

**Remarks for House Aerospace Caucus**  
*Washington, DC*

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**“The Aerospace Industry Under Sequestration:  
Bracing for Cuts, Seeking Long-Term Commitments”**

Good afternoon and thank you for having us here today. I'd like to thank Marion for that generous introduction, and I would also like to thank her and the team at AIA for putting this event together, and for continuing to play an important role in informing policymakers and staff about the issues that are vital to our industry and its workers.

As you just heard, in addition to my position at Pratt & Whitney, this year I am honored to be the board chairman of AIA and am working closely with the association to make sure that we continue to spread the word about the impact of recent and future funding decisions.

Because the aerospace industry is a vital national asset in terms of the economy and national security and job creation, I do think it is important to look behind the numbers and talk about what is already happening in our sector, and what we predict will happen in 2013 if sequestration takes effect.

It's important to understand what's at stake. Our industry generates around \$324 billion in revenue each year, accounting for 2.3 percent of the U.S. gross domestic product. Aerospace exports last year produced a \$42.2 billion trade surplus. The industry directly and indirectly employs more than 3.5 million people in the private sector alone. And these jobs aren't just in a few big cities or around major air bases – these are jobs created and sustained by large and small businesses in all 50 states.

We are also a major source of innovation in the U.S. We like to say that the aerospace sector has fundamentally changed the way we live, work, travel and communicate – and it's true. We all know about GPS and satellite TV, but the full spectrum of the industry's contributions include everything from enabling you to swipe your credit card at the gas pump to handheld vacuum cleaners, school busses and curling irons, bike helmets, braces and heart monitors... and so much more.

This innovation is made possible by our ability to educate, train and sustain a workforce of engineers, technicians and other innovators who want to be a part of our pre-eminence in the global aerospace market. One of the reasons we need to stay on top is to ensure that we have a skilled workforce.

We must continue to be a magnet for future engineers and technical pioneers who want to bring their skills, ideas and passion for aerospace to the U.S. And for young Americans coming up through school, we must continue to demonstrate that there is a future for them in our country's aerospace industry.

National security is also paramount in our industry. Military aircraft sales accounted for about \$63.5 billion of total industry revenue last year. At Pratt & Whitney we are the engine supplier for the F-35 Joint Strike Fighter, the F-22 Raptor stealth fighter, the F-15 and F-16 fighters, and the C-17, so we take seriously our mission to support American men and women in uniform with the world's most dependable defense capabilities.

AIA released a report with Deloitte this year that draws an interesting conclusion about the aerospace and defense industry in America. The report says the industry, relative to its size, “punches above its weight” in terms of the contributions it makes to the U.S. economy and national security.

Now just to extend the boxing analogy, just recall that Muhammad Ali once called himself “the astronaut of boxing,” and that Joe Louis and Jack Dempsey were mere “jet pilots” by comparison.

Ali was saying that he was in a class by himself, and that his achievements far outranked those of his competitors. Obviously, we know the same is true for the American aerospace industry. But under the threat of sequestration, it is simply too easy to take for granted that for decades, America has dominated the skies, led the world in space exploration, and kept us at the forefront of global innovation.

With the economy on a slow path to recovery, a global aerospace market that is increasingly competitive and dynamic, and the ongoing evolution of new and emerging threats to national security, now is not the time to assume that our nation will go unchallenged on the battlefield, in the marketplace, or in the laboratory.

The cuts looming under sequestration nearly guarantee that we will expose the country to greater risks in terms of economic performance and national defense.

We have already taken the \$487 billion cut from the Budget Control Act. About \$47 billion of that will occur in 2013. The prospect of another \$53 billion cut in January and \$500B over the next ten years under sequestration is already having a negative impact on the industry.

At this point, we’re not looking for appreciation, but we think there must be an alternative to sequestration that offers a long-term vision, supports our national security strategy, and is less likely to cost a million high quality American jobs.

I’d like to take the next few minutes to provide an industry perspective on a few of these issues.

## **LONG-TERM COMMITMENTS**

First, on the need for long-term plans and commitments...

