



Aerospace in Year One and Year 100

Recovering from September 11 and Preparing for Another Century of Growth

by William Corley and Vicki Heilman
Export America *Office of Aerospace, Trade Development*

The aerospace industry combines some of the highest aspirations and developments of mankind. Aerospace stretches from general aviation, which represents our ancient dreams of soaring, to space technology, which represents our desire to explore the universe. On the eve of the centennial next year of Orville Wright's first flight, aerospace is now a global, multibillion-dollar industry. Although hurt by last year's worldwide recession, many parts of the industry are not only recovering but also expecting substantial long-term growth.

Aerospace is one of the most significant, diverse sectors in the United States. The industry employs designers, engineers, machinists, mechanics, and consultants, among others; and it sources its raw materials and components from several other U.S. industries. Aerospace affects a full range of services, from air travel to baggage handling. Aerospace encompasses aircraft, aircraft engines and parts,

aircraft equipment, space vehicles and guided missiles, propulsion units and parts, and other parts and auxiliary equipment. (Large civil aircraft account for approximately 25 percent of total aerospace industry output.)

The industry's wide-ranging activities make it a critical contributor to U.S. economic growth; it is responsible for approximately 9 percent of GDP and 11.3 million jobs. For decades, aerospace has generated many billions more of export dollars relative to imports than any other U.S. industry. Aerospace is a major source of technological innovation, generating substantial contributions to other industrial sectors, high wage employment, and rising productivity in the U.S. economy.

REBUILDING FOR TAKEOFF

The past year has been difficult for the aerospace industry, which was negatively affected by worldwide trends and extraordinary circumstances. The global recession was well under way before the terrorist attacks

of September 11, 2001, and the downturn affected airlines tremendously, in both cargo and passenger revenue. For instance, airfreight traffic was already down by almost 10 percent well before last September; the airfreight sector was experiencing its worst year in two decades. Some airlines were already in deepening financial trouble and considering further consolidation. This downturn obviously also affected the extensive commercial sector that serves the freight and passenger carriers, from aircraft manufacturers and maintenance providers to airline caterers and baggage equipment suppliers.

The economic aftereffects of the horrific events of September 11 were thus part of a more fundamental slowdown in aerospace. The September 11 tragedy laid a heavy burden on the airline industry. Revenues of major air carriers are off 15 to 20 percent, according to the Air Transport Association, and the industry lost about \$10 billion between September 2001 and the end of the second quarter of 2002. At the one-year anniversary mark, passenger

Photo courtesy of The Boeing Company ©.



Boeing artist's rendering of the planned Sonic Cruiser.

loads are still about 10 percent lower than before the terrorist attacks, when overcapacity was already a problem for many airlines.

Airlines have spent the last year shedding employees, flights, and aircraft orders. They have also sought government assistance in the form of cash grants and loan guarantees. US Airways has declared bankruptcy, and United Airlines is in financial trouble.

Airlines have continued cutting costs this summer and fall in the face of rising airport fees, security expenditures, insurance premiums, and fuel prices. Carriers are increasingly outsourcing many functions, such as the provision of high-tech systems for ticketing and freight management.

There is obviously also an increased emphasis in the aerospace industry on security—from baggage scanning equipment to enhanced passenger screening. Likewise, the global war on terrorism has highlighted the defense subsector in the aerospace industry (although U.S. military purchases of aircraft this year are not expected to offset reductions in commercial air fleets). The shift of the aerospace

industry to both security and defense may have a silver lining in expanding opportunities for some aerospace suppliers in the otherwise gloomy circumstances of the past year.

Besides the aforementioned trends in security and defense, the U.S. aerospace industry should see a strong push toward a new national air traffic control (ATC) system, new sensors and communications links, new power sources, and greater use of automation in the cockpit. The Federal Aviation Administration (FAA) began focusing on ATC modernization in 1997. There will be an \$11.5 billion investment in technology over the next 10 years. The FAA is looking for an equal amount in airline investment in order to increase the number of flights aloft at any time by 700 to 800.

