



***President's Commission on the
Future of the United States
Aerospace Industry***

NCMA

November 29, 2001

Bob Ingersoll

Vice President - Contract and Pricing

The Boeing Company



Aerospace Commission

Introduction

- **Established by law (PL 106-398)**
 - A one-year study
- **Calls for a 12-member Commission**
 - Appointed by the President, House and Senate
 - President appoints Chairperson from the 12 Commissioners
- **Staff provided by participating NSTC departments/agencies**
 - DoD assisting in establishing and administering the Commission
- **Product: Report to the President and Congress documenting**
 - Commission findings and conclusions
 - Recommendations for actions by federal departments and agencies to support maintaining a robust aerospace industry in the 21st century
 - Recommendations for statutory and regulatory changes to support the Commission's findings
 - Discussion of appropriate means for implementing recommendations

Aerospace Commission Commissioner Appointments

Dr. Buzz Aldrin, former Astronaut

Ed Bolen, President, General Aviation Manufacturers Association

Tom Buffenbarger, President, International Association of Machinists

Honorable John Douglass, former Asst Secretary of the Navy

Honorable Tillie Fowler, former Congresswoman from FL

Honorable John Hamre, former Deputy Secretary of Defense

Honorable F. Whitten Peters, former Secretary of the Air Force

Honorable William Schneider, for Under Secretary of State

Robert Stevens, President/Chief Operating Officer, Lockheed Martin Corporation

Neil deGrasse Tyson, Director, Hayden Planetarium

Honorable Robert Walker, former Congressman from PA

Heidi Wood, Vice-President, Morgan Stanley

Aerospace Commission Objectives

- **Study the issues associated with the future of the United States aerospace industry in the global economy, particularly in relationship to United States national security**
- **Assess the future importance of the domestic aerospace industry for the economic and national security of the United States**

Aerospace Commission Scope

The Commission shall study:

(1) Government budget process

- Assess adequacy of projected aerospace R&D/procurement budgets

(2) Government acquisition process

- Adequacy of current process
- Procedures for developing/fielding aerospace systems incorporating new technologies in a timely manner

(3) Policies, procedures, and methods for financing and payment of government contracts

(4) Statutes/regulations governing international trade/technology export

- Extent current system controls export of goods/services/technologies and adequately balances protection of national security with unhindered access to global markets
- Adequacy of U.S./multilateral trade laws and policies for maintaining international competitiveness of the U.S. aerospace industry

Aerospace Commission Scope (cont'd)

The Commission shall study:

