



**Transcript  
Remarks by Aerospace Industries Association  
President and CEO Eric Fanning  
At a Media Event**

**UVA Darden Sands Family Grounds  
Arlington, Virginia  
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**MR. FANNING:** Happy Valentine's Day, first of all. I knew no one would be in the front row when they explained this room to me. I was afraid it was like a stage and then stadium seating and it would feel really weird with all of you here. But this space...it's the first time I've been here. Amazing. Those of you who know me from the Pentagon know that we had pretty nice offices there, but nothing like the ones here, just because of the view. It transforms the city when you look out and see it from this perspective. And you don't have to go through all the security to get to your offices either.

So, welcome. Thanks for showing up. I'm going to make you sit through a few of my things before I get to the Q and A. As I think many of you know, this is the first time we're doing this annual thing in February. AIA did it in December – the middle of December – for a long time. When I heard about that, I went: “Now, why would you do a media event and try to get attention in the middle of the holiday season?” But it really, I found out, goes back decades to when AIA would put out its facts and figures. Before the internet really, and we just hadn't caught up with modern technology. So, the idea was to advance this forward to when we could talk about the budget when it was submitted. We don't really have that yet, but we still have our priorities, and we thought we would kind of run through what those are.

As many of you know, it is our centennial year. AIA is now a hundred years old. That corresponds to some other great anniversaries, like the 50th anniversary of the Apollo 11 mission and walking on the moon. So, we're using this year as an excuse or hook to do a lot of different things. We'll still have the things we've

always done, like this year, the Paris Air Show.

We have the rocketry challenge this year. Almost 5,000 kids have signed up for that. If you haven't gone to that, it's really a fun thing to do with your kids. These teams are pretty amazing, middle and high school teams. I'm going on a tangent here, so they're going to get upset with me later. When I first heard about it, I thought it would be great if they had this competition when I was in high school. Then I met the teams and I realized they wouldn't let me on the teams. They're really impressive.

Last year, a hundred teams made it to the finals – 102, I think – out in Virginia. Eleven of them were all-girls' teams. They've heard this story before because I love it so much. But there was a team from a school that was a rival to mine in Michigan. When I went and talked to an all-girls team – and I knew it wasn't an all-girls school – I said: “Why an all-girls team?” They said: “There was already a team. It was all boys. We thought it would be easier to just start our own.” I said: “Well, all right. Where are the boys? I'll go say hi to them, too.” They said, “Well, they didn't qualify this year.”

So, it's fun. We take the winner with us to the air show each year to compete against a set of foreign teams. The American team has won every year since we started doing that, so it's kind of one of the fun things about this job. One of the things that people don't understand about AIA is that a lot of what AIA is focused on is workforce, all the way to getting kids interested in STEM.

What I'll talk about is a lot of government-industry engagement to get the right rules and regulations in place because nobody wants too much regulation, but we can't do what we do without regulation and the right regulation in place.

I think they've got it up on the screen: we took advantage of the centennial to update AIA's look and feel. We're trying to incorporate a lot of what the industry's done in the last hundred years and redid the messaging this year. Because as part of the centennial, we're doing three foundational studies. One is an impact study to talk about what 100 years of aerospace and defense have meant and how some of that technology has moved into other applications in our daily life. Then we're looking forward with something we're calling Vision 2050, which turns out to be a very long time horizon, to try and imagine what the future would look like...to give us a sense for the third study, which is really a road map. What are the things we need to be working on now to make sure that whatever we imagine for the future can be realized, so we can have the same success in the next hundred years that we've had in the previous hundred years?

Because one thing we do know, and it seems to resonate when we talk about this, is that when our industry is successful, what's good for our industry is good for the American economy. We generated in the last year – we recorded \$865 billion in economic output. We have a positive trade balance of \$86 billion, which

is the largest of any U.S. exporting sector. Our workforce has grown to 2.4 million people, which is nearly 20 percent of the manufacturing workforce. And in 2017, our industry paid out \$220 billion in wages and benefits, and our employees earn a salary of 81 percent more than the national average. So, when aerospace succeeds, America succeeds. Our country is safer, more prosperous, and more innovative.

It's not just about national security but about the cutting technological edge that sets us apart from other countries. But other countries are now running with our playbook. They've been watching us. They've been learning from us and they're investing heavily in technology and using all their governmental tools to support their industries. Some of these countries – China, in particular – have more control over more levers than we do here, and they're applying them all forward. To stay competitive in the global market and maintain American leadership in civil aviation, defense, and space, we must do more. We welcome this Administration's focus on space and the defense industrial base, but we need to build on that.

