cash+"-to-Current Liabilities Ratio		Current Ratio (Current Assets / Current Liabilities)		Operating Profit Margin		Net Profit Margin		Net Profit as % of Equity		Net Profit as % of Assets	
	2004	1Q05	2004	1Q05	2004	1Q05	2004	1Q05	2004	1Q05	2004	1Q05	2004	1Q05
All Manufacturing	6.6	6.4	0.28	0.27	1.28	1.28	6.5	6.5	7.1	7.1	15.86	15.56	6.46	6.45
All Nondurable Manufacturing	4.4	4.7	0.21	0.22	1.20	1.21	7.5	7.9	8.0	8.8	19.43	21.30	7.68	8.58
Chemicals	4.2	4.5	0.18	0.19	0.99	1.03	7.5	9.4	10.3	12.4	15.49	19.24	6.16	7.68
Pharmaceuticals & Medicines	5.5	6.1	0.26	0.29	0.96	1.05	9.2	12.3	14.3	20.4	14.34	21.48	7.04	10.59
Plastics & Rubber Products	6.0	5.6	0.25	0.20	1.63	1.47	5.3	5.1	3.0	2.8	13.92	12.80	3.63	3.37
All Durable Manufacturing	8.6	7.9	0.33	0.30	1.35	1.32	5.6	5.1	6.2	5.3	12.94	10.81	5.40	4.59
Primary Metals	4.7	4.9	0.22	0.23	1.61	1.78	8.1	9.8	7.2	7.8	21.31	21.60	8.21	8.98
Fabricated Metal Products	6.7	6.4	0.27	0.26	1.68	1.72	8.0	8.3	5.7	6.0	17.25	18.32	7.27	7.82
Machinery	7.7	7.7	0.28	0.28	1.48	1.51	6.6	6.7	5.2	5.1	11.92	11.18	4.60	4.41
Computer & Electronic Products	13.3	12.7	0.63	0.61	1.59	1.58	5.2	4.1	9.3	8.3	10.26	9.01	5.87	5.21
Communications Equipment	20.8	18.4	0.99	0.89	1.83	1.79	2.6	1.9	8.4	8.4	8.40	8.62	4.54	4.75
Electrical Equipment, Appliances, & Components	3.6	2.7	0.16	0.12	1.19	1.12	6.7	6.2	11.6	11.3	17.00	15.85	8.65	7.98
Motor Vehicles & Parts	8.1	6.3	0.25	0.19	0.94	0.88	0.7	-1.1	2.5	1.1	11.72	4.93	2.70	1.18
Aerospace Products & Parts	4.8	4.7	0.12	0.11	1.16	1.10	6.9	7.2	5.2	5.9	14.30	15.41	4.01	4.34

Aerospace MBA Offered at University of Tennessee

The University of Tennessee has crafted a solution for aerospace professionals looking to further their knowledge of the industry — an aerospace-specific master of business administration degree program.

Designed specifically for aerospace professionals, the program offers an MBA in 12 months while participants continue working in their career fields.

Now in its second year, the program gives students the opportunity to learn how to deal with the complex issues of today's aerospace industry, offering curriculum in which 40 percent of the coursework is classic MBA content, 40 percent is aerospace related, and 20 percent is customized coursework for each session.

AIA Source:
Anne Wiskerchen
703-358-1078

Rather than cover a range of business scenarios from consumer goods to service organizations, the program's content, students, and faculty focus on the unique implications of the aerospace industry, according to the university's College of Business Administration.

"Our program is designed to create leaders who will add value to their organization from the first day of classes through graduation and beyond," explained Elaine Seat, director of the university's aerospace MBA program. "The result is an employee who is fit for life and fit for leadership."

In addition to Internet-based distance learning, the program includes five on-campus residency periods and one in Europe.

It is recommended that students have at least seven years experience and existing management responsibility as well as employer support.

For more information, visit
<http://aerospaceMBA.utk.edu>

Counterfeiting property crimes.

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- Developing and adopting legislation that will advance the collective needs of the business community.