(5) Policies governing taxation

- Assess impact of current tax laws/practices on international competitiveness

(6) Programs for maintaining national space launch infrastructure

- Adequacy of current/projected programs

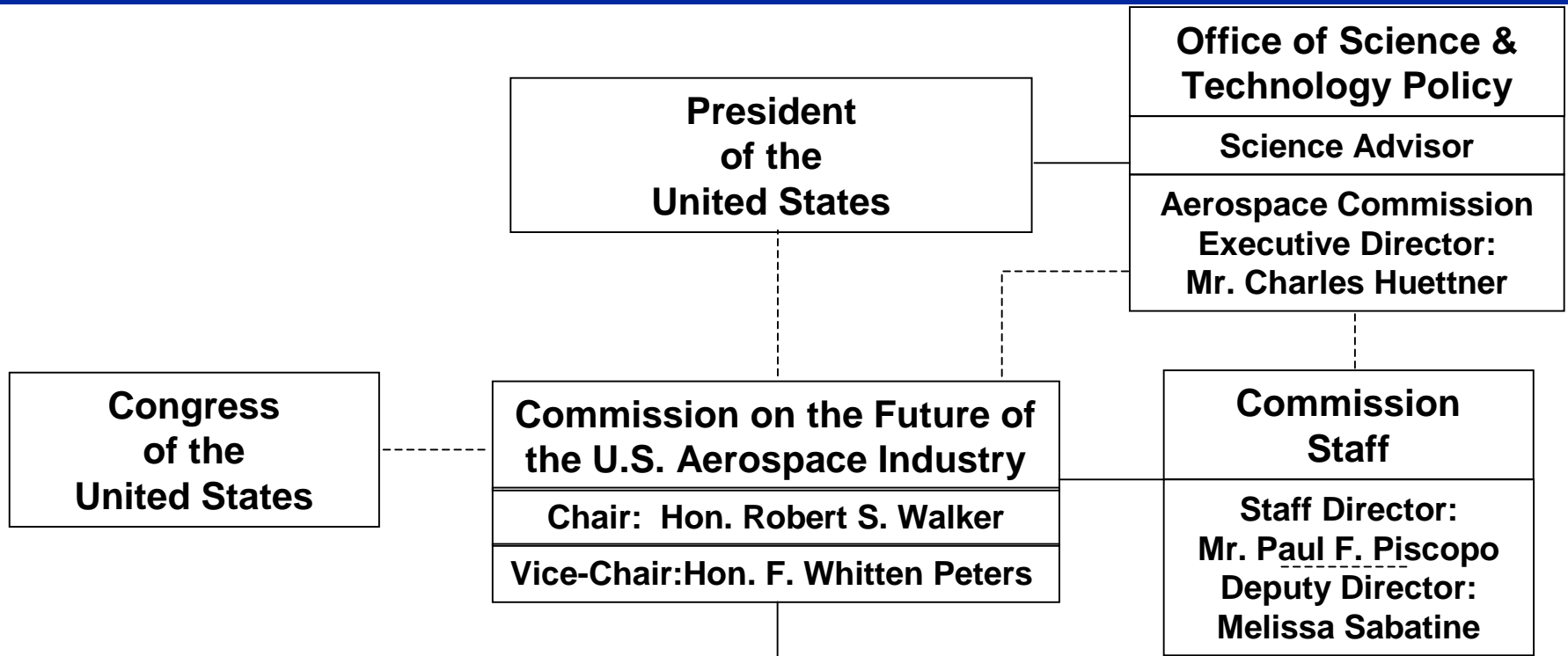
(7) Programs for support of science and engineering education

- Current programs for supporting efforts at institutions of higher learning
- Adequacy of those programs

***The Aerospace Commission addresses the entire
United States Aerospace Enterprise:
Military and Civil, Air and Space***

Aerospace Commission

Commission Structure/Membership



COMMISSIONERS

Presidential Appointees

Hon. Robert S. Walker Dr. Buzz Aldrin
 Dr. Neil deGrasse Tyson Mr. Edward Bolen
 Ms. Heidi R. Wood Hon. John Douglass

