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Remarks as prepared for delivery

Good morning. I’d like to thank Exostar for inviting me to take part in such a great event today. Looking at the agenda, there is an impressive array of smart people taking part in this summit. It’s good to see Linda Hudson from BAE Systems, which is an AIA member, of course. We also have representatives of other AIA companies, including Boeing and Northrop Grumman, and Aviation Week’s Tony Velocci. Paul Kaminski will be closing things out this afternoon. Paul and AIA have had a great relationship through the years, and he is very involved with us today helping to guide implementation of the Next Generation Air Transportation System. So it looks to be a great program. I’d like to acknowledge Exostar CEO Kevin Lowdermilk – thank you, Kevin, for including me today.

Exostar itself is a testament to the power of cooperation and collaboration. This not only applies in the aerospace industry, but in business in general. In that sense AIA and Exostar have a lot in common. The predecessor association to AIA – the Aeronautical Chamber of Commerce – was founded in 1919 by a group of aviation pioneers, including Orville Wright and Glen Curtiss. They knew the emerging industry needed to work together in many ways in order to succeed for the long term. The charter membership of 100 agreed to “foster, advance, promulgate and promote aeronautics” and “generally, to do every act and thing which may be necessary and proper for the advancement of American aviation.”

Now, Exostar is a little newer than the Aeronautical Chamber of Commerce, and the language it uses is a little less formal. But Exostar came about as the result of a similar need at a much more advanced technological level – internet applications and network-centric models. A quick look at the numbers tells the story. Exostar’s solutions for secure information sharing, collaboration and business process integration connect more than 40,000 companies worldwide.

I understand the Exostar customer base includes 85 of the top global aerospace and defense companies, including all the large system integrators. And I think the number of transactions executed through Exostar are somewhere around 10 million each year – truly remarkable.

I mentioned AIA’s history a little earlier. I’ve noticed that this year celebrates the 50th anniversary of several important events in our industry – people were very busy in 1958! The United States launched its first satellite, Explorer 1, in January. Later that year NASA was established as a government agency, and the Federal Aviation Agency – later to be renamed the Federal Aviation Administration – also came into being. That year was also the first time the word “aerospace” appeared in the Encyclopedia Britannica.

But today – June 19 – marks another historic anniversary I’d like to mention that goes back a few more years. June 19, 1944, saw the beginning of the Battle of the Philippine Sea, the largest aircraft carrier battle in history and a devastating, momentum-turning defeat of the Japanese.

U.S. naval forces routed the enemy, and a decisive factor was the advanced Grumman F-6-F Hellcat fighter aircraft and the use of radar to direct combat air patrols. These two factors gave our pilots an insurmountable advantage over the enemy. I mention this because it is a vivid example of a time where the equipment our industry produced made a real difference not only in an isolated battle, but in history itself. And it serves as a reminder of what is really important in what we do – ensuring our fighting men and women are the best equipped in the world.

Today, I would like to talk about three things:

1. Where our industry is now in these tough economic times;

2. Where we're going, particularly as suppliers in a global environment; and
3. What are the challenges, especially with a Presidential election coming up fast.

There is a lot of good news in our industry, which can't be said for many other sectors of the U.S. economy, or the economy itself, for that matter. Last year we had total sales of \$199 billion, a record, as well as record levels of shipments, orders and backlog. Our industry once again had an impressive positive foreign trade balance, which totaled \$60 billion – another record. That is the largest surplus in any U.S. manufacturing sector – and one of the few that had a surplus at all. In employment, we continued to see gains, with the latest figure at 651,700.

This all means we have a very healthy industry. If you look at the three main areas of our industry, two of them – space and defense – have largely stable funding through the government's fiscal year.

Yet, underlying these positive numbers is a lot of change and uncertainty in the industry that companies both large and small are having to factor into both their long- and short-term business strategies.

The biggest turmoil is in the challenging economic times, including one aspect of the economy that has a direct and major impact on our costs and more importantly on the operation of our products – oil prices. At record highs, these prices are causing our airline customers to acutely feel the strain, as anyone paying attention has seen. Our concern is that the economic circumstances could lead to delays in new aircraft orders, or even the possibility of cancellations. So far, we aren't seeing significant shifts in that direction.

The theme of today's conference deals with securing alignment in the value chain. Not to be too much of a historian and I see a lot of younger faces in the audience to whom the Cold War may seem like a long time ago, but the ripple effects of that world-changing event are still with us. Global consolidation continues and the walls between companies and countries are still coming down, just like the Berlin Wall toppled in 1989.

The entire industry is knitted together in a much more fluid fashion today with the result that government economic actions or a major industrial decision are more apt to ripple throughout the supply chain.

Going back to my earlier story about the decisive role the Grumman F-6-F Hellcat fighter played in the Battle of the Philippine Sea, just think about how that aircraft was manufactured up to the end of the Cold War, versus the model of today.

In the past suppliers shipped the smallest of components to the primes' manufacturing centers. But today suppliers are putting together large components and delivering them whole for final assembly. One of AIA's long-time supply chain experts explains the phenomenon using wing assemblies of commercial aircraft as an example. In the past, the wing would be delivered to the airframer and workers would beset upon the assembly like ants, crawling in the nooks and crannies to string wiring and carry out other final details. Today there is no flurry of insect-like activity – the wing comes pre-wired and complete, ready to be joined to the fuselage.

