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As prepared for delivery

Thank you for the opportunity to be here this afternoon. I truly enjoyed our time together yesterday . . . especially seeing German industrial prowess at its best. Indeed, it was impressive watching MTU and Rolls-Royce in action.

You know, a few weeks ago, I was at the ASD annual meeting in Helsinki. I saw both Tom Enders and Dietmar Schrick there . . . and we talked at length about strengthening the transatlantic relationship of our industries. I'd like pick up on that discussion this afternoon.

When you think about it . . . we have a lot in common. BDLI was founded in 1911, and AIA in 1919. We share a number of members . . . Goodrich, Honeywell, Raytheon, Rolls-Royce and Rockwell Collins. I'd bet that wasn't the case all that long ago — good evidence that globalization of the supply chain is well at work. Which leads to my comments on how policital events have shaped our industries.

I've been closely watching coverage of the 20th anniversary of the fall of the Berlin Wall. It's provoked reflection on many levels. However, I think there is a universal consensus that November 9, 1989, was a pivotal moment in the history of the modern world.

The fall of the Berlin Wall presaged even more momentous change in the political and national security framework of Europe and the world — the end of the Cold War.

Our collective industry felt the after shocks of those events as much as any sector of the global economy. Since World War II, we had been defined by a threat that was behind the Iron Curtain and then, with a few blows of a sledgehammer, the world as we knew it changed dramatically.

For nearly a decade after the fall of the Berlin Wall, we called the global political and national security framework the “post-Cold war era.” Then came September 11, and a new paradigm, one of terrorism, landed on our shores, further reshaping our industry. But that only added to the enormous changes we’ve had to confront on both sides of the Atlantic since 1989.

The U.S. defense procurement budget dropped nearly 33 percent between 1989 and 1995. Aerospace sales declined from $121 billion to $86 billion in constant dollars — or 25 percent — during the same time period. Employment in 1989 was at 1.3 million workers and reached an all-time low of 587,000 workers in 2003. Even as we struggle to recover from our economic pressures, no one expects employment to ever return to what it was.

The U.S. Defense Department was very clear with industry leaders at the time. At a dinner for chief executive officers of the leading defense companies in 1993, then Deputy Defense Secretary Bill Perry warned the that there was an impending defense budget downturn and that the numbers of planes, tanks, ships and missiles the department was going to buy was going to drop — like a rock. That meeting was dubbed the industry’s ‘Last Supper,’ and the executives responded accordingly, with massive waves of consolidation that reshaped the industry. Less than a decade later, we had gone from approximately 15 prime companies to five, five fighter houses to two, five ship producers to two — you get the idea.

Through all of that turmoil, however, exports and imports continued a steady upward trend, except for a small dip after 9/11. That’s the crux of the story as I see it — as change has been thrust upon us, our respective industries have looked across the Atlantic for solutions and have been largely successful. More importantly, the path that the fall of the Berlin Wall set us on in 1989 has set the stage for us today, as we start to go through what may be the most significant industry adjustment in 20 years.

However, our chief executive officers have been strong stewards for the industry and have taken many life-saving steps since 1989 that have put us in a relatively solid position to confront the economic tsunami, including diversification, reducing debt, continuing R&D investment, wringing every last inefficiency from our processes and, of course, consolidation.

As a result, we've been posting ever-increasing sales. U.S. industry recorded $204 billion in sales last year. And, despite these tough economic times, we're expecting another round of record sales for 2009, not the same trajectory we've been on, but nevertheless up. Unfortunately, the future is not as bright . . . we're facing a dip in all three sectors – defense, civil, and space – we just don't know how deep or how wide it will be.

While President Obama put together a strong team leading our most important government customers – the Defense Department, FAA and NASA – domestic and international priorities are putting tremendous pressure on the budget – stimulus spending, war operations, and healthcare reform.

This year, the Secretary of Defense announced several program cuts … and while procurement and R&D funding is holding steady for the 2010 budget . . .we are very concerned about the future.