Senate Appointees

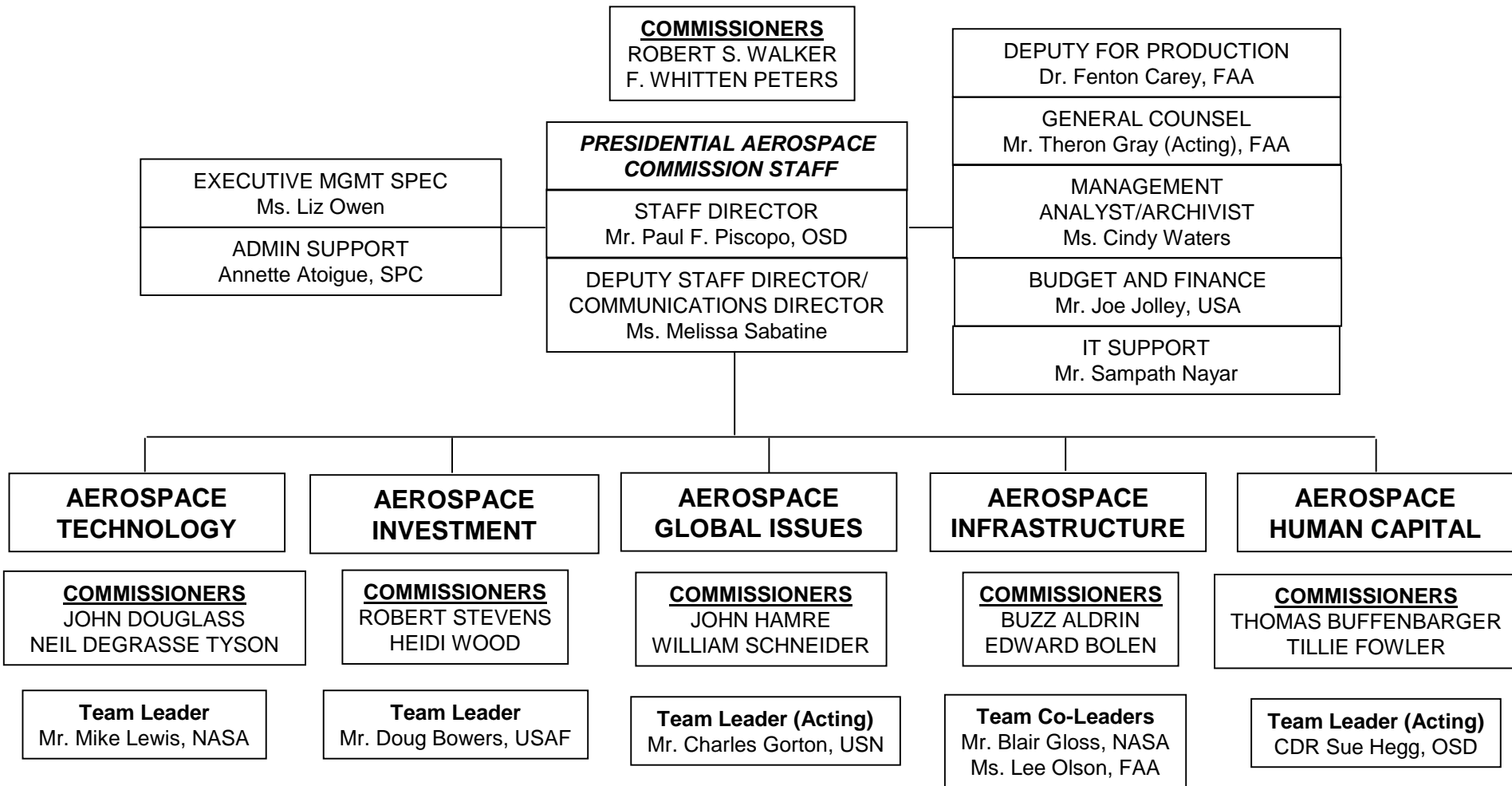
Hon. John Hamre
 Hon. William Schneider
 Mr. Robert Stevens