- Encouraging and coordinating greater research, data gathering, and communications efforts about the impact of counterfeiting and piracy.

- Working with the U.S. government to obtain increased international anti-counterfeiting and anti-piracy initiatives.

Task force groups have been identified for each goal.

AIA is participating in the development and adoption of broad-based legislation, including two bills now under consideration in Congress. HR32 in the House would provide criminal penalties for trafficking in counterfeit marks and S1095 in the Senate would clarify the prohibition of trafficking in goods or services.

Director and Council Named for NGATS Institute Link to JPDO

The Next Generation Air Transportation System Institute, which is assisting federal officials in defining and implementing a new air traffic control system, is now being led by its inaugural management council and executive director.

Dale G. Goodrich, a commercial airline pilot and U.S. Air Force reservist, has been appointed the institute's first executive director.

He has been a United Airlines pilot and an Air Force Reserve colonel in the national Air Traffic Services Cell, the Defense Department's primary liaison to the Federal Aviation Administration.

In addition, 15 industry leaders have been named to the institute's management council along with ex-officio member Charlie Keegan, director of the Joint Planning and Development Office.

The institute is part of the National Center for Advanced Technologies, a non-profit corporation affiliated with AIA.

James C. May, president and CEO of the Air Transport Association, and Paul P. Bollinger, Jr., president of the Air Traffic Control Association, co-chair the management council.

AIA Source:
Mike Romanowski
703-358-1080

They join John W. Douglass, AIA president and CEO, Phil Boyer, president of the Aircraft Owners and Pilots Association, and Duane E. Woerth, president of the Air Line Pilots Association, as the council's executive committee.

Other council members selected are: Greg Principato, Airports Council International-North America; Steve Hampton, Embry-Riddle Aeronautical University; Peter J. Bunce, General Aviation Manufacturers Association; Roy Resavage, Helicopter Association International; John S. Carr, National Air Traffic Controllers Association; Henry Ogrodzinski, National Association of State Aviation Officials; Ed Bolen, National Business Aviation Association; Bill Connors, National Business Travel Association; David S. Watrous, RTCA, Inc.; and Deborah C. McElroy, Regional Airline Association.

The FAA formed the institute to coordinate with the Joint Planning and Development Office as a bridge between government and the private sector for the new air transportation system.

The institute will appoint industry representatives to eight integrated product teams to engage the government on important matters such as airport infrastructure, safety, security, air traffic, environmental protection, and other issues.

U.S. Aerospace and Defense: Strategic Contributor to America's Strength, Prosperity, and Security.

Strategic Standardization Forum Sets Agenda

The steering group of the newly formed Strategic Standardization Forum for Aerospace (SSFA) has approved the organization's charter, outlined its operating procedures, and identified its first projects as Global Standards and Critical Safety Items.

The forum was created following the release of industry's Report on the Future of Aerospace Standardization. The report examined standardization systems and processes, defined requirements to support the future growth of the industry, and made recommendations for a standardization infrastructure.

The SSFA is where the aviation, space, and defense industries — in partnership with government, standards developers, and other relevant stakeholders — can address



AIA Source:
Matt Williams,
703-358-1052

aerospace standardization issues, opportunities, and challenges and develop appropriate strategies or responses.

Responses can include:

- Prioritize standardization efforts and reduce duplication and proliferation of standards.
- Facilitate the definition of requirements for robust, responsive, and responsible tools, processes, and business models that support aerospace standardization.
- Promote development of globally recognized, accepted, and used standards that support international trade and the global business of aerospace.
- Provide education, awareness, and advocacy for aerospace standards with industry, government, regulatory agencies, standards-developing organizations, and trade bodies.

TOC Revamps Standards Development Processes

AIA's Technical Operations Council is improving the Association's processes for developing its National Aerospace Standards (NAS).

In 2004 AIA converted the text and tables of more than 3,000 NAS to an editable electronic format. Several TOC member companies volunteered to fund the conversion effort.

This year the council has tasked engineering intern Kyle Edgemon with putting the figures contained in the NAS documents into a searchable support database that will provide fully electronic and editable standards.

