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AEROSPACE INDUSTRIES ASSOCIATION

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41ST ANNUAL YEAR-END REVIEW AND FORECAST LUNCHEON :  
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10 First Floor Ballroom  
11 Crystal Gateway Marriott Hotel  
12 1999 Jefferson Davis Highway  
13 Arlington, Virginia  
14 Wednesday, December 14, 2005

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The meeting was convened at 12:34 p.m.

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P R O C E E D I N G S

MS. O'BRIEN: Welcome to the 41st Annual Year-End Review and Forecast Luncheon. I am Rosanne O'Brien, head of communications at the Northrop Grumman Corporation. It's wonderful to see so many members and guests here today.

Please rise now for the Joint Armed Forces Color Guard from the Military District of Washington for the presentation of colors.

Color guard.

(Colors presentation.)

MS. O'BRIEN: Okay, we can sit down again.

I want to extend my thanks to the members of the color guard for joining us today. As we enjoy the holiday season at home, I know we in this room have so many ties to the military and thoughts of our troops in Iraq and around the world in the holiday season as they're spending their time away from their families.

I'm going to begin today's events by introducing our head table. If you could all just quiet down for a few more minutes, please. Mark Rosenkirk, Acting Chairman of the National Transportation Safety Board.

(Applause.)

Cheryl Flohr, Director of Communications Services at Parker Aerospace.

(Applause.)

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Greg Martin, Assistant Administrator for Public Affairs at the Federal Aviation Administration.

(Applause.)

Walter Boyne, President, Walter Boyne Associates,

5 and winner of this year's Lyman Award, which you'll hear about  
6 in a few minutes.  
7 (Applause.)  
8 Molly Boyne, daughter of Walter.  
9 (Applause.)  
10 Alexis Allen, AIA Director of Communications.  
11 (Applause.)  
12 Captain Kevin Wensing, Special Assistant for Public  
13 Affairs to the Deputy Secretary of Defense and Secretary of the  
14 Navy.  
15 (Applause.)  
16 Tony Velocci, Editor in Chief at Aviation Week and  
17 Space Technology.  
18 (Applause.)  
19 And lastly, our speaker today, John Douglass, who I  
20 will formally introduce later.  
21 (Applause.)  
22 I want to talk a little bit about the Lyman Award.  
23 This year we have a new item on our program and it is the  
24 presentation of the 2005 United Technologies Corporation Lyman  
25 Award. The Lyman Award recognizes the person whose long and

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1 distinguished career in aviation journalism and public relations  
2 best displays the qualities of integrity, accuracy, and  
3 excellence in reporting in the aviation industry. The award was  
4 established in 1972 in memory of Lauren Dwight "Deac" Lyman, a  
5 well-known aviation writer and industry executive who worked for  
6 United Technologies from 1938 until his death in 1972.

7 First presented by the Aviation and Space Writers  
8 Association and then by the Society of Aerospace Communicators,  
9 it is now for the first time, and I hope for years to come,  
10 being presented by the AIA. It is an honor for the AIA  
11 Communications Council to be associated with an award that  
12 recognizes excellence in aviation journalism and public  
13 relations.

14 I'd also like to acknowledge our selection  
15 committee, composed of former Lyman winners, journalists, and  
16 public relations representatives, for their efforts in selecting  
17 this year's winner. Several are with us today, including Carole  
18 Shifrin, the 1999 Lyman Award winner; Kelly Murphy, former  
19 President of the Society of Aerospace Communicators; Doug  
20 Kennett of Boeing and the Chair of the AIA Washington Public  
21 Relations Committee; and the Alexis Allen of AIA.

22 I would now like to turn the podium over to Scott  
23 Seligman, Director of Public Relations at United Technologies  
24 Corporation. Scott.

25 MR. SELIGMAN: Thanks, Rosanne.

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1 Good afternoon. It's a pleasure for United  
2 Technologies Corporation to continue the tradition of the Lyman  
3 Award under the stewardship of the AIA, and it's a great honor  
4 for me today to present the 2005 UTC Lyman Award to a man who  
5 truly exemplifies the standards and skills that Deac Lyman lived  
6 and worked by, Walter J. Boyne.