House Appointees

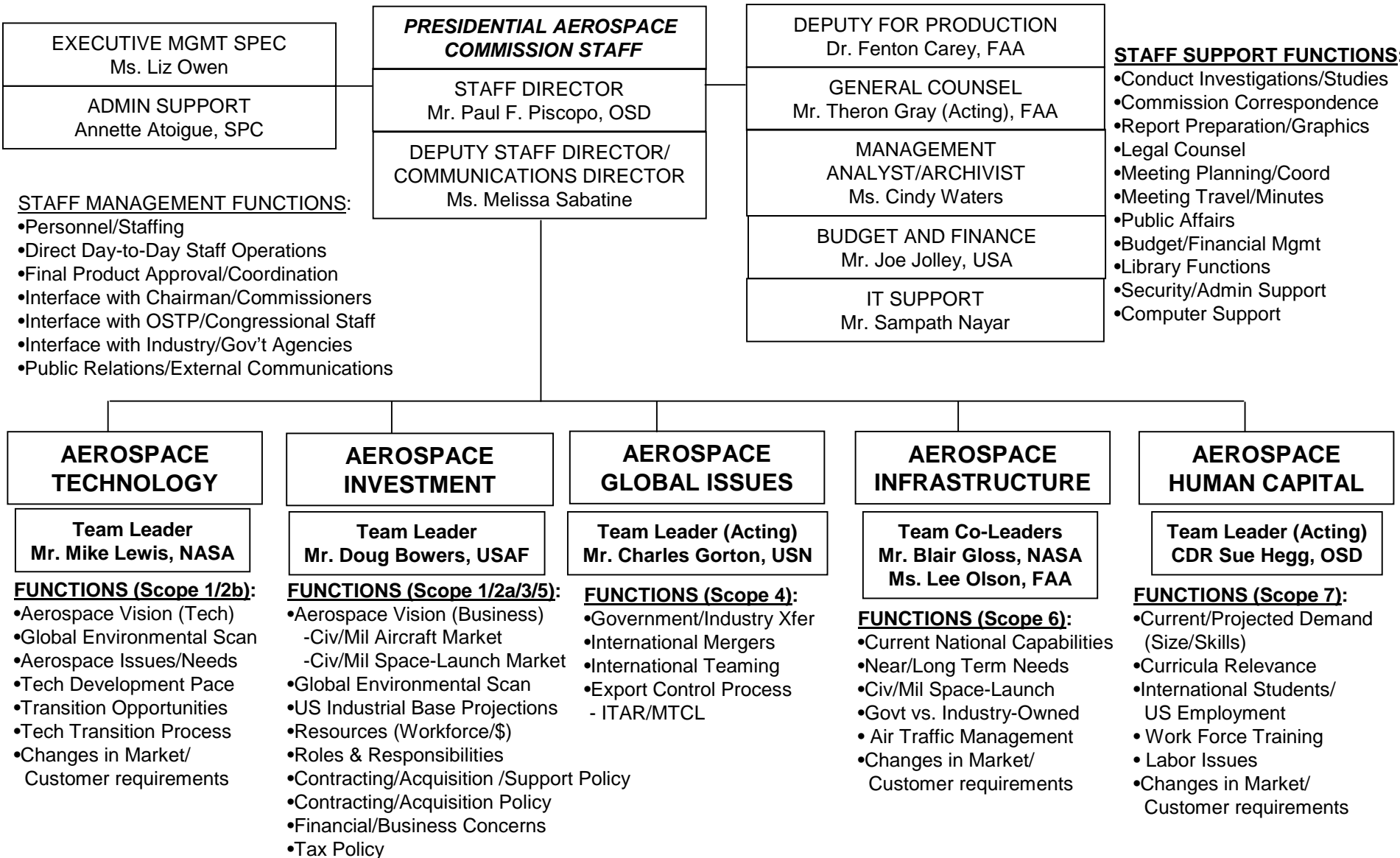
Mr. Thomas Buffenbarger
 Hon. F. Whitten Peters
 Hon. Tillie Fowler

Aerospace Commission

Study Team Structure/Management



Aerospace Commission Support Staff Organization



Aerospace Commission Approach

The Commission intends to:

- **Examine opportunities for significant advances in aerospace capabilities**
- **Identify the changes taking place globally that can potentially impact the U.S. aerospace enterprise**
- **Expand its scope to include national aeronautics R&D facilities and the air traffic management system**

Aerospace Commission

Potential Study Topics

The Global Aerospace Industry: Past and Present

What is the Future National Aerospace Vision?

