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Remarks as Prepared for Delivery

Good afternoon. It certainly is a pleasure to join you, particularly as you celebrate your centennial of flight. I've looked at some of the activities planned for the year, and it is an impressive line-up. What a terrific opportunity to remind people about the wonders of flight, your aviation heritage and evenly more importantly, the contributions of your industry to Canada.

We all know how closely knit the Canadian and U.S. aerospace and defense industries are, so it should be no surprise that this relationship goes all the way back to Canada's first flight in 1909.

Claude was referencing the Silver Dart – the story of two aviation pioneers, Casey Baldwin and John McCurdy. There was another aviation pioneer, however, who was also a member of that pioneering team. That was Glenn H. Curtiss, who was also a founding member of the U.S. Aerospace Industries Association. And, as it turns out, this year while you are celebrating your centennial of flight, AIA is celebrating its 90th anniversary.

The collaboration that we saw in those early days of flight continues in spades today – between our governments, associations and companies, particularly when it comes to providing for a common defense for our two countries and the border and airspace that we share.

The North American Defense Command has symbolized that relationship for more than 50 years, and certainly the events of September 11 reinforced that already robust bond. Canada and the U.S. also have a long history of defending our countries and allies through NATO. And our common industrial base underpins our defense cooperation.

So, it shouldn't be a surprise that AIA and AIA-C share a common set of challenges. Our common industrial backbone is evident when you look at the membership lists of our two organizations. There is considerable overlap, just like the $5 to $8 billion in aerospace trade that crosses our borders each year.

Not too surprisingly, the most formidable challenge we share today is weathering the economic downturn. The title of your program, "100 Years of Canadian Aerospace Excellence; Positioning for Recovery," says it pretty well.

I don't think any of the economic wizards really know when the economy will turn around. We've seen a steady increase in U.S. aerospace sales in recent years, and AIA expects another record this year.

However, beyond 2009, that growth is expected to slow considerably. U.S. aerospace sales are split about 50 – 50 between government and commercial, and there is a lot of uncertainty on both sides of that equation.

The huge pressures on the U.S. government budget resulting from stimulus spending, war operations, and the focus on healthcare reform, is putting tremendous pressure on some of our major customers—the Defense Department, NASA and FAA.

On the civil side, most of the $80 billion in sales is for commercial airliners and their components. No one needs to be reminded that this is apt to be the worst year in recent history for the airline industry. And while there is a pressing need to upgrade the fleet and invest in transformational Next Generation Air Transportation systems we know that the airlines can't afford any of this any time in the near future. If history is any indicator, we will continue to see deferments of orders so while the U.S. backlog remains healthy – something along the order of 3,500 aircraft – it really paints a false picture of stability in the marketplace.

The uncertainty of the economic situation is heightened in the United States with a new president and his agenda along with a new Congress. Certainly, the status quo is no longer an option in Washington. As one of our earlier presidents said, "Neither a wise man nor a brave man lies down on the tracks of history to wait for the train of the future to run over him." That was General Dwight D. Eisenhower. And I would say given where we are today, that is probably good advice.

On the defense side, Secretary of Defense Gates is a key member of the new administration team, a hold-over from the Bush administration. Probably, hold-over isn't the right word. He appears to have the utmost confidence of the president and an agenda to transform the way the Defense Department does business.

Earlier in the year, Secretary Gates laid out his plan to control growth in the U.S. defense budget, which included cutting or reducing a number of high-profile programs. This was the Secretary's first step in setting the stage for a wide-scale review of our future defense strategy, which will be released later this year. Known as the Quadrennial Defense Review, or QDR, it is meant to be a thorough consideration of how the U.S. military will organize, train and equip to meet the challenges of the future.

The Defense Department has largely ignored the industrial base in its past strategy considerations. More to the point, there hasn't been a strategy, or it has been what I would call a Wal-mart strategy ─ you know, if you need something, just go down to your local Wal-mart and pick it up.

AIA released a study this summer that encourages the Defense Department to take into account the changes that have occurred in industry over the past decade or so when planning for

the future. After years of consolidation and focus on providing value to the stockholder, we want to make sure that DoD understands that the next time it has a strategic requirement from industry and goes to Wal-mart, the shelf may be bare.

We've had a very positive reaction to the study and are hopeful to see the results as the QDR winds its way through the policy process in Washington.

Finally, the health of the U.S. defense industrial base has other implications with our industrial partners, such as Canada. Sales to our allies and partners and use of international supply sources will ensure we can deliver the best quality systems at the lowest price to our warfighters. With that in mind, AIA is ever vigilant against the tendency of our government to be reflexively protectionist.

While we all understand the importance of open markets, our Congress needs occasional reminding of this. Earlier this year, for example, lawmakers inserted Buy American language in stimulus spending bills. Our industry was exempt, but we were prepared to take the offense if necessary.

Canada has a huge stake in another important issue affecting trade, namely the modernization of the U.S. export control system. After many years of frustration both in the U.S. and abroad, the U.S. government is starting to move in the right direction in what we hope is a major policy shift on how we manage the export control process.

In August, President Obama announced that there would be an interagency review to make substantive changes to the export control system to make it more efficient, predictable and transparent. The study was prompted by senior administration leadership, including Secretary of Defense Gates, and is being co-led by the National Security Council and National Economic Council. We're pleased that the administration recognizes the economic value of a functional export control system that meets the needs of today's global industry.

The review has just begun, but AIA is front and center making sure that our priorities are clear. While there have been major improvements in license processing times due in part to AIA's advocacy with the last administration, there are still a number of policy and process challenges that must be addressed. AIA has five priority areas that we will be advocating on behalf of industry including the a thorough review of items on the U.S Munitions List, the use of caseload management techniques, and addressing how next-generation technologies are administered under U.S. and multilateral control regimes.

