

Eric Fanning
President and Chief Executive Officer
The Aerospace Industries Association
Senate Committee on Commerce, Science, and Transportation
“The State of the Aviation Industry: Examining the Impact of the COVID-19 Pandemic”
Wednesday, May 6, 2020

Introduction

Chairman Wicker, Ranking Member Cantwell, and members of the committee, thank you for inviting me to appear before the committee today. My name is Eric Fanning, and I serve as the President and CEO of the Aerospace Industries Association (AIA). For over 100 years, AIA has advocated for America’s aerospace and defense (A&D) industry and served as a bipartisan convener, where people can come together to get things done on important topics, like our response to this unprecedented crisis.

The COVID-19 pandemic touches every person, family, business, industry, and economy. One just needs to look up at the skies above Washington, DC, for evidence of this fact. Like many people in the metro area, I live and work along the flight path for Reagan National Airport. My office windows provide a birds-eye view for the hundreds of daily take offs and landings at DCA. I never tire of watching the aircraft—most of which are made by members of AIA – serve as the workhorse for America’s airlines. Sadly, this daily activity is no longer visible. The flights that link people, products, and businesses to our economy and the world have virtually stopped.

This pandemic is a global threat that we not only must all endure, but also in which we must all do our part to overcome. With that goal in mind, over the past weeks, the aerospace and defense industry has been focused on three critical lines of effort.

The first is protecting the health and economic wellness of our workforce, who are vital to our industry and nation. Our companies are supporting employees and their families in several inspiring ways, from taking steps to protect jobs to enhancing employee benefits and support programs. Our companies are also taking extraordinary steps to ensure the health and safety of every employee at open facilities by ramping up the frequency of cleaning, sanitizing, and decontamination efforts, as well as implementing physical distancing procedures, providing personal protective equipment (PPE), and conducting temperature testing at facilities.

Another major focus for AIA is the continued health of our industry partners and the shared aerospace and defense supply chain. Our companies are advancing millions of dollars to supply chain partners on their own. Others are using adjustments to progress payments and aid Congress has passed to help provide smaller companies with the liquidity they need during this pandemic. This has been an essential part of our work, as 71% of our members who responded to a recent survey said accelerated payments from customers – be it the Department of Defense or another aerospace company – is one of the most helpful tools in mitigating the negative impacts of this crisis.

Finally, we are focusing on helping our communities and country. Using our unique skills and expertise, companies are producing face shields, designing and building portable ventilators, and taking other actions to help our nation overcome its challenges.

Through this work, we have been reminded of some critical lessons about A&D and our government partnerships:

- The importance of clear and consistent contract guidance, which allows us to continue to work closely with our government customers to continue to meet the mission;
- How critical regular legislative order and predictable budgets are – imagine what this pandemic would be like if Congress was also debating a CR or budget deal;
- The vital role that cash flow and liquidity play for businesses – especially vulnerable small businesses – and their ability to add new mitigations and procedures during a crisis;
- And how essential a healthy, interconnected A&D supply chain and industrial base are for America’s safety and security.

Impact on the Industry

While we have learned from and are proud of our work during this crisis, we cannot avoid the fact that the aerospace industry, which was already facing challenges on the commercial side, has also been hit hard by this pandemic.

Commercial aviation is a uniquely global enterprise, and U. S. manufacturing leads the world. In a global pandemic like this one, our workers are affected not only by the virus’ impact in the U.S., but also the decline in air travel worldwide. Those declines have been staggering: The International Air Transportation Association estimates that global, full-year passenger demand in 2020 will end 48% below the 2019 level. On April 8th of this year, the Transportation Security Administration screened a record low 97,000 air travelers at our nation’s airports. That’s 95% below the number on the same day in 2019 – an average of only 220 passengers per airport across the country.

We appreciate this committee recognizing that aircraft manufacturers and their suppliers are as affected by these massive declines as our airport and airline partners. Substantial orders for aircraft, engines, and supporting systems have been canceled over the past few weeks, and this has come on top of cancellations experienced over the past year. This not only hits the direct company involved with the sale, but also every other company – small, medium, and large – that plays a vital part in the manufacturing and maintenance effort.

As a result, companies of all sizes are making the difficult choice to furlough or lay off employees. One company had to lay off 50 percent of its engine manufacturing staff. Another furloughed most of their 7,000 employees. And because this crisis has continued, a third was pushed to let 1,500 employees go. These are just a few examples of the thousands of jobs lost or put in jeopardy because of this crisis. Unfortunately, we may see more of this trend in the future.

The continued health and resiliency of our global supply chain, which is the lifeblood of our industry, is also a concern. Right now, disruptions to our supply chain are a growing challenge. Illness, business closures, and reduced operations are leading to transportation and logistics issues, parts shortages, and other significant problems.

And our companies must also weigh the impact their work – or halting of that work – will have on our nation’s safety and security. The A&D industry is unique in that many of our companies cross over the civil and defense sectors at various degrees. Even a company that only does 10 percent of its business focused on national security can affect critical defense projects if their civil work is placed on hold or they have to close.

In addition, there is a large difference between the A&D industry – especially commercial aviation – and other industries hit by this pandemic, as we learned after 9/11. While some may see business return quickly, the nature of our industry and customers involves the long-term – not days, but months or even years.