Another project underway is an online balloting system for NAS documents. Members of the National Aerospace Standards Committee will soon be able to vote and comment on documents using AIA's Web site, cutting voting time in half.

In 2003 AIA's Board of Governors established a Standards Improvement Process Team, led by Bob Klein of Northrop Grumman, to make specific improvements to the standards development process.

AIA Source: Matt Williams, 703-358-1052

Standards Store Open on Web

All of AIA's national aerospace standards, the largest body of trade association standards in the United States, are available for purchase through AIA's Web site.

The standards store has been redesigned to provide users faster access to standards and the ability to search the site using a variety of criteria.

Available to AIA members and non-members, the store offers association members the benefit of a 40 percent discount in pricing.

AIA's National Aerospace Standards Committee is responsible for the development, maintenance, and revision of thousands of standards defining parts and practices used in aerospace design and manufacturing.

**To access the Standards Store,
go to www.aia-aerospace.org
and click on *Library*
in the menu bar.**

Former NASA Exec Steidle Is New AIA International Affairs VP



Steidle

Craig E. Steidle is AIA's new vice president of international affairs.

He previously was associate NASA administrator for the Office of Exploration Systems, a position created in January 2004 to implement the nation's Vision for Space Exploration.

In his new position Steidle, a retired U.S. Navy admiral, will spearhead industry efforts to promote government policies that support exports, avoid protectionism, and foster fair principles of international trade. Steidle replaces Joel L. Johnson, who is retiring.

"Craig is a tremendous addition to the association," said AIA President and CEO John W. Douglass. "His experience managing international defense programs will be a great asset as we continue to pursue reform of the U.S. export control system and other regulatory and legislative remedies to allow

**Steidle continued
on pg.8**

**Workforce
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• Chris Carlson and Anngienetta Johnson on NASA workforce critical needs and educational programs.

• Keith Thompson on DoD's science, technology, engineering, and math educational plans.

• Scott May of the Education Department and Dave Curren of the Labor Department's Employment & Training Administration on agency activities.

• Halima Aquino of the Workforce Investment Board on actions of the Maryland Governor's office.

• Tom Stubbins on the state cluster workforce initiative of AIA member Vought Aerospace.

Pat McCartan, AIA director of legislative affairs, reported that HR758, the Interagency Aerospace Revitalization Task Force Act, is currently

awaiting a House floor vote.

For copies of the presentations, e-mail Jana Denning at Jana.Denning@aia-aerospace.org.

**Steidle
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our industry to conduct business on a level playing field in the global marketplace.

"Craig replaces an individual who has a wellspring of knowledge about the industry and the issues and has worked tirelessly during his 16-year tenure at AIA," added Douglass. "Joel has many accomplishments to his credit. He played a major role in establishing a highly cooperative relationship between industry, government, and the military services in promoting international defense sales that are consistent with U.S. foreign policy objectives."

In addition to his contributions at NASA, Steidle has had a distinguished career in the U.S. military. He commanded the Navy's F/A-18 program, naval aviation's largest production, research, and development program.

Rocket Kids — No Egg on Their Faces!



Members of one of the teams competing in the finals of the 2005 Team America Rocketry Challenge in May look over dozens of eggs used in the launch competition. More than 500 middle and high school students from 27 states took part.

AIA President and CEO John Douglass said the contest was once again a huge success.

"All 100 teams showed amazing cooperation and knowledge and should be very proud of their accomplishment," Douglass said. "We expect to see many of these young people in our aerospace companies in the future, perhaps helping launch large rockets into space."

Preparations for the 2006 Challenge are already underway. More information and applications are posted on AIA's Web site along with details of this year's Challenge and a list of winners.

The 2006 Challenge is sponsored by AIA and the National Association of Rocketry in partnership with NASA, the Civil Air Patrol, the Department of Defense, and these 39 AIA member companies:

3M Company

AAI Corporation

Aerojet

American Pacific Corporation

Analytical Graphics, Inc.

Argo-Tech Corporation

ATK

Aviall, Inc.