7 Our 2005 Lyman honoree is a career Air Force officer  
8 who retired with 5,000 flying hours. He served as Director of  
9 the National Air and Space Museum and founded Air and Space

10 Magazine at the time and supervised the production of two  
11 successful IMAX films.

12 But let me give you a few statistics here that kind  
13 of tell the story. Walter's the author of more than 500  
14 articles published in national and international aviation  
15 magazines and 40 -- count them, 40 -- books on aviation  
16 subjects. He told us last night that one of those books was  
17 written over a weekend. I've taken longer on press releases.

18 He's one of the few writers ever to have  
19 best-sellers on the fiction and nonfiction lists of the New York  
20 Times at the same time. As Chairman of the Board for Wingspan,  
21 the Air and Space Aviation Channel, he has written, produced,  
22 and narrated numerous television scripts as well.

23 Walter's combination of extraordinary and  
24 outstanding academic, flying, curatorial, writing, and editing  
25 experience has established a unique record of achievement in

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1 aviation writing. It's a pleasure to present him with the Lyman  
2 Award for 2005.

3 (Applause.)

4 MR. BOYNE: Thanks very much, Scott. Thanks, John.  
5 Thank you, Rosanne. Thanks, everybody, for coming. It's a  
6 great honor to have this award that's won already by so many  
7 distinguished people such as dear Carole and so many. But it's  
8 also very rewarding to look out over this crowd and realize that  
9 the other future Lyman Award winners are probably right here.  
10 So I'll take the advantage of saluting you for the future and  
11 thanking you for today. Thanks so much.

12 (Applause.)

13 MS. O'BRIEN: At this point we're going to have  
14 lunch and then afterward we'll hear from John Douglass. So  
15 enjoy your lunch.

16 (Lunch was served from 12:43 p.m. to 1:30 p.m.)

17 MS. O'BRIEN: This is the day when AIA reviews the  
18 aerospace industries overall performance for the past year and  
19 gives its forecast for the upcoming year. John Douglass joined  
20 AIA in 1998 as President and CEO. A nationally recognized  
21 expert in systems acquisition and former Assistant Secretary of  
22 the Navy for Research, Development, and Acquisition, John also  
23 completed 28 years of service with the Air Force. He worked for  
24 Senator Sam Nunn and served as Director of National Security  
25 Programs for the White House and then as President Reagan's

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1 representative to the Blue Ribbon Commission on Defense  
2 Management.

3 John will now share his thoughts with us on the  
4 state of the aerospace industry, and there will be an  
5 opportunity to ask questions at the end of his speech.

6 (Applause.)

7 MR. DOUGLASS: I have to get my notes out here;  
8 these complicated charts that are coming.

9 Let me begin by saying what a pleasure it is to see  
10 everybody here. This kind of marks the end of the year for a  
11 lot of us and it's a wonderful opportunity to get together as  
12 the holiday season begins to come upon us. As Rosanne said,  
13 this is my eighth year-ender. We've been doing this for 41  
14 years, so I'm getting up to being 25 percent of the total thing

15 that we've done.

16 We do it differently every year. What we try to do  
17 is show you what has happened in the past year, show you what we  
18 think is going to happen near-term in the future, and then give  
19 you some commentary on long-term projections, and that's exactly  
20 what we're going to do today. Then of course, at the end we  
21 want to answer any questions you can within the time limits that  
22 we have. So we're going to do three things: the statistical  
23 report, the road ahead as we see it today, and some initiatives,  
24 particularly initiatives in the international arena that we  
25 think you will find interesting.

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1 So if I can have the first chart, please.

2 (Slide.)

3 This is our sales situation today and for next year.

4 By the way, you have these handouts at your table, if you're in  
5 the back and you're having a hard time reading the chart. The  
6 interesting thing is that when we were here last year I told you  
7 that I thought we would grow from '04 to '05 by about \$12  
8 billion and I said my own personal prediction was it might be a  
9 little more than that and it has turned out to be a growth of  
10 \$14 billion. So we had an excellent year in '04 to '05.  
11 This, as you're going to see in a minute, was pretty much spread  
12 across all of the sectors of aerospace -- civil, military, and  
13 space.