In the coming year, AIA will advocate for Congress and the Administration to take actions in four areas: provide a budget process that is stable, predictable, and funds at sufficient levels to allow us to make smart investments for the long term; to focus on reducing barriers to trade and growing partnerships globally; to develop processes, regulations, and standards that level the playing field in the global market place, but don't stifle our ability to innovate; and, to implement policies to grow and strengthen the diverse, skilled workforce we depend on.

First, we need a predictable budget process in order to foster stable investments. America needs federal investments that support our economic vitality, public safety, and the National Defense Strategy. That means that agencies and departments must be resourced to execute their vital missions, with both defense and non-defense discretionary federal investment. There is important NASA, FAA, and NOAA work on the non-defense discretionary side. For example, we need sustained infrastructure investment for our National Airspace System due to the growing amount of passenger and cargo traffic as well as numerous new entrants.

Congress must make strong and sustained investments in federally funded scientific research a high priority. We must protect science and technology accounts at federal agencies and increase federal research appropriations, especially for R&D.

While we aren't going to put a target number on the board, there are credible third-party studies that make clear growth is needed in all sectors. The National Defense Strategy Commission called for a three to five percent annual real growth to fulfill U.S. defense strategy and our global strategic objectives. The National Research Council, baselining 2014 numbers, called for NASA's budget

to grow at three percent above inflation to have a strong human exploration effort and balanced NASA program.

But it's not just about the levels of investment. It needs to be delivered in a timely, predictable manner so that government can carefully plan and invest, taxpayers get the most for every dollar, and industry can make effective investments in R&D, workforce, and other capabilities necessary to continue to innovate for customers. Specifically, we are calling for a budget deal that spans the final years of the Budget Control Act, FY20 and FY21, and a multi-year program authorization for NASA to provide stability for their programs. We advocated for last year's FAA multi-year authorization and we applaud its passage.

The 50th anniversary of the Apollo moon landing reminds us of what we can achieve when America invests in big world-changing initiatives. Let's recommit to this investment and prove to the world America has not only achieved incredible things in the past but is ready to continue doing so into the future.

Second, we must establish a positive trade agenda. Last year, AIA raised concerns about potential tariffs, but we shared the Administration's goal of putting in place policies to level the playing field, foster free and fair trade, and enable American leadership. We worked with the Administration on continued defense export reform, specifically the Conventional Arms Transfer Policy. We advocated for this system that is more efficient and transparent, supports our partners and our allies, and upholds U.S. national security and foreign policy goals. We welcomed the Administration's engagement with industry on the implementation plan for this policy and look forward to more opportunities to consult in 2019.

As a part of this plan, we look to see the export controls on systems like Unmanned Aerial Systems reflect market conditions and technological trends. AIA also supports bilateral, regional, and multilateral trade agreements that allow industry to build on the U.S. trade surplus in our sector. The U.S.-Mexico-Canada Agreement and other negotiations that may lead to expanded trade opportunities with the UK and EU and Japan have the ability to improve our access to these markets, while serving as models for market expansion elsewhere. These agreements, as well as efforts to resolve disputes on steel and aluminum tariffs, are important to maintaining American competitiveness.

Finally, we call for a return to full operation for the Export-Import Bank. Without a quorum on the EXIM board, U.S. industry will continue to be disadvantaged in the global market by foreign competitors with access to their respective governments' export financing agencies. Congress must reestablish the quorum to approve financing for sales over \$10 million by October, and also ensure that the bank is reauthorized to continue its mission of supporting U.S. exporters of all sizes competing in the global marketplace.

This is not just a civilian aviation or even an aerospace issue. This cuts across all American manufacturers with a collective backlog of \$40 billion. America's less competitive today because of delays on EXIM Bank, so it's time to find a path forward. We call on Congress to confirm Kimberly Reed as Chair and the additional Directors who would bring quorum and reauthorize the bank to restore confidence in its full ability to help U.S. exporters compete globally.

All these actions would improve partnerships and relationships around the world while continuing American economic success for years to come.

Third, we need to develop regulations and standards that level the playing field globally but don't stifle our ability to innovate. We're not always seeking less regulation. I know you don't hear that from industry every day, but our industry has benefitted from smart government regulations, often developed with industry. A perfect example are all the rules and processes in place that have enabled aviation to become the safest mode of transportation.