I’ve had the opportunity to meet with Secretary Panetta several times, and my message to him is never about turning back the clock or undoing the recent cuts. My request is simply that we stop the bleeding, and inject some much-needed predictability into defense and aerospace budgets.

So, we understand that we can’t undo the cuts that have already taken hold, but we are in the business of trying to anticipate the needs of our customers, and make investments that align to their future requirements.

To the extent that government customers can articulate a long-term vision, it allows us to plan more effectively, be more efficient and productive, make better decisions about where we put our investments and assets and help you to maximize the value of precious federal tax dollars. A great example of this is Sikorsky’s 5 year, \$8.5B multiyear contract for 653 BLACKHAWK helicopters for the Army and Navy.

On the commercial side, we’ve been investing for decades in technologies and systems that are clearly aligned with the needs of our customers, and we’ve constantly re-invented and transformed ourselves to face new requirements and challenges.

At Pratt & Whitney, our new Geared Turbofan engine is a great example. This new engine is 16 percent more fuel-efficient than any other engine flying today, and we already have commitments from customers that will put these engines on four different types of jets.

But geared turbofan technology didn't happen overnight. Our parent company, United Technologies, invested about \$1 billion over 20 years to develop the engine we have today.

That was a huge, long-term commitment we were able to make because we could see where the market was going in terms of operating costs, environmental concerns and other pressures faced by our customers. It's an investment that we think will pay off over the next 20 to 30 years, and we've laid out a technology plan that keeps reducing fuel burn by an additional 1% per year.

This gives you some insight into the long-range view that is inherent in the industry. We need a long-range calendar on the defense side, but sequestration puts any plans on hold.

While we wait and see if the axe is going to fall, we're going to be overly cautious about hiring. We're going to limit new investments in training and equipment. As my colleague Bob Stevens at Lockheed Martin has said, sequestration creates an unprecedented amount of uncertainty in the industry at a time when we need a transparent and predictable path forward.

This is often countered with the argument that defense spending tends to be cyclical, and that throughout history we have adapted to these cycles and even predicted them.

Loren Thompson of the Lexington Institute had it right when he said that the rhythms of defense industry cycles are occasionally punctuated by "colossal surprises" like the fall of the Berlin Wall and 9/11.

In my view, sequestration is one of these "colossal surprises" that defies the rhythm of any market cycle, and unlike the global events that Loren mentions, is entirely self-inflicted.

## **NATIONAL SECURITY**

In terms of past cycles, defense spending as a percentage of GDP fell steadily in the decade after the end of the Cold War – from 4.8% in 1992 to 3% in 1999. In 2000, the Project for the New American Century released a report that said American military forces at the time were "limping toward exhaustion, unable to meet the demands of their many and varied missions, including preparing for tomorrow's battlefield."

A year later, the industry experienced a resurgence as the country aligned its military against a new type of threat following the attacks of 9/11.

Today, we're not talking about a budget process that in any way takes into account our national security requirements. Instead, we're talking about sequestration, which does not align with any national security strategy articulated by the administration or the Pentagon. This is a view shared by people with a lot more expertise on the subject than myself.

- Dr. James Lacey of the Marine War College wrote: "if you think staying prepared for war is expensive, trying getting caught up in one when unprepared."
- Dr. Stephen Fuller of George Mason University said he predicts a "bleak outcome for the defense industry and the economy as a whole if the budget sequestration figure is pulled."

- Travis Sharp of the Center for a New American Security said sequestration is an “irresponsible way to reduce defense spending.”
- And Secretary of Defense Leon Panetta said that sequestration cuts would amount to “shooting ourselves in the head.”

Everyone seems to agree that sequestration is a bad idea, but someone still has to figure out how to defend the country after it takes effect.

We will continue to ask the Air Force, for example, to project forces over great distances. This is a resource-intensive strategy, yet the resources simply won't be there. In response, Air Force leaders have said they will be forced to fly fewer missions.

In the event of a major security threat, the Administration says we can just reverse course and regenerate the capabilities that have been lost to budget cuts.

