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AEROSPACE INDUSTRIES ASSOCIATION

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42ND ANNUAL YEAR-END REVIEW AND FORECAST LUNCHEON

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Ballroom
Crystal Gateway Marriott Hotel
1700 Jefferson Davis Highway
Arlington, Virginia
Wednesday, December 13, 2006

The meeting was convened at 12:32 p.m.

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P R O C E E D I N G S

MR. SELIGMAN: Welcome to the 42nd Annual Year-End Review and Forecast Luncheon for AIA. My name is Scott Seligman. I'm director of public relations for United Technologies and I chair the AIA Communications Council this year. It's great to see so many guests. I think we're up at about 300 people today.

As we begin, I'd like to ask everyone to please rise and remain standing for the Joint Armed Forces Color Guard from the Military District of Washington for the presentation of the colors.

(Colors presentation.)

MR. SELIGMAN: Please be seated.

I want to extend my thanks first to the members of the color guard for joining us today. As we all enjoy the holiday season at home, I know that those of us in this room with many ties to the military have thoughts of our troops in Iraq and Afghanistan and around the world.

If I can have your attention, please. This is a hard crowd. Let me begin today by introducing the folks who are at the head table. We have, going, let's see, clockwise from right next to John Douglass: Eric Sterner,

1 Chief of Strategic Communications at NASA; we have Lon
2 Rains, Editor of Space News; Kimberly Kasitz, Public
3 Relations Manager of General Atomics Aeronautical Systems
4 and also a member of our Communications Council.

5 We have Dave North, who is former Editor of Aviation
6 Week and Space Technology and the President of Aerospace
7 Consultants, and the winner of this year's Lyman Award,
8 about which you'll hear more in just a moment.

9 (Applause.)

10 To Dave's left is Acting Assistant Administrator
11 for Public Affairs at the Federal Aviation Administration,
12 Laura Brown; Kevin Wensing, the Special Assistant for
13 Public Affairs to the Deputy Secretary of Defense. We
14 have Alexis Allen, who everyone knows, the Assistant Vice
15 President of Communications for AIA.

16 (Applause.)

17 Everyone knows and loves.

18 Mark Rosenker, the Chairman of the National
19 Transportation Safety Board; and Admiral Frank Thorpe,
20 Deputy Assistant Secretary of Defense for Joint
21 Communication.

22 (Applause.)

1 John Douglass I will introduce in greater detail
2 in a little while.

3 The first order of business today is the Lyman
4 Award and the presentation in particular of the 2006
5 United Technologies Corporation Lyman Award. Let me tell
6 you a little bit about what that is. The Lyman Award is
7 an award that recognizes the person whose long and
8 distinguished career in aviation journalism and-or public
9 relations best displays the qualities of integrity,
10 accuracy, and excellence in reporting in the aviation
11 industry. This is an award that was established in 1972,
12 and we named it in memory of a man named Lauren Lyman, who
13 everybody called "Deac" Lyman, who was a Pulitzer Prize-
14 winning aviation writer and an industry executive who
15 worked eventually for United Technologies, actually for
16 our predecessor company United Aircraft, from 1938 until
17 he died in 1972.

18 Through the years the award was presented
19 originally by the Aviation and Space Writers Association
20 and then by the Society of Aerospace Communicators, and
21 now under the stewardship of AIA. It's a peer award.
22 It's an honor for the AIA Communications Council, it's an

1 honor for UTC, and its an honor for me personally to be
2 associated with this award because it recognizes
3 excellence in aviation journalism and public relations.

4 Can I ask for a little more quiet, please?

5 I want to acknowledge the members of the
6 selection committee who are here. This is a peer award
7 and they're primarily journalists. We also have former
8 Lyman Award winners, public relations people as well.
9 Several of them are with us today and I'd like to
10 recognize them: Carol Shifrin -- where's Carol? -- is
11 here. Carol is the 1999 Lyman Award winner.

12 (Applause.)

13 We have Kelly Murphy, who's former President of
14 the Society of Aerospace Communicators. Where's Kelly?
15 There someplace. There she is, back there.

16 (Applause.)

17 Kelly kept this award alive for many years.

18 Doug Kennett of Boeing, who I know is here
19 because I saw him before.

20 (Applause.)

21 And Alexis Allen from the AIA.

22 (Applause.)

1 Now, on to this year's winner. You know, we all
2 have elevator speeches about our companies that are
3 designed to kind of telegraph to the world what the
4 companies do in just a few words. At UTC that's never a
5 problem for us when we're talking about Pratt and Whitney
6 or we're talking about Sikorski. But when we're talking
7 about Hamilton Sunstrand we get a little bit more
8 creative, because people don't have a sharp focus.

9 This is a company that makes everything from
10 heat exchangers to the space suit. So over the years I've
11 kind of developed an elevator speech about Hamilton
12 Sunstrand and I kind of say that, well, Hamilton
13 Sunstrand's a company that you can find more or less on
14 everything that flies.

