

Testimony of Marion C. Blakey

President and CEO, Aerospace Industries Association

To the U.S. Senate Commerce, Science and Transportation Committee

The Impacts of the Government Shutdown on our Economic Security

October 11, 2013

Chairman Rockefeller, Ranking Member Thune and members of the committee, I appreciate the opportunity to provide testimony on this very important subject. From the perspective of the Aerospace Industries Association, our member companies and their thousands of skilled and dedicated workers, I can report that the partial government shutdown is having a very negative impact on many of the civil aerospace programs that help advance our nation's technological and economic progress. We also expect that the longer this goes on, the worse it will become. And while not much attention has been paid to the private sector workforce that supports our government agencies, they too are suffering the consequences of the shutdown. We are particularly concerned about the small companies that are vital to our nation's aerospace and defense supply chain. With limited cash flow, they are at risk of shuttering their operations in the event of an extended shutdown. And unlike the Department of Defense, many domestic agencies have furloughed most of their financial and accounting staff, leaving companies often performing essential work without reimbursement.

It is impossible to predict exactly what the economic and other impacts will be of a two week, four week, or longer period of the shutdown. Each program, each contract is different and it will take some time to work through the consequences in terms of both costs and delays. However, I believe that the following facts and concerns that we have regarding the impacts of the shutdown to NASA, NOAA, the Federal Aviation Administration and aerospace product exports will help impress upon this Congress and the Administration the need to end the shutdown.

I also want to emphasize our industry's concern about the ongoing problem of sequestration and lack of budget predictability. In the absence of a bipartisan agreement to address fundamental fiscal issues, the sequestration budget cuts will continue to undermine work on the very federal programs that make our country stronger, safer and more economically robust. With these thoughts in mind, I would like to address emerging and expected impacts of the partial shutdown to date to NASA, NOAA, FAA and Department of Commerce export activities, and related industry impacts.

Civil Space Impacts

Under the Federal government shutdown, NASA has been operating with a skeleton crew of less than three percent of its 18,000 workers, hampering many of the agency's ongoing programs as well as programs in development, and impacting industry's ability to do its job efficiently. The industry workforce supporting NASA is also being affected. Program costs are expected to rise as schedules slip. All of NASA's programs may face future funding challenges as a consequence.

While the industry's work on high visibility NASA programs – including the Space Launch System heavy-lift rocket, the Orion Multi-Purpose Crew Vehicle and the James Webb Space Telescope – has been largely unaffected to date, this has not been just due to good fortune; rather, it is due to smart planning by industry and NASA in anticipation of a shutdown and the availability of DoD quality assurance inspectors at facilities with a DoD presence. The situation in other facilities where these inspectors are not present is more problematic as I will explain in more detail.

With regard to NASA facilities, with a few notable exceptions such as the International Space Station support activity at the Johnson Space Center's Mission Control in Houston, and those needed for the upcoming launch of the MAVEN mission to Mars, they are shuttered and unavailable for industry access. For support contractors working at NASA locations, this means they are unable to do their jobs. To compensate, larger companies are forced to encourage workers to take unplanned vacation time off or try to find other work that they can do elsewhere. Smaller firms often do not have this flexibility; in many cases September 30th marked the end of

a contract period of performance. With no funding and no contract in place, small firms are keeping their workforce together at their own risk with no assurance the workers will be paid for the work done during the shutdown. For companies of all sizes, if the shutdown persists, these workers will face furloughs and, unlike furloughed Federal employees, there is no guarantee that will be reimbursed for lost wages. There is a real potential for a negative ripple effect throughout local economies in these regions. Other work that contractors are doing at NASA facilities – including preparations for the first Orion space capsule test launch in 2014 are shut down since contractors are not allowed access to the NASA facility where the work must be performed.

