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AIA Supplier Management Council Meeting

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Good evening. I am pleased to address a meeting of our SMC for the first time since taking over the helm of AIA. I have met many of you prior to this meeting, but I welcome the opportunity to address you as a group and talk a little bit about some of the issues of particular interest to suppliers.

You know, I always enjoying visiting Charleston since it is such a beautiful and unique city, with its remarkable harbor and nearby beaches. It is a treasure-trove of history and the location of some amazing turning points in America's past, like Fort Moultrie and Fort Sumter. I understand a number of you toured Fort Sumter yesterday, and I'm sure it was intriguing. And I hear the rest of you can attest to the great golf Charleston offers!

Charleston is also notable for its ties to the aerospace industry. It boasts a long and illustrious past centered on the Air Force and other branches. But it is also representative of the dynamic state of our industry today, hosting state-of-the-art technologies not only on the defense side, but in commercial aviation and space as well.

Since 1966 the city has been home to the Air Force's 437th Airlift Wing and its reserve associate, the 315th Airlift Wing. These airmen and women provide one of the most vital functions to our high-tech military – delivering troops, cargo, equipment wherever they are needed around the world. Flying the venerable C-17 Globemaster III, the airlift wings have been involved in both the Iraq and Afghanistan military operations as well as many humanitarian missions, including operations in the Balkans during the 1990s.

If you look at the 437th's record, you see it has been in the thick of some of the most important battles in history, including the invasion of Normandy on D-Day in 1944 and the Battle of the Bulge. I think the motto says it all – “Taking the Fight to the Enemy.”

On the commercial side of the coin, AIA member Vought Aircraft Industries is manufacturing the entire tail section of the Boeing 787 just a few miles from here at their facility at Charleston International Airport. I think it's terrific that Vought is hosting almost 50 of you on a tour of the 787 line tomorrow. Vought and partner Alenia North America are producing more than 50 percent of the Dreamliner's game-changing composite fuselage. As most of us know, the Dreamliner is a remarkable aircraft that will make the flying experience better while saving fuel costs for airlines, factors that have led to airlines to order more than 850 of them to date.

An additional, and extremely important, benefit from the 787's advanced technology is significantly reduced emissions, lessening negative environmental impacts. The improvement comes not only from the aircraft itself, but the advanced engines being built by GE Aviation and Rolls-Royce. As we all know, environmental improvements have fast become a priority for the aviation community around the world, so it is good to have this aircraft coming on line soon.

I mention these programs because many of you are playing an important role in some, if not all, by supplying vital components to the prime contractors. I have long known about the important role suppliers play in the aerospace industry, but I learned just how vital when I joined AIA and started meeting some of our remarkable SMC members.

For example, most of you know Bob Spole, president of Ithaca-based Therm Inc. Bob sits on the AIA Executive Committee and provides important input as the ExCom makes decisions on the issues and priorities for the association. I learned that every manned space vehicle since the Gemini Program in the 1960s has contained parts made by Therm. This is a remarkable achievement by Therm and underscores how vital suppliers are to our industry.

I want to briefly talk about our industry and some of the statistics we keep at AIA. We announced a lot of numbers in December that revealed a strong and thriving aerospace industry. Our sales should reach \$199 billion

when the numbers for 2007 are finalized, the sixth year of growth in seven years.

All three sectors of the industry – national security, civil aviation and space – saw growth last year, but commercial aircraft sales were remarkable, logging a 16 percent increase. Both Boeing and Airbus logged record numbers of orders last year, with each company going over the 1,000 mark. The civil aviation backlog, at \$360 billion, tells an important story. It's almost double the value of shipments, and with a 19 percent increase, marks the third year in a row of large gains.

If you look at the big picture, this tells me our industry is on very solid footing for at least the next two or three years. Most of that backlog is in civil aviation, a change from past years when it was driven by hard-to-predict military spending. Today the backlog is 63 percent civil, with the remainder split between defense and space. Just four years ago the backlog was 34 percent civil. This switch means we will have a stable financial base going forward.

Now, we have all aware that our economy has slowed down, and I know that companies like those of you in the SMC are often the first to feel negative economic effects.

We are keeping a close watch on this at AIA, keeping track of statistics and outside indicators that would signal an impact on our industry. We see no reason to believe defense spending will fall any time soon – the president's final defense budget request released a few weeks ago was robust. And space spending also should be steady.

Commercial aircraft orders are likely to be fewer this year, but that is really the result of the remarkable numbers of the last few years. So this year's orders will likely be a return to the levels of previous years. And the backlog is so strong that a dip in sales would have no immediate effect. Taking all this information together, we are comfortable in saying we see no indications the economic slowdown will have a serious detrimental effect to the aerospace industry as a whole at this point.

There are a couple of other statistics I'd just like to mention. One is our foreign trade balance, which is poised to reach a surplus of \$57 billion for 2007. This is the single largest positive balance of any U.S.

manufacturing sector. In fact, it's one of the very few surpluses in manufacturing at all.

In the globalized aerospace industry, U.S. products – like the parts and components made by your companies – have proven themselves time and again as the best in the world. And that has allowed us to compile this impressive surplus.

The other number is employment. We all know about the industry consolidation and other events of the last 15 years or so that reduced the aerospace workforce. We hit a low point in 2003, but have been climbing back ever since. As of September of last year, we have 642,000 workers, and I think a significant amount of that growth has come in companies like yours rather than the titans of our industry. So this is another indication of the importance of aerospace suppliers.