But too much regulation, if not built flexibly enough and in partnership with industry, can hold back innovations. And regulations must keep pace with the needs of industry. If not, we cede leadership to Europe, South America, China, and other parts of the world. That means government collaborating with industry to develop performance-based standards wherever possible – instead of [prescriptive] regulation – standards built on the knowledge that technology's iterating at an ever-faster pace; standards that prioritize safety but allow for innovation.

Regulatory priorities for AIA...include standards and regulatory practices, or SARPs. The Department of State and FAA are working with industry to influence the International Civil Aviation Organization SARPs in areas like emissions and fuels to allow for U.S. leadership in new innovative sectors like supersonics.

Intellectual property. We need an intellectual property system that encourages companies to invest in our R&D. Robust IP protection and continued R&D investments are critical to sustaining American technological superiority and our vibrant and innovative part of the supply base.

Cybersecurity. AIA calls on the Department of Defense to adopt our cybersecurity standards as an avenue to apply common, measurable, and universal elements of cybersecurity across the DOD enterprise.

Contract finance. We support performance-based payments but oppose restrictive contract finance policies that limit our ability to ensure timely delivery of capability to our warfighters or to invest in a more productive workforce and modernized facilities.

Preservation of the orbital environment. The area where most space commerce

takes place, Low Earth Orbit, is becoming increasingly congested. The risk of collisions leading to more orbital debris is becoming a significant problem, making space situational awareness critically important. Government should keep closely monitoring orbital environments and work with industry to promote and incentivize efforts that reduce the amount of hazardous debris. This will minimize the risk of debris causing collisions and provide certainty that satellites will be able to operate safely and profitably into the future.

And finally here, we need modernized restrictions to enable new peaceful international private sector aerospace applications. Given new and emerging space systems, AIA recommends a thorough review of the current U.S. Missile Technology Control Regime rules. Reasonable modifications to the existing rules can enable new types of operations of U.S. commercial space businesses.

There's an important middle ground when it comes to regulation. Too little or too much undermines the process. We will keep working with government to ensure the rules and regulations of our industry help us to thrive while keeping us safe.

Workforce. Finally, one of the most important priorities is doubling down on our efforts to build a diverse 21st century workforce. We must tap into the best talent and communities across the country in order to meet the workforce needs of the A&D industry. Many of our members struggle to fill the great jobs they have. We need to make sure we're doing all we can to access all this country has to offer.

We have worked with the Department of Labor on their effort to increase the number of work-based learning programs. Our industry has committed to more than 200,000 of these opportunities. We applaud the Department of Labor's recent grant opportunity to support work-based learning, and we hope the administration and Congress will increase the grant program so that more grants are available to help grow the aerospace workforce.

We're also working in support of important legislation. We advocated for the passing of the Perkins Act, which was an important step, but it is an authorization that does not provide funding. That funding needs to be provided to enable students from disadvantaged backgrounds to be able to afford a college STEM education. Congress should also pass the Higher Education Act, which includes Pell Grant expansion, to give students the resources they need to enter two-year programs that offer certifications and lead to jobs. We also support the recently introduced Skills Investment Act that is bipartisan and bicameral. This act seeks to expand Coverdell Education Savings Accounts to help American workers to pay for skills training, apprenticeships, and professional development. This bill meets Americans where they are today.

This is an ambitious agenda in any year, but this is not just any other year in terms of the budget process and the political climate. We welcome the budget deal that has been developed as we understand it. We call on Congress to pass

and the President to sign the agreement.

Moving forward, we must do everything we can to return to regular order and avoid another shutdown. We've seen the ramifications this year, even with a partial government shut down. With the Departments of State and Commerce closed, export licenses could no longer be processed, delaying the delivery of products to foreign customers. Major research projects at FAA, NASA, and NOAA were suspended, setting back development of game-changing technologies. Contractors who work in closed government facilities couldn't report for work, causing furloughs. Not to mention the thousands of federal workers – our partners in the government – who were either not allowed to show up for work or had to show up but go without pay. And while we're shut down, other countries are still open, still working, and still investing.

So, there's a lot to get done this year. We wanted to share all this with you, not only for your awareness but because of the essential role you have in our society and in covering our industry. The press has played a vital part in our country's aerospace achievements. From 100 years ago, when the original *Aviation Week* – AvWeek – published Orville Wright's argument on the next steps to ensure safety in aviation, to 50 years ago when media stations connected households around the country and around the world to see how we can surpass the skies and be the first to land on the moon. So, with that, thank you for sitting through my part of today. I'm happy to take all your questions.

