



**Governor's Aerospace Summit
October 20-21, 2010**

**Progress in WA Aerospace
But Still Work to Do**



Disclaimer

Leeham Co:

"Everything I say can be fully substantiated
by my own opinion."*

Information and forecasts based on current and best
data now available but subject to change due to
future conditions.

*Author unknown



Review: 12 months ago

Issues: Pending

- 787 Line 2 location to be decided
- Labor relations at a low
- Future of 737, 777 lines uncertain
 - Upgrades vs replacements
- No real state strategy for aerospace-ad hoc

Review: What's happened

Issues: What's Changed

- 787 Line 2 located in Charleston
- Labor relations still testy; but thawing?
- Future of 737, 777 lines stable but fluid
 - Clarity emerging
- New state aerospace strategies developed

Review: What's happened

Issues: What's Changed

- More work coming back to Puget Sound
 - 787-9
 - Expansion of work in Auburn, Fredrickson
 - Advanced Composites Center
- 737 production to 38/mo by 2013, plus more?
- 777 production to 7/mo next year

Review: What's happened

Issues: What's Changed

- 737 and 777 decisions still pending
 - But appears to be likely enhancements, not near-term replacements
 - Solidifies future for WA State for decade
 - BUT: 737RS decision still uncertain.

Review: What's happened

Jim Albaugh:

- “When we make that decision *we will decide where we are going to put that line*. As I mentioned before *there are no entitlements on where we are going to put work*, but clearly we understand how good the team is here.” — KIRO TV News Special, Oct. 20, 2010

Review: What's happened

- Labor clearly remains top issue for Boeing, Puget Sound
- Interestingly: WA Business Climate takes a back seat, but issues remain
- Education remains very important to Boeing

Progress

- Since last Governor's/AFA Summit:
 - New educational funding despite state budget cuts
 - Funding of Training Center in Everett, Spokane
 - New strategic direction by State Commerce Dept.

Progress

- Training
 - Washington Aerospace Training & Research Center, Everett (June 2010)
 - Spokane, opens in January
 - These were major initiatives by AFA

Progress

- State Commerce Dept. Strategy
- Expands thinking beyond Boeing Commercial
 - Defense
 - UAVs
 - Cybersecurity
 - Emerging opportunities
 - China
 - Canada

Work to be done: Labor

- Boeing, IAM 751 recognize changes need to be made
- IAM, SPEEA contracts amendable in 2012
- Long-term IAM contract critical

Work to be done: Labor

Jim McNerney

- In 2008 “there were some honest differences of opinion, but we also didn’t interact effectively.” McNerney said his goal is to “try to produce a longer-term relationship,” adding that “my pledge is to work very hard to do that.” Jim McNerney, Oct. 7, 2010, IAM 751 blog

Work to be done: Labor

Tom Wroblewski, IAM 751 president:

- He is “cautiously optimistic” at the tone of McNerney’s remarks. “He’s left the door open for moving forward.” He was glad to hear from McNerney himself that “they will be bringing back some work and making better use of our skills and abilities.” IAM 751 blog, Oct. 7, 2010

Work to be done

- Pursuing suppliers, OEMs is good—but medium- to long-term strategy
 - Requires capital expenditures, lead times by suppliers
- *Near-term* efforts must be pursued
 - Business climate
 - Education and training
 - “Soft” objectives, not requiring large cap-ex

Work to be done: State

- Expand tax incentives
 - WTO decision on WA tax breaks
 - Breaks found to be illegal; likely appeal will decide
- Expand education and training
 - More funding despite budget crisis
 - Technical, engineers, pilots and mechanics
 - Boeing: 1 million pilots, mechanics needed over 20 years
- Gear up for major focus on Defense

Work to be done: State

- #1 Threat to USA:
 - Nuclear weapons in the hands of terrorists
 - Leon Pinetta, Director, CIA: ABC This Week, June 27, 2010

Work to be done: State

- #2 Threat to USA:
 - Cybersecurity.
 - “We are now in a world in which cyber warfare is very real.
 - “It could threaten our grid system.
 - “It could threaten our financial system.
 - “It could paralyze this country.”
 - Leon Pinetta, Director, CIA: ABC This Week, June 27, 2010

Work to be done: State

Cybersecurity

- Millions of attacks on DOD
- DOD predicts cyber attacks would precede armed conflict with USA
- Russia preceded conflict with Georgia with cyber attack
- This week: cyber attacks on Iran reportedly prompted nuclear talks

Work to be done: State



What's to be done: State

Why this is important to Washington State:

- Washington is the leading hydroelectric power producer in the Nation. Hydroelectric power accounts for nearly three-fourths of State electricity generation.
- The Grand Coulee hydroelectric power plant on the Columbia River is the highest capacity electric plant in the United States.
- With five refineries, Washington is a principal refining center for the Pacific Northwest.
- State jet fuel consumption is among the highest in the Nation, due in part to several large Air Force and Navy installations.

Source: US Energy Administration

What's to be done: State

- Washington State's economic and 'national' (state) security depends on Cybersecurity
- We need to focus on supporting our aerospace companies and their endeavors
 - Boeing
 - Lockheed Martin
 - Northrop Grumman
 - Raytheon

What's to be done: State

Cybersecurity

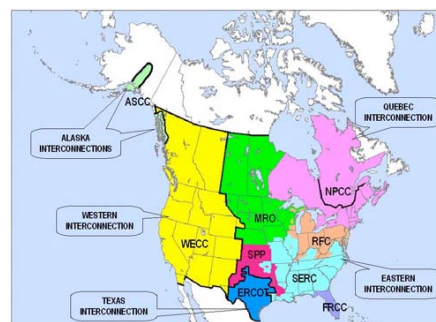
- Boeing is a leader in cybersecurity
- “Cybersecurity is part of Boeing’s long-term strategy.” –Roger Krone, president of Boeing Network & Space Systems
- Smart grid protection

What's to be done: State

Washington State's Power Grid



National Interconnectivity



What's to be done: State

Cybersecurity

- Despite budget problems, this January the Legislature must find money for:
 - Colleges/Universities for cybersecurity courses
 - Adam Smith's office is cybersecurity focused
- Create a Washington Council on Cybersecurity
 - Adam Smith's office: effort can lead to local jobs

What's to be done: State

Education

- Increase budget for aerospace engineers
 - Worldwide shortage of engineers
 - One reason for Boeing (and Airbus) outsourcing
- Increase budget for aerospace technical training
- Develop world-class training programs
 - Pilots, mechanics

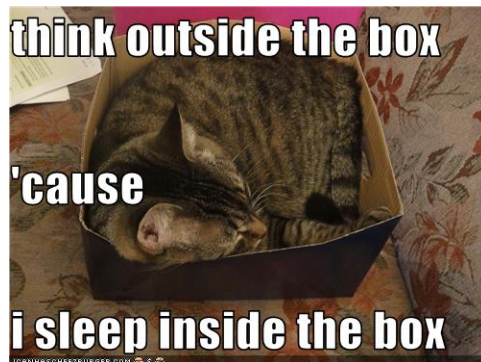
Aerospace Special Report

- KIRO 7 News Special
- Boeing & Beyond: The Future of Aerospace in Our State
- Oct. 20 (7pm) and 25 (8pm), posted to the web, www.kirotv.com



Expand the thinking

- Don't be complacent





LEEHAM
COMPANY LLC
INTELLIGENCE FOR THE AVIATION INDUSTRY

Scott Hamilton
Managing Director
www.leeham.net
425/392-1160

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