

**STATEMENT FOR THE RECORD
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Export Controls, Arms Sales, and Reforms: Balancing U.S. Interests, Part II

House Committee on Foreign Affairs

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Introduction

Madame Chairman, Ranking Member Berman, and members of the House Committee on Foreign Affairs: the Aerospace Industries Association of America (AIA) appreciates the opportunity to testify at today's hearing on "Export Controls, Arms Sales, and Reforms: Balancing U.S. Interests." AIA represents nearly 350 manufacturers and suppliers in an industry employing more than one million workers. We operate as the largest professional organization in the United States across three lines of business: space systems, national defense, and civil aviation. Our industry consistently generates America's largest manufacturing trade surplus – projected to be more than \$57.4 billion in 2011 - but continuing this track record of success cannot be taken for granted. Today I will address the importance of aerospace and defense exports to our industry and our nation as a whole and comment on our industry's priorities for export control reform.

Why Do Aerospace and Defense Exports Matter?

More than a third of the \$218 billion in U.S. aerospace sales of civil, space, and defense products last year went to overseas customers. As other U.S. manufacturing sectors have declined, it is important to point out that aerospace and defense exports continue to create and sustain high-skill, high-wage manufacturing jobs. These exports also preserve and increase the capacity for cutting-edge innovation which enables critical U.S. military capability on the battlefield. With uncertainty surrounding the U.S. federal budget, exports can be an important part of how we maintain our nation's critical defense and aerospace industrial base. We must continue to compete effectively in the international marketplace to expedite our economic recovery and set a trajectory for even greater future economic growth.

Our companies rely on exports to provide the United States and our allies with the best technology at the best price for the U.S. taxpayer. Exports support systems and components used by the U.S. military, our intelligence services, and those protecting our nation and patrolling our borders. Overseas sales keep critical production lines open and available to meet the threats we face now and will face in the future while spreading fixed costs over a wider business base enabling a more affordable and capable defense of our nation. Exports also support technology exchange with our trusted partners, allowing our

industry to leverage foreign innovation and investment to make our own world-class products even better.

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

Government and Congressional Activity Affecting Aerospace and Defense Exports

The value of aerospace and defense exports is certainly not lost on the members of this Committee, or on other leaders on Capitol Hill and in the Administration. Across all segments of our industry, the biggest asset we have in competing internationally is the advocacy and support provided by our government on behalf of our companies, large and small. The consistent and sustained efforts of senior leadership in Congress, the White House, State, Commerce, Defense, Transportation (including FAA), NASA, Treasury, the Office of the U.S. Trade Representative – the list goes on and on – is crucial to opening up markets for U.S. products and winning those sales opportunities. I would like to particularly emphasize the reauthorization of the U.S. Export Import Bank is critical to the ability of many exporters to compete on a level playing field in a commercial market where current and future competitors continue to enjoy support from their countries' export credit agencies. The U.S. government must provide the coordinated, cross-government advocacy and assured availability of export financing provided to our foreign competitors by their governments. "Selling American" – in particular the value of our products and partnership – to other countries is worth it, and there is no such thing as too much support or advocacy.

I would like to thank you, Madame Chairman and Ranking Member Berman, for your leadership over the years in trying to modernize our export control system. Your efforts with Congressman Manzullo to rationalize export control treatment of civil aircraft parts and components have been invaluable to our industry. We also appreciate your willingness to consider adjusting thresholds for and streamlining the preconsultation and formal Congressional Notification process, as well as adjusting export control treatment of non-sensitive parts and components. We look forward to working with you to find common-sense solutions for these critical challenges.

I am pleased that the historical record of this Committee shows an ever increasing awareness and vocalization that the status quo is not acceptable – that it is in our national security interests both to prevent our adversaries from accessing our technology AND to facilitate technology trade with our closest allies and trading partners.

Given the attention paid to this issue by both the Bush Administration and the Obama Administration, as well as by Democrats and Republicans in Congress, it is clear export control reform is a bipartisan issue. A perfect example of that bipartisanship is H.R. 3288, a bill signed by members such as Ranking Member Berman, Congressman Ruppertsberger, Congressman Manzullo, and Congressman Connolly. H.R. 3288 aims to initiate practical, common sense legislative reforms to address the issues outlined in AIA's new report: *Competing for Space: Satellite Export Policy and U.S. National Security*. With your permission, I would like to include this report as part of my written testimony today.

The report surveys U.S. satellite systems and components manufacturers about the challenges the space industrial base faces as a result of U.S. export policies, in particular the legislative mandate to treat commercial satellites and related components as military technology even though the rest of the world does not. I am pleased that our partner, the Satellite Industries Association, is represented here today by Patricia Cooper, and I know she will go into much greater depth on this issue. Let me simply summarize for you the key findings of this AIA report.