15 As I was coming over here today, it occurred to
16 me that the same thing really could be said about Dave
17 North. He was the first westerner to fly the Soviet
18 Sukhoi-27 and the MiG-29 fighter. He was the first
19 journalist to pilot the B-2, more recently one of the
20 first journalists to fly the Airbus A-380. In total he's
21 flown more than 140 kinds of aircraft and that's just so
22 far. I think it's not an overstatement to say that if

1 it flies Dave has probably not only flown it, but also
2 written a pilot report about it or at very least edited
3 something somebody else wrote about it.

4 Now, you can read his biography in the press
5 kit, so I won't recite it all here today. But it's fair
6 to say that this is a man who exemplifies the finest
7 tradition of pilot journalists in our industry. Before he
8 joined Av Week, which was in 1976, he was a Navy attack
9 pilot. He has 107 combat missions in Vietnam under his
10 belt, and he worked for a decade as a pilot and a flight
11 engineer at Pan Am.

12 At Av Week he was variously transport editor,
13 senior business flying editor, senior military editor,
14 Washington bureau chief, managing editor, before serving
15 as editor in chief from 1995 to 2004.

16 Now, that's the resume. Let me tell you a
17 little bit about the man. This is a man that his
18 colleagues describe as unflappable, and I think the exact
19 remark from Dave Hughes when I was talking to him was that
20 you could set off a bomb under that guy's chair and the
21 magazine would still get out on schedule. That's a trait
22 that was responsible for putting Av Week on a solid run

1 from an era that under Dave's stewardship stretched from
2 the end of the Cold War through 9-11.

3 He was interested in the people who worked for
4 him. He had a knack for putting the right people in the
5 right jobs to let them shine. In short, he was not only a
6 fine pilot and a fine journalist, but he was a damn good
7 boss.

8 This year's winner truly exemplifies the
9 standards and skills by which Deac Lyman lived and worked.
10 The only thing that Deac did that Dave hasn't done was
11 public relations for United Technologies, and maybe the
12 ship hasn't sailed on that one yet. I don't know. But
13 for outstanding achievement in our industry, it is my
14 pleasure to present the 2006 Lyman Award to Dave North.

15 (Standing ovation.)

16 MR. NORTH: Well, Alexis Allen told me I had to
17 cut down my speech from last night from 15 minutes to 3
18 minutes, so here it is.

19 31 years ago today, I was a former Navy pilot
20 and an about-to-be-furloughed Pan Am pilot, flight
21 engineer. I was in New York City and I was looking for a
22 job. I had three kids and I didn't want to fly for Iran

1 Air. So I went to the McGraw Hill Building on 49th
2 Street, 48th Street, walked up to the elevator, took it up
3 to the 42nd floor, and there was nobody at the reception
4 desk.

5 I walked through the area. I found an art
6 department, I found a production department, I found a lot
7 of spaces, but nobody there. There was one person sitting
8 in one office with a window. I walked in, introduced
9 myself, and said: I'm Dave North, I want to fly for you
10 and I want to work for you, I want to write for you.

11 The person, the person whose name was Harry
12 Holcombe, who was the managing editor at the time, he
13 ended up hiring me 8 months later, and the reason I got --
14 I still claim I got my job at McGraw Hill at Aviation Week
15 was they had one of their first Christmas parties they'd
16 ever had at McGraw Hill and everybody was at the Christmas
17 party.

18 That started 28 years ago and I joined the best
19 weekly magazine in the business. It led me to do many
20 things to do. I got over that period of time to fly
21 different airplanes. I've flown the Grippin and the
22 Viggin with the Swedish Air Force. By the way, the

1 Viggin, if you don't know the airplane, is the biggest
2 converter of gas to noise that I've ever flown. That's
3 the Swedes for you, you know.

4 I've flown the U-2, B-2, B-1 with the U.S. Air
5 Force. I've flown the Rafael with the French, I've flown
6 the Super Hornet and the regular Hornet with the Navy.
7 I've had some great flying stories, which I can't go into
8 now.

9 But that was not my real job. My real job was
10 being a journalist. As you know, or some of you at least
11 know, journalists are a special breed. You can't manage
12 journalists. The only way you can manage journalists is
13 to lead them and then get out of their way.

14 I also learned that Aviation Week highly valued
15 accuracy, relevance, and integrity. Those are the gods of
16 the magazine; that credibility was something you earned
17 and you did not lose. I also learned the proper
18 separation between church and state, marketing and
19 editorial. That practice is still very sacred with the
20 magazine and Tony Velocci is carrying on the banner.

21 It's difficult to comprehend the awesome
22 responsibility of the editor in chief of Aviation Week. I

1 held it for 9 years. Every Thursday morning the editor in
2 chief, managing editor, production, art department in New
3 York, and European editors all get together and decide
4 what's going into magazine. So you actually decide
5 Thursday morning what's going to magazine that day and
6 Friday morning you see the magazine. If that isn't
7 instant gratification, I don't know what is. It was very
8 fulfilling.

