

Testimony of Jack J. Pelton
Chairman, President & CEO, Cessna Aircraft Company
Hearing on “Made in America: Increasing Jobs through Exports and Trade”
House Subcommittee on Commerce, Manufacturing and Trade
Rayburn HOB Room 2322
March 16, 2011

Introduction

Chairman Mack, Ranking Member Butterfield, distinguished members of the Subcommittee; my name is Jack Pelton, and I am the Chairman, President and CEO of the Cessna Aircraft Company.

Cessna is the largest general aviation manufacturer in the world based on unit sales. Since its inception in 1927, Cessna has delivered more than 192,500 airplanes to virtually every country in the world. Today, Cessna has two principal lines of business: Aircraft sales and aftermarket services. Aircraft sales include Citation business jets, Caravan single-engine utility turboprops, single-engine piston aircraft and lift solutions by CitationAir. Aftermarket services include parts, maintenance, inspection and repair services.

Cessna is one of 70 member companies of the General Aviation Manufacturers Association (GAMA). GAMA’s member companies are the world’s leading manufacturers of general aviation airplanes, engines, avionics and components. Member companies also operate aircraft fleets, airport fixed-based operations, pilot training and maintenance facilities worldwide.

General aviation (GA) is an essential part of our transportation system that is especially critical for individuals and businesses that need to travel and move goods quickly and efficiently in today’s just-in-time market. General aviation is also an important contributor to the U.S. economy, supporting more than 1.2 million jobs, providing \$150 billion in economic activity and, in 2010, generating nearly \$5 billion in exports of domestically manufactured airplanes. We are one of the few remaining manufacturing industries that still provides a significant trade surplus for the United States.

On behalf of our industry and 8,000 Cessna employees, I appreciate your convening this important hearing and providing me the opportunity to testify before the Subcommittee about creating jobs through exports and trade.

Cessna, like others, is coping with the realities of a weak economy. Since late 2008, we’ve had to lay off nearly 8,000 employees out of the 16,000 we employed before the recession.

Overall, GAMA member companies in the U.S. have experienced more than 20,000 layoffs during this same timeframe.

It's easy to understand why this happened when you see that GA deliveries declined by 45 percent between 2008 and 2009 and by 11 percent between 2009 and 2010. In the business jet segment alone, deliveries dropped to 763 last year; that's down 42 percent from the industry's high-water mark of 1,313 set in 2008.

The three major manufacturers in Wichita experienced the following decline in sales alone:

- Bombardier Learjet delivered 28 Learjet business jets last year, a 39 percent decrease from 2009.
- Hawker Beechcraft's general aviation deliveries totaled 214 last year, a 22 percent decline from 2009.
- Cessna delivered 535 aircraft in 2010, down 28 percent from the year before.

Manufacturing inefficiencies related to low production levels were a primary reason why Cessna, for the first time since 1986, failed to be profitable, recording a \$29 million loss for 2010.

In a very short amount of time, we went from a company topping \$5 billion in revenue back in 2008 to a company reporting \$2.6 billion in revenue in 2010.

Despite these tremendous economic challenges, Cessna and other GAMA member companies have responded by continuing to innovate and invest in new products to take advantage of market opportunities as the recession ends. We believe the market is stabilizing as we see an increase in orders in some segments of our industry, and a slowing of cancellations. The tax bill that passed at the end of 2010 which extends the R&D tax credit and allows 100% expensing of capital investments like aircraft, avionics, engines and cabin equipment will also be very helpful to our industry.

Importance of Exports

As I mentioned earlier, even in a downturn the general aviation industry remains one of the only sectors in U.S. manufacturing that still contributes positively to the balance of trade. In 2010, GAMA's U.S. members generated \$4.9 billion in new airplane export revenue.

These exports accounted for 62 percent of the billings generated by U.S. manufactured GA airplanes, far outpacing the value of domestic deliveries and significantly up from 50 percent of billings attributed to exports in 2009.

Even though worldwide deliveries of GA aircraft continued to decline in 2010, the industry saw a 1.2 percent increase in billings thanks to a growing export market. Emerging markets in Asia Pacific, the Middle East/Africa, and Latin America drove this growth, while North America and Europe saw a decrease in deliveries.

In short, it is true to say that the business aviation market is subsisting largely on international deliveries, with several OEMs reporting that 60 to 70 percent of their orders last year were coming from the international customers. We've experienced this at Cessna as well; even before the economic downturn we were trending toward a reversal of the traditional 60/40 domestic/international order split.

Challenges to Exporting

Cessna fully supports rigorous, effective, predictable and transparent U.S. export control policies and practices that adequately reflect the current international trade environment. We realize that export controls play a vital part in safeguarding our national security and we support the Administration's current efforts to reform and streamline the overall export licensing and policy framework. We realize this is a substantial undertaking and we are ready to work with you to support the effort.

