

Report to the Governor and Legislature

Governor's Council on Aerospace



Executive Summary

OCTOBER 7, 2008

In late 2007, Governor Gregoire commissioned the Governor's Council on Aerospace to identify a strategic plan for growing aerospace jobs in Washington. The specific charge to the Council was twofold: 1) prepare information and recommendations for the Governor on how to improve Washington's competitive position for the aerospace industry; 2) identify steps to prepare for competition for the next generation of aircraft.

To accomplish this charge, one must examine:

- What has happened in other aerospace centers
- The state of aerospace in Washington
- Washington's market opportunities
- Competitive position relative to peers, and opportunities and gaps in that position
- Strategies to improve the competitive position

Additionally, Governor Gregoire asked the Council to look at four sets of questions concerning recruitment of companies outside Washington:

- What aerospace component companies in other locations compete with Washington companies?
- Can we lure these companies to Washington or improve Washington companies' ability to compete?
- What challenges are emerging given the high demand in this sector? And what do we need to do to rise to those challenges?
- Longer term, what do we need to do to prepare for the next generation of aircraft and aircraft suppliers?

ECONOMIC IMPACT

Aerospace is one of the primary drivers of the Washington economy and is more than just Boeing. The industry comprises approximately 650 companies in all corners of the state.

According to 2006 estimates, the latest estimates that were available, Washington's aerospace industry accounts for \$36 billion, or 15% of Washington's gross state product. Direct and indirect employment totals 209,300. The Renton 737 plant alone generates \$3.8 billion in exports each year, almost 11% of Washington's total.

Since 1970 Washington's employment in general has largely tracked aerospace employment. Boeing is the largest employer in Washington, with over 75,500 employees in Washington. **For every aerospace job created in Washington, 2.2 other jobs are created.**

Aerospace Impact in Washington

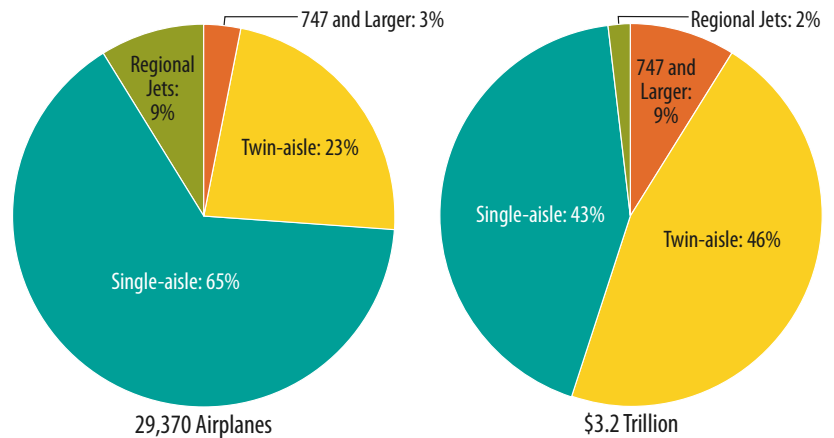
	VALUE	AS PERCENTAGE OF STATE
Economic Impact	\$36 Billion	15%
Exports Abroad	\$22.5 Billion	66%
Employment (Direct and Indirect)	209,300	8%
Wages (Direct)	\$5.4 Billion	5%

Source: AFA, CTED, Deloitte Development

CONSIDERABLE OPPORTUNITIES FOR GROWTH

While Washington is the leading state in the nation for jobs in aerospace, **the future of these jobs is uncertain.** Opportunities and threats exist that could dramatically impact aerospace employment in positive or negative ways in the coming years.

The commercial airplane market will remain a major source of customers for aerospace companies over the next 20 years. Boeing estimates show that during that time period, **airlines will purchase over 29,000 new commercial airplanes, with a value of over \$3.2 trillion.** This is important, as Washington has traditionally led the nation and the world in commercial aircraft production.



Estimated Commercial Airplane Market Over Next 20 Years

Source: The Boeing Company

A significant opportunity for expansion of the aerospace industry in Washington is defense and space. Defense spending in 2007 accounted for 86.6% of total Aerospace and Defense spending globally. Commercial aircraft purchases and maintenance, repair & overhaul account for only 37% of annual aerospace procurement expenditures; the remaining 73% are in defense.