- Fully 100 percent of respondents said that current export control restrictions have at least some adverse impact on their businesses. Respondents noted that current policies have created the unintended consequence of fueling foreign competition for U.S.-dominated market share. The result has been a dampening of sales opportunities to boost U.S. space technology innovation.
- More than 90 percent of respondents indicated a connection between export controls and eroding space industrial base capabilities. Respondents reported that U.S. export controls stand as barriers to domestic companies and create an advantage for foreign competitors.
- More than 70 percent of respondents blamed the International Traffic in Arms Regulations (ITAR) for lost sales, with many small businesses characterizing losses as "significant." Commercial space system suppliers – who also often build critical components essential to our national security – face some of the most daunting challenges. Two firms that specialize in satellite components reported to AIA combined annual losses of up to \$7 million because of these impediments.

Another area addressed in the new AIA report is methods for the U.S. to boost the competitiveness of our domestic satellite industry. We also describe a positive model that has occurred recently in the U.S. with the effort by the Department of Defense to partner with our allies to finance the Wideband Global SATCOM (WGS) satellite. In 2007 Australia announced it would spend \$822.7 million in an agreement with the U.S. to augment the WGS constellation. More recently, in January it was announced that Canada, Denmark, Luxembourg, the Netherlands, and New Zealand would invest a combined \$620 million in a ninth WGS satellite. This is the perfect kind of international

space cooperation that helps bolster our industrial base, strengthen our alliances, and improve our military satellite constellations.

I would encourage members of this Committee to read this portion of the AIA report where we provide some innovative recommendations that – in addition to satellite export control reform – would help promote U.S. exports and strengthen our industry’s global competitiveness.

Export Control Reform

I think we can all agree about the need for export control reform. We have now reached the point in the discussion of “how should we reform” and, as the title of this hearing suggests, strike a balance that is right for our nation.

AIA stands behind the ultimate goal of enhancing and advancing U.S. national security interests while also ensuring the continued economic competitiveness of U.S. industry. To this end, a more efficient and transparent U.S. regulatory system will drive increased economic activity strengthening U.S. national security and the U.S. aerospace and industry while creating jobs. This Committee has heard from AIA in the past about our ultimate goal for meaningful reform – a more predictable, efficient, and transparent system for both foreign military sales and direct commercial sales – but permit me to clarify again what we mean.

By efficient, the government must make decisions on export authorizations in a timely manner, eliminating unnecessary administrative or transit delays. By predictable, we mean that the authorization process must be consistent with applicable laws, regulations, and policies and consistent in that comparable export applications under the same conditions should receive the same or similar approvals in the same or similar time frames. Transparent means that the rules governing the licensing process must be interpreted and used consistently, and that industry and foreign partners have quick, easy access to information on the status of their applications.

Clarifying AIA’s Priorities on Export Control Reform

It is imperative to complete the reform review now on-going – we believe in the principle of the right size walls around everything. We urge the completion over the next month of the U.S. Munitions/Commerce Control List Reviews. This effort is a clear and dramatic signal of the U.S. Government’s intent to reduce regulatory burden for U.S. exporters.

It is also critical to bring clarity to proposed regulations and to harmonize definitions across regulatory agencies. This goal is particularly important for small and medium size enterprises within the aerospace and defense industry. The weight of the interpretive burden of often confusing and overlapping regulations has long been recognized. Now is our chance to fix this issue.

We would urge the continued collaboration of Congress with the Administration in finding a way forward on these areas of mutual interest.

Our industry has been a staunch supporter of the Administration's efforts to make the U.S. export control system more predictable, efficient, and transparent. Let me be clear about four things our industry is NOT looking for out of the reform process.

The aerospace and defense industry is NOT seeking reforms that would compromise in any way the oversight of high technology exports. All of us – Congress, the Administration, and Industry - have a vested interest in maintaining the security of American technology. We appreciate Congress's active engagement and efforts to better understand the proposed reforms before offering your support. We are encouraged by the Administration's focus on replacing broad "catch-all" regulatory language with explicit itemization (that currently does not exist) of what technologies should be controlled by the State Department. We also applaud the collaborative interagency approach taken to date in developing new, more stringent Commerce Department export control mechanisms - an AIA recommendation - and identifying technologies that could be appropriately administered for export going forward by the Commerce Department. As we understand it, the end result will be that the same government and intelligence agencies currently administering high-technology exports will continue to weigh in and concur on export licenses with a more effective and efficient risk management process that frees up resources for better oversight and enforcement. This will be especially critical for innovations involving new markets, like space tourism and civil applications for unmanned aerial systems, which need appropriate management if they are not to be stifled by inappropriate export control.

The aerospace and defense industry is NOT seeking reforms that would diminish the aggressive enforcement of the export control system. There are always going to be bad actors as well as mistakes made by good actors in the export arena. These facts should not be mistaken as arguments to maintain the status quo system, which places excessive burdens on all exporters. In any new system, bad actors should continue to be punished and good actors who make mistakes should receive appropriate treatment by enforcement agencies. Our companies are committed to compliance, and clarity on the technologies that are subject to the ITAR will be a big help. Efforts to reform enforcement of U.S. export controls should target illicit activities and not unnecessarily burden U.S. companies that are committed to protecting U.S. national security interests and doing the right thing. Reforms that add new burdensome reporting, registration, and compliance requirements will not result in a more streamlined export control system that focuses on the bad actors and achieves our mutual objectives.