14 We're looking forward to a year in '06 in which we  
15 grow by another \$14 billion, interestingly that the two numbers  
16 happen to come out the same. That means that from '04 to '05 we  
17 saw about 9.2 percent growth and we're predicting about 8.2  
18 percent growth for '06. What's interesting in '06 is that most  
19 of the growth, as you're going to see in a minute, is related to  
20 the rapid expansion and recovery of the civil aviation sector of  
21 our aerospace economy. This is all good news for our country.  
22 It's good news for our national security, it's good news for  
23 U.S. workers, and it's good news for the American economy.

24 If we can go to the next chart --

25 (Slide.)

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1 -- you'll see the breakout here and you can see how  
2 much '05 grew as compared to '04, and you can see that growth  
3 again in '06. What's interesting I think is to look at the  
4 growth that we're predicting in '06 for civil aircraft, a full  
5 \$10 billion of growth in that category. I am very, very  
6 confident in that number. I think it is probably even on the  
7 low side. Just to show you and put it in some perspective, just  
8 today Boeing announced that Qantas Airlines has ordered 110  
9 787's with a market value of \$18 billion, just in one day.  
10 That's the kind of sales that we're seeing in civil aviation.  
11 So we know that those airplanes that are on the order books now  
12 are going to get built over the next three to five years and we  
13 see a very substantial recovery coming.

14 The other interesting part about civil aviation is  
15 that we know that we have to renew the air traffic control  
16 system here in the United States and that project is well  
17 launched by our government. A few years ago we had a commission  
18 on the future of the industry. I was lucky enough to be one of  
19 the President's commissioners on that commission and we

20 recommended that a joint program be formed to develop the new  
21 air traffic control system of the future, and I'm very pleased  
22 to say that our Department of Transportation and our FAA have  
23 taken that commission report and made it a reality. So we are  
24 well launched on the kinds of things that we need to do to make  
25 civil aviation in the United States, business aviation,

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1 recreational aviation, wonderfully successful in the years  
2 ahead.

3 To do this, we also need to maintain our commitment  
4 to aeronautics funding from the Congress, and that's been a big  
5 issue for AIA this year and it's going to be a big one next year  
6 as well.

7 Space is another area where we see solid growth in  
8 the future. We've got a new administrator in Mike Griffin.  
9 Mike has embraced the President's vision to go back to the moon  
10 and on to Mars and is working on innovative ways to do that. So  
11 in commercial aviation and in space we see that the road ahead  
12 is very, very strong.

13 Defense, as all of us know, is another area where  
14 this administration has made a substantial commitment to the  
15 security of our country. We don't see that changing. We're not  
16 sure how much it might grow, but we don't see it shrinking  
17 significantly as time passes. There's been a lot of talk -- you  
18 may have some questions about that because there's been a lot of  
19 coverage about what might happen in the QDR and what might  
20 happen in the '07 budget, and I'd be glad to answer any specific  
21 questions you have on that.

22 (Slide.)

23 On the next chart you see another piece of extremely  
24 good news and that is our profits are up a full percentage point  
25 in '05 over '04. This trend of increasing the percentage of

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1 profits to sales means that our industry is doing business well.

2 We have become more efficient and more innovative than we were  
3 in our recent past. In 2005, by aggregating our profits across  
4 the industry we're estimating that it's going to be somewhere  
5 between 11 and \$11.5 billion. That will be the highest amount  
6 of profit the industry has made ever in the history of the  
7 industry.

8 We'd like to see that percentage of profit grow a  
9 little bit because we're still below the national average for  
10 manufacturing, which is 7.5 percent. But 6.2 is good for our  
11 industry and we believe that that will continue into the future.

12 Next chart, please.

13 (Slide.)

14 This is kind of a summary of the orders, shipments,  
15 and backlog, and you can see that backlog is about a year and a  
16 half's worth of shipments. So the industry is well positioned  
17 to maintain this important trend for the next three to five  
18 years, because that's how long it takes to build these products.

19 Again, just to put it in perspective, here in one day you could  
20 add \$18 billion to that backlog based on this order that Boeing  
21 has got for the 787.

22 When you look back at where we have been in the last  
23 couple of years, when there have been questions about whether or  
24 not the 787 was going to be the right thing for the market or

25 whether some other airplane is going to be a rival to it on the  
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1 market, you can clearly see now that the answer is: The market  
2 has given us this answer, that the 787 is going to be a terrific  
3 airplane, it's going to be something that the airlines are going  
4 to buy in large quantities for a number of years to come.