There are many reasons for that. Even once orders for new aircrafts are made again, it takes longer to build and deliver a plane than a pizza. That's just the nature of the world-class systems we build.

In addition, our workforce is one of the most skilled in the world. If we don't keep them employed, we could see shortages of specialized workers when orders for products and maintenance start again.

The industry's recovery will also be affected by the success of other nations in battling the epidemic – from how severe they have been hit by COVID-19 to how severe their restrictions are as a result.

How quickly our industry can recover is also dependent on how quickly passengers return to the skies. AIA is ready, willing, and able to play a role in rebuilding confidence in air travel by demonstrating that industry is collectively putting safety first. Already, we are working with the International Civil Aviation Organization to establish standards that will help improve safety. I know our partners at the airlines and airports agree that, until we can show that air travel is safe and regain the trust of the flying public, this crisis will continue to hit aviation particularly hard.

Under the best of circumstances, it is likely we will feel the impact of this disruption for several years.

Efforts by Government Leaders

Thankfully, Congress and the Administration have taken swift action over the last two months to help provide our citizens and country with the help we need.

The federal effort to designate several manufacturing efforts as essential has been a source of much relief. The DOD and agencies like the FAA and NASA have been critical and responsive partners in this area. Not only has their work helped many of our members protect their employees' jobs, but it has also helped ensured that the skilled workers continue to meet the national security needs of our country and stabilize the defense industrial base. This is also critical for our industry as a whole – including commercial aviation – because of the shared supply chain.

The CARES Act also provided our members with important tools and resources to help them navigate the crisis. For small businesses, the Paycheck Protection Program has been vital for our members, who have described it as a "lifeline." In a recent survey of our members, over 60 percent of those who responded applied for PPP. When you remove companies that did not qualify, the number jumps to over 80 percent. The creation and expansion of the program has been an important tool to help our companies protect employees and their jobs.

The proposed Mainstreet Lending Program also has a lot of potential for some of our mid-sized companies that didn't meet the criteria for small business support.

But we do believe there can be improvements. Two of the most critical tools businesses need in a crisis are cash flow and flexibility, and they need both quickly. While the CARES Act includes a number of tools to assist with cash flow, some of the programs have conditions that prevent companies from accessing this aid with the speed and flexibility required.

The Paycheck Protection Program, for example, does not allow some companies to be eligible for assistance due to the Treasury's definition of "affiliated" companies.

There are also discussions within the government related to the \$17 billion fund for "national security businesses" and whether the criteria for that assistance is too narrow. A number of our members would agree that Treasury's criteria are preventing them from accessing this aid.

For example, the requirement that recipients have a current "DX-rated" contract and a top-secret facility clearance renders ineligible any companies that perform national security work on an unclassified basis. In addition, the one-week deadline to apply could have limited the pool of applicants.

We've also heard concerns that the structure of the Main Street Lending Program might restrict company access – not because businesses do not want the aid, but because banks are potentially hesitant to engage with this program.

Recommendations for Recovery

Moving forward, we look to Congress to not only build on the foundation of aid already provided – aid that has been essential to our industry and others – but also help shape policies that will jumpstart the recovery.

A&D is already thinking through the new norm and what it means for our businesses, employees, and customers. We're working to identify impacts on the supply chain and learn what investments will help support our industrial base and the overall economy as the country rebounds and recovers.

Overall, when we think of a roadmap for recovery, the safety of our employees remains our top priority. AIA is leading an effort to develop recommendations for our companies based on lessons learned from safe operations as essential businesses. These will account for PPE, testing, monitoring, enhanced sanitization, and other safety measures. As one of our members said, these companies are not returning to work – they have been working. But their best practices will help others return to work as well.

Congressional action is another key element in our nation's recovery. One potential step is analyzing aid criteria and conditions and determining the best way to make it easier for companies to access help.

Temporary and targeted assistance for the ailing aviation manufacturing sector is also something we respectfully request Congress to consider. There is strong support in our industry for a private-public partnership to protect jobs and keep at-risk employees on the payroll through the pandemic. This proposal will require eligible companies to provide significant investment to sustain payroll – with government supplementing a portion of the cost as well. This would help with what's most important to us, keeping our workers employed, while also helping to unburden state unemployment programs. This crisis is unprecedented, so we need to think outside the box.

Finally, we must continue to prioritize research and development. America leads the world in this industry, and we must continue to invest in the future to maintain that global leadership. One example of action we can take today to bolster the industry's long-term global competitiveness is expanding FAA's Continuous Lower Energy, Emissions and Noise (CLEEN) program.

As always, we look forward to working with Congress on the details of any plan, but the broad effort should focus on filling the gaps of the CARES ACT and other aid programs, while also maximizing the ability for companies to access any further aid.

Conclusion

We recognize that there are no simple solutions and additional relief is no small ask. But our country – and our industry – is known for overcoming large challenges.

On a level playing field, the A&D industry is one of the biggest drivers of American innovation and economic growth, so we know we are in a unique position to help lead our country's recovery.

Our industry has always defined the art-of-the-possible. And with the support of government partners, we know we can continue to live up to that standard and help our country through this crisis.

Thank you.