The aerospace and defense industry is NOT seeking changes in restrictions on the export of sensitive technology to countries of concern to the United States. Export control reform will not change "denied" export licenses to "approved" licenses. Industry is instead seeking reforms that would make export transactions approved as consistent with U.S. national security and foreign policy interests faster (by deciding in advance that less sensitive items do not require ITAR-level scrutiny and can be controlled by the

Commerce Department for export to our close allies and partners) and cheaper (by lowering the costs of “interpreting” compliance requirements and moving appropriate technologies off the U.S. Munitions List and its \$2250 a year registration fee plus \$250 charge per export license requirement).

On that latter point, 68% of companies that have to register with the State Department because they make a product that is captured on the USML never export. I suspect many of them make the kinds of parts and components we can all agree should be moved to Commerce control. Those parts and components manufacturers that do export have to incorporate the \$250 per export license charge into their pricing. For small and medium sized companies, there would be significant benefits in helping them minimize these regulatory burdens of the existing system.

Our entire industry would benefit by the removal of these time and cost “frictions” between transactions throughout the industrial base. Moreover, a system that is more transparent and predictable will help U.S. companies compete and win business abroad. The United States should not have an export control system that is used by our foreign competitors as a tool to win business. This does not require a lower standard of review; a “level playing field” for U.S. companies should not be – and need not be – a race to the bottom. Instead, we need a system that implements the original intent of export control reform: to scrutinize those transactions and technologies of greatest concern prior to export.

Finally, the aerospace and defense industry is NOT advocating a single reform to relieve the burden on U.S. exporters. Our industry, particularly small and medium sized parts and components manufacturers, are very supportive of the much needed “scrubbing” of the U.S. Munitions List of low/no risk technologies. But this should be the first of many critical steps for reform, not the last. We need to move beyond rationalizing the lists of controlled technologies, and put in place new management models for licensing – in particular, workable frameworks for managing licensing and for sharing controlled technologies more effectively in the context of the U.S. Government’s own programs. For example, there are caseload management reforms that the Administration should pursue that do not require legislation, such as full implementation of the UK and Australian Defense Trade Cooperation Treaties, license exemptions for spare parts for our key allies and partners, license exemptions for exports in support of the U.S. government, and program licenses for export transactions necessary for the development, production, and sustainment of critical U.S. military, intelligence, space, cyber, and homeland security projects. These, along with USML reform, are among the types of systematic and comprehensive reforms we envisioned when the Administration’s export control reform initiative was first announced. As Congress and the Administration work together to implement these changes in a timely and effective manner, these are other reforms that can be enacted concurrently.

This is a lot to ask of Congressional and Administration leadership – the truth is there is a lot to fix, and time is of the essence. The global security environment and severe budget constraints are driving the U.S. towards more security cooperation with our friends and

allies around the world, not less. The global marketplace is growing more competitive, not less, as budgets around the world for high technology products are shrinking. We have inadvertently hamstrung our aerospace and defense industry at a time when we have significant employment challenges and the rest of the world is gaining ground on us. The U.S. aerospace and defense industry has competitive, effective solutions to offer if we can overcome our outdated and unnecessary regulatory burdens while still protecting U.S. technology.

Conclusion

The U.S. aerospace and defense industry is currently second to none, but we cannot take our leadership for granted. Aerospace and defense exports fuel the growth and sustain the health of our companies and the competitiveness of our aerospace systems. Our nation reaps the benefits of aerospace exports in the form of enhanced national security, sustaining America's lead in cutting-edge technological R&D, reduced defense system costs, economic growth, and the creation of high-skill, high-wage jobs here in the United States. The government-industry partnership supporting aerospace and defense exports is crucial as we work together to make the export control system both secure and more flexible.

Previous reform efforts have met with varying degrees of success. Experience suggests that critical factors in enabling meaningful reform include sustained oversight by senior Administration officials, as well as effective consultation with Congress and the private sector. We stand ready to work with you and the Administration to ensure that we continue to make meaningful progress towards a predictable, efficient, and transparent export control regime.

United States House of Representatives
Committee on Foreign Affairs

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Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee require the disclosure of the following information. A copy of this form should be attached to your written testimony and will be made publicly available in electronic format, per House Rules.

1. Name:	2. Organization or organizations you are representing:
Marion C. Blakey	Aerospace Industries Association
3. Date of Committee hearing:	
February 7th, 2012	
4. Have <u>you</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	5. Have any of the <u>organizations you are representing</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?
<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
6. If you answered yes to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.	
N/A	
7. Signature:	
	

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