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**National Aeronautic Association  
January Luncheon Address**

**Thursday, Jan. 15  
Crystal Gateway Marriott  
Arlington, Virginia**

*As prepared for delivery*

Good afternoon. It's a pleasure to be here today to address the National Aeronautic Association's first luncheon event of the year, kicking off this very informative monthly series. I hope everyone is having a good new year so far.

I enjoyed hearing Jim May at your last session and will look forward to other opportunities as well.

I want to thank Steve for that gracious introduction. I think there are about a dozen trophies, awards and contests that Steve takes the lead on for the organization, and he certainly does a great job.

Speaking of those awards, many of us here attended the Wright Brothers Memorial Trophy dinner last month and saw Norm Augustine accept that prestigious award. It was especially gratifying for us at AIA because we had the honor of nominating Norm for the trophy, and we were very happy to see him recognized. So thank you, again, to Steve and to the NAA for an excellent award program and wonderful event.

It's fitting that I mention Norm Augustine at the beginning of my remarks here today. I am going to talk about the outlook of the aerospace industry in light of the extraordinary economic hardships we face here in the United States, as well as around the globe. As we all know, Norm was someone who taught our industry by example to tackle adversity head-on. Facing the contracting defense market of the early 1990s as CEO of Martin Marietta, Norm was proactive instead of reactive. As the story goes, he

worked out an arrangement with Dan Tellep of Lockheed for a “merger of equals” instead of waiting to see what the diminished market had in store. This allowed the new company to operate on its own terms.

Today our industry once again finds itself faced with extensive challenges, although of a different nature. This time it is a serious global recession that is affecting virtually every economy and industry around the world. I’m going to address the future for the aerospace industry within this economic context, touching on our strengths, concerns and outlook. And I’m going to enlist Norm Augustine to help me.

Many of us are familiar with Norm’s well-known book “Augustine’s Laws.” It is filled with observations and rules to manage by – and to live by, for that matter. Some are pointedly humorous, and others are humorously pointed. I have found a few of these bits of wisdom that underscore what we are talking about today.

I’m going to address our industry’s strengths, but first I want to share Augustine’s Law Number 22: “If stock market experts were so expert, they would be buying stock, not selling advice.”

Indeed, the experts have been as flummoxed as everyone else regarding what is going in the markets. The U.S. stock market is the most visible indicator of the economic stresses we are going through. Very few companies have escaped the market downturn, and our industry is no exception.

But if you look a little more closely at aerospace and defense, you see there is actually an underlying strength that puts the industry in a better than average position to ride out the economic storm. Last month AIA unveiled a set of year-end statistics for 2008 that reflected modest increases in sales, employment, exports and other important indicators.

Preliminary numbers show that total sales are on pace to reach \$204 billion for 2008, an increase of \$2.1 billion over 2007 and a record level for the category. Aerospace exports are poised to reach \$99 billion, fueling a positive foreign trade balance of \$61 billion. And employment should reach an average of 655,500, about 10,000 more jobs than the average of the previous year. This when other industries are hemorrhaging jobs by the hundreds of thousands.

There are several reasons for this solid foundation in the aerospace industry. One deals with federal budgets, which have huge impacts on the defense and space sides of our business. The funding level for DoD is largely set for fiscal 2009 due to the passage of the defense appropriations bill in October's continuing resolution package. That package also kept space funding at largely the same as fiscal 2008, providing a stable base for NASA.

Now, we all know about the long lead times on these budgets. Much of the groundwork for fiscal 2010 has already been set, so we expect funding levels to remain steady – without any major adjustments – for the next 18 months, or longer.

The third sector of aerospace, civil aviation, is more open to market forces, as we all know. But we have reason to believe this often volatile area will also remain strong during this crisis. Recent years have seen blockbuster orders for commercial jetliners, resulting in the largest backlog in history. These will provide a buffer for the industry should economic circumstances get worse. But we have not seen many order cancellations and deferrals at this point. In fact, some airlines are actually ordering new planes!

Another encouraging sign is that aviation infrastructure and scientific research and development are part of the Obama Administration's economic stimulus strategy. Aerospace companies are also particularly well-positioned to deal with financial challenges. Many have paid down debt and increased their solvency, creating a solid financial foundation. This has allowed the companies to meet their obligations and continue production despite the tough economic times.

But this doesn't mean our industry does not face any impact from today's economic atmosphere. And it brings me to the second Augustine's law I wanted to mention today. By coincidence, it's Number 2: "If today were half as good as tomorrow is supposed to be, it would probably be twice as good as yesterday was."