This makes primes even more reliant on the suppliers than they were in the past, since they demand the same high quality for the completed components as they previously required from their own employees. It also makes the suppliers more of a partner than simply a company that contributes one or two parts. Again, ensuring the entire chain is aligned and working together is more important than ever given this evolving relationship.

In recent years, a new dynamic has made it even more difficult to align the value chain – the increased globalization of aerospace suppliers. New platforms contain major components made all over the world, magnifying previous logistical challenges. If coordination along the entire value chain was important when the whole product was made in the same region or country, it takes on an even more vital role when international borders are crossed.

As an industry, we are becoming very successful with this new paradigm, and while we don't have a single name for this model yet, I would describe it as one of overlapping communities of interests without borders or boundaries, sort of like the social networking models exploding on the internet.

This new paradigm is evolving, but we see the traditional and the new forces at work, sometimes well aligned, and sometimes not.

International partnerships, particularly in the military arena, continue to be a tool to promote interoperability and decrease the cost of equipment for our military. While successful, globalization has resulted in tension on many fronts from off-sets to technology-sharing issues, to how military versus commercial specifications are used.

So what does the future hold for the aerospace supply chain? I think the trends we have talked about will continue, and become more pronounced. Primes around the world will continue to rely on the suppliers that can give them the best value for their dollar – or Euro, Yen, Pound, or Ruble – regardless of their physical location. Suppliers will continue to be called upon to provide components that are complete and ready to be bolted on, making demands and responsibilities on the value chain ever greater. The importance of electronic data-sharing will increase exponentially.

All companies, large and small, must do all they can to stay competitive in aerospace, an industry with little patience and an almost non-existent margin of error. More and more, that little extra edge for the primes will come thanks to their choice of subcontractors. With contracts won and lost by razor-thin margins and creative problem solving, suppliers will continue to increase their stature and status as vital cogs in the aerospace wheel.

At AIA we see the importance of securing alignment in the value chain everyday through our Supplier Management Council, which promotes close collaboration among primes and suppliers. We have always had all types of companies within AIA's membership, but in 1997 we created the Supplier Management Council, which consists of associate members of AIA in a forum that provides close communication and collaboration among supply chain managers from the prime companies and small suppliers. The SMC has improved the relationship between suppliers and primes and proven to be a valuable tool for the industry as a whole.

Now finally, what are the issues we're facing big picture and these are current issues we are working at AIA. Getting back to the concept of the community of interests in the aerospace industry, I would suggest that these

issues have an overarching affect on the entire community, both domestic and global.

And, what's on everyone's minds these days – the presidential election. AIA has been active in the election since last year, crafting a list of priorities for all the candidates that they can incorporate into their campaigns. Our package is on our Web site at www.aia-aerospace.org, and I hope you will take some time to look at it when you get back to your office, but I would like to highlight just a couple of the issues today.

One of the nation's priorities in which our industry is very involved with the government, is the development of the Next Generation Air Transportation System. The current system – based on 1960s technology and operational concepts – is approaching gridlock.

We have a solution – NextGen as it's called, which is scheduled for implementation over the next 10 years or so.

The economic impact of not implementing Next Gen is huge: \$5.5 billion and 2 million jobs by 2010, going up to over \$14 billion and 4 million jobs by 2015. That is just the tip of the iceberg.

Another important issue for our nation and our industry is on the national security front. Our military is under many strains these days fighting the war on terror on two fronts. As a result, the equipment is wearing out more quickly than expected. We need to invest in replacing and modernizing this equipment to ensure our fighting men and women are as well-armed as possible.

The next administration will need a national strategy to fund all our defense needs. This includes a growing bow wave of modernization requirements as well as fostering innovation and stability in DoD investment planning.

In space, to minimize the five-year “gap” in U.S. manned spaceflight between the retirement of the current space shuttle program and the launch of its successor, stable funding for the Ares-1 and Orion vehicle is needed. Disruptions to the project's development will impact our workforce and industrial base causing atrophy and attrition.

We have several other election priorities that span the industry. One is the need to modernize the export control system to allow trade in defense items with our closest friends and allies, many of whom are fighting shoulder-to-shoulder with us.

Another need is to develop the next generation of aerospace workers to take the place of the aging generation that won the space race and the Cold War.

If we tick down our list of issues, we see that neither Senator McCain or Senator Obama have really outlined to any degree of specificity where they stand on our issues. While both Senators have said they support a strong military, they have not articulated how they would fund it or make sure that our troops have the equipment they need.

In the space arena, early in the campaign Senator Obama suggested that funds from our space program should go to education. We think he has backed off of this a bit, but overall the positions of the candidates are still unfolding when it comes to our industry. In other words, AIA has lots of work to do between now and November.

In closing, let me just thank our hosts for the opportunity to be here today and return to the conference theme of securing alignment in the value chain.

Fifty years ago, America sent our first satellite into space and laid the framework for international leadership in space exploration, aeronautics innovation and civil aviation safety and regulation.

Suppliers were important to all those efforts a half-century ago, but they play an even more vital role today. There is no limit to the aerospace achievements we will be celebrating in the next 50 years, and then, as today, we will have our supply chain to thank.

Thank you.

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