

# VITAL SPEECHES *of the day*

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*Impartial. Constructive. Authentic.*

**30**  
Settlements Are Not the Cause  
of the Conflict, but No One  
Can Ignore the Threat They Pose  
to Peace  
JOHN KERRY, Secretary of State, United States of America

**40**  
This Conflict Is Not About Houses  
BENJAMIN NETANYAHU, Prime Minister, Israel

**42**  
The Confidence That Might  
Makes Right, Not the Other  
Way Around  
BARACK OBAMA, President, United States of America

**47**  
We Must Never Repeat the Horrors  
of War Again  
SHINZO ABE, Prime Minister, Japan

**49**  
To the Assad Regime, Russia, and  
Iran: It Is Your Noose Around  
Syrian Civilians  
SAMANTHA POWER, U.S. Permanent Representative  
to the United Nations

**50**  
Making Our Country Stronger and  
More Economically Robust and  
Innovative  
DAVID F. MELCHER, President and CEO,  
Aerospace Industries Association

**55**  
Why Black Lives Matter to U.S.  
Intelligence  
JAMES R. CLAPPER, Director of National Intelligence,  
United States of America

**59**  
The Humanity in Large Numbers  
SUSAN EISENHOWER, Chairman Emeritus,  
Eisenhower Institute at Gettysburg College

# MAKING OUR COUNTRY STRONGER MORE ECONOMICALLY ROBUST AND INNOVATIVE

*When you think about where innovation occurs in America—look at new aerospace capabilities now being produced like commercial cargo and crew support services for the International Space Station. Look at Boeing 787s that are 75 percent more fuel efficient than the first jet aircraft. And notice how we're developing scores of drones that can swarm around a battlefield and confound the enemy. It's the aerospace and defense industry that's been for over a century—and continues to be—the tip of the spear of technological innovation.*

Address by DAVID F. MELCHER,  
President and CEO, Aerospace Industries Association



Delivered at the AIA's 52nd Annual Media Luncheon,  
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Good afternoon and welcome to AIA's 52nd annual Media Luncheon, a great tradition for sharing insights with our friends in industry and media as one year ends and another begins.

I was reminded recently that when this community gathered for the first media luncheon in 1965, the aerospace and defense industry had a lot

on our plate: the space race, a Cold War turning hot in Southeast Asia, and the emerging jet age. We had to dramatically up our game then, just as we do in today's complex world. And that's what I'm here to talk about today—what we need to accomplish as an industry in 2017 and beyond.

I'll start by thanking Lockheed Martin's leader Marillyn

Hewson—not here today but well represented by her Lockheed Martin team—for her outstanding leadership of AIA's Board of Governors and Executive Committee this year. Marillyn has done a superb job representing our great industry to many constituencies, and working with the AIA team to develop our strategy and plans for action. And for this we are most

grateful. Next year Dennis Muilenburg of the Boeing Company will be our chairman, with Raytheon's Tom Kennedy serving as our vice-chairman. That's truly an all-star lineup of dynamic leaders helping our industry move forward.

Let me also congratulate a real journalistic professional, our Lyman Award recipient Andrew Chuter, the European Editor of Defense News. From across the Atlantic, Andrew's outstanding reporting has attested to the enduring importance of American-European aerospace and defense cooperation. Andrew, we're so pleased you and Helena could be with us today and be so warmly honored by your peers.

And following on the heels of last year's Lyman recipient, your fellow countryman Guy Norris of Aviation Week, it looks like the British invasion of the mid-60s is staging a comeback, but this time with laptops rather than guitars. Seriously, congratulations on this well-deserved recognition.

I do appreciate seeing so many reporters here today, professionals all who have chronicled an incredible year. Because you folks want to hear more than a standard year-end-review, I'll do my best to express our thinking about the ongoing transition of power.