Let me repeat that one: "If today were half as good as tomorrow is supposed to be, it would probably be twice as good as yesterday was." It says something about expectations, doesn't it? Our industry has some

challenges that we need to address as we work our way through these trying economic times.

I don't want to dwell upon these things, but let me mention a few. As many of us have probably heard in the media, a lot of people are mentioning the defense budget as a possible target for cuts in future years. Now, some of this is pure conjecture. But it is still troubling, and something we need to be aware of and be ready to counter. There are expectations that defense R&D spending will decrease, as well as indications that supplemental budgets will go down.

There is also uncertainty surrounding the new administration's plans for the space program. While we think the overall budget will be stable in the near term, we don't know whether the new administration will stick closely to the established course of the Constellation Program – our manned mission to the moon and, eventually, Mars.

In civil aviation, passenger levels are down as a result of the troubled economy, and the number of orders for new aircraft has also decreased. The contracting credit market has also made financing new purchases more difficult. Fleet recapitalization across the majority of U.S. airlines – long anticipated by airframers – does not look likely in the near time. And the economic malaise has taken hold around the world, making existing orders for aircraft from foreign airlines a little less stable.

So, obviously, we have some challenges in our industry. But what does this mean for our overall outlook? First, let's look at another one of Norm's points – Augustine's Law Number 45: "One should expect that the expected can be prevented, but the unexpected should have been expected."

Now, I'm not sure the extent of the economic situation could have been anticipated by even the most pessimistic of forecasters. But what's more important is to look forward.

The future for the aerospace industry seems to be something of a mixed bag. The off-the-charts, record-breaking numbers we have seen over the last few years are almost certainly finished. But we do not anticipate a downturn in the near-term either. AIA is forecasting continued modest growth for the industry in 2009, which is noteworthy as many other

industries announce bleak outlooks. So far we have avoided the worst of negative employment news, and we don't anticipate large-scale job cuts.

In fact, the solid foundation our industry enjoys is a major positive contributor to the overall U.S. economy. We are responsible for more than 2 million middle class jobs spread among more than 30,000 companies located in all 50 states. Aerospace is also the nation's leading manufacturing exporter, selling \$99 billion worth of goods to our foreign friends and allies. This fuels a positive foreign trade balance of \$61 billion – by far the most among U.S. manufacturing sectors.

If some of these facts sound familiar, that means the outreach campaign we undertook about six weeks ago has worked. We have been spreading the word that aerospace and defense has the “Strength to Lift America,” noting our role in national security, technology innovation and other positive impacts. In a time when many industries are asking for direct financial bailouts from the government, we are a rare bright spot in a bleak economic landscape.

Perhaps the most important point we are trying to make is this – aerospace must not become a bill-payer for other industries that are not doing well. While that might provide some temporary relief on a small scale to those other sectors, it would undermine one of the cornerstones of the U.S. economy. This would diminish our strength and momentum in the recovery and cost thousands of high-paying jobs. And that, I'm sure we all agree, would be a very bad move right about now.

In fact, additional investment would increase the economic benefits our industry provides. We've all heard a lot about the stimulus bill now being considered in Congress. Aviation infrastructure is one of the areas the new administration has identified as an important part of plans aimed to turn the economy around. AIA has joined with 11 other aviation advocacy groups suggesting \$4 billion of that stimulus go toward funding NextGen equipment purchase and installation.

This would not only provide much-needed upgrades to an industry that provides 5 percent of our national GDP, but it will create an estimated 77,000 jobs in the near-term to get it done. Many people have touted an emphasis on an environmentally friendly economy to lead us out of the

recession. NextGen is a perfect opportunity to invest directly in technology that will provide dramatic improvements in environmental performance.

The stimulus bill is also a great opportunity to make some changes in tax law that would provide a big economic boost to aerospace and many other industries. One is to make the R&D tax credit permanent. The credit, which currently must be renewed each year, rewards companies for innovation and helps them compete internationally. Another important detail we'd like to see in the bill is the repeal of what is known as the "3 percent withholding" provision. This rule, slated to go into effect in two years, requires all government agencies – local, state and federal – to hold back that portion of payments for goods and services to guard against possible business tax avoidance. It has become clear that 3 percent withholding is unnecessary and onerous, and will cost agencies millions to implement. If this goes into effect, it will artificially decrease cash flow in the economy, which I'm sure we all agree would be a bad idea.

I'll leave you today with one last thought from Norm Augustine. It's Law Number 52: "People working in the private sector should try to save money. There remains the possibility it may someday be valuable again."

Thank you.

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