NASA's commercial crew program is another area of concern to industry. The need for the program – which will finally enable NASA to stop paying Russia over \$70 million a seat for astronaut transportation to and from the International Space Station – is clear. Currently, NASA has no plans to purchase rides on the Soyuz launch vehicle beginning in 2017 and U.S. companies are expecting the market for commercial crew to open up in this timeframe. Any schedule slippage risks this plan and could jeopardize the companies' financial ability to deliver. Now, NASA's formal Request for Proposals for Commercial Crew may be delayed due to the shutdown, driving up the cost for companies to bid on the opportunity since their proposal teams need to be maintained. Additionally, for some firms, testing activities have been put on hold due to a lack of NASA support, further raising the costs to industry for this program.

Industry and NASA have long used Space Act Agreements – or SAA's - to innovatively develop new technologies and capabilities in a true public private partnership. These SAA's have been very beneficial; most recently, in facilitating the cost effective development of commercial cargo support vehicles for the International Space Station and to enable commercial crew vehicle development. Unfortunately, as a result of the shutdown, NASA is not able to support these partnerships and provide industry access to unique national test facilities needed for space system developments. In other cases, NASA is not able to perform the technical support they committed to provide industry under SAA's. As a consequence, industry may see its schedules slip and project costs grow.

Another area of concern is the impact of the shutdown to the Federal Aviation Administration's Office of Commercial Space Transportation. This office's technical staff reviews and approves licenses for the commercial launch companies who are developing promising new space systems for our country. As a result of the shutdown, only the office's highest priority activities are being supported. This may lead to a delay in launch license approvals imposing an additional financial hardship on companies already risking their capital to restore American launch leadership.

Additionally, a less recognized NASA function important to industry that is being delayed by the shutdown is the development of a government-wide information technology cybersecurity framework managed by NASA and the National Institute of Standards and Technology (NIST). We've heard reports that NIST has halted work on the draft cybersecurity framework that was scheduled for release on Oct. 10.

We're also concerned about the potential impacts of the shutdown to NASA's weather satellite development work for NOAA. The Joint Polar Satellite System (JPSS), which is critical to our ability to provide precise warnings of tornadoes and severe storms such as Superstorm Sandy, was already on a development schedule that will have it launch no earlier than 18 months after the end of the design life of the SUOMI satellite it is replacing. Any delays to JPSS development are worrisome. Although the contractors we have heard from in this area are not in immediate duress, the shutdown could begin having impacts to the satellite's development if it goes on much beyond the end of October.

Lastly, I want to take this opportunity to request that Congress extend the Commercial Space Launch Act (CSLA) Risk Sharing Provision which is due to expire at the end of the year – only ten weeks from now. The CSLA regime enables U.S. launch providers to better compete with foreign competitors without “betting the company” on every single launch. U.S. companies have made new investments for innovation in the space launch industry which may restore our competitiveness in a market our nation used to dominate. If the U.S. risk sharing regime is not renewed, however, our industry will be further at risk, with no corresponding public benefit. Beyond harming U.S. commercial launch competitiveness globally, U.S. government users would likely have increased launch costs for essential government payloads.

Impacts on Civil Aviation and the FAA

The lapse in funding has caused FAA to furlough nearly 15,000 employees, approximately one-third of its workforce. Air traffic controllers are still working, which means the immediate impact on air travel has been relatively small. We should remember, however, that these controllers are doing their jobs without their normal support staff. In addition, they are not able to train or qualify new controllers, including access to controller training services under existing FAA contracts.

Undoubtedly, a larger impact is being seen in the FAA's safety and certification programs, and we expect these impacts to worsen as the shutdown continues.

Aircraft manufacturers depend on government inspectors being in place to review and certify new equipment on a timely basis. The law requires FAA to certify all aircraft, equipment and training simulators before they can be put into service. Although the agency has recently begun calling back more of its certification staff, in the first week of the shutdown more than 90 percent of the Aircraft Certification Service was furloughed. On average, the FAA issues 3,100 design approvals and 1,025 type certificates annually. These involve the approval of new products, safety features, and designs that are essential for our manufacturers to compete and for our industry to grow. Fortunately, delegation has helped soften the impact of the shutdown for some of our manufacturers and operators. However, not all functions can be delegated. This is not only causing delays in getting new products delivered to customers, it is exacerbating a backlog caused by this spring's deep sequester cuts. And even with the recent callbacks, many of these routine certification activities have ground to a halt.