THREATS TO OUR CURRENT POSITION

Because of our high concentration of aerospace companies and workers, Washington remains an exceptionally attractive place to grow an aerospace business. However, three primary challenges exist for Washington:

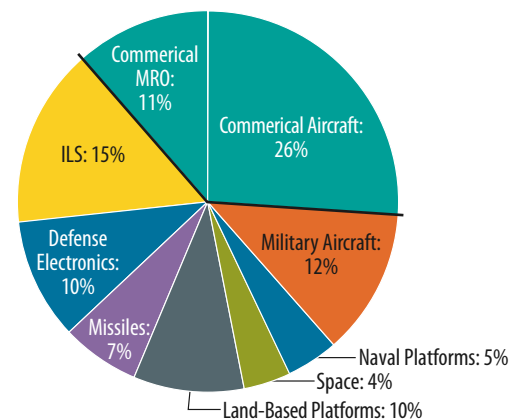
1. A shortage of trained workers;
2. Challenges in cost of doing business, particularly in Unemployment Insurance and Workers Compensation; and
3. A lack of information about how Washington compares to potential competitors for final assembly of the next generation airplane.

Other challenges that threaten our future as a leader in aerospace include transportation, healthcare affordability and strategic gaps in our cluster's composition.

Trained Worker Shortage:

A shortage of trained workers is a primary threat facing the aerospace industry in Washington today. Approximately 58% of aerospace employers report experiencing at least some difficulty recruiting entry-level workers, and 63% report at least some difficulty in recruiting non-entry level workers.

Other states have figured this out, and are responding. North Carolina, South Carolina and Virginia have all included robust training programs as part of their packages to lure high-paying aerospace jobs to their state. **Washington must respond to this challenge** as well, and develop a statewide aerospace workforce training initiative, aimed at helping provide workers with the skills needed to fill jobs that are currently going unfilled.



\$449 Million in Aerospace & Defense Procurement Annually

Source: Deloitte Development LLC

Unemployment and Workers Compensation:

Washington is second highest among the fifty states in Unemployment Insurance rates and ninth highest in Workers Compensation. We should never engage in a “race to the bottom” to attract companies, but finding a solution that puts Washington no higher than the middle of the states is imperative, both to growing this industry and to retaining long-term the jobs that already exist here.

Next Generation Airplane:

Whether it will be the 737 or the 777, one of Boeing’s current generation of airplanes will be replaced in the coming decade by a new and more efficient airplane. Unfortunately, Washington has very little information about which factors will determine location of final assembly for that aircraft. Nor do we know how well we compare with our competitor states and regions on these factors. **Washington should perform a comprehensive analysis of the competition for Boeing’s next generation airplane.**

STRATEGIES AND ACTION STEPS TO IMPROVE OUR COMPETITIVE POSITION

A meaningful comprehensive strategy for aerospace job growth must include the following:

Perform a comprehensive analysis of the competition for Boeing’s next generation airplane. Then we must commit to act on that information starting in 2010 to make this state the only choice for final assembly.

Identify the gaps in Washington’s aerospace industry cluster, and selectively recruit companies to fill those gaps. While blessed with a robust and thriving industry, Washington can improve its competitive position, and improve the competitive positions of the companies that are already here, by identifying a few strategic targets for selective recruitment. Possible examples include jet engine makers, interior improvement companies, makers of galleys and lavatories, and Very Light Jet manufacturers.

Identify potential markets for expanding the role of military and space side of defense in aerospace. Even though commercial aerospace and associated maintenance, repair and overhaul work is important, commercial aerospace is only 37% of the industry; procurement of defense and military Aerospace and Defense is also important, representing a key opportunity. We need a plan to capture some of that \$449 billion annual opportunity.

ACTION STEPS, 2009 LEGISLATIVE SESSION

1. **For the Governor and Legislature:** Find solutions to Workers Compensation and Unemployment Insurance.
2. **For the Governor and Legislature:** Empower the Aerospace Council to continue its work and charge it with —
 - a. Developing the statewide worker training and placement program.
 - b. Performing a competitive analysis of a potential next generation commercial aircraft and what Washington must do to secure final assembly.
 - c. Identifying the potential market for Defense business.
 - d. Identifying strategic recruitment targets that strengthen the companies already growing in Washington.
3. **For the AFA:** Administer the work of the Aerospace Council.
4. **For the AFA:** connect workers with jobs and training opportunities through job fairs and other connecting events and programs.
5. **For the AFA:** Evaluate and select a health care plan that allows Aerospace companies to pool risk and secure more affordable health care coverage.

6. **For the AFA:** Continue to advocate for solutions to unintended inequities in the tax code, which put Washington companies at competitive disadvantages relative to their out-of-state competition.

ACTION STEPS, 2010 AND BEYOND

1. Implement the recommendations of the Aerospace Council in the competition for the next generation aircraft.
2. Continue work to develop statewide worker training and placement program.
3. Monitor competitiveness of Unemployment Insurance and Workers Compensation systems to ensure Washington remains no higher than the middle of the 50 states.
4. Extend aerospace tax incentives to military and space sectors, not just commercial.



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