9 But it's the editor in chief, he gets good
10 counsel, but he's the ultimate one who decides what story
11 goes into the magazine, what gets cut, what gets changed,
12 and for heaven's sake maybe not even killed.

13 I was fortunate, as is Tony, to have an
14 exceptionally professional and highly motivated staff.
15 Part of my job as editor in chief was to write editorials,
16 which I really enjoyed. I wrote -- I don't know how many
17 times I wrote that NASA ought to remember that
18 "Aeronautics" is part of NASA, and they still haven't. I
19 said the Airbus approach to envelope protection was a
20 better way in some conditions than maybe Boeing's
21 approach, and I don't know how many letters I got from
22 Boeing on that one and from my test pilot friends.

1 I even told John Douglass one time that another
2 presidential panel on the problems within aerospace was
3 not going to go anywhere unless they had good support for
4 the panel. And I give them credit. Actually that panel
5 had further legs than I thought and it did well in
6 commercial, space, and people, and in space itself.

7 Through my 28 years with the magazine my
8 approach was that I call them with enthusiasm and I never
9 looked back.

10 I thank you very much for this prestigious
11 award. It reinforces the decision I made 31 years ago to
12 enter journalism. Thank you for your attention and time.

13 (Standing ovation.)

14 MR. SELIGMAN: Thank you. Thank you, Dave.

15 Enjoy your lunch. We will be back up after the
16 meal with the rest of the program.

17 (Recess from 12:39 p.m. to 1:18 p.m.)

18 MR. SELIGMAN: Could I have your attention,
19 please. Thank you.

20 Well, as you know, today's the day that AIA
21 reviews the aerospace industry's performance for the past
22 year and gives its forecast for the coming year. For that

1 we're going to turn to John Douglass. Most of you know
2 John. He joined AIA in 1998 as President and CEO. A
3 nationally recognized expert in systems acquisition and
4 former Assistant Secretary of the Navy for Research,
5 Development, and Acquisition, and John had 28 years with
6 the Air Force when he came to work for AIA. He worked for
7 Senator Sam Nunn, was Director of National Security
8 Programs for the White House, and then he was President
9 Reagan's representative to the Blue Ribbon Commission on
10 Defense Management.

11 John is going to share his thoughts with us on
12 the state of the aerospace industry, and there will be an
13 opportunity to ask questions at the end.

14 For those of you who may be new here, the
15 journalists who haven't covered this before, I want to
16 give you a word of advice. Don't worry about writing the
17 numbers down. They're all in the press kit. You can sit
18 back in your chair and enjoy it. Lean forward and grab
19 your pen if John starts a sentence with "Alexis is going
20 to kill me for saying this, but."

21 John.

22 (Applause.)

1 MR. DOUGLASS: Well, good afternoon, everybody.

2 It's that time of year again. Scott, thank you for the
3 nice interview. That's true, she does kill me sometimes
4 when I have these moments of inspiration with the press.

5 Dave, I want to say a few words about you. I
6 want to just thank you for everything that you've done for
7 our industry, bless your heart. You're a wonderful
8 example of what a free, responsible press could be. You
9 know, folks, I tell my staff all the time, I used to tell
10 the Navy -- Frank and I were talking about when I was
11 Assistant Secretary of the Navy some of the interplay that
12 I had with the press. But very early in my career it
13 dawned on me that the United States of America is special
14 in a lot of ways, and it's very hard to replicate how we
15 do governance in this country in other countries. We've
16 tried to take the American model and put it overseas many
17 times, and sometimes it works and sometimes it doesn't
18 work.

19 But one of the things that is at the very
20 foundation of our democracy is our free press. You can
21 think of anything, any part of government, whether it's
22 defense or transportation or space or whatever it is. If

1 we don't have a press that can be free to tell the
2 American people how they really think things are going,
3 things get off track, because no matter how well intended
4 governments are, the temptation to spin things in a way
5 that begins to ever and ever deviate from reality is
6 there. So for all of you that are members of this free
7 press, I think it's a wonderful thing that you do; and
8 Dave, for you to receive that award I think is terrific.

9 (Applause.)

10 This is my ninth year of doing this. Somebody
11 said, I started back in 1998, but we actually started
12 doing this in 1964. When you think about it, I don't know
13 where those of you that are here today were in 1964. I
14 was a second lieutenant out in San Bernadino, California,
15 working on the Titan II communications system at Davis
16 Montham, which incidentally couldn't communicate to any
17 other part of the Titan II system. I think our industry
18 has come a heck of a long way since 1964, a lot of ups and
19 downs.

20 But I was just curious as I started this. How
21 many of you, especially you reporters, or industry folks,
22 how many of you have been coming to this for, let's say,

1 more than 10 years? Raise your hand.

2 (A show of hands.)

3 Look at that. That's amazing.

4 How about 20 years?

5 (A show of hands.)

6 Wow. So some of you, some of you remember Carl
7 Harr, right, in the old days?

8 Well, probably not -- anybody over 20? Anybody
9 who's been doing this for 30 years?

10 (A show of hands.)