5 The interesting thing about this is, as our American  
6 airlines return to profitability, as they are hoping that they  
7 will do next year -- and I believe the Air Transport Association  
8 is actually predicting the airlines will get back in the  
9 profitable side of the ledger next year -- we're going to begin  
10 to see a burgeoning number of orders for 787's coming from our  
11 own domestic industry, whereas today many of them are going into  
12 the global economy.

13 Speaking of the global economy, if we go to the next  
14 chart --

15 (Slide.)

16 -- you'll see the trade balance, and it is also  
17 another piece of good news. It increased substantially in 2005  
18 and it is back up near its all-time high at \$37 billion positive  
19 trade balance. If you were to go back and aggregate our trade  
20 balance over just the last 20 years, you would see that the  
21 aerospace industry in the United States has contributed more  
22 than a half a trillion dollars of positive trade balance to the  
23 American economy. This is a major factor in an economy that has  
24 a major, major trade deficit around the world, and it  
25 underscores one more time how important this industry is to our

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1 economy and to our national security.

2 It also means jobs. About 40 percent of everything  
3 produced in our country -- and this varies a little bit; some  
4 years it's 41 or 42, some years it might be 38 to 39. But  
5 somewhere around 40 percent over the long haul of everything  
6 produced in the American aerospace and defense industry is  
7 exported outside the United States. That means good, reliable  
8 jobs for Americans and it means that we have the ability to  
9 maintain our technological manufacturing base over the long  
10 haul.

11 (Slide.)

12 If we go to the next chart, you'll see some  
13 interesting demographic news. This is the number of people in  
14 the industry or the employment of the industry. We've been on a  
15 long downward cycle since the end of the Cold War. At our  
16 height during the Cold War we had about \$1.3 million workers.  
17 We bottomed out in February of '04 at a 50-year low. Since then  
18 we've added about a little over 30,000 jobs in America and that  
19 represents about one-third of all the manufacturing jobs that  
20 have been created in the United States since February '04.

21 Now, this work force is aging and it is of concern  
22 to us as we are now in a position where we need not only to  
23 replace the workers that we have, and having completed a cycle  
24 where we've become much more efficient by consolidating our  
25 companies, we now need to begin to replace the workers that are

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1 in their fifties, and the average age of the work force, both  
2 blue collar and engineers, are mid to late fifties. So there is  
3 a substantial issue for us in the future and that does bring us

4 to the challenges that I see on the next chart, if you'll go to  
5 the next one.

6 (Slide.)

7 As we have gotten more efficient over this period of  
8 time and more competitive in the global economy, it has also  
9 brought with it some fragility. We have -- when you're very  
10 redundant, you have many, many factories that produce the same  
11 kind of things, many contractors competing for the same kind of  
12 contracts. You have some inefficiency, but you have some  
13 strength through redundancy. As we have consolidated, we have  
14 become more fragile.

15 One of the issues for us at AIA is to make sure that  
16 those of you in the press and in our government understand this  
17 and also make sure that Congress understands it. We're  
18 concerned that when you look across the systems that are needed  
19 for our national security -- some of them are listed here; there  
20 are others -- many of these are produced in one place, by one  
21 contractor, here in the United States, and this does create  
22 fragility, and it means that if that weapons system gets into  
23 political trouble or for some reason goes out of production you  
24 no longer have the capability to produce that kind of product  
25 unless you immediately replace it with a new product. It brings

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1 a different tension to the needs of the industrial base to the  
2 government than we had before, because you could cancel a  
3 program and somewhere else in the economy somebody else would be  
4 working on a similar program so the nation would not lose that  
5 capability.

6 That is increasingly not true. The quintessential  
7 case of this that happened when I was last working in the  
8 government as the Assistant Secretary of the Navy was when the  
9 Congress cancelled the Sea Wolf submarine and we pretty much had  
10 to make the decision, do we want an industrial base to build  
11 submarines, and as a result of that we created the VIRGINIA  
12 class submarine. So we're concerned about that.

13 If the government doesn't pay attention to this, if  
14 you don't see people in the Department of Defense, Department of  
15 Commerce, and other parts of the government talking about this  
16 and explaining what they plan to do about this over the long  
17 time, it affects the number of people coming into the industry.  
18 Certainly the best and the brightest that are graduating from  
19 our engineering schools and our scientific colleges and  
20 universities around the country are not going to come into this  
21 field if they don't see a future.