Producing a "positive" United States Munitions List, harmonizing the regulations' structure and applying controls based on a three-tier system with objective criteria will establish a solid foundation for the U.S. export control system of the 21st century. We believe that this new paradigm for controlling U.S. items and technology will better serve current and future U.S. national and economic security interests.

In the near term, we need to look at other ways to improve the usability of U.S. regulations from a simplicity and clarity perspective, which in some cases may involve new regulations or new resources being posted on the Internet to assist companies in complying with them.

As an aircraft manufacturer, we have found that we enjoy a relatively unrestricted export environment for our physical products (e.g., aircraft, spares, ground support equipment). However, when it comes to our company-owned and controlled locations, the export of our design and manufacturing data has proven to be another issue. For example, in the areas of metal forming and low tech composites like the hand layup fiberglass processes, the current regulations are outdated and restrict technologies and methods commonly found worldwide at the highest Commerce Export Administration Regulations control levels.

Similarly, under International Traffic in Arms Regulations Category 8 (VIII), in many cases we believe the utility and special mission aircraft we are asked to provide do not contain sensitive military systems, are functionally equivalent to commercial aircraft and do not provide a significant military or intelligence advantage, yet many of the existing unilateral controls and policies have slowed our globalization and sales efforts.

Another reform activity we believe needs to be addressed is the methodology to handle advances in manufacturing and engineering technologies that occur over time for both commercial and military products. To ensure continued competitiveness for U.S. industry, technical export control parameters should be continuously reviewed with a view toward swiftly updating those limits that are overtaken by technological advances and foreign availability of product and tools. We support an official mechanism for periodic review of the USML and Commerce Control List technical parameters, so that this specific issue can be addressed in a predictable, streamlined and efficient manner.

The regulations can actually undermine national security goals if they're unduly complicated and burdensome, and they may prove challenging for some companies to adapt to, especially some of our smaller suppliers who are unfamiliar with the regulations. This new approach will likely require guidance and training for the exporting community. It will remain important for the government to work closely with industry to ensure understanding through effective and timely outreach.

Aircraft Certification

Due to the high safety standards we adhere to in the United States, manufacturers cannot sell aircraft or major aircraft parts unless they are certified as airworthy by the Federal Aviation Administration or FAA. This means that the financial health and competitiveness of U.S. manufacturers in the global market lies in large part on the ability of the FAA to do its job.

Unfortunately, we do not believe that the FAA has the resources to continue to oversee the safety of airplanes currently in operation and also meet certification requests by manufacturers. Unless the FAA is provided adequate resources, and implements new processes and procedures to streamline the certification process, we believe it will not be able to keep up with service demand by manufacturers and this will severely diminish the competitiveness of U.S. industry and its ability to bring new products to the global market and create new jobs in the economy.

Due to this burden, the FAA has already implemented a sequencing policy that prioritizes which new certification programs it will support since it lacks the capacity to support the industry's pace of new product development. This sequencing policy has a detrimental effect on U.S. competitiveness in the global market because it forces delays in delivering U.S. products and equipment. FAA resources are certainly not expected to grow at the same pace as industry activity. We believe that the FAA needs to work with industry to develop a plan to meet the demand for new certification and that this plan should include budget estimates as well as ideas to streamline the certification process to make it more efficient.

There is, however, a mechanism already in place that can help relieve the burden on FAA. FAA is shifting toward a systems approach to safety oversight in order to leverage its limited resources and focus upon key safety areas. For aircraft certification, FAA expanded delegation systems through the establishment of Organization Designation

Authorization (ODA) in 2006. This allows FAA to approve and oversee a manufacturer's documented processes and technical engineering experts and to delegate routine certification tasks at its discretion such as the review and approval of thousands of individual drawings and tests. Manufacturers can take on more responsibility by investing in the resources necessary to support their program demands and FAA can focus its limited resources on safety oversight, safety critical activities and certification of new technologies. Most aircraft manufacturers have invested in the development of an ODA system approved by FAA, but unfortunately, the certification process efficiencies have yet to be realized. This has been particularly challenging for the FAA workforce who are not fully utilizing the level of delegation available by ODA because this means a shift to a systems approach to safety oversight and there is limited desire to change their job scope and culture.

The lack of procedural standardization across the FAA and inconsistent interpretation of regulations also negatively affect the efficiency of the certification process. This lack of standardization is found within local Aircraft Certification Offices as well as across FAA regions. This leads to an increased workload for both FAA and industry since the requirements change from one project to the next and even depend on the FAA employee or FAA office a manufacturer is working with. Last October, the Government Accountability Office released a report citing FAA's inconsistent interpretation of regulations as a long standing problem and leading challenge for the aviation industry. The FAA acknowledges the problem but generally has not addressed the issue.

As I mentioned previously, the international market is increasingly important for U.S. manufacturers. The U.S. industry continues to see increased validation requirements from foreign national aviation authorities (NAAs) to obtain a certification approval redundant to the FAA's in order to be able to sell and export its products into their country. It has become routine for manufacturers to host multiple foreign NAA visits each year. Most of these NAAs also require manufacturers to pay fees or travel costs or both, to cover the costs of the validation.