**MODERATOR:** Actually, if you could hold for me to come with the mic. We are actually producing a transcript of this, so if you would please identify yourself and your publication.

**QUESTION:** Hi. Joe Anselmo. I'm with *Aviation Week*. If you look at the federal budget, I mean, you have entitlements going up, taxes going down, and interest on the debt mushrooming. How do you get to three to five percent growth? I mean, what has to give to get there?

**MR. FANNING:** So, the deficit, the debt, these are serious issues, not just now, but certainly going into the future. For everyone who's advocating for funding, that's something to keep in mind because it'll put increasing pressure on what you're trying to get.

But we would argue, and I've always argued my previous lives, that funding for the Department of Defense should be based on the threats that we see out there. So, that's how we get to three to five percent growth. Many have been arguing that we've been underfunding the military for a long time. We have a lot of fixes inside the military that we need to take care of while also investing for the future.

**QUESTION:** Marjorie Censer with *Inside Defense*. Kevin Fahey spoke yesterday about kind of contractor cyber credit scores and he said that they've

met with AIA analysts. I was wondering if you could talk a little bit about your conversations and AIA's take on what DOD is doing there?

**MR. FANNING:** Sure. I didn't see what he said yesterday. We have met with them. It's one of the initiatives where we are seeing the most success, because cybersecurity writ large, it's important for everybody. Our primes, our big companies, need to know what's inside their supply chain. So, they're working together to try and streamline, standardize, what it is that they require – to make it easier for the supply chain – and as a part of that work, to make sure that we have cybersecurity inside the supply chain, inside our company. We think we've developed some standards that can help the Department of Defense feel a reasonable degree of assurance, working with our standards as a baseline.

What we're trying to get away from is the traditional way of assurance, which is just labor intensive and doesn't keep up with changing regulations, changing technology, and changing threats. So, this is an effort to work together, to develop standards that we use internally that get us to a certain level of assurance, where the Department of Defense can take over rather than applying an additional layer of standards and requirements on top of what industry's doing.

#### **[CROSS-TALK]**

**QUESTION:** Hi, I'm Andrew Clevenger with CQ. We're coming up on a year of having Section 232 tariffs, and I wondered, when they went in, a lot of the discussion was: "these are good incentives to get China to the table to address some of their practices, but we hope that it's not a long-term thing." What's your level of concern that they're here to stay, and are you pleased with the progress on talks with China?

**MR. FANNING:** What I think, first of all...I'm glad to see some attention brought to the unfair practices of the Chinese. We are concerned that tariffs will have unintended or second, third order consequences. We've been talking about that. We've been monitoring it. The effects of those take a while to roll up through the supply chain to larger companies, so we don't have a lot of transparency into that yet.

We're particularly concerned about our small business, our industrial base, which has shrunk considerably and has a lot of sole source elements to it that multiple companies rely on. So, we are enthusiastic about the fact that negotiations are taking place, and we're monitoring them closely to see if progress actually happens.

**QUESTION:** Hi. Frank Wolfe at *Rotor and Wing*. I just wondered if you could address a little bit more in terms of the export controls on Unmanned Aerial Systems: what you all are looking for there, in terms of where the government should move? Especially when we've got eVTOL coming up, in terms of the

investments that need to go forward, in terms of National Airspace System going forward? And secondly, just in terms of whether AIA will take a stance in terms of export controls on countries such as Saudi Arabia, that we've seen some human rights issues there, and whether that's of concern?

**MR. FANNING:** So, on the first question, the definitions of things like cruise missiles and ballistic missiles were set long before some of this technology was imagined. And various UAS – whether it's for urban air mobility or long-range, large cargo vessels – are pushing up against those definitions. So, what we're calling for is the review of them to see how we can delineate between, for example, what's a cruise missile and what's a UAS cargo craft. We're calling, specifically, for review of weight, speed, and range, to see if we can't use those as indicators, to try and separate what those are. Obviously, we care about making sure that we are careful about proliferation and doing what we can to protect proliferation, anti-proliferation efforts. We want to make sure that we're not needlessly stifling innovation growth and market opportunities.

On your second question, we think these types of debates are important. We think they're taking place in the right place, which is government. Industry will support whatever government policies are.

