

**Opening Statement**  
**Chairman Justin Bernier**  
**Connecticut Military and Defense Advisory Council**  
**January 26, 2009**  
**Hartford**

Welcome and good morning. Thank you for attending today's meeting of the Connecticut Military and Defense Advisory Council. Today, the Council will receive briefings on the current state of Connecticut's defense industry. The Council will also consider how certain trends and developments could affect this economic engine of the state. Pursuant to the council's mandate, information from today's meeting will be transmitted to the Governor.

We typically discuss the economy in abstract terms. Public officials speak about "unemployment rates" and "job loss." Statistics are frequently used to paint the big picture. For instance, this past Friday the Connecticut Department of Labor reported that the state lost over 21,000 jobs in November and December of 2008. In December, the state's unemployment rate topped 7 percent, putting it close to the national rate. Connecticut is at its highest level of unemployment since the early 1990s.

Many layoffs have come in the manufacturing sector, which has lost an estimated 5,000 positions over the last year, dropping its employment level to about 186,000. The Department of Labor noted that "the deepening of the national recession has...severely impacted Connecticut's manufacturing industries, forcing many firms in this supersector to lay off workers or close down operations in the state." There is a strong relationship between Connecticut manufacturing and the state's defense industry. Not all manufacturing is defense-related; but most areas of the defense industry have a manufacturing component.

Here it is important to explain what is meant by manufacturing, because I think the term is often misused and misinterpreted. There are those who dismiss layoffs in the U.S. manufacturing sector as an insignificant loss of low-tech jobs. The implication is that America's manufacturing sector is comprised of outdated products that would be better made elsewhere. Nothing could be further from the truth in Connecticut.

The average manufacturing job in Connecticut is high-tech and high-paying. According to the nonprofit Connecticut Economic Resource Center, the average manufacturing wage in Connecticut for 2007 (the last year for which data is

available) was over \$69,000 per year – more than 17 percent above the average wage for all industries. During this reporting period, Connecticut’s manufacturing sector was the fourth most productive in the nation.

This economic activity is critical to the state. In 2007, Connecticut manufacturers paid \$171 million in sales and use taxes. The state’s manufacturing employees pay several times this amount in personal income taxes every year.

In 2008, I had the opportunity to talk with defense manufacturers from across the state. Some are dedicated to the defense industry, but many others make products for the civilian market as well. Most of them expressed frustration with the difficulty of remaining competitive in Connecticut. When asked about the three largest challenges facing their companies, they usually responded with 1) the high taxes, 2) the high cost of energy, and 3) the high cost of insurance.

These small businesses do not typically grab headlines, but their welfare is directly tied to the larger companies in the state that we all know and respect. The Electric Boat Corporation, for instance, has 573 subcontractors in Connecticut for the Virginia-class submarine program. Connecticut’s submarine industrial base receives approximately \$430 million in annual purchase order awards for goods and services. These orders sustain high-skill, high-wage manufacturing jobs across the state. In fact, about 70 percent of these subcontractors are found on this side of the Connecticut River.

Earlier this year, I travelled down to the EB shipyard in Groton for John Casey’s annual briefing to local and state officials. As President and CEO of the submarine-builder, one of his jobs is to ensure that the shipyard can remain competitive. Like last year, Mr. Casey implored state