11 Really? Several. Well, can you remember all
12 the way back to what the sales were in 1964?

13 VOICE: (inaudible).

14 MR. DOUGLASS: Just to tell you, folks, they
15 were way below \$50 billion a year, and when you see the
16 numbers that I'm going to be showing you today it'll give
17 you some idea of how far this industry has come as an
18 engine of the American economy and a foundation of our
19 national security.

20 So with that, let's do the numbers and look at
21 the sales.

22 (Slide.)

1 The first thing to note is that when I was here
2 last year I told you that I thought 2006 was going to be a
3 great year. I predicted that we were going to be at
4 around \$180 billion maybe a little higher than that, and
5 our best estimate now is we're going to be at \$184
6 billion, which is a record year for us. It's the third
7 record year in a row. It's 8.4 percent above 2005.

8 The good news is that next year we know that
9 we're going to grow somewhere between 11 and probably \$15
10 billion next year. If you remember back, a few years
11 before that I told you that I thought by the end of the
12 decade we would be at \$200 billion as an industry, and
13 there were a lot of skeptics at that time, especially back
14 there when the curve was kind of flat. So you can see
15 that if we make the \$195 billion next year in 2007, we'll
16 go well beyond that to \$200 billion by the time of the
17 election in 2008, and that means that we're hitting our
18 numbers as an industry over two years in advance.

19 These numbers are driven, if I could have the
20 next chart --

21 (Slide.)

22 -- by a real boom in civil aviation. You can

1 see the numbers up there on the chart. All of the
2 categories that we use to explain the aerospace budget are
3 up, but the one that is really, really growing is
4 commercial aviation, and it grew by \$8.3 billion. We're
5 going to see this grow another 7 or \$8 billion next year.

6 I'm going to show you some backlog charts in just a
7 minute, and we've had the most extraordinary growth in
8 backlog over the last two years that the industry ever
9 had.

10 There's something very interesting about these
11 figures and that is, that we don't normally talk about
12 here, and that is that we all know how well the 787
13 program is doing at Boeing and they are selling their --
14 even their new 747 is selling well and all of their other
15 airplanes are selling well. But if Airbus had not
16 stumbled a bit on the A-380 or delayed the A-350, these
17 numbers would have been even bigger because we of course
18 produce a lot of components for those two airplanes.

19 Right now today, there are hundreds of millions
20 of dollars that should have been delivered this year and
21 early next year for the A-380 program that won't get
22 delivered for a couple of years because of the delay in

1 that program. So even with those problems in our big
2 competitor in Europe, the industry is doing terrific.

3 If I could have the next chart --

4 (Slide.)

5 -- I want to have you just look at that green
6 line. It's almost straight up. That's \$100 billion added
7 to our backlog in the last two years, and this -- we
8 expect that this is going to continue to grow at a very
9 robust rate. Remember, all of those 787s that Boeing is
10 selling, they don't show up on the deliveries until
11 they're actually delivered to the airlines, and that's
12 going to start out in 2008 and 2009, and once the European
13 programs begin to hit their stride it's going to add more
14 to the chart. And then on top of that, you all have read
15 about the airline consolidations. Most of these airplanes
16 that we're selling or delivering right now have been to
17 foreign airlines, and so you're going to see some terrific
18 numbers on our balance of trade, but the American airlines
19 here in the United States are going to start buying these
20 airplanes and getting them delivered. There's pent-up
21 demand there and as soon as these industries get into the
22 profitable range and they begin consolidating, which is

1 what they're starting to do now, this is going to grow
2 even further.

3 Another thing that is very helpful to us is that
4 we are now seeing on the defense side the Joint Strike
5 Fighter program really beginning to hit its stride. Just
6 this week, for example, it was announced that the United
7 Kingdom, Canada, Netherlands, and Australia have all
8 signed MOUs with our country to go on to the next phase of
9 the program, and we expect that Denmark, Italy, Norway,
10 and Turkey will follow suit in the days and weeks ahead.

11 So both in new airplanes on the commercial side
12 and new airplanes on the military side, we see solid
13 growth into the future.

14 Next.

15 (Slide.)

16 Now, this next chart is kind of interesting.
17 Did we get the -- this is the new one, yes. We just got
18 the figures on this yesterday, just to show you how close
19 our deadline is to this luncheon today. If you look in
20 your book you're going to see a chart that shows our
21 profits in 2006 being a little lower than what's on this
22 chart that I'm showing you up there, and the reason for

1 that is we had to print the charts before we got all the
2 data. This has first, second, and third quarter profits
3 factored into it, with some estimates for fourth quarter.

4 So what you see is that our profits for the
5 industry are at an all-time high and the percentage of
6 profits on sales have actually increased just a little
7 bit. Now, we don't expect that these are going to go
8 through the ceiling because everyone knows that it's a
9 mixture of the profits that we make on our defense
10 contracts, on our commercial sales, and on our space
11 contracts, and that market, the commercial market, is
12 enormously competitive. The space and defense market, the
13 profit levels are suppressed by the system that we have,
14 our legal system.