Where we do think we can help is when we've been advocating for a new Conventional Arms Transfer Policy. One of the things we've been focusing on is transparency. I know that from my own time in government, it wasn't a very transparent process. You didn't know how to get it from one step to the next. And transparency allows all viewpoints to know when the right point is to try to get their opinion into the mix and make sure that all the important factors are being considered when we decide what to sell and to whom to sell it.

And the second thing is the initiative that the Administration now announced, [which] talked about using technology and training to help mitigate civilian casualties. And that's something where industry certainly can participate and can help, with the right guidance from government.

**MODERATOR:** I think Doug's available now.

**QUESTION (via phone):** I don't know if you can hear me yet.

**MR. FANNING:** Hey, Doug. We can hear you.

**QUESTION (via phone):** Oh, splendid. Okay. I actually texted a question, but I shall try to remember it. In the handy fact sheet, Eric, you flag regulatory reforms that could yield better outcomes. Reading between the lines, were you trying to kind of flag any sort of ongoing tensions? I guess to take a couple of specific examples...so, what's the, sort of, progress of talks, whether it's with ATL, as well as Pentagon, with regard to IP and data rights? And something else that Ellen

Lord has mentioned is perhaps some sort of return to Superior Supplier, just this whole idea of performance management and risk and reward and carrot and sticks. So, I wonder if you could address the sort of carrot and stick on the contract side, and IP ownership and transfer, as well?

**MR. FANNING:** Well, let me – when you started the question, I actually wasn't even thinking about DOD. I was thinking about the FAA. And there's no tension. When I talk about performance-based standards it's, actually, I think, a lot of success and a lot of excitement, and a lot of cooperation. And the FAA, at Congress's direction, actually rewrote some regulations. The idea is that, for example, for an aircraft of 19 people, you say you've got to be able to clear the aircraft in the event of a fire in 90 seconds, rather than saying the exit door has to be so many inches by so many inches. The reason that's important – there are many reasons – but when we think about urban air mobility, we have a number of companies that are already flying prototypes. They're using very different strategies about how they use the technology, how these aircraft work. And if you had prescriptive technology, it could pick a favorite, by accident, or limit the evolution of this technology as more of it's developed and more of it's deployed. So, we're seeing a lot of success on that (inaudible), again, particularly on the civil aviation side.

Move it over to defense, and forgive me if I don't get it all here. I think that...let's start with IP. The Army – and, of course, I'm a little biased – is approaching this in an interesting way because they're not trying to do a one-size-fits-all thing. They're looking at each contract, looking at each platform, and really determining: what do we need for the sustainment of this platform and to evolve this platform, and what don't we need? There seems to be a lot of promise, I think, in approaching it that way – platform by platform, contract by contract, and getting it right – as opposed to just trying to sweep up all the IP, which makes investment difficult on the part of industry.

Doug, did you end with?

**QUESTION (via phone):** And what did I end with? So, you know with the whole perfor- –

**MR. FANNING:** I can remember two things, not three. (Laughter)

**QUESTION (via phone):** Okay. The whole – we saw what happened with the, you know, the first (inaudible) of performance payments. But something else which Ellen Lord has kind of brought up, as coming back to that, is just what different carrot and sticks might be used with industry? And whether even something like, you know, coming back to the Superior Supplier concept that Frank Kendall had for a bit, basically, how you reward/punish contractors who deliver or don't deliver?

**MR. FANNING:** Well, you mention Superior Supplier and a number of our members were on that list. We think...

**QUESTION (via phone):** And some of them weren't.

**MR. FANNING:** ...we think there are a number of incentives already, a number of tools that the Department of Defense already has and that contract officers have. We couldn't really understand what the problem was they were fixing, trying to fix. We didn't see the data that backed up any assertions that there were problems here, and in fact, we had supported...AIA and industry had supported the performance-based concept that came out of the Hill.

For me, I have to put this in layman's terms to understand it myself: it seemed that what they were trying to do [was] based on input metrics. How much money have you put against the contract versus an output metric, which would be performance that you could align to each program, to each platform? Because the schedules are different, some performance you're getting earlier, some performance you're getting later. We supported that because that was a better way to measure the success of a program.

We have been working very closely with the Department on this. It's another area of collaboration to figure out how we can get at what they want without having it actually stifle innovation. Because our fear was – particularly for the supply chain that can't withstand changes to their cash flow in the same way – that this could cause us some ripples, because a lot of these companies are putting money down on things sometimes even before contracts are signed, but certainly very early in development.

