

**STATEMENT FOR THE RECORD  
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**Bureaucratic Obstacles for Small Exporters: Is our  
National Export Strategy Working?**

**House Small Business Committee**

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**Introduction**

Chairman Graves and Ranking Member Velázquez, thank you for holding this important hearing.

The Aerospace Industries Association of America (AIA) appreciates the opportunity to provide this statement for today's hearing evaluating how the administration and Congress support a critical national security and economic asset: the export competitiveness of the U.S. aerospace industry. AIA represents more than 150 regular and 200 associate member companies—the industry as a whole has a high-skilled, high-technology workforce of 624,000. We operate as the largest professional organization in the United States across three lines of business: space systems, national defense, and civil aviation. Our industry consistently generates America's largest manufacturing trade surplus (\$51.2 billion in 2010), but continuing this track record of success cannot be taken for granted.

**Why Do Aerospace Exports Matter?**

More than a third of the \$214.5 billion in U.S. aerospace sales of civil, space, and defense products last year went to overseas customers. In these challenging economic times, it is necessary but not sufficient to highlight that these exports create and sustain high-skill, high-wage jobs. It is equally, if not more critical to recognize that these exports are necessary to sustain and increase the capacity for cutting-edge innovation in the U.S. industrial base. The parts and components used to develop, produce and sustain these systems sold overseas are sourced from thousands of small- and medium-sized companies who use this revenue to invest in their future global competitiveness. We must therefore continue to compete effectively in the international marketplace to expedite our economic recovery and set a future trajectory for even greater economic growth.

Exports help AIA members provide the Americans defending our country and guarding our homeland with the best technology at the best price for the U.S. taxpayer. Exports support technology exchange, allowing our industry to leverage foreign innovation to make our own world-class products even better. Exports also lower unit costs for systems and components. In challenging economic times, overseas sales keep critical

production lines open and available to meet the threats we face now and will face in the future.

Aerospace exports also serve as a foundation for building key relationships and a shared future with important international allies and partners. American aviation products and services are at the forefront of providing to the world safe, reliable and environmentally responsible air travel. Our space industry connects the globe, helping us communicate, navigate and explore with other nations. As the United States asks its allies to take on greater responsibility in a shared effort to protect international security and stability, it is imperative that these key partners be equipped with and trained on the appropriate systems and technologies to ensure engagement and interoperability with U.S. and other coalition forces.

### **Government and Congressional Activity Affecting Aerospace Exports**

The value of aerospace exports is certainly not lost on the members of this committee, or on other leaders on Capitol Hill and in the administration. Across all segments of our industry, the biggest asset we have in international competition is the advocacy and support provided by our government on behalf of our companies, large and small. The consistent and sustained efforts of senior leadership in Congress, State, Commerce, Defense, Transportation (including FAA and NASA), Treasury, the Office of the U.S. Trade Representative, the U.S. Export-Import Bank—the list goes on and on—is crucial to ensure a level playing field, opening up markets for U.S. products and winning those sales opportunities—particularly in the face of strong and determined advocacy from foreign governments on behalf of our international competitors.

The Ex-Im Bank in particular plays a critical role in our economy. First, it supports the efforts of American small businesses to export their products worldwide. In 2010 the Bank supported \$5 billion dollars in small business exports, a number which the Bank projects to grow in the coming years. Second, they support the manufacturers of high-technology products including aircraft and other high-technology aviation products. The combination of the small number of companies capable of manufacturing these products, along with the current global economic crisis, means that it is essential that our companies are able to compete on a global scale. Foreign companies enjoy Ex-Im Bank-type support from their governments when competing internationally and it is imperative U.S. manufacturers receive comparable support. In addition, the Bank has generated over \$4.5 billion dollars in profit over the last ten years, all of which has been repaid to the Treasury.

All U.S. government agencies should consider the return on investment to our nation's economy when evaluating budget decisions that affect these important functions. The same care must be taken when considering the potentially adverse impacts of "Buy American" policies, visa review policies that create unique barriers for our industry, sanctions, cuts in Foreign Military Financing and other missed opportunities for international cooperation. "Selling American" (in particular the value of our products

and partnership) to other countries is worth it, and there is no such thing as too much support or advocacy.

Passage of the pending Free Trade Agreements (FTAs) between our close allies South Korea, Columbia, and Panama will also remove obstacles to trade. South Korea currently stands as the ninth largest market for U.S. aerospace exports—but that may not remain true for long. While the U.S. delays implementation of the FTAs, the European Union and Canada have moved forward with their Korean and Colombian free trade agreements. Reducing barriers to trade ensures that U.S. industry remains globally competitive.

### **Export Control Modernization**

Presuming our industry is able, with the help of the U.S. government, to compete successfully in the international marketplace to win a contract, one of the last hurdles to cross is the U.S. export control system. It is this last hurdle that discourages many of AIA's small- and medium-sized businesses from pursuing export opportunities.