15 But these are good for our industry. They're
16 not as high as they are in other parts of manufacturing
17 industry, but they're a heck of a lot better than the
18 trough that you see on that chart, and they are helping
19 our companies to be economically healthy.

20 (Slide.)

21 Another piece of great news is on this chart
22 that you see up there, and this is our export balance.

1 Exports soared to \$82 billion, and I said before if it
2 wasn't for the slowdown of some of the European programs
3 this would probably be significantly higher. Imports were
4 pretty much flat. So now we've gone from a balance, a
5 positive balance of trade in the high 30s all the way up
6 to \$52 billion.

7 If we could fix our export control laws and move
8 those laws forward into the global economy today, instead
9 of dealing with the kind of laws that were written for the
10 Cold War when there was this big competition between the
11 United States and the former Soviet Union, we could
12 probably move that positive trade surplus up
13 significantly.

14 Any time that you have an economy that runs a
15 \$300 or \$400 billion trade deficit, which our economy
16 does, despite the fact that we put \$52 billion on the
17 other side of the ledger, this is an important thing for
18 us as a nation. This trade surplus is a good example of
19 the fact that over 40 percent of everything that is
20 produced in the aerospace and defense industry here in the
21 United States is exported outside the United States. So
22 you can look at our jobs, 650,000 workers, high-paid

1 workers, and take 40 percent of that and you can see how
2 many Americans depend on us being able to sell these
3 products into the global economy. So this is good news.

4 (Slide.)

5 Turning to our employment, again it's good news.

6 The jobs are up. What's interesting and doesn't show up
7 on this chart, if you were to divide these jobs into what
8 might be called overhead jobs and on the line jobs or
9 production jobs, production jobs have actually gone up
10 over 60,000 jobs this year. So what has happened is the
11 overhead jobs have gone down by about 40,000. So the
12 industry is getting leaner, more productive, more able to
13 compete on the global economy, and that tells you that
14 this strong growth that you see in our industry is likely
15 to continue well into the beginning of the next decade.

16 (Slide.)

17 Moving on, what does that all mean? We're in a
18 period of the highest aerospace sales in history, fueled
19 by the civil aviation boom. Profits are up. Highly
20 skilled work force, but it's still aging and it's
21 something that we're very much concerned about. A large
22 percentage, somewhere 40, 50 percent of those 620,000

1 people, could retire.

2 One of the reasons why this is working is
3 because we have one of the best research and development
4 systems in the world. Americans invest more than any
5 other nation in the world in military research and
6 development. But one of the structural problems that we
7 have is that on the commercial side research and
8 development investment by our government has been
9 collapsing. The NASA aeronautics budget has gone from
10 \$1.5 billion down to \$500 or \$600 million a year, and the
11 \$500 or \$600 million that they're spending has become in
12 most industry eyes largely irrelevant to what's going on.

13 So we have a serious concern about the aeronautics
14 budget.

15 But we also have big concerns about what does
16 this mean to the development of the next generation air
17 traffic control system, because every day more and more
18 Americans want to fly somewhere. The numbers are going up
19 exponentially. This was one of the things that was
20 pointed out by the Commission on the Future of the
21 Aerospace Industry back in 2003, and the administration
22 responded by developing the NextGen program and the Joint

1 Planning and Development Office, but that office has got
2 to be funded and one of the sources is NASA, and that
3 money is not there right now.

4 We're also worried about the long-term funding
5 for the space program. Everybody knows that it's the
6 vision of the future when you go out and talk to the
7 American public, and AIA has just recently done some
8 polling about this. The approval for our space program is
9 way up there in the 80 percentiles. Americans do not want
10 to see the United States of America retreat from a
11 leadership position in the exploration of space, but we
12 don't see that our country is investing in that program at
13 anywhere near the percentages of GNP that were there for
14 the Apollo program and so on.

15 Then finally, one of the things that we have to
16 worry about is what is our defense program going to look
17 like long term.

18 (Slide.)

19 So let's look at 2007 and beyond. There's lots
20 of questions. You can see what they are: How long is the
21 civil aviation boom going to last? What about civil
22 military integration? Our biggest issue that we struggled

1 with last year in the Congress was trying to fix the Barry
2 amendment forced us to have unique production lines for
3 military equipment and we couldn't use perfectly good
4 commercial equipment in our military systems because they
5 contain non-American smelted specialty metals, specialty
6 titanium.

7 So we had situations where we had a bearing -- I
8 remember seeing this one example of a bearing,
9 commercially it was selling for about ten dollars. The
10 military had to pay something like \$400 for that same
11 bearing and the commercial bearing lasted longer than the
12 one the military was buying, and it all had to do with the
13 Barry amendment.

14 So what about that? Are we going to be able to
15 fix that? If we're going to have a long-term commercial
16 boom here where our commercial systems are going to sell
17 globally, this is a way to help us bring down the cost of
18 defense, and as Americans we need to work on that. One of
19 the big questions is, everybody, the buzz around town is
20 how is the new Congress going to affect things? For us in
21 industry, what does this mean in terms of long-term
22 defense strategy?