22 So the government and industry together need to work  
23 on this. So as we look from a very bright near-term performance  
24 of the industry, clearly on its upswing, beginning to hire  
25 workers again after a long period of consolidation, we need the

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1 government and we need our friends in the press to understand  
2 that this industry, despite its strengths today, is fragile and  
3 we need to plan for the future.

4 I want to close with a couple of comments about some  
5 international issues and one on some of the important issues  
6 that are facing us today in terms of acquisition reform. The  
7 first comment that I want to make is that we are looking forward  
8 to some active negotiations between our government and the

9 European governments on the WTO subsidies case in 2006. We are  
10 in solid support of President Bush's position on those large  
11 aircraft subsidies. We believe that we have a good negotiating  
12 team and we're hopeful that something can be worked out, because  
13 we still have a very, very significant goal as an industry to  
14 establish a rules-based trading environment in the global civil  
15 aviation aerospace economy, and that means that the United  
16 States and Europe have got to come to some meeting of minds on  
17 large aircraft subsidies.

18 The second thing is we need to educate the  
19 administration and the American people on how important it is  
20 for us to be able to sell our products on the global economy.  
21 This means that eventually we're going to have to pay more  
22 attention in the government to export control mechanisms that  
23 are in place today.

24 Now, we've pretty much decided as an industry that  
25 these decisions, which are always made in a political context,

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1 that we're probably not going to see a new export control system  
2 in this administration. They've only got two and a half years  
3 left. This is probably going to be an issue for the 2008  
4 election. So in the mean time our focus on export controls,  
5 especially in 2006, is going to be to try to make the system  
6 that we have work as best we can.

7 We've got some new people over at the Department of  
8 State. We're working with them. We're working with members of  
9 the Hill to try to make sure that everyone understands that we  
10 need to be able to sell our products, especially our civil  
11 products, around the world.

12 The third initiative for next year that I thought  
13 you all would be interested in is that we also need a global  
14 code of ethics for this industry, a global code of ethics. Now,  
15 it turns out that all nations have their scandals and their ups  
16 and downs. We have them here in the United States. But when  
17 you look at the code of business ethics here in the United  
18 States, it's one of the most well developed and most stringent  
19 codes that exist in the global economy, and we often compete  
20 around the world with other nations who don't have those same  
21 high ethical standards that we have.

22 So AIA is proposing to the International  
23 Coordinating Committee of Aerospace Industry Associations, which  
24 we belong to, that in Farnborough we sign an agreement among the  
25 major aerospace manufacturing countries of the world -- and

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1 those are primarily Europe, Japan, Brazil, and Canada -- that we  
2 all adapt a universal ethics code and we will adapt mechanisms  
3 to monitor our performance against that code, and when we meet  
4 -- that group usually meets about twice a year -- we'll review  
5 our progress towards this global code for business ethics.

6 So the last point that I want to mention is, I had  
7 an opportunity yesterday to meet with General Ron Kadish who has  
8 done a very thoughtful and thorough study of defense acquisition  
9 for Secretary England, and Secretary England certainly deserves  
10 credit for putting that Kadish panel together and General Kadish  
11 and the members of his panel deserve some credit for putting  
12 together a very, very thoughtful report. It deals mainly with  
13 how the Department of Defense does systems acquisition within

14 the Department, and I just wanted to mention to all of you today  
15 that the industry has seen that report. We solidly support what  
16 Secretary England is doing.

17 There is going to be an unveiling of this at 2:30  
18 today. They're going public with it. And there's going to be a  
19 press brief at 4:30 today. So if you're a member of the press  
20 and you're covering acquisition reform, I think that's something  
21 you might want to look into this afternoon. If you have any  
22 questions about that today, I'd be glad to answer them.

23 With that, let me open it up to questions, and they  
24 can be anything. It can be on what we've covered today or if  
25 there's some other question on your mind this is an opportunity

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1 for me to try to answer any questions that you have.

2 Who wants to be first? There's one right out there.

3 Can you stand up so everybody can hear your question. Thank  
4 you.

5 VOICE: Your forecast shows basically a static DOD  
6 line, but the rumors we're hearing on the '07 budget look like  
7 it's going to take some pretty hefty hits.