Small- and medium-sized companies typically lack the resources and the confidence to navigate the complexity of the U.S. export control system or pay a high price for the expertise to do so. Failing to operate in compliance with the export control system carries both criminal and contractual liability. As a result, some companies avoid seeking export opportunities. Others routinely lose sales to foreign competitors because, as noted in the 2010 QDR, "our overly complicated system results in significant interagency delays that hinder U.S. industrial competitiveness."<sup>1</sup> Ultimately, the loss of export opportunities weakens the U.S. defense industrial base, a significant national security asset.

The U.S. commercial satellite industry is a prime example of the negative effects of inappropriate export controls on a business. In 1999 Congress mandated that commercial satellites and their parts and components should be moved from the Commerce Control List (CCL) to the U.S. Munitions List (USML) which is under the umbrella of the International Traffic in Arms Regulation (ITAR). The U.S. determined commercial satellites were a military grade technology even though the rest of the world treated their commercial satellites as commercial items. This determination led to increased bureaucracy and delays in getting U.S. products to market. As a result our international competitors took advantage of the inappropriate controls on U.S. technology and began to market their satellites as "ITAR-free." American companies saw their global market share go from more than 70 percent in 1995 to 25 percent in 2005 though we have recently seen some upswing in U.S. global market share.

For far too long, the conventional wisdom about Congress was that it did not favor export control modernization because that supposedly meant relaxing controls. On the contrary, reforms that allow for the "right size walls around everything" will strengthen our national security interests by preventing our adversaries from accessing our technology

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<sup>1</sup> 2010 Quadrennial Defense Review, page 83

and facilitating technology trade with our closest allies and trading partners. Our defense industrial base will also benefit from the economic opportunity.

### **Short-Term Congressional Actions to Modernize U.S. Export Controls**

- **Oversight of Reforms to the U.S. Munitions List.** There is a growing consensus in Congress that the overly restrictive, “one-size-fits-all” control system applied to all levels of technology “designed or modified” for use by the military no longer serves our national security interests. The export of low- or no-risk technologies to our key allies and partners is hampered, creating avoidable costs and delay. Congress should carefully consider the new administration proposal to tailor controls on the more flexible CCL to accommodate low- or no-risk technologies from the USML, as well as impending recommendations from the Defense Department-led review of the USML that will detail the technologies that could be moved over safely and securely.
- **Returning authority to the Executive branch to determine licensing jurisdiction for commercial satellites.** A healthy domestic space industrial base is vital to U.S. national security and foreign policy interests. Restrictive controls on all Commercial Satellite (COMSAT) technology have disadvantaged U.S. spacecraft and component manufacturers in the global marketplace—without necessarily having achieved their intended objectives. Taking action will safeguard access to critical space technology for the U.S. defense and intelligence community, strengthen America’s ability to compete in the \$144 billion global satellite market and reinforce our nation’s global technological leadership. Industry is not seeking any change to current restrictions on exports of satellites to or launch from China, and supports Congressional review of adjustment to controls through the Section 38(f) notification process. The release by the administration of the Congressionally-mandated 1248 report outlining the appropriate control regime for COMSATs should serve as a guide for this discussion.
- **Amending current law so the State Department’s Directorate of Defense Trade Controls can use fees it collects from industry to implement improvements in its licensing and compliance activities.** In 2008, the Directorate of Defense Trade Controls (DDTC) substantially increased registration fees levied on all US manufacturers of ITAR-controlled items. At the time, DDTC said higher fees were needed to implement procedural reforms mandated by National Security Presidential Directive 56, issued in January 2008. While DDTC has adequate funds to move forward on modernization, current law restricts the uses to which DDTC can direct these funds, with surplus funds diverted to other purposes. Industry opposed the fee increase, and we continue to believe adequate funding should be provided through normal appropriations channels. For as long as these fees continue to be collected, they should be dedicated to modernizing DDTC operations.
- **Updating Congressional Notification Thresholds and Processes.** Thresholds used to determine which export licenses must be notified to Congress have not been adjusted for inflation for more than thirty years. As a result, less-sensitive transactions are needlessly delayed. Industry also encourages dialogue between the

State Department and the committees of jurisdiction to develop procedures for more efficient and predictable review of licenses requiring Congressional Notification, including a documented procedure for out-of-session notifications.

### **Conclusion**

The U.S. aerospace industry is second to none. The trade surplus our industry has earned and the hundreds of thousands of jobs it supports will play a critical role in our nation's economic recovery. Aerospace exports fuel the health of our companies and the competitiveness of the most innovative industrial base in the world. Our nation reaps the benefits of aerospace exports in the form of enhanced national security and economic growth. The government-industry partnership supporting aerospace exports is crucial, and cannot be taken for granted. In the absence of the type of dialogue and collaboration practiced by this committee and its leadership, it is easy to miss opportunities or even damage international cooperation with our friends and allies overseas.

AIA commends the committee's interest in this topic. We stand ready to work with you and the Obama Administration to ensure that we continue to make meaningful progress toward removing unnecessary bureaucratic hurdles to the export competitiveness of the U.S. aerospace and defense industry.