

Testimony of Mr. David Hess
President, Pratt & Whitney
Before the House Armed Services Committee
On Sequestration Implementation and Options and the Effects on National Defense
July 18, 2012

Chairman McKeon, Ranking Member Smith, Members of the Committee, I appreciate the opportunity to testify before you today regarding the serious matter of the potential for sequestration and the implications for the defense industry. As you know, I wear two hats currently – one as the President of a \$13 billion company that employs more than 36,000 employees worldwide, and another as Chairman of the Aerospace Industries Association (AIA), which represents over 300 aerospace companies in the United States. I commend the committee for assembling such a fine group of witnesses to provide diverse answers based upon the different challenges each of us face in the coming months.

As Chairman of AIA, it has been my privilege to visit Capitol Hill on numerous occasions to outline what we see with regard to sequestration – the potential to affect over one million highly skilled, highly compensated aerospace and defense related jobs. AIA's "Second to None" advocacy campaign has been spreading throughout the country with grassroots rallies highlighting the importance of fixing sequestration versus suffering its consequences.

As an industry, we are already seeing the impacts of potential sequestration budget cuts today. Companies are limiting hiring and halting investments - largely due to the uncertainty about how sequestration cuts would be applied. At our sister division, Sikorsky, the leadership has already indicated that in this environment, if they had to choose right now how to invest internal R&D dollars between commercial and defense programs, they would choose commercial programs because of the uncertainty with the defense budget. Equally concerning are the impacts of sequestration on the domestic side as it relates to homeland security, border security, air traffic control, TSA and other agencies. The sequestration threats facing other government agencies, contracts, and workforce affect our member companies' ability to do business safely and effectively. In the near term, some clarity from the Office of Management and Budget about how sequestration cuts would be implemented would be helpful in avoiding some of these impacts.

Regardless of how the cuts are implemented, the consequences for the industry will be dire. The Defense Industrial Base Task Force, commissioned by Secretary Panetta, has reported that sequestration level cuts would result in the closure of production lines, the layoff of skilled workers, severe curtailment of research and development investments, and a reduced ability to respond to emergent needs of the U.S. military.

However, today I am here as the President of Pratt & Whitney, to offer my view on how sequestration will affect us directly and share with you how the effects Secretary Panetta mentioned are becoming reality.

At Pratt & Whitney, we build jet engines for both the commercial and military marketplace. As you know, our military base market consists primarily of the F135 engine for the F-35. While we are also proud to have our engine chosen to power the next-generation KC-46 aerial refueling tanker for the U.S. Air Force, these engines will not affect our production business until 2016 at the earliest. With the end of the production run of the F-22 engine this year, and the end of the production of the C-17 engine next, the F135 engine is our future for our military business.

Already, the decline in defense spending is negatively affecting the F-35 production ramp and subsequently affecting our engine production. As you know, the \$487B in defense budget cuts already announced has pushed out 179 F-35 aircraft between 2012 and 2020. Original projections from just a few years ago had us building well over 100 F135 engines per year by now. This year, we will build just over 50 F135 engines. Next year, our F135 production will actually decrease, and if sequestration were to take effect, that number would decline significantly.

It's not just new engine deliveries that are impacted at Pratt & Whitney. Spares parts are key to keeping our manufacturing base healthy and sustainable. But as a result of the announced [\$487B] DoD budget cuts, flight hours have already been cut back and sequestration could result in still further reductions. This undercuts demand for our spare parts and overhaul work.

For my company, this situation poses both a workforce and a supply base problem. As the F-22 program winds down, I am currently transitioning many of those workers to F135 production – but this is extremely difficult given the near-term production decline I described earlier. With sequestration, it will be even more difficult to retain those highly skilled employees. Quite simply, my workforce is aging, specialized, and highly compensated. If and when we do ramp back up production, the learning curve for new employees is steep and that will affect production, quality, and training – all of which add time and cost.

Pratt & Whitney is somewhat unique, because from a production standpoint a jet engine is a jet engine, whether it goes on a military aircraft or a commercial aircraft. This allows us to absorb some disruptions better than small companies in the supply base. For a short time, I may be able to move employees between military and commercial programs – assuming I have increasing demand in the commercial area. I can, if forced to, take some risk if there is to be a reward at the end of the day. But this is putting the proverbial band-aid on a bullet wound.

In terms of our supply base, they too are currently struggling with volume. Many of them are small businesses making specialized parts for military engines that simply cannot survive another production decline or disruption. We continue to hear from our suppliers that if further cuts take place they would be forced to lay people off, curtail investment and pursue other business.

One large supplier has told us frankly that they don't believe that the DOD will ever procure the number of engines in the current program forecasts. This uncertainty makes suppliers less willing to enter into long-term agreements with us and drives up our costs today.

If sequestration were to go into effect, no amount of juggling is going to preserve my workforce or help me maintain my supply base. A step down in the current production ramp for the F-35 means some of my people will lose their jobs. It also means reduced volume for suppliers and that means costs go up. More importantly, it puts a good program in a very tenuous position – a program that we cannot afford to lose.

To reiterate Mr. Chairman, we at Pratt & Whitney are better able than smaller companies to deal with short-term implications of sequestration. But make no mistake, it is dangerous for the warfighter, for us as a business, for the supply chain companies and for us as a nation. Again, I appreciate your perseverance on this important topic and for your allowing me to be here today.