Aerospace Technology

Aerospace Investment

Aerospace Global Issues

Aerospace Infrastructure

Aerospace Human Capital

Aerospace Commission

Current Status

- **Commissioner selections made by Senate and House**
- **Commissioner/Chairman selections made by the President**
- **Charter signed by Assistant to the President for Economic Affairs**
- **MOU approved by DoD/NASA/FAA/White House**
- **Staff office facilities identified and secured**
- **Permanent staff being identified and secured**
- **Legislative changes requested for time extensions**
 - One year from first Commission meeting
 - Termination 60 days after submission of final report (archiving)
- **Initial administrative meeting held October 2nd**
- **Initial “information gathering” meeting held by Commission Staff**
- **Initial public hearing (open) - November 27th**

Boeing Recommendations

Expand Use of Commercial Practices

Enable Global Business

Improve Business Health

Expand Use of Commercial Practices

- **Broaden the Definition/Use of “Commercial Item”**
- **Eliminate application of Domestic Source Preference - Specialty Metals for commercial derivative airplanes**
- **Empower Acquisition workforce and contractors with greater waiver authority**
 - **Streamline government waiver process**
 - **Authorize prime contractors to waive flowdown to Subs**
- **Greater use of performance based contracting methods**
- **Move from “Cost-Based” to “Price-Based” Acquisition**
- **Enable Integrated Supply Chain - Enterprise-wide**

Global Issues

- **Export Reform Initiatives - DTSI**
- **International Business Integration**
- **Greater use of commercial practices in international defense business
(FAR Part 12 in FMS contracting)**
- **In-Line Incorporation Initiative**

Export Reform Initiatives

- **Seek Additional Funding for State Department**
- **Continued Support for DTSI Implementation**
- **Updating the USML**
- **Returning Communications Satellites to Commerce**
- **Support Reauthorization of the Export Administration Act**
- **Amending the Congressional Notification Process**
- **Support A Fresh-Look by New Administration**

In-Line Provisions Initiative

Assess business case for in-line incorporation of commercial-like provisions for USG Commercial Derivative Aircraft

- **Approach**
- **737 MMA Results**
- **767 Tanker Results**
- **Summary**

Improve Business Health

- **Cash Flow Improvements**
 - Streamline Payments Process (electronic payments)
 - Reduce withholdings based on performance
 - Provisional Billing of Award Fees
 - Increased use of performance-based payments
- **Profit Policy**
 - Revised Weighted Guidelines
 - Cultural breakthrough with profit/fee glass ceiling
- **Stability in Program Funding**
 - Greater use of Multi-Year Contracting
 - Fund the plan and execute the plan
- **Streamlining of Cost Principles**
 - Streamline statutory & regulatory restrictions

Improve Business Health

- **Financial Reform to enable leasing as an acquisition tool**
- **Shared Savings concept to incentivise affordability**
- **Accelerate implementation of e-Business Environment**
 - Align policy with urgency
 - Establish consistent government approach & standards
 - Strengthen partnership with industry
- **Address Tax Reform**
 - Foreign Sales Corporation
 - Economic Stimulus Package - bonus depreciation
 - Defense Contracts - repeal percentage completion
- **Support solutions for affordable Insurance protection**

Tax Issues

- **Foreign Sales Corporation /Extraterritorial Income:**
 - \$291M (Boeing Tax Benefit in 2000)
 - Absence of benefit encourages overseas manufacturing
 - WTO characterizes as “prohibited export subsidy”
 - now appealing - may result in \$4B Retaliatory Tariffs
 - EU Tax Regime sanctioned
 - US Tax Regime not sanctioned
 - Change the rules or change tax laws - carefully
- **Economic Stimulus Package:**
 - Bonus Depreciation not generally available to aircraft industry
 - Long Lead Times for Manufacturing
- **Defense Contracts:**
 - Repeal percentage of completion
- **Other Tax:**
 - R&D Tax Credit
 - Rate Reduction
 - Investment Tax Credit
 - Make business expense fully deductible

Aviation Insurance Market

- **Market Conditions Prior to 11 Sept.**
 - Available Limits reached a historical high of U.S. \$2.5B
 - Renewal premiums were increasing at 15% or more.
 - Liability War Risks coverage rarely generated an additional premium charge
- **Market Conditions post 11 Sept.**
 - Airline Hull and Liability renewal coverage premium increased by about 75%
 - Airline War Liability is now \$1.25 per passenger for the first \$50M in coverage
 - One Billion in War Liability limits are now available at \$3.10 per passenger