Like you, I never imagined we'd have an election fought over emails and tweets. I've voted in pretty much every election since 1972, but I've never experienced anything like this one. And the saga continues with vote recounts and cabinet member selections. Be that as it may, a collective recognition has set in that we as a nation have some serious challenges to tackle. And I strongly believe our great aerospace and defense industry has a unique opportunity to help move our country in a positive direction.

Exactly 45 days from now, the 45th President will be inaugurated. Just like you, we've wondered what the new administration will mean for our industry. I have somewhat of an idea, having sat across the table from

Mr. Trump just under six months ago, looking him in the eye, and answering his questions.

My invitation to brief Mr. Trump came after AIA shared with his team our campaign white papers. It was time well spent, as was my time with senior national security advisors to the Clinton campaign in August.

What I can tell you based on that meeting, is that the President-elect listened carefully to our views on the need to beef up investments in defense capabilities and to spur high tech innovation. When Mr. Trump later strongly came out for ending the defense spending sequester, I was not surprised.

This position along with his desire to make infrastructure investment and tax reform an early priority is from our industry's perspective quite promising.

But we also have no illusions that getting positive action on our entire industry agenda will be easy. No doubt we're going to have significant challenges with the new administration and Congress on issues such as trade.

And I do think it's instructive when we talk about the new political environment, not just to focus on the presidency, but also on dramatic changes that have occurred in all kinds of elective offices.

If you compare the results from eight years ago in races for House of Representatives seats and what happened last month you can see how much has changed. In 2008, Democrats still held many House seats throughout much of the upper Midwest and in the southern tier states.

The 2016 House results illustrate the problems the Democrats had in these regions in the recent election.

In addition, despite the overall popular vote result, American elected offices are decidedly more in Republican hands than in 2008. We have 1000 more Republicans in state legislatures, two-thirds of gubernatorial offices are held by the GOP, and of course we now have a unified administration and Congress.

But we don't fully know what this means because Republicanism itself has changed over time. Will today's GOP be more pro-business? In some cases, yes, but as mentioned when it comes to trade and having a more global outlook, this is to be determined. As for defense, we're hopeful that newly elected officials will recognize the need to invest more in urgent national security needs.

We are determined, however the political landscape is oriented in the coming months, to forge ahead and make the case about the issues we care about, because we believe our industry has valuable insight about policies that will make our country stronger, more economically robust and innovative over the long haul.

As I told then candidate Trump, AIA is proud to present industry's case on the issues that matter because this industry has a special place in our national life.

American aerospace and defense companies work hard to enhance our national security at a time when new and unforeseen threats pop up with great regularity.

We contribute to economic robustness with products and services that are highly valued and successfully exported around the world.

And when you think about where innovation occurs in America—look at new aerospace capabilities now being produced like commercial cargo and crew support services for the International Space Station. Look at Boeing 787s that are 75 percent more fuel efficient than the first jet aircraft. And notice how we're developing scores of drones that can swarm around a battlefield and confound the enemy. It's the aerospace and defense industry that's been for over a century—and continues to be—the tip of the spear of technological innovation.

It's all about technology and people. And so, we told both campaigns that we are also extremely proud of our highly skilled workforce. These are people who believe deeply in the noble work of keeping our country safe and

secure and making it more prosperous. Our people don't just punch clocks. They help a new generation of explorers punch holes in the sky.

That passion was best expressed by a young engineer by the name of Alfonso Lopez, a University of Texas at Dallas computer science graduate, now working at Raytheon on cybersecurity issues. "It's fun, the work we do is exciting," he recently said. "The growth has been positive. The opportunities have been abundant. And you're supporting your country. You feel like you're doing your duty."

That is a sentiment you hear again and again as you visit our factories, foundries and offices. By the way, it was heartwarming for me to hear Secretary of Defense Ash Carter refer to the men and women of our industry as patriotic contributors to national defense and our economy. He said this during a visit to our office in October, and believe me, his voice was filled with great passion.