1 Remember that the CEOs of my association have
2 about 5 or \$6 billion of their money that is generated
3 from their profits, of that 13 that you saw, that they
4 invest for the products that are going to be put on the
5 market 5, 10, 5 years from now. And if you're worried
6 about how you're going to build a product for the
7 Department of Defense, you have to think for a few minutes
8 about what's our national security strategy going to be
9 10, 15 years from now? It's very, very difficult to
10 predict as we look at the uncertain world that we live in.

11 What we believe, though, is I don't think there
12 is a single candidate on either side of the aisle that's
13 going to try to go to the American people and say: Here's
14 my platform: The world's getting really, really dangerous
15 out there, so I've got this great idea; let's cut defense
16 spending and reduce the size of our military services.
17 That is not going to happen between now and 2008.

18 So what is the strategy going to be as those
19 candidates begin to emerge? It's something our industry
20 has to pay attention to.

21 What's going to happen in global trade? Will
22 the Boeing-Airbus WTO thing get resolved? That'll

1 certainly affect us.

2 Will space and aeronautics remain as underfunded
3 as it is today? Will this new Congress take another look
4 at this? Sooner or later we're going to get to the point
5 where this reaches a crisis and something has to be done
6 about it.

7 And what about homeland security? Somebody
8 mentioned to me coming in about the problems they were
9 having in the Coast Guard's Deepwater project. When I was
10 Assistant Secretary of the Navy that was something I took
11 special interest in and wanted the Navy to be as
12 supportive as possible for the Coast Guard's Deepwater
13 project, because if we could build a frigate-sized ship to
14 replace the Coast Guard's aging ships here in this country
15 we could sell them like crazy around the world. And what
16 would that do? That would make the cost of American
17 shipbuilding for the Navy go down. We would like to in
18 industry see more of that happen, and we think the Coast
19 Guard's financial issues need to be paid some attention.

20 Then the issue for us, is any of this going to
21 be relevant in 2008? Is all of these structural problems
22 something that the candidates want to talk about?

1 So I'm going to wrap this up with just the next
2 chart --

3 (Slide.)

4 -- which I think are the issues that you as
5 reporters are going to be interested and writing about in
6 2007. The first thing on the list is ethics. I think the
7 new Congress is going to look at ethics, they're going to
8 look at their own ethics, they're going to look at the
9 ethics of the bureaucracy. They're probably going to do
10 some looking at ethics of industry.

11 Let me tell you, we in industry are like the
12 coaches, the leaders of industry that I work with, we're
13 like the coaches of an NFL football team. When we see an
14 ethical lapse happen in our country or one of our
15 companies, it's about like the way a coach feels when his
16 quarterback's thrown a 60 yard touchdown pass and it's
17 called back for holding.

18 Good ethics makes for good business, just like
19 in the NFL, if your players are taught to block and tackle
20 strongly and play by the rules, that makes for winning
21 football. We know that. We do everything we possibly can
22 to push that down into every employee in our companies,

1 and we're trying to spread this around the world. AIA has
2 been leading an international ethics initiative with the
3 Canadians and the Brazilians and the Europeans and the
4 Japanese to try to create an international ethics code.
5 We think that's probably going to be something that the
6 press will be interested in.

7 Air traffic control modernization, it has got to
8 happen. It's not one of these things that is a
9 discretionary thing for our government. 15 percent of the
10 gross domestic product of this country is tied up in air
11 travel. We cannot ignore it. It's got to get fixed, and
12 if there is a shortfall at NASA or the FAA or wherever it
13 is somebody's going to have to come up with the money.

14 When you look at the amount of the money, \$300
15 million to fully fund this effort is trivial compared to
16 some of the other things in the budget.

17 International competitiveness. We're doing,
18 American industry in our part of the manufacturing sector,
19 is doing well right now. A few years ago my colleagues at
20 Aviation Week were writing editorials about Boeing
21 couldn't manage its way out of a paper bag and Airbus
22 could walk on water and yadda-yadda-yadda. I used to call

1 up Dave and tell him he's full of you know what and that
2 we were going to come through this crisis and America
3 would be sailing high in a few years, and the's where we
4 are, because we do have great managers and we have great
5 workers with a great work ethic in this country.

6 But there are some issues that our government
7 needs to deal with. Export control is one. The level
8 playing field of the WTO, and some of these wacky buy-
9 America rules that allow us to have that \$50 billion
10 positive trade surplus. We are not exporting massive
11 American jobs overseas today through the aerospace
12 industry. We are creating jobs here, and any time -- my
13 hardest thing that I sometimes have to get across to
14 people is that if we allow, say, 50 jobs to go overseas so
15 we can sell an airplane that creates 400 or 500 jobs here
16 in the United States, we're ahead of the game, and we need
17 to make sure we stay on that.

18 We're all sort of worried about where DOD
19 budgeting is going to go next year. We know that the
20 services need more people. There was just an article
21 today in the Washington Post, the Army wants two more
22 divisions, the Marine Corps another brigade. That's an

1 important thing, and if that's what our country needs then
2 the aerospace industry of the United States wants to see
3 that happen.