**QUESTION (via phone):** Okay. Thanks.

**MR. FANNING:** Doug will only come to D.C. once a year. I guess this wasn't the time.

**QUESTION (via phone):** I'm not even bothering this year.

**QUESTION:** Thanks. Travis Tritten, Bloomberg Government.

**MR. FANNING:** Congratulations, by the way.

**QUESTION:** Thank you very much. DOD, earlier this week, had published its Artificial Intelligence strategy. And it indicated increased reliance on the commercial sector and [inaudible] funding FY20. I'm wondering, do you see an impact for the industry and whether you see some increased opportunities in the coming fiscal year?

**MR. FANNING:** We don't advocate for or against a program or investment

strategy, but I will tell you that companies across our industry are already investing in [and] doing work in Artificial Intelligence. I was glad to see that come out of the Department of Defense. I thought it was a good, well-focused document. But as much as anything else, maybe even more so, this is an example where all the parts of government have to be working together, including outside of government with industry.

When we talk about the Chinese learning from our playbook and putting all their resources behind things, this is one of those areas. Government can't do it alone. Industry can't do it alone. We all need to be working together on it. So, it's a welcome step that the Department came out with this document, with this strategy, with this memo. But it needs to be rolled into a coordinated effort that's government and non-government combined.

**QUESTION:** Hi. Jill Aitoro, *Defense News*. It's a bit of a follow-up, but we've heard a lot in terms of cooperation with the tech industry lately. And some criticism of traditional defense companies in terms of how they work with the Silicon Valley. AI is a heavy area in that regard. So, can you talk a bit about any efforts that may be coming out of AIA to improve the cooperation between the large primes and the tech community, and perhaps to kind of nudge DOD to improve how they work with them, as well?

**MR. FANNING:** Yeah, I think I...that was certainly something we talked about when I was in government. I see it as an artificial divide, actually, because all of the companies in AIA rely on technology, develop technology, advance technology. They are based all over the country, all over the world, really. But the East Coast- West Coast thing doesn't...you can't create that divide, that delineation. When you look at the membership in aerospace and defense, they're everywhere. They're already cooperating. Sometimes they're acquiring each other. They're on both coasts. They're in between.

So, I never really understand that. If you really...to look at our list of members, you would see a really broad-based group of players. By that, I mean companies that are new and companies that have been around, proved and established, for a long time. And they are collaborating because they need to.

**QUESTION:** Hi. Good morning. Dave Brown from *Politico*. I wanted to follow up on what you said about Export-Import Bank and sort of reestablishing that. This obviously has its critics on Capitol Hill. What is your pitch for reestablishing this quorum and getting it going again? What are some of the benefits? How can you convince people who are against this to reestablish?

**MR. FANNING:** One, I always start with our previous chairman Tom Kennedy. Something he said that I always like, which is: "American companies compete against foreign governments." One of the things we focus on is making sure we're not doing anything to impede the competitiveness of our companies.

Now, part of that can be making sure you have the right regulations in place and you get rid of the wrong regulations. But it can also mean offering companies the type of support that other countries offer their companies. This is...you know, I think the Export-Import Bank is misunderstood. It's not just civil aviation. It's not just aerospace. It's for the entire manufacturing segment. It's for big companies. It's for small companies. It's supposed to be the lender of last resort. So maybe it's not as important at the time when the financial system is working well. But, if there are problems in the financial system, then it becomes more important.

We hear a lot about: "companies are doing well, why do they need this?" But this isn't about a quarter or a year. This is about guaranteeing financing, [that] when an order is placed, [it] will be there when delivery happens. For some platforms that could be years.

There's a \$40 billion backlog and we can point to deals that were lost by American companies because that financing wasn't there – small companies and big companies. Boeing has had a couple of deals that they lost because the financing wasn't in place.

**QUESTION:** I was about to ask that.

**MR. FANNING:** We can give you –

**QUESTION:** Some examples, please.

**MR. FANNING:** We can give you examples. Yeah. I was asking for myself.

**QUESTION:** All right. Good. Thank you.

**MR. FANNING:** But the main pitch is: why should we tie a hand behind our back? It's, again, the lender of last resort. Other countries looking for product, if they have financing in one area, that may tip the scale.

**QUESTION:** This might be a quick one, but we learned that the National Military Strategy is that actually done. They seem to not be, at least at this point, releasing a version that media or the public can see. I just was curious whether AIA was in on the dialogue at all with the Pentagon? If there was anything you can share for government?