8 MR. DOUGLASS: The question is that when you look at  
9 the growth in 2006 you see the DOD sales being roughly about the  
10 same, and why is that, because there are some rumors that there  
11 might be cuts in the '07 budget. The first answer is that we're  
12 talking '06 on this chart; your rumors relate to '07.

13 What's interesting about this chart, though, is that  
14 defense acquisition actually, in terms of the amount of dollars  
15 approved by the Congress, if you look at both the authorization  
16 and appropriations reports -- which, remember none of those have  
17 been consummated yet; they're all held up right now by the  
18 squabbling over the McCain amendment on treatment of POW's. But  
19 we know basically what the numbers are, and there's a  
20 substantial growth in procurement in '06, but there's only about  
21 a billion dollars in growth in outlays in '06. When it comes to  
22 defense, what you see in '06 on that chart is a reflection in  
23 the outlay forecast.

24 Now, that, though, is an area where we do expect  
25 some growth, but it's hard to predict it because if there's

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1 another supplemental which helps the military departments pay  
2 for the war on Iraq, clearly some of that will come into our  
3 forecast through the mechanism of spare parts sales for all the  
4 various equipment that's being used in Iraq and Afghanistan.

5 So I hope that answers your question. It's an '06,  
6 not an '07, number and it's based on outlay predictions as we  
7 see them in the authorization and appropriations committee  
8 reports.

9 Yes, Tony.

10 MR. VELOCCI: John, do you think there's an  
11 appreciation among the lawmakers for the need for the industry  
12 to sustain a healthy level of profits, or can you foresee  
13 lawmakers stepping in and perhaps interrupting this increase in  
14 profit levels that we're seeing taking place?

15 MR. DOUGLASS: I don't see Congress intervening in  
16 the profit arena, especially when the profits are below the  
17 national level for manufacturing. If they were to be  
18 substantially higher, that might be a different political

19 situation, but they're not. Occasionally we do have some  
20 problems, not with the Congress but within the bureaucracy,  
21 about the amount of cash that the companies have or the profits.  
22 But I don't foresee legislation.

23 As a matter of fact, this Congress has been  
24 relatively sensitive, Tony, to the need to husband our  
25 industrial resources and our industrial base across not only the  
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1 aerospace industrial base, but in general. We've had a little  
2 more of a problem in avoiding heavy protectionist legislation  
3 that would actually hurt our trade than we have people trying to  
4 put a cap on profits.

5 Yes, sir.

6 VOICE: John, if NASA cuts aeronautics funding in  
7 the '07 cycle to free up money for the vision for space  
8 exploration, would AIA support that?

9 MR. DOUGLASS: No, we would not support that. We  
10 believe that there's plenty of money in the economy to meet the  
11 needs of NASA's space exploration program and support a robust  
12 aeronautics program as well. We are on record this year for  
13 asking for more money for aeronautics and both the House and the  
14 Senate responded, in fact gave us more money than NASA asked for  
15 in both aeronautics and space exploration.

16 I think it depends on how you approach the American  
17 people on this. If you say to the American people, would you  
18 rather have a man on the moon or higher levees in New Orleans,  
19 you know, and it's two days after a disaster from a hurricane,  
20 sometimes they'll say, well, I'll take the higher levees. But  
21 if you say to them, look, do you want America to stand down from  
22 its exploration of space, would you want to live in a world  
23 where Europe and China and other countries have astronauts or  
24 are preparing to go to the moon, but America is not going to do  
25 that any more, almost -- it is way up in the 90 percentiles,  
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1 Americans say: No, no, that's not the world we want to live in;  
2 we do want to be a part of that; we do want to participate.

3 So we think there is a role for more money to come  
4 to NASA for space and more money for aeronautics. We are  
5 particularly pleased to see that Mike Griffin and Marian Blakey  
6 have worked together to make the commitments that they have to  
7 make together to keep NASA's investment in our new air traffic  
8 control system at the level it needs to be, and we commend them  
9 both for that partnership and working together.

10 Yes, sir.

11 MR. HALL: Mr. Douglass, Jim Hall with Reuters.  
12 What do you expect to be announced in terms of defense  
13 acquisition reform? Is it a net plus or a net negative?

14 MR. DOUGLASS: Well, it's like I said: I've seen  
15 the summary report. Ron was gracious enough to -- he  
16 established some review teams to review the final findings and  
17 midway through his investigations he had us in and we gave him  
18 some steering recommendations. So he was gracious enough to  
19 bring us all in yesterday and show us the recommendations he's  
20 going to make to Gordon England.