4 But we worry that it might come out of
5 modernization. I personally think that's a worry, but
6 it's not something I think is going to happen because of
7 what I said before. I think the political ethic today is
8 about making America secure in a very dangerous world, and
9 I think people worry about jobs. But they do want to
10 know, where are we going, what is the strategy going to be
11 beyond Iraq and Afghanistan?

12 Then of course there's a big issue about, will
13 these people that are beginning to run for the presidency
14 on the Republican side and on the Democratic side -- do
15 they see our vision for going back to the moon and on as a
16 national vision that they're going to adopt or do they see
17 it as a Bush vision? We think it's a national vision and
18 we want to see that continue.

19 That leads you into all of these issues about
20 NASA funding. I'm natural gas going to beat them up any
21 more. My tablemate today was telling me he's got some big
22 lashes on his back about that. But sooner or later that

1 does have to be fixed.

2 By the way, folks, there are some in this town
3 that would argue that the first "A" in "NASA" has been so
4 abdicated by the leadership of NASA that it should be put
5 in another agency. I don't agree with that and I don't
6 think the CEOs of my industry agree with it. We believe
7 in NASA as an institution. We just want to see it get on
8 and fund itself properly.

9 Then finally, what is going to happen after
10 Iraq? Sooner or later we're going to come home. We don't
11 get into that argument of when it should be or whatever.
12 That's for our national security leaders. But we are
13 vitally interested in the dialogue about what's next, what
14 kind of a military do we want to have in a very dangerous
15 world? My guess is it's going to be a military that
16 requires air superiority, so we've got to have most of our
17 Air Force programs; it's going to require a force that can
18 go anywhere in the world and deliver an expeditionary
19 expedition. That means we've got to control the seas. So
20 we're going to continue to see a robust Air Force and
21 Navy.

22 The issues I think that are really going to be

1 at the cusp of this is how many soldiers do we have in the
2 Army and the Marine Corps, what kind of equipment do they
3 have, and what is their relationship to the Guard and the
4 Reserve? All of you know we can't keep calling up the
5 Guard and the Reserve every six months.

6 I'm a Civil War reenactor, many of you know;
7 about 30 troops in my Civil War artillery battery. I have
8 one guy in there who is 52 years old. He just got a call
9 from his unit: Would he be willing to sign back on, go
10 back to Iraq for the third time? When you get down to
11 that, something's wrong with the force structure, and
12 we've got to get that fixed.

13 So those are the issues that we see coming.
14 It's a great year for us. We see solid growth right on
15 through the end of the decade and into the next decade,
16 clearly into the next administration. But we see some
17 structural problems that we have to pay attention to.

18 I'd be glad to take any questions that you may
19 have. We'll start right here.

20 MR. WENSING: Regarding ethics on the
21 international side, trying to -- I know you're working
22 some deals. How do you export the ethics around the

1 world?

2 MR. DOUGLASS: Well, you know all the countries,
3 major aerospace countries of the world, have laws that
4 generally outline what their ethics are, just as we do.
5 And most of them have signed the OECD agreement on bribery
6 and that sort of thing. So what we're trying to do is
7 take the procedures that we have here in the United States
8 for pushing this down to your employees and the concept
9 that good ethics makes good business, that it doesn't pay
10 to go outside certain bounds, whether it's military or
11 commercial business, and try to get that more ingrained in
12 the global aerospace economy.

13 But we're not trying to say to countries in
14 other parts of the world that they need a Sarbanes-Oxley
15 law or they need to have laws exactly like the United
16 States. We think there is enough of a structure there
17 that if we could all agree on certain basic principles
18 like no bribery and things like that, that we could move
19 the ball forward significantly, because the truth of it is
20 that in some cultures they look at these kind of things a
21 little different than we do here in the United States.

22 But it sometimes takes a little explaining,

1 because many countries in the world believe when an
2 American stands up and says "Follow me" that we're talking
3 about taking our laws, our mores, and shoving it down
4 their throat. And part of my job is to convince them that
5 we're not, but we do have some standards.

6 It's amazing, not many people have tried to work
7 this in the past. We've made some pretty good progress
8 and I'm pleased with what's happened so far.

9 Other questions? There's one in the back, back
10 there.

11 QUESTION: John, you have a lot of contacts on
12 the Hill. You're going to lose some of them (inaudible).

13 MR. DOUGLASS: I'll repeat the question for
14 those of you over here that might not have heard it. He
15 said that some of the people that have put in buy-America
16 suggestions that the industry has opposed in recent years
17 were Republicans, particularly in the House, and that
18 they're now not committee chairmen, and would this mean
19 that the Democrats in the House in particular would
20 probably not push on this as much.