NASA is at a crossroads. A recent report by Norman Augustine laid out the options for our manned space program . . . and they are stark. I don't think anyone in the United States wants to see our space leadership deferred to another country or for us to be dependent on the Russians for transportation to the International Space Station. But unless we step up to the plate on the budget front, that's what we're facing.

On the civil side, the majority of the $80 billion in annual sales represents commercial airliners and their components. As we all know, 2010 could be the airline industry's worst year in recent history. And while there is a pressing need to upgrade the fleet and invest in the Next Generation Air Transportation System, the airlines simply can't afford the investment. If history is any indicator, we will continue to see orders deferred . . . and the backlog of 3,500 aircraft orders paints a false picture of stability in the U.S. marketplace.

More than ever, we must look beyond our shores and find ways to cooperate and compete. Kudos to both sides of the Atlantic . . . our CEOs recognize the value of cooperation. They will fight against protectionist policies. We all know they don't work . . . and we must do everything we can to oppose them.

So as this downturn continues, our strategy in the U.S. is to advocate for a level playing field at home and abroad.

So what do we need to do? Some of what I'm calling for here is particular to the U.S. but most of this, I believe, should be a shared agenda for us all.

First, we need export control modernization - - a longtime priority of AIA and an area where we are making significant progress. It's critical that we are able to fight shoulder-to-shoulder with our allies on the battlefield. To that point, we're still optimistic that the Senate will ratify the U.S. – UK Trade Cooperation Defense Treaty this year. This will greatly streamline the Joint Strike Fighter program, which is critical to future international cooperation. And, while applicable just with the UK now, the treaty will allow us to move away from transaction by transaction licensing and establish a model for future cooperative programs.

President Obama announced a review of the U.S. export control system this summer . . . and we're eager to get to work with the administration on this. These initiatives will make our export control system more efficient, transparent and predictable. Our overarching objective is to bring our export control system in line with the way our industry does business today, moving away from the Cold War framework that has governed it for more than half a century.

We are pushing for legislation to remove commercial satellites and their components from the munitions list . . . this will greatly enhance our competitive position. I must confess . . . one of the thorns in my side is European marketing of ITAR-free goods - - a U.S.-imposed challenge to our global competitiveness. This legislation will address the issue and result in a huge step forward for U.S. industry.

Second, we need the widespread adoption of ethical business practices by all companies not just in the U.S. but in the global aviation community. Just a few weeks ago in Helsinki, Allan Cook, former CEO of Cobham and president of ASD, and AIA Chairman Bob Stevens, CEO of Lockheed

Martin, endorsed the Global Principles of Business Ethics, a historic framework for business conduct.

This agreement will help harmonize and expand existing initiatives in the United States and EU, while ensuring that important business activities -- like zero tolerance of corruption, use of advisors, management of conflicts of interest and respect for proprietary information – are addressed. I'm very glad that Dietmar shared the Global Principles with you . . . I'm doing the same with all of our AIA members; I hope we'll have all of our members sign up.

I'm looking forward to the time when the global aerospace industry adopts these principles. In the meantime, Germany is hosting the first meeting to discuss the principles in January and we're working with the Canadians, Brazilians and Japanese — our partners in the International Coordinating Council of Aerospace Industries Associations — to obtain their endorsement. We will have achieved true success when the global aerospace industry signs up to the principles.

Next, we must improve our collective access to the international marketplace. Europe has unprecedented access to our defense marketplace. Perhaps some of you might dispute this . . . but let's look at the facts. Eurocopter is producing more than 300 Army Light Utility Lakota helicopters in Mississippi, Alenia is the prime contractor for the Joint Cargo Aircraft, and of course, one of the two contenders in the hotly contested tanker program uses an Airbus airliner.

However, this raises legitimate concerns about the health of the U.S. defense industrial base. We outlined these concerns to the Defense Department in a study this summer, and we feel they are listening to our concerns.

Our report encourages the Defense Department to take into account the changes that have occurred in industry over the past decade. After years of consolidation and our focus on providing value to the stockholder, we want to make sure that DoD understands that it needs to do more planning to make sure that the strategic abilities it expects from industry will be there when they're needed.