Let me highlight one small, but very important, office, the Aircraft Registry Office in Oklahoma City. Although small, this office is a linchpin that connects manufacturers to aircraft owners. All aircraft must be registered with the FAA before its new owner can get clear title. If a title search is conducted and there is no FAA registry data, the sale cannot be closed. And while this office is vital to our industry's health, it was closed because is not deemed essential for the "protection of life or property." This means that aircraft coming out of manufacturing facilities cannot be delivered to their rightful owner. Several aircraft have already been delayed,

and the number will worsen as the impasse continues. Furthermore, as the backlog builds up, it will take that much more time to work it off.

Globally, the FAA is recognized as the gold standard for aviation safety. The FAA has gained this recognition through leadership in international activities, collaboration with our international partners, and the initiation of important global safety initiatives. The shutdown and budget cuts are inhibiting the FAA's ability to take the lead on ongoing international efforts to streamline aircraft certification requirements and harmonize the application of aviation rules. The FAA's inability to influence global aviation regulations and policy will have a lasting impact on our industry.

The FAA has also suspended the development, operational testing and implementation of NextGen technologies. Congress has recently encouraged the FAA to put a higher priority on near-term benefits and NextGen implementation. However, just as the FAA is making that change, with its brand-new NextGen leadership team, the wheels grind to a halt. We simply cannot make the progress Congress envisioned in the FAA Modernization and Reform Act unless the FAA is provided stable and reliable funding.

We should also keep in mind that the FAA is a bit different in that most of its budget is financed by user fees from system users. Even though the government is shut down, today's air travelers are still paying their aviation taxes every time they fly. General aviation pilots are paying their fuel taxes every time they fill up. They have a right to see those funds invested in capital improvements and safety oversight that benefits system users. At the present time, the government is taking their money and giving them little in return.

Impacts on Trade and U. S. Exports

Foreign trade is a critical part of the U. S. economy, and the aerospace sector contributes more to our balance of trade than any other industrial sector in this country with \$99 billion in net exports in 2012. Again, the partial shutdown jeopardizes elements of that success. The Department of Commerce is no longer accepting export license applications, except for emergencies related to national security. Of course, this backlog will grow with the length of the shutdown, and has negative implications not only for our balance of trade, but in the international perception of the United States as a reliable supplier.

Overall Impacts of Sequestration

As difficult as the shutdown is, we should not lose sight of the sequestration's long term harm to important government functions. NASA, NOAA, FAA and other agencies have dealt with the FY13 sequester by instituting hiring freezes, deferring facility maintenance, eliminating training for frontline personnel, and cutting operational travel. These practices cannot be sustained indefinitely. AIA is concerned that, as agencies are forced to choose between today's operating budget and tomorrow's capital investments, they will increasingly eliminate the investments. We do not believe NextGen's six percent share of FAA's budget is too much, or that the nation must back away from a robust space program. When the next monster storm develops, are we prepared to tell taxpayers we could not afford the best weather models technology can provide? And do we want to delay improvements to our nation's air transportation system that will reduce flight delays and improve the environment? As negotiations develop on a final FY14 budget, we urge you to replace the sequester with more reasonable budget caps that allow these agencies to sustain their current operations and provide for the future.

Conclusion

In conclusion, I think it is important to stress that the partial government shutdown has only lasted eleven days. While the impacts I've discussed are tangible and harmful to our industry, I'm very concerned about the cascading negative consequences of a much lengthier shutdown. To expand on a point I made earlier, unfortunately small businesses such as our supply chain companies are particularly vulnerable during times of economic uncertainty and distress. And if these companies are forced to lay off workers in great numbers or halt operations, this could have a significant detrimental impact on many of the major national programs discussed above. For this and the other reasons I've detailed in my testimony, it is incumbent upon Congress and the Administration to end the shutdown and begin work on a bipartisan 'grand bargain' that will ensure our government will not only continue to operate, but that important federal programs which advance our nation's economic progress and interests receive the funding they need.