The U.S. has established bilateral agreements with our primary trading partners to streamline the validation and acceptance of FAA certified products and equipment. However, the effectiveness of the bilateral agreements varies from country to country. Some countries follow the intent of the bilateral while others do not. Those that do not tend to require more in-depth information and a more extensive investigation which is more burdensome on the industry since it must often repeat a similar procedure for each country in which it seeks approval in order to export its products.

Europe, for example, has comprehensive regulations and certification processes similar to FAA which often result in a much higher level of involvement by EASA and redundant activities for both design and operational approvals. Our ability to improve this situation has been hampered by a delay in implementation of a new safety bilateral agreement between U.S. and Europe. We now expect this agreement to be implemented on May 1st. This should allow FAA to be more proactive in ensuring the intended benefits of validation and reducing the burden on the authorities and industry.

Aircraft Financing

The availability of credit continues to be a constraint on exports. Cessna has worked through Cessna Finance Corporation to create a \$500 million facility backed by the Export Import Bank of the United States. This facility has assisted Cessna, as well as our sister company Bell Helicopter, with exports over the past couple of years when liquidity in the market was very tight. We applaud the Export Import bank for working with us to deliver creative solutions that support exports across the Textron family of companies. I would note that the transactions supported by the bank are subject to the framework held under OECD for export credit financing. Recent changes to this framework resulted in significantly higher costs which will have an impact in limiting the usefulness of export credit financing in some markets, but it will still be a viable solution in other markets.

Conclusion

Madam Chairman, I cannot emphasize enough how important it is that we recognize the remarkable benefits and value that the general aviation industry brings to the American people. It is truly a national asset. It provides jobs, contributes to our balance of trade and our economy, saves lives, keeps us on the cutting edge of technology, makes our businesses more competitive globally and significantly enhances the quality of life around the world.

Progress is frequently measured as the speed at which people and goods are transported. The aviation industry has contributed more than any other industry to move America into the future and maintain our leadership on the world stage.

If government and industry work together on the issues discussed here today then we will help ensure that our country stays ahead of the pack economically and technologically in the years ahead.

Thank you for the opportunity to be here today.

Committee on Energy and Commerce

U.S. House of Representatives

Witness Disclosure Requirement - "Truth in Testimony"
Required by House Rule XI, Clause 2(g)

1. Your Name: Jack J. Pelton		
2. Are you testifying on behalf of the Federal, or a State or local government entity?	Yes	No X
3. Are you testifying on behalf of an entity that is not a government entity?	Yes X	No
4. Other than yourself, please list which entity or entities you are representing: Cessna Aircraft Company - Wichita, Kansas		
5. Please list any Federal grants or contracts (including subgrants or subcontracts) that you or the entity you represent have received on or after October 1, 2008: Please see attached list.		
6. If your answer to the question in item 3 in this form is "yes," please describe your position or representational capacity with the entity(ies) you are representing: Chairman, President and Chief Executive Officer		
7. If your answer to the question in item 3 is "yes," do any of the entities disclosed in item 4 have parent organizations, subsidiaries, or partnerships that you are not representing in your testimony?	Yes	No X
8. If the answer to the question in item 3 is "yes," please list any Federal grants or contracts (including subgrants or subcontracts) that were received by the entities listed under the question in item 4 on or after October 1, 2008, that exceed 10 percent of the revenue of the entities in the year received, including the source and amount of each grant or contract to be listed: None.		

Signature:  Date: 3-14-2011

List of Cessna Aircraft Company

Federal Contracts – October 1, 2008 to date¹

PRIME CONTRACTS

<u>Contract Number</u>	<u>Agency</u>	<u>Brief Description</u>
F41999-10-D-0010	Air Force Non Appropriated Funds	BOA Single Engines
CAP-09-1002	Civil Air Patrol	Purchase Single Engines
FA9201-09-S-0113	Eglin Air Force Base	Engineering Testing
DTFAAC-09-C-0003	FAA	Excel Lease
NNC10CA36C	NASA	Engineering Services
W58RGZ-09-C-0179	US Army	Purchase Grand Caravans
W58RGZ-09-C-0179	US Army - FMS for Colombia	Purchase Caravans

SUBCONTRACTS

<u>Prime Contractor</u>	<u>Brief Description</u>
Boeing	NextGen Subcontract (Large Business)
Metron	NextGen Subcontract (Small Business)
L-3 Vertex	UC-35 Support
GE	Support of NASA's N+3 Research
AAI	Propeller Development (DARPA program)
General Atomics	Propeller Development and Service Programs for Predator B

¹ This list does not attempt to include various transactions in which Cessna may supply commercial-off-the-shelf goods (such as aircraft replacement parts, maintenance supplies, etc.) to federal government agency purchasers or their contractors.