I want to spend a little time on some of the topics that are most important to you and your companies. I have worked with Dave Pauling on this, and I want you to know your concerns and priorities are being heard throughout AIA.

Many of you have seen our top issues for this year's presidential election, which we have distributed widely to the candidates, with significant positive feedback. Those multi-faceted issues address many SMC priorities, but I wanted to talk about several points specifically.

The first is ITAR and export controls. This is an area of concern pretty much unanimously across AIA membership on all levels, and one of our top priorities. I know that supplier companies are seeking a straightforward checklist to help determine ITAR requirements. I also understand the deep concerns that the requirements might be creating foreign-based suppliers of choice and otherwise negatively impacting the ability of U.S. suppliers to compete in the global marketplace. Through your newly formed SMC International Committee, we are facilitating opportunities for you to network with potential global customers and, perhaps, form joint partnerships with foreign suppliers.

The good news is we are seeing positive movement on export controls.

The administration has taken up most of the recommendations made by the Coalition for Security and Competitiveness to modernize the system.

As a founding member of the coalition, AIA drove much of the policy, and it is a big success for us. There is also a bill in Congress, championed by Congressman Don Manzullo of Illinois and Congressman Brad Sherman of California that would make further improvements to the system. The two lawmakers are also pushing for increased funding for the stretched State Department office that processes export licenses. AIA will continue to advocate this important issue – including the SMC’s specific concerns – to the campaigns as the presidential race continues this year.

Another issue I know you are working on is information visibility and requirements forecasting. We understand that suppliers need timely and accurate information and requirements to do your job correctly and avoid missteps and waste. AIA is the natural forum to air this issue and pursue improvements that will allow suppliers to make long-lead commitments with confidence rather than uncertainty.

And lastly, but certainly not least, I’d like to mention resource pooling on employee benefits, namely health care. I understand how important this is to companies of your size, and I am also aware that this has been talked about for years with little concrete to show for it.

The points you have made about AIA leveraging our size and stature is a key to making this come to fruition are well taken, and I will delve into this further to see what we can do to make it succeed.

I know there are many other supplier concerns and priorities, like:

- the shortage of skilled workers and engineers
- the impact of Sarbanes-Oxley on your companies
- fairness in contracting initiatives
- accuracy of technical data
- threats of cyber-security to your businesses
- And promotion of enabling initiatives for small and disadvantaged businesses.

I trust you all will continue working with our staff on these issues and anything else that might need to be addressed.

Now, many of you know we are in the process of establishing an AIA Strategic Performance Management Plan with four focus areas – Financial Aerospace Policy, Rules of the Road, Aerospace Infrastructure, and Level Playing Field in the International Market.

I see important supplier interest in each of these focus areas. I intend to define performance goals for each of the areas and establish annual work plans that map achievement. The committee sessions on your conference agenda tomorrow are a great opportunity for you to identify supplier issues and goals for 2008 and beyond. I want to focus attention on those goals you feel are important and help you be successful by tracking our programs throughout the year.

Another important initiative that many of you are aware of is the 85 percent solution.

For those of you not familiar, it is the effort to maximize the number of congressional districts and states in which there is an SMC member company located. While we ultimately would like to see representation in all of them, we are shooting for 85 percent in the next five years. As you know, local businesses are extremely effective ways of leveraging influence on Capitol Hill, and we look forward to achieving this collective goal.

I'd like to close tonight by talking a little bit about history. I noticed that today is the anniversary of a several things that have a connection to our industry. On March 5, 1836, Samuel Colt established the Patent Arms Manufacturing Company in Patterson, New Jersey, which would make the first practical revolver and repeating firearm. Colt would become an early supplier to the U.S. military and one of the first U.S. defense manufacturers to sell his products to European nations. I wonder what kind of ITAR hassles he had to endure! Also on this date, in 1770, British soldiers would open fire on civilians, killing five in what would become known as the Boston Massacre. This would light the embers of a rebellion that would turn into a revolution.

But there is another historical footnote that involves a man far less famous, but one that I think had a dramatic effect on our industry. A man named William Oughtred (Ott-Red) was born on this day in 1575 in England. He would become a mathematician who would invent one of the most lasting – and quietly – influential items in history – the slide rule. The slide rule changed engineering forever, and the tool was used to design everything in the aerospace industry before scientific electronic calculators and, later, computers arrived. Those machines are essentially souped-up versions of the slide rule, and we have an obscure English mathematician – whose name does not appear on any museums or aerospace history books – to thank.

These bits of historic trivia tell us a lot about our industry. We provide the technological know-how to make advances across broad swaths of the U.S. society and economy, while producing the equipment necessary to keep our nation strong.

Finally tonight, I want to reiterate my belief in the importance of the SMC and supplier companies in our industry.

The general rule of thumb is that suppliers are responsible for about 80 percent of aerospace systems content. So you – the suppliers – are key to keeping the aerospace industry at its leadership position in the U.S. economy. In addition, you – the suppliers – are critical to our national security because of your role in enabling our military men and women to field technologically superior weapons and equipment. Our troops can complete their missions – and come home safely – because of your efforts, your products and your dedication. Thank you for who you are and what you do.

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