FLYING HIGH AGAIN

The International Air Transport Association (IATA) predicts that cargo and passenger traffic will recover next year to pre-September 11 levels, although full worldwide financial recovery may not occur until 2004. Nevertheless, business is improving worldwide. Airlines lost more than \$18 billion in 2001, according to

IATA data, but this year the global airline industry is expected to lose \$9 billion (\$6 billion of which is in the U.S. airline industry). Meanwhile, the long-term outlook for commercial aircraft, for both freight and passengers, is good. Boeing, for example, predicts that the world's freighter fleet will increase by 75 percent in the next 20 years (from 1,775 to 3,078 airplanes, 2001–21). Concurrently, freighters as a share of total airline fleets will drop from 12 to 10 percent as the average size of freighters increases.

Worldwide commercial developments bode well for the U.S. aerospace industry, particularly as the world economy fully recovers from recession. Several opportunities—from corporate jets and military aircraft to civil avionics and ground support equipment—are emerging. Within this month's feature, we highlight for U.S. exporters some of the many promising markets for aerospace products and services. The conditions for global business are improving quickly. After the difficulties of the past year, aerospace deserves another century of sky-high growth. ■

REPORT ON THE AEROSPACE TRADE MISSION TO VIETNAM

by Linda Conlin

Assistant Secretary of Commerce for Trade Development

It was a great pleasure to lead the aerospace executive trade mission to Vietnam in August, the first U.S. government commercial trade mission to Vietnam since the signing of the U.S.-Vietnam Bilateral Trade Agreement (BTA). The trade opportunities in Vietnam's aerospace industry are significant. The Vietnamese government plans to invest \$4.6 billion by 2011 to upgrade 18 of its airports and build one new international airport. Vietnam's airlines plan to expand their fleet of aircraft over the next few years to meet additional demand, both domestic and international. This mission paved the way for U.S. aerospace companies to expand their presence in Vietnam.

Much of this trip's success can be credited to the 13 U.S. aerospace companies that participated. Many of the larger aerospace companies, including Boeing, Pratt & Whitney, and Raytheon, strengthened already existing relationships in Vietnam. The LPA Group, an airport development consulting firm from Columbia, South Carolina, reported that it had laid the groundwork for a joint venture partnership. Many of the small to medium-sized companies, including Uplift, Inc., which specializes in aviation maintenance tooling, established new relationships and will return to pursue opportunities.

As U.S. companies realized Vietnam's commercial potential during this mission, a much broader purpose was also served. Great strides were made in implementing the tenets of the BTA. That this mission's focus was on aerospace also addressed the BTA's goal of a diversified U.S.-Vietnam

commercial relationship. Additionally, the focus on aerospace was appropriate given that this was the underlying theme the day the BTA took effect, December 10, 2001. In fact, it was on this same day that Commerce Secretary Evans hosted the historic signing of Vietnam Airlines' purchase of four Boeing 777 aircraft.

Strengthening our commercial ties with Vietnam will bring enormous benefit to both countries. More trade means more jobs, which will in turn lead to greater economic prosperity and a better quality of life on both sides of the Pacific. Working toward developing new trade partnerships with countries around the globe leads to worldwide economic and social progress.

As in most of Asia, it is clear that the key to unlocking Vietnam's market is through the development and nurturing of relationships. I believe our efforts went far in positively shaping the views of Vietnamese officials with whom we met and in reassuring them that the United States is committed to implementing the BTA and strengthening our overall bilateral relationship. Looking to the future, it is interesting to note that two-thirds of Vietnam's population is under the age of 25, and the enthusiasm and eagerness of the young people I met was energizing. I am proud of the personal connections that U.S. aerospace companies built during this mission, and I am confident that continued efforts will lead to many commercial opportunities for both U.S. and Vietnamese companies well into the future.

FOLLOW-UP