21 I think our conclusion is that we think that the
22 Democratic leadership in the House is going to be more

1 balanced on this issue, because the debate -- part of the
2 problem with the debate in the last couple of years was
3 that those that were pushing those ideas in the House
4 really weren't in a dialogue with us. We could never get
5 into a dialogue with them. This was one of those
6 iconoclastic things, that's how they thought, and they
7 didn't want to hear any discussion of it. So we had to go
8 to the people who believe that trade is good for America
9 and carry our case there, and we've been fortunate that
10 we've had a broad-minded leadership, especially in the
11 Republican Party, in the Senate.

12 One of the things that I complained bitterly to
13 the White House about last year in several of the meetings
14 that I had over there was that the two provisions that our
15 industry was most concerned about last year, the industry
16 and the Department of Defense were in complete agreement
17 and the White House was in complete agreement with us, but
18 we had strong committee chairmen, Republican committee
19 chairmen, who were deviating from what the White House and
20 their own Secretary of Defense wanted to do.

21 We're hoping that the Democrats will be a little
22 more disciplined and once we work out a position on what's

1 good for America we'll see it move forward without the
2 kind of problems we've had in recent years on buy-America.

3 There's one back there.

4 QUESTION: Noticeably absent from your
5 presentation was any reference to Secretary Gates. What
6 do you think his nomination means for the industry?

7 MR. DOUGLASS: Well, you know, we didn't mean to
8 leave him out. He's not even sworn in yet. But we sort
9 of have some background with him. He's going to be, we
10 think, a breath of fresh air in some areas.

11 The conventional logic around town, not
12 necessarily unique to our industry, is that he's going to
13 have his hands full with the war, and so most of the
14 interface that we'll have with the Department will remain
15 with Gordon England and Ken Krieg and the acquisition
16 officials in the services. But that remains to be seen.
17 We're going to invite the new Secretary to come and speak
18 to our executive committee some time probably in March or
19 this summer.

20 It does give me the opportunity to say, however,
21 that we have really felt good about our ability to
22 communicate with Secretary England and Secretary Krieg.

1 Both of them are very open to suggestions. They don't
2 always agree with us. They don't always do what we
3 suggest. But they certainly listen.

4 I've probably been in to see the two of them
5 more in the last couple of years than some of the other
6 people that have held that office before them, and we in
7 industry hold them in high esteem. It is no secret that
8 Rumsfeld had a policy of never meeting ever with any
9 industry people, and we didn't think that was a wise
10 policy and we didn't like it. So we're hoping that the
11 new Secretary will on occasion, when it's something really
12 important, open his door for the leadership of industry to
13 come in and talk to him. He's worked with industry in the
14 past and so we're optimistic about that.

15 Yes, ma'am?

16 QUESTION: Are you at all hopeful for getting
17 any momentum going for export control reform going forward
18 in the next couple years?

19 MR. DOUGLASS: The question is are we hopeful on
20 getting momentum going on export control. Yes, we are
21 hopeful. You know, sooner or later this has got to
22 change. I mean, the economy of the United States is

1 getting more and more linked to the global economy. 40
2 percent of what we produce is exported outside of the
3 United States. I could stand up here and give you
4 examples of export control horror shows for hours,
5 bringing in nuts and bolts and screws and things that
6 we're told we can't export, nobody knows why; when you go
7 over there and question it, they then give you your
8 license.

9 The system has just got to change. There's a
10 lot of study going on. I'm on a Defense Science Board
11 study right now looking at the system. What we are trying
12 to do is improve the system we have right now until
13 industry can work with government and with our trading
14 partners to develop a new system. So we are optimistic,
15 and I think if we don't see some major change in the next
16 year or so here this is going to be an election issue,
17 because it's about jobs.

18 The industry -- where the industry and the
19 administration and the Congress are all of a single mind
20 is we are not advocating the selling of military equipment
21 to any country that could be potentially dangerous to the
22 United States. We all agree on that. It's the other

1 stuff that is widely available all over the world, like
2 tubes and bearings and all kinds of things, that somehow
3 gets caught up in the current system.

4 So we are optimistic. There's a certain amount
5 of battle fatigue when you bring up the term "export
6 licensing" and people who have run their heads against a
7 stone wall for a long time sort of don't want to do it
8 again. But we're going to keep going and we think there
9 is some hope.

10 I think I'm getting the hook here. I hope
11 everybody has a wonderful holiday season. We'll be back
12 next year. I'll just leave you with one thought. I've
13 predicted \$11 billion in growth. I think it'll be more
14 than that next year.

15 I hope you all get a chance to spend some time
16 with the people you love. This is an important season for
17 families.

18 (Applause.)

19 MR. SELIGMAN: One final piece of business
20 before you all go. This may look effortless, but it's
21 quite an ordeal to put a luncheon on like this. I want to
22 thank the AIA folks who've made it happen, if you'd stand

1 up when I name you: Matt Grimison, Kathy Khare, Lauren
2 Airey, Deborah Colbert, Marianne Samaria, Brenda Magruder,
3 Lourdes Fernandez, Terry Ruby, and of course Alexis Allen.

4 (Applause.)

5 Thanks again for coming, and we'll see you next
6 year.

7 (Whereupon, at 1:59 p.m., the meeting was
8 adjourned.)

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