21 They mostly have to do with how systems acquisition  
22 operates within the Pentagon. What I saw yesterday were all  
23 things that industry could support. They were all things that

24 would be helpful in streamlining the process. Basically, what  
25 we have now is a Deputy Secretary who is paying a lot of

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1 attention to this problem, and we haven't had that all the time  
2 in recent years. So Secretary England is to be commended. He's  
3 been out there recruiting people, the acquisition teams for the  
4 military services. The new Assistant Secretary of the Navy,  
5 Delores Etter, is a terrific choice.

6 So industry is looking at events in the Pentagon  
7 with some high degree of approval in what the Deputy Secretary  
8 is doing. We think Kadish -- I think all of you in the press  
9 who follow these issues, they do tend to be a little dry at  
10 times. Acquisition reform is sometimes like watching the grass  
11 grow. But Kadish has done a good job of it and the industry  
12 supports what we have seen so far.

13 MS. O'BRIEN: One more, time for one more.

14 MR. DOUGLASS: One more. Anybody on this side want  
15 to? There's one over there.

16 VOICE: There was another defense acquisition  
17 announced today. GD bought Anteon. And I wonder if you can  
18 speak to the whole issue of consolidation of the defense  
19 industry and where you see that going, what the industry's  
20 perspective is on further consolidation, or should there be a  
21 slowing down at some point?

22 MR. DOUGLASS: The question was, there's been  
23 another defense-aerospace acquisition today. This has of course  
24 been a real challenge for AIA because, when I came to AIA there  
25 were 42 full members and 30 associate members. Of the 42 full

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1 members that existed when I came, there are only about 12 or 13  
2 exist today. The rest of them were all bought up by those 12 or  
3 13. But we have 110 members today, so we are bigger and  
4 stronger than we were before and we're more representative of  
5 the industry.

6 Now, what does the industry want, more or less  
7 consolidation? What the industry really wants to know is where  
8 does the government want to go on this, because there are  
9 advantages and disadvantages of more consolidation. The more  
10 consolidated the industry gets, the more efficient it gets. But  
11 the more efficient it gets, the more fragile it gets, and that's  
12 a tradeoff that we have to make, and it's a national level  
13 tradeoff.

14 What our CEO's want to do is be in a partnership  
15 with our government to do the right thing for our country. It  
16 has been very frustrating up until the last, say, six to eight  
17 months that we didn't have a lot of people within the government  
18 that we could talk to. With the arrival of Secretary England  
19 and some others at the Pentagon, we certainly have a way of  
20 talking to the Pentagon much better today than we used to have  
21 and we appreciate that.

22 So what we want to do is work with our government,  
23 and if the government feels that this has gone far enough my  
24 guess is our CEO's would be content to live with that. If the  
25 government feels there's more consolidation necessary, we will

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1 be happy to work that with them.

2 I'll tell you the one thing that we want to be

3 careful about here, though, that we need to be careful about:  
4 There is a little bit of a two-edged sword to this. We don't  
5 want to be put in the situation where somebody in this  
6 administration, for example, says, let's single up and we'll  
7 only have one contractor for everything we buy, and we'll figure  
8 out a way to manage it, and then four or five years goes by and  
9 we get another administration in and that administration says:  
10 You know, we don't like it that all these contracts are sole  
11 source, so let's get competition. Where does the competition  
12 come from? Outside the United States. So you have American  
13 companies that are not subsidized bidding on defense contracts  
14 against highly subsidized foreign companies. We do not want  
15 that.

16 So there is a balance here and basically we're right  
17 now in the position where we're pretty comfortable with where  
18 our government is, and as long as they keep us appraised of  
19 where they see that balance we're going to work with them and  
20 stay in balance on that.

21 So that was the last one. I hope that was helpful  
22 today and I hope all of you have a wonderful Christmas and New  
23 Year.

24 (Applause.)

25 MS. O'BRIEN: I think that concludes our luncheon.

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1 Just please take a copy of the "Aerospace Facts and Figures  
2 Books" on your way out, and happy holidays and merry Christmas.

3 (Whereupon, at 2:02 p.m., the meeting was  
4 adjourned.)

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