BAE SYSTEMS

Barnes Aerospace

The Boeing Company

Cubic Corporation

DRS Technologies, Inc.

Ducommun Incorporated

Embraer Aircraft Holding Inc.

General Electric Company

GKN Aerospace Services

Goodrich Corporation

W.L. Gore & Associates, Inc.

Harris Corporation

Honeywell

ITT Industries

Kaman Aerospace Corporation

Lockheed Martin Corporation

Natel Engineering Co. Inc.

National Technical Systems

Northrop Grumman Corporation

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Rolls-Royce North America Inc.

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AIA Member Panel Discusses Aerospace Issues at Board Meeting

A panel of senior executives from AIA member companies discussed aerospace and supplier issues at the association's Board of Governors meeting at Williamsburg.

Taking part were Paul Graziani, president and chief executive officer, Analytical Graphics Inc.; John Wilander, chairman and president, B&E Precision Aircraft Component; George Yohrling, president and chief executive officer, Curtiss-Wright Corporation; Bill McCabe, director, DuPont Aviation, DuPont Company; Bradley Morton, president, Eaton Aerospace LLC; and Vickie Wessel, president, Spirit Electronics Inc.

The roundtable was moderated by AIA President John W. Douglass.

Here is a digest of the discussion.

DOUGLASS: What barriers exist to workforce levels and can AIA help?

WILANDER: I've taken a look at our facility and asked how many people do we need just to stay current and what are we going to need to grow? We've found that 20 percent of our people are over 55 years old and our local school is graduating 15 kids a year. That's not going to supply what I need. So we've gone out and developed our own apprentice program.

YOHLING: Like everyone else, we're finding that our workforce is aging, particularly engineers. There have been many instances, fortunately, where our most talented engineers don't like full retirement and we've been able to bring them back on a contract to help train new, younger employees. We've also established scholarships at three engineering schools close to our major manufacturing sites. This is getting us exposure and a recruiting edge. We're looking at extending that to internships where students would come in and work hands-on with our senior people.

GRAZIANI: We could take a look at things like AIA's rocket contest as a great grass roots thing, getting kids stimulated in science, math and engineering. There are programs already going that are directly relevant to our business. The Civil Air Patrol has about 60,000 cadets, all exposed to specific education programs such as aerospace

and space systems engineering. There's another organization being formed, the Federation of Galaxy Explorers. The essential theme is space exploration. There's nothing cooler to a kid than what we all do. There's a great opportunity if we can keep that interest in our programs.

DOUGLASS: Metal and special alloy prices are increasing dramatically and availability decreasing. What can be done?

YOHLING: We're finding in specialty steel, such as carbon and stainless, increases of 25 percent. The impact is compounded dramatically because producers have now increased lead times from 44 to 48 weeks — outside the lead time that we have with our principal customers. We're looking at a 35 percent increase in raw material to make sure we can make the delivery schedules. This may be an area we have to look at lead times change. I'm concerned about it escalating to bearings and other things. It's

going to get worse before it gets better, and it obviously is putting a crimp on our profitability and cash flow.

MORTON: We've seen it at Eaton Aerospace in a couple of ways. One is lead time and the way we've structured long-term agreements. We're getting pinched between some very dramatically escalating material costs and lead time extensions. Second, we're seeing overlapping requirements where we have dual source situations. It's difficult for us not only to predict our share, but to account for the inaccuracies of the fundamental schedules at hand. So, long lead time is just compounding things and is probably a bigger impact to our overall costs than even the material price escalation.

McCABE: It's always a challenge how the supply chain works for a company where aerospace is not necessarily a strategic part of what

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U.S. Aerospace, Defense in the International Arena: the Last 25 Years

By Joel Johnson, AIA Vice President of International Affairs (Retired)



Johnson

My retirement is a natural time to reflect on the wins and losses over my career. In the nearly quarter of a century I spent working international issues for the aerospace industry, there are two particular clusters of issues that come to my mind.

On the positive side, there's been slow but steady improvement in the relationship between our industry and our government in the area of defense exports.