Now, you may be wondering where the issue of export control treatment of dual and third country nationals is on our priority list. Here's a case where the administration got out in front of the issue very early on and began discussions with the National Security Council to reconcile the government's position on this issue. AIA submitted our views to the NSC and I understand that an NSC proposal is currently circulating for interagency review, and we anticipate a solution very soon. We will keep you posted.

Although also not officially part of the interagency review, the passage of the U.K. and Australian Defense Trade Cooperation Treaties by the Senate, and providing more appropriate controls on commercial satellites and related components and technologies remain critical markers for success in modernizing our export control system.

The Canadian military has been with the U.S. from the beginning in Afghanistan, and it is critical that our export control system allows our largest industrial partner to operate and fight shoulder-to-shoulder with us, using the same equipment that is interoperable in every sense of the word. Canada is an important customer as well, and certainly our mutual industrial base benefits from the commitment of your government to the "Canada First Defense Strategy"—more reasons that our export control system—particularly the issue of dual nationals—needs to be modernized.

At the beginning of my remarks, I noted the important ties that have united our industries since the beginning of flight. One of the most prominent of these is in the area of civil aviation. Canada has a leadership role in civil aviation as home to the industry's premier regulating body – the International Civil Aviation Organization. Today, ICAO is at the center of a number of important initiatives including helping to harmonize our next generation of air traffic management.

More immediately, as the world prepares for the upcoming Climate Conference in Copenhagen, the aviation industry has been trying to make sure that establishment of civil aviation standards for emissions remains the responsibility of ICAO. In fact, there was a very important meeting there last week that brought together the industry to encourage adoption of three goals:

1. Improving fuel efficiency by an average of 1.5 percent annually to 2020;
2. Stabilizing CO2 emissions from 2020 with carbon-neutral growth, and;
3. Reducing net CO2 emissions by 50 percent compared to 2005 by 2050.

I'm happy to report that late Friday ICAO was able to issue a consensus declaration that moves us well on this path. While not completely endorsing industry's goals—2.0 percent by 2020 and aspirational flat line thereafter—it's still very helpful in Copenhagen.

This is a very important time for the aviation industry, and International Coordinating Council of Aerospace Industries Associations, the global aviation association that includes the U.S., Canada, Europe, Brazil and Japan, and we are actively involved in pulling our industry together on issues such as the environment. We want to ensure that we are responsible stewards of our environment and at the same time, are able to meet our responsibilities in a manner that is consistent with national objectives.

AIA and AIAC, through our International Coordinating Council, are involved in some other important transnational aviation issues as well. A few weeks ago, Bob Stevens, chairman of AIA and CEO of Lockheed Martin Corporation, and Allan Cook, president of the AeroSpace and Defence Industries of Europe, and CEO of Cobham, signed a statement endorsing a set of Global Principles of Business Ethics.

The principles establish a common framework for ethics within the global marketplace and address corruption, use of advisors, management of conflicts of interest and respect for proprietary information. Claude and I have discussed advancing new principles of business ethics and I hope as you study this issue that Canada will want to be included in this important framework.

Because in today's global business environment, a common framework for business conduct will help ensure a level playing field. The principles provide assurance that the companies and countries we partner and have joint ventures with, have a similar commitment to ethical behavior.

There is just have one more issue I want to talk about and that is workforce. From the crack-team that led the first flight in Canada in 1909, to the continued knocking at the door of the status quo by today's inventors and scientists, we are an industry of innovators.

However, one of the biggest challenges that will affect our continued innovation globally, is recruiting and filling the pipeline of talent as the generation that fueled the Space Race and fought the Cold War starts to retire. In the United States, we estimate that within 10 years half of our workforce will be eligible to retire and 38 percent of our workforce now is over age 50. In other words, we're facing a potential demographic cliff and unless we take some positive action, we'll be scrambling up its side as it starts to come down on us.

In the United States, our most recent statistics indicate that while newly minted engineers earn one of the highest entry-level salaries, we're not doing a good job recruiting these young people to our ranks or keeping them there once we do. This discussion goes back to my earlier remarks on the industrial base. If we don't have the programs in place with challenging cutting-edge work, we will lose bright, promising talent to other industries.

Case in point, 20 to 30 years ago, engineers could expect to work on 6 or 7 programs over the course of their career. Today's young professional might never see a program get out the factory door. It's a challenging problem, and we know that our industry's future is dependent on developing solutions.

In the United States, we're working hard on this on a number of fronts, including supporting programs that put young people directly into an aerospace environment. AIA's Team America Rocketry Challenge is one such program. It happens to be the world's largest rocket contest.

Every year AIA with our partner, the National Association of Rocketry, your equivalent to the Canadian Association of Rocketry, challenges middle and high school student teams to design and build a rocket. Just like a real aerospace design project, they have to not only design the rocket, but they have to work well as a team, come up with the business model to buy the supplies and compete with about 600 teams across the country.

This year student teams have to build and design a rocket that will climb to 825 feet with a raw egg payload and stay aloft for 40 to 45 seconds. The payload must then return to earth unbroken. This is a great program. The top 100 teams come to Washington, DC for the national fly-off. The students compete for $60,000 in prizes, scholarships and a trip to the biggest international air show.

I'm happy to report the contest is going global. We've had an international fly-off with the Brits for two years, and this year the French have signed on to be part of the competition. AIA started TARC in 2003, our centennial of flight, so I'm going to close by challenging you to join the British and the French in the 2011 Team America Rocketry Challenge. We're just starting the 2010 competition now, so this is the time to observe and set the stage for 2011.

Thanks everyone for your attention. You've been a wonderful audience and I hope we have a few minutes for questions.