I'll be honest, this sometimes causes concern in the United States . . . but overall, industry is committed to free market principles and a level playing field. The Pentagon is very much committed to competition. In the wake of the massive U.S. industry consolidation, the only way to ensure competition is to open our doors to the international marketplace. Now of course the question is, "Is the reciprocal true?"

The reality is that there is no sizeable defense program for U.S. contractors in Europe. This is true for two reasons. First, the European defense market, while significant, is not nearly as large as the U.S. defense market. Second, despite attempts at establishing a common European procurement authority, purchasing remains largely in the jurisdiction of sovereign countries.

On the civil aviation side, there are no "silver bullets." NextGen in the U.S. and SESAR here in Europe are our best hope for growth.
Global harmonization of ADS-B and satellite communications, navigation, and surveillance is within our reach.

If civil aviation had a "Holy Grail" it would be global harmonization of ADS-B and satellite communications, navigation and surveillance. Transforming global air traffic management to a satellite-based system isn't a dream…it isn't a "gee-whiz, that would be nice to have some day"…it is here; it is now; and it something we must do cooperatively to include full transparency and continuous sharing of best practices, data and processes.

With the implementation of NextGen – and when I say "NextGen", I'm referring to all satellited-based ATM systems around the world – we will see vastly improved efficiency, reduced delays at our most congested airports, increased airspace capacity and reduced fuel burn.

What does that do for our industry? For starters, it means we will be able to sell more airplanes — a win-win situation for everyone. When the economic crisis abates and commercial air traffic demand returns, NextGen will enable the added airspace capacity to accommodate new aircraft. Satellite-based navigation will enable efficient routing, continuous descent approaches, optimized departures and arrivals, performance-based navigation on a scale that will greatly reduce civil aviation's carbon footprint.

While aviation gets cleaner by burning less fuel, operators will benefit by reducing their costs. With shorter flight times and less fuel burn, the aviation industry will become profitable enough to invest in newer, cleaner aircraft.

This last point about civil aviation improving its carbon footprint is very important. Notice that I said that industry needs to make enough money to continue investing in better, cleaner aircraft. No one is going to hand our customers a bunch of money and say “here…go buy new aircraft.”

In fact, quite the opposite is happening. A number of countries are putting forth the notion that the global airline business and its passengers should pay a stiff duty on every ticket to help the rest of the world combat climate change. Let’s think about that for a minute

On average, commercial aircraft are 70 percent more fuel efficient than they were 40 years ago . . . a record far better than any other mode of transportation – yet they expect us to pay for it. Let’s consider the law of unintended consequences. These taxes will result in depressed demand and earnings . . . and ultimately, it will limit operators being able to invest in the technology and equipment that will further help the environment. Aviation already has an impressive environmental record and very ambitious future goals.

At an important meeting in Montreal a couple of weeks ago, ICAO member states and other organizations including AIA and BDLI, agreed to “work through ICAO to achieve a global annual average fuel efficiency improvement of 2 percent over the medium term until 2020 . . . and an aspirational global fuel efficiency improvement rate of 2 percent per annum over the long term from 2021 to 2050.”

The group in Montreal did not endorse our industry’s global sectoral approach. It did not agree to absolute reductions in the long term . . . but there was general agreement that ICAO should develop stronger and more ambitious goals in the years ahead.

ICAO’s position will be presented at the United Nations Framework Convention on Climate Change deliberations in Copenhagen Dec. 7-18 and this is an area where there is more cooperation than competition.

Returning to this week's commemoration, I think that it's worth pointing out that the fall of the Berlin Wall did not result as much from the words of politicians as from the power of the German people, who with their will and strength, changed the course of history in a way that has made Germany a stronger, more vibrant country.

There is a lesson there for our industry as we feel the landscape shifting beneath our feet. While we're going at a breakneck pace to stay ahead of each other, I do believe that by pooling our collective resources, we have the power to steer this industry to make it stronger for all of us.

Thank you for the opportunity to talk to you today. You've been a great audience, and I'd like to take some questions if there is time.