Those of us who were around in the late 70s remember a time when defense contractors were unwelcome in U.S. embassies, various costs associated with marketing defense products were unallowable, and the military services and acquisition community often saw contractors as adversaries.

Over the years we have finally reached the point where once the U.S. government has determined that a defense sale is in the foreign policy interest of the United States, industry and government work together as a team to see that the sale goes to the American company.

In sharp contrast, there's been little progress in the export controls area.

The U.S. government continues to administer a system whose laws and regulations are rooted in the mid-70s. International defense cooperation is increasingly important, often with multilateral partners. The defense industry must often seek out cutting edge commercial technology for use in military systems. Yet our current system discourages both practices.

This system needs to change. The government must ask itself three simple questions: What needs to be controlled? What can be controlled? And

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we do, but our enabling technologies are very important for the industry. It calls for dialogues like this where people from the OEM level down to assembly and materials have a better understanding of the challenges.

DOUGLASS: AIA has been working the export control issues as a priority. What are your experiences in these areas?

MORTON: We continue to see major barriers to international business. We've had multiple times where our competitiveness has been hindered by approval of something as simple as a hydraulic pump. We're seeing more complexity of restrictions around import/export controls, requiring more due diligence in cost and managing between commercial and defense products.

Some of the regulations are absolutely ridiculous with regard to what constitutes a technology that cannot be exported to China, for instance. We have simple hoses for landing gear, and just changing the length of the hose makes it the same part as a military hose and, therefore, the commercial product isn't exportable. Families of products are being scrutinized on an import/export basis. And that makes it very difficult and very painful for us.

WESSEL: We've had some issues regarding ITAR control. We sell a lot of QPL [Qualified Products List] products, and much of it is made abroad. We also have ITAR control drawings where the actual manufacturing of the product is not done within the United States. When we have manufacturers and their quality engineers

conference call with some of our customers and their manufacturing engineers, and they find out that they've got a manufacturing engineer from Mexico or Canada, for instance, they terminate the phone call.

YOHRLING: We don't get into it a lot, but when we do, they really tie us up in knots. It makes us a whole lot less competitive. We have operations in seven countries and some very interesting technology in those activities. True, they're not American-based, but that technology is owned by an American company. It's great technology. The rest of the world is using the technology, but it takes us forever to get approvals to bring that technology to the U.S. defense industry. Here we are trying to improve profitability for American companies, pay more taxes, and bring more jobs to the U.S. — and we're getting tied in knots.

DOUGLASS: Industry sales and profits are increasing, and there's a sense industry is prospering. Is this prosperity enjoyed at the supplier level?

WESSEL: There have been big changes in the way services have been procured. For instance, very large companies have begun to outsource a lot of their non-core competencies. We've seen some big moves to supplier-managed inventory programs, which have allowed some big companies to reduce inventory.

But there have been a couple of disturbing trends happening to the sub-tier contract level — pushing out of payment terms, for instance. We're seeing a real push from the upper levels to extend payment terms where a lot of smaller contractors are

carrying extended terms for a lot of the primes, 45 to 60 day payment terms, which I think is hurting the smaller companies in the supply base.

MORTON: I absolutely agree, but there's a fundamental shift underway in aerospace that's going to require a change in our pricing models involving OEMs, airlines, and the military as we shift to performance-based logistics. Under a performance-based logistics contract, as reliability of our products improves above guaranteed levels, we as suppliers take advantage of the reduced support costs.

It aligns our business model with the end-user business model, and that's great. But we need to recognize that the current model is built around an after-market business based on parts sales, as opposed to an after-market business based on performance. We can no longer sell OEM products at a loss and recover it in the after-market through higher spare part sales.

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how can we control items efficiently?

Additionally, we need to include our allies in these discussions. It shouldn't be beyond the combined capacities of industry, our government, and our allies to do so.

My interest in this ever-changing industry, with all its highs and lows, remains as strong as my first day on the job. The sound of a jet or a rotor blade can still bring me to the window. I thank everyone who has made my time in the industry a most rewarding one.



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