The only problem is that there is no mechanism for short-term “reversibility” on the industry side. In an industrial base already made fragile by years of steep cutbacks, that if you add sequestration re-hiring, re-investing, re-tooling and realigning resources becomes so daunting that it challenges the defense infrastructure that has provided a foundation for American security since World War II.

Reversing the impact of sequestration will take years, not months. We shouldn't put ourselves in a situation where we are trying to come from behind in terms of the resources we need to execute our national security strategy.

Air Force Secretary Michael Donley says the approach of simultaneously fighting a hot war, reducing spending and preserving the industrial base is something that “hasn't been tried before.”

Hey, I'm all for trying new and interesting ideas, but maybe this is one approach we shouldn't try at all.

The industrial base under sequestration will be less capable of supporting our national security strategy, will create fewer jobs and contribute less to the country's economic prosperity.

## **JOBS AND THE ECONOMY**

Analyst estimates for the combined aerospace and defense sector call for a drop in total industry value from \$510.4 billion in 2010, to \$410.7 billion in 2015 – about a 20 percent loss.

The annual rate of change is projected to occur at around minus 4.3 percent (-4.3%) per year.

The last time our industry faced such a downturn, the impact on employment was severe. From 1989 to 1994, about 700,000 people lost their jobs in U.S. defense industries, and more than half of those losses came from California, Connecticut and Florida.

Today, these are among the states most at risk under sequestration – with nearly 200,000 jobs on the line, according to a recent George Mason University study.

When programs are cut, the impact is immediate. At Cape Canaveral last year, NASA dropped 3,200 contract workers the day after the final shuttle mission ended. This year, the total space shuttle workforce of 16,000 will fall to 1,000 by the end of August.

At Pratt & Whitney, we're worried about a cut to the F-35. We're on track to deliver about 50 engines this year, but next year we may deliver fewer, and that is before considering the impact of sequestration. Cutting this program not only puts jobs at risk, but threatens our international partnerships as well.

Jobs are already being lost under from Budget Act cuts and the 2010 efficiency initiatives.

- In 2010, Northrop Grumman eliminated 500 aerospace positions in Southern California.
- In 2011, Boeing cut 900 jobs at its C-17 plant in Long Beach.
- In Maryland last year, layoffs among defense firms doubled from 2010. Seven firms in the state eliminated 780 positions, including 190 employees from Honeywell and 790 from Northrop.
- Lockheed Martin planned a loss of 10,000 positions in 2010, and another 1,500 aerospace jobs in 2011 in Texas, Georgia and California.
- In 2010, General Dynamics, Raytheon and L3 Communications also announced layoffs.
- In West Virginia, Alliant Techsystems is already asking workers to volunteer for layoffs. Alliant has about 1,300 employees in West Virginia and any loss there would have a devastating impact on the state.

About 70-80 percent of what goes into an airplane or satellite is provided by subcontractors, and much of that comes from small businesses.

It isn't hard to see how you get to a loss 1 million jobs under sequestration.

## **CONCLUSION**

I know that the issue of job creation is something that everyone is struggling with in their home districts, and I know that some of you in this very room are working on an alternative to sequestration.

Even though the White House has said that sequestration was designed to be unacceptable to everyone, I know that it doesn't make finding a solution any easier.

Sequestration has been called the "sword of Damocles," a "forcing function," a "deterrent," and even a "test of Congress."

I'm sure everyone agrees that Congress doesn't need another challenge, and that we need a budget approach to defense and aerospace that is less arbitrary, more predictable, and more likely to strengthen our economy and national security.

We understand and strongly support that our country needs to get its fiscal house in order, but I believe there is a better way than sequestration, which offers no long-term vision for the future and no path for industry to follow to help you reach our shared goals of a second-to-none defense of our nation along with a much needed stimulation of our economy.

My colleagues at Boeing, Lockheed Martin, Northrop Grumman and the many member companies of AIA are all saying the same thing - whatever the solution, give us predictability. It's the best way for us to continue to be the most effective partners in job creation, innovation and national security.

Thank you.

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