**MR. FANNING:** It's a short...I'm sorry...a short answer. There's nothing we can share. You know, those are close hold documents and...

**QUESTION:** Were you involved?

**MR. FANNING:** We work with the Pentagon on a number of issues but not on

the strategy.

**QUESTION:** There's been some reporting about the Pentagon's budget submission using a very large OCO figure to get to its desired top line. Does AIA have a position on that? Or are you agnostic as long as it gets to a topline that you think is healthy?

**MR. FANNING:** So, our position is we want to get as close to regular order...we'd like to get to regular order if we can. And anything that prevents us from that, or isn't full regular order, concerns us to one degree or another. The idea of a very large OCO budget...you know, OCO's been a critically important tool in supporting warfighters when we surge. When you're contemplating drawing out of Syria, drawing down in Afghanistan, it's hard to imagine how you could get to an OCO number of that size. Furthermore, it's just not a reliable way to fund enduring programs, enduring expenses. I certainly thought of OCO differently when I was in government than I thought of things that were in my baseline, because I wasn't sure I was going to have it in 12 months.

So, we have concerns about being able to get to that number and being able to fund the important priorities using OCO as the vehicle. But mostly, we keep coming back to: we need to get back to regular order. We need budgets before the year starts. We need a predictable process. We need some stability with what those budgets are going to be, so we can plan around them. And this falls short of that.

**QUESTION:** So, there is an open regulation with the Commerce department right now that would add certain "emerging" technologies to export controls. There's a long list there, basically, some of which are relevant to your members, specifically hypersonics, robotics, AI, microdrone tech. I don't think AIA has submitted a formal comment on that yet. Could you elaborate on your thoughts on that rule?

**MR. FANNING:** I don't...we'll have to get to you on whether or not we have, or if we're planning on a formal comment. But we've been involved in conversations with the Department of Commerce, particularly when it comes to aviation platforms. Again, because the technology's evolving for UAS, for Urban Air Mobility, for other vehicles that weren't imagined or where the technology didn't exist when we were creating definitions for export control. Now they're starting to overlap. And the one that really got us started on this were large-scale drones that could be used for cargo, could be used for passengers.

When you look at the definitions of a cruise missile, these drones start to look like that under those definitions. So we're trying to figure out how can we delineate a little bit more based on the range, based on the speed, based on the weight, or what have you, to differentiate between what would be a missile – and we wouldn't necessarily want to export – and what might be something where we

want our industry to be competitive like a large scale drone, cargo drone.

**QUESTION:** Thanks. I just wanted to ask a question about the industrial base review and if you're expecting any kind of material changes for your members this year as a result?

**MR. FANNING:** First of all, that was an important effort. Any way that we can highlight the fragility of the industrial base, and how much of it is sole-sourced companies, and how many of those companies in the base are relying on fragile supply chains for their own thing is important. Our members have taken a close look at this. We're interested to see what comes next out of this, but it has helped members in the industry think about where they need to shore up the supply base, where they need to shore up their industrial base. So, there's already changes that are taking place. We're looking to see what the Department of Defense is going to do with their first round and where they're going to take it.

**QUESTION:** Hi. I had a couple of questions. Last September, Secretary Shanahan made a big deal of saying that cybersecurity would be elevated as source selection criteria. He said this at the Air Force Association. Fast forward to today, what's happened since? Is there a draft DFARS or something like that?

Second question: when you were in the Pentagon, for three or four years running, the Pentagon put out a Performance of the Defense Acquisition System Report. A lot of your current members didn't like it because it's singled... sometimes they didn't look so hot in it. Do you know why under the Trump Administration, they haven't published that document since they came in office?

**MR. FANNING:** I don't know why. You'd have to ask them on that. So, I can get that one out of the way fast.

On cybersecurity, yeah, we've seen a lot of activity. That wasn't...a one and done announcement. Whenever we meet with them, that is a singular focus of conversation we have. And there's no resistance on the industry side to making it a focus because it's important to them as well. They recognize how important security is for their own companies, for their supply chain. And some of these companies have hundreds, thousands of suppliers in their supply chain. So, the urgency of this, the importance of this, is recognized on both sides. The issue is how do you get at it? How do you do it in a way that really gets at the problem and doesn't stifle innovation and the fielding of new technology, or platforms getting capability into the hands of warfighters as quickly as possible?