I should add that I'm tremendously pleased that the President-elect has nominated General James Mattis to be our next Defense Secretary. He's a plain spoken man of great character who understands the needs of the war fighter and cares deeply about the soldiers, sailors, airmen and marines who wear our nation's uniform. I count General Mattis as a friend and I think he's an outstanding choice.

Moving on, there are thousands of bright young people like Alfonso entering our industry because of the challenging, rewarding and good-paying careers we offer. If you gaze at our state of the industry report placed at your tables, some very interesting statistics stand out. We employ 1.7 million people, with nearly one million of them at our mid and small sized supply chain companies. When you consider aerospace and defense's induced employment effect, we support an additional 1.1 million jobs across the economy.

In 2015 our industry generated \$605 billion in sales, with our commercial aerospace segment

representing the largest share, some 46 percent, or \$276 billion.

And last year aerospace and defense exports continued to shoot skyward, reinforcing an upward trend that has seen our gross exports increase by 63 percent over the past five years. In 2015 U.S. aerospace and defense manufacturers shipped a record \$143 billion of exports, giving the country a positive trade balance of \$82 billion in the aerospace segment. In all, we account for 10 percent of all U.S. exports in goods, and we're on track for another record breaking year. But we could do better. And I'm not kidding.

Here's the point! If you want America to have more manufacturing jobs—you need to focus on the manufacturing sector that is growing rapidly around the world. If you want our nation to lead the pack in the global economy, you must help this extremely innovative sector compete more effectively in the global marketplace.

To help frame the ongoing debate about American renewal, we're seeking to lead a conversation about the broader trends, or Megatrends, that will either make it more difficult or easy to affect positive change in Washington.

Let me tell you what these megatrends are by first telling you how they were developed. In September, we had a healthy dialogue with many of our member company's senior representatives. We all agreed that we wanted to draw attention to some strong headwinds affecting policy making in Washington. We realized that there are four megatrends in particular that require greater attention.

I'll begin with the sorry state of deficit politics, marked by the prolonged budget uncertainty, and unreasonable austerity of recent years. This is an industry wide concern. We simply aren't doing enough to fund real and emerging security needs, civil aviation infrastructure and our space program.

We're also determined to counter anti-trade sentiments that are harming efforts to expand our industry's trade

competitiveness. Yes, we have battled on this issue before. And because it is so important to our country, we'll continue to make a compelling case for positive engagement in global trade.

Another third megatrend highlights the need for smart regulation to reduce the burden imposed by government rules, regulations and executive orders on industry. We see hope for this issue with the new administration, but there is a lot of work to do.

Finally, the ongoing rapid transition to a digital global economy presents significant opportunities and challenges as more attention is paid to big data analytics and addressing cyber risks.

Now I recognize it's not enough just to identify these megatrends. Because they influence all aspects of the aerospace and defense enterprise, it's incumbent upon us to speak out about policy solutions that will work.

So let's have at it. We've listed our top 10 priorities for the coming year in the information packet we provided. Here in a nutshell are some of the priorities I want to emphasize today.

National security is front and center. Our world is clearly more dangerous. And looming on the horizon is a challenge to our global influence from adversaries growing in technological sophistication.

Tomorrow we will mark the 75th anniversary of the attack on Pearl Harbor. Our nation went to bed on the night of December 6th, 1941 at peace and seemingly secure. By the next dawn in Hawaii, our illusions of serenity and security were shattered. This industry knows that only by being prepared can we prevent the next attack on America from being successful, whether it's in the form of a massive cyber assault or other insidious means of aggression.

In that light, the time has most assuredly come to repeal the Budget Control Act of 2011. BCA has set a spending level far below what's required to secure our nation and our allies. We welcome the willingness of the incoming Administration and

members of Congress on both sides of the aisle to tackle this issue head on.

Of course addressing the BCA caps is half the battle. We need to increase base defense spending sufficiently to modernize our military for the future and sustain current operations.

So let's fund our military based on clear eyed assessments of where power and presence are necessary, and not tie this to arbitrary limits.

Related to our Smart Regulation Mega Trend, we will support legislative efforts to clarify, delay or repeal rules that place an undue burden on industry, especially in national security contracting.

There are a number of rules that should be changed. Let me tell you about four of them, the first two of which are currently under judicial review.

The existing Executive Order titled "Fair Pay and Safe Workplaces", imposes onerous burdens on federal contractors, effectively debarring them from future contracts for alleged but unproven labor law violations. This despite the fact that existing rules already prevent and minimize wrong-doing.

The Department of Labor's "Overtime Rule," is also ripe for change. It expands the range of employees eligible for overtime, well beyond normal business practices, raising industry costs without adequate justification. Last month, a federal judge in Texas issued a nationwide injunction against the rule.

Also last month, the Pentagon's Defense Procurement Acquisition Policy branch released two rules—one final and one proposed—that would significantly hinder our industry's independent R&D investments. As we all want to see enhanced industry agility and innovation, creating a new bureaucratic process on IR&D is simply a bad idea that ought to be reversed.

If we can move from a paradigm of reflexive regulation to smart regulation, we hope to see fewer industry dollars spent on regulatory

compliance, and more spent on capital investment in new national security systems and jobs creation. The Export Control Reforms of the past eight years set a good precedent, but there is still more work to be done.

Consider the emerging market for Unmanned Aircraft Systems, one with tremendous growth potential. Clearly, these systems will shape our future in dramatic ways. I think a good analogy is the helicopter. When that technology was developed we had no idea how many military and civilian applications it would have. Now we do, and they are enormous. So let's approach the future of UAS with the same expectation.

We believe our government can help American companies grab their fair share of the worldwide UAS market. To do this, let's recognize the barriers created by U.S. export control regulations mandated by the international Missile Technology Control Regime or MTCR. Let's address these barriers so that we don't cede leadership in a potential \$80 billion market, or more, to other countries.

Turning to the legislative branch, we're hopeful the members of the 115th Congress can make good on a promise to truly return to regular order. Wrapping up annual authorization and appropriations bills as intended prior to September 30th, can eliminate much inefficiency in government contracting. This is really not a heavy lift folks, and it is about time this happens.

But even as I speak, Congress is aiming to finalize what could be another kick the can Continuing Resolution. Let's hope that they choose the harder right and pass budget bills instead of the easier wrong of a long-term CR.

There's another important item on our "to do" list for the incoming Congress. The Senate can protect American manufacturing jobs by restoring the quorum to the Export Import Bank's Board of Directors.

You know the story. Lacking a quorum, the Bank can't approve

new deals worth more than \$10 million. This threatens America's largest manufacturing trade surplus and has already harmed suppliers and manufacturers across the country. Indeed, more than 30 major export deals with a value of more than \$20 billion are now in limbo. Meanwhile, foreign governments are eager to exploit the situation by ramping up their export finance activities favoring their home grown companies.

Throughout his campaign, Donald Trump often talked about bringing good manufacturing jobs back to the U.S. I encourage the President-elect to aggressively back American manufacturing jobs—917,000 in our industry—by quickly nominating the directors the Bank needs to make it whole again. I ask members of the Senate—even those who have problems with the Bank—to act on those nominations and let the Bank function in our nation's best interests.

We're also recommending to policy makers that we not just push "Buy American" as a slogan but that we also "Sell American" in the defense trade arena. We need a National Security Cooperation Strategy that makes defense trade with allies and partner nations a first-tier priority. This strategy should be implemented with the highest level of coordination and communication with industry. If the U.S. cannot be the world's policeman alone, we can ensure that friendly nations do their fair share. To do that they need high quality U.S. technology to help maintain peace and stability in their regions.

We strongly believe that predictable, efficient, and transparent defense trade allows our partners and allies to better defend themselves. Achieve this goal will also bolster our global influence, grow jobs, lower our military's acquisition costs, and fund technological innovation here at home.

Another way to unleash our industry's job creating potential is to make a serious dent in the corporate tax rate. When making comparisons with other nations, American companies

are taxed at a much higher rate than our chief overseas competitors. As a former company CEO I can tell you that significantly lowering the corporate tax rate would have a tremendous stimulus effect, benefitting shareholders and promoting industry investment. So would allowing the repatriation of overseas cash at a much lower tax rate. Doing both would provide companies the incentive to invest here at home instead of in foreign entities over the long term.

Let's now turn to some of our specific industry sectors, beginning with civil aviation. The FAA Modernization and Reform Act of 2012 expired just over a year ago. This year, Congress attempted to move a new bill and approved several good provisions. These include measures to improve the certification of new aviation products and systems, and to promote UAS integration into the national airspace. Congress can now build on this solid foundation and get a strong bill out next year. I hope they do so.

I'm also heartened by what President-elect Trump and members of the loyal opposition have said about the need to upgrade our national infrastructure, including airports. If we are to tackle this problem smartly, we must recognize that 21st century infrastructure is about much more than roads and bridges. We must also adequately fund efforts to modernize the national airspace system through NextGen, and replace or modernize our aging NASA facilities—much of which were built in the 1960s!

Speaking of NASA, I'm pleased the space agency's work is being augmented by new industry supported approaches such as their commercial crew and cargo programs for the International Space Station. These leverage public sector funds with

private sector resources and simplified procurements. We can build on this strength by adopting a 21st Century Commercial Space Competitiveness Strategy that encourages proactive government support for commercial space export opportunities which in turn will assure ensure we have a healthy space industrial base going forward.

There's a broader point to be made about how we can spur national prosperity through wise national investment choices. As much as other economic sectors are credited for economic vitality, this industry's contributions are grossly understated and perhaps underappreciated.

We can thank this industry for GPS satellites, drones, and advanced composite aircraft. And we're leading the way on current innovation. Think about the new commercial effort to manufacture ultra-high quality fiber optic cables on the International Space Station. They'll be used in advanced computing systems here on Earth. Or about attempts to develop and test a new generation of low noise civil supersonic aircraft quiet enough to fly over populated areas. This idea is encapsulated in NASA's bold 10-year aeronautics research plan which includes flying X-planes, something we haven't done in a generation.

If we keep investing in this proven, vibrant industry, society will continue to reap benefits well beyond the original purposes of these investments. We're making this point very directly to the new team in town.

In order to find clear paths for future economic growth, we need to build on our strengths. We must make a conscious decision to invest in national security, civil space, aeronautics and 21st century air transportation systems. This will assure that our

nation remains at the forefront of innovation, continues to be the hub for providing quality jobs for millions of Americans, and keeps inspiring our youth to dare to dream great dreams.

These are young people like Janice Wong, a past participant in our Team America Rocketry Challenge program, or TARC, now entering its 15th year. Janice is emblematic of the more than 60,000 young Americans who have taken part in the TARC competition, many of whom have gone on to study in STEM fields—in her case aerospace engineering at the University of Michigan—and are now productively employed in industry. According to Janice: "I'm studying straight up rocket science and it's challenging, but I love it and there's nothing else I'd rather study," she said a while back. "That's where you want to be: loving something so much that you would stay motivated to complete your goals, no matter how far-reaching they are."

And that folks, is a message of hope for the future that AIA is proud to carry forward.

As we approach the future in this way, I thank all of the aerospace and defense workers in the audience for your noble work which is helping to make this hopeful vision possible.

I thank all the members of the media with us who report fairly and accurately about this great industry. For those from the media who wish to discuss any of these points further, we will have a media opportunity next door in in Salon A following our luncheon.

To everyone in this room, I thank you for attending today, for sharing your time, and I wish each of you a blessed and enjoyable holiday season. Thank you and good afternoon.