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Legislative Briefing

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Mission of Your AIA Legislative Department

• To educate Congress on the tax, regulatory, and public policy foundations for an aerospace industry that can compete and innovate around the world in each one of its three core business units.

• National Defense: Adequate procurement and research funding; promoting existing (Egypt) and emerging (India) relationships; streamlining acquisition procedures; securing international markets; renewing the R&D tax credit – deferred for action until late Fall.

• Civil Aviation: Increasing NASA aeronautics funding; expediting air systems modernization; pursing equitable resolutions to aviation trade disputes.

• Space Systems: Detailing the economic and national security benefits of space exploration; promoting Operationally Responsive Space (ORS) initiatives.
Export Controls Reform

• State Department Directorate of Defense Trade Controls (DDTC) operates as the “poor stepchild” of the bureaucracy.
  – Understaffed.
  – Underfunded.
  – License backlog of 7,000 for military and dual-use technology exports to customers in allied nations.
  – Inefficient system undermines defense trade relationships and the international competitiveness of the U.S. industrial base.

• Solutions proposed by the Coalition for Security and Competitiveness (18-member trade association organization including AIA, NAM, and the Chamber):
  – Internal personnel re-assignments.
  – Technology upgrades with the goal of processing non-controversial licenses in three months.
  – Reforms would not require new legislative authorization.
Research & Development Tax Credit

- Expires on December 31, 2007.
- Critical incentive for long-lead investment planning in new or improved aerospace products.
- Pending legislation (H.R. 2138) extends the basic credit and increases a second “Simplified Credit” from 12% to 20%.
- The Simplified Credit places military contractors on a level playing field with commercial industries.
- Likely two-year extension by Congress in November or December.
Three Percent Withholding Provision

• An Amendment to the Tax Reconciliation Act of 2006 – placed into the bill without an open hearing or mark-up.
• Effective in 2011.
• Requires all public sector contractors to withhold three percent of revenue from every transaction i.e., billings and vouchers), however small, with a government customer.
• Would impose prohibitive auditing and compliance costs on the vast majority of companies.
• Danger of significant narrowing of the government contractor base with reduced competition and increased costs to the taxpayer.
• AIA actively participates in the Government Withholding Relief Coalition seeking repeal of the provision.
• Pending House legislation (H.R. 1023) has 200 co-sponsors.
• Vital and successful 50-state Commerce Department program to aid small businesses with process improvements and technology upgrades/
• House and Senate Appropriations Committees increased the FY08 budget from $40M (requested) to $106M and $110M, respectively.
• History indicates that the congressional positions will prevail.
• 2006: MEPP clients, as a result of assistance, reported nearly $3M increased sales and the retention of 53,000 jobs.
FY08 Defense Appropriations Bill

- House passed H.R. 3222 in August, decreasing the DOD top line to $459B from $463B.
- Majority of reductions focused on three programs: missile defense (“unrealistic deployment schedule”), the Armed Reconnaissance Helicopter (production request “premature”), and the Future Combat System (request was “excessive” given early stage of development).
- JSF funding increased by $705M (to $4B).
- V-22, F-22, Blackhawk, Stryker Brigades fully funded (core platforms for precision and mobility).
- Shipbuilding research and acquisition accounts increased by $1.6B (to $15B).
- Restriction on payment of award fees to companies that “fail to meet contractual requirements.”
- Senate outlook uncertain.
Next Generation Air Transportation System

• Executive authority: 7-agency, FAA-led Joint Planning and Development Office (needs stable funding and industry coordination).
• Satellite-based ATM network with civil-military integration.
• System will reach “total gridlock” (FAA) by 2015 under current capacity.
• Economic significance for international trade and investment: aircraft transport almost 30% of the nation’s imports and exports.
International Defense Trade: *The Buy American Solution for the Aerospace Industry*

**Economics**
- Exports account for 40% of total U.S. aerospace industry output.
- This level means that global markets directly support about 250,000 AIA member jobs and indirectly support our total workforce of 640,000.

**Policy**
- Defense trade and cooperation build alliances, control program costs, and accelerate technology development.
- Examples of U.S.-Foreign Partner Programs: Missile defense, the JSF, precision-guided missiles, UAVs, and combat aircraft sales to non-traditional allies.
Key Issues Include

- **Overall FAA Funding and Costs**
  - Ensure a robust General Fund contribution

- **NextGen/JPDO Effectiveness**
  - Included in HR 2881, HR 2698, S 1300

- **Foreign Repair Stations**
  - Restrictions on Certifications Remain in HR 2881, Possible Amdt in S 1300

- **Proprietary Data Rights (ICA’s)**
  - Language removed from consideration

- **Certified Design Organizations**
  - Senate language similar to FAA proposal (AIA advised on creation)

- **Research & Development**
  - Future of Aeronautics
  - Environmental Concern

- **Funding Debate Remains...**
Timeline

Authorizing Language

- House T&I, House Science –COMPLETED
- Senate Commerce, Space and Science-COMPLETED
- House Ways and Means Committee
  (Scheduled Wk of 9-17)
- Senate Finance Committee
  (Scheduled Wk of 9-17)
- Short Term Extension Likely
- Actual Completion Anticipated Late October
Conclusions and Outlook

- **Export Controls**: Political leadership needed by State, Commerce, and DOD to streamline the system – low-cost reforms under existing authority.

- **Tax Matters**: Strong bipartisan support for the R&D Credit (but not permanent extension) and repeal of the three percent withholding provision.

- **Defense Appropriations**: “Must-pass” bill; possible inclusion in a broad Omnibus Act in November or December.

- **Civil Aviation**: Need for reform widely accepted; JPDO faces independence, funding, program management challenges.