The old ways of doing things, the old ways of regulating, can't keep up with evolving technology and the new threats that come at us. That's why we talk about performance-based standards or standards, regulation and standards as a way to try and figure out how to get to some assurance. The idea of hiring

10,000 people, giving them clipboards, and sending them around the country, around the world, to run through a checklist won't get at what is a very serious problem. So, we're trying to work together to come up with these standards that we can use to, if not get us to assurance, at least get us far enough along the way so that whatever the human part of that oversight or assurance is has a much more focused area to look at.

**QUESTION:** But there's no actionable – nothing actionable at the moment in terms of in potential DFARS or contract language.

**MR. FANNING:** Nothing yet. Nothing yet that I know of. They're working on things and they have been interested, intrigued, even enthusiastic about the work that we've done internally among our membership. Because the supply chain companies aren't just concerned about a new set of standards from the Department of Defense or multiple sets of standards...Army, Navy, and Air Force all come out with a separate way of doing it. They're also concerned if the primes in the aerospace and defense industry come out with a set of standards. So, we won't get there if we don't have a shared set of standards in and out, because it'll just be way too cumbersome for companies to meet these standards and that won't get us to assurance.

**QUESTION:** Okay. Thank you.

**QUESTION:** Last year DOD abandoned a proposed policy to change the progress payments in contracts and now it's decided to do more outreach with the industry. I'm wondering if you can say anything about how those talks are going and how you feel about the potential outcome of the process?

**MR. FANNING:** I'll say this: we came at this from different directions, but we were talking and that's great. There was a lot of collaboration in trying to figure out what Congress meant, what were the problems that DOD was trying to fix, what the measurements were going to be. From the start, we had argued that approaching it the way the DOD wanted to didn't use the right metrics.

First of all, the question is: what is the problem? What's the data that shows there's a problem here that needs to be fixed, so we can target that? The idea of trying to aggregate it across the entire Department of Defense didn't seem like it would allow us to get at the real problem sets. And we had supported from the start what we thought was Congress's intent, but what they have since said was their intent were the performance-based metrics; that the incentives, the carrots and the sticks, as Doug said, are on what you're producing or on the output side of the equation.

**MODERATOR:** I think we have time for one or two more.

**QUESTION (via phone):** Can I throw out another one from the phone?

**QUESTION:** No, Doug, you can't. (Laughter)

**MR. FANNING:** The three-part question from the voice of God. (Laughter)

**QUESTION:** I'll go quick. To follow up on the progress payments question, there have been two public meetings thus far. So far there really hasn't been much that seems to come out of them and one of the Wall Street guys, I don't know, recently had said it doesn't even seem that DOD's possibly...it seems that DOD might possibly might not do this. Do you have any thoughts on how those meetings have gone from...[I] assume your folks were at them?

**MR. FANNING:** Well, the first great thing is that they existed. You know, that type of dialogue, interaction, collaboration is a very healthy thing. I think it's a reflection of everyone trying to figure out: "Okay, the last attempt didn't really hit the mark. What are we going to do next?" I don't expect that they've stopped. Indications to us are they're thinking through how they want to approach this next. So, once they get that idea in mind, I expect that those types of meetings will be more fulsome than they have been now. But we welcome the opportunity for engagement even if it's minimal, not much comes out of it, just to keep that dialogue going.

**MODERATOR:** Actually, Doug did have an interesting question. Doug, go ahead.

**[CROSS-TALK]**

**QUESTION (via phone):** Eric, one thought here. So, Amazon just announced that it abandoned Queens for their HQ2 and are going to stick with the Crystal City and Nashville, as well. Would you, or rather your dear members, have any concerns that, you know, with perhaps even greater expansion in Crystal City that Amazon will have a detrimental impact on your members in terms of both infrastructure, congestion, and competition in the jobs market?

**MR. FANNING:** So, oh, wow. I haven't heard anything from any member.

**QUESTION (via phone):** Well, that's because they've just announced it.

**MR. FANNING:** Yeah, certainly we do have members that are based in Crystal City. We have some that are here in Rosslyn, where we are right now. And as someone who used to work in Crystal City, my recollection is there's lots of room for expansion there. But none of the members have expressed concern about what that would do in regard to infrastructure or workforce.

**QUESTION (via phone):** Okay. Thanks.

**MODERATOR:** Okay. I think we'll wrap it there. Thank you, everybody, for coming.

**MR. FANNING:** Thank you all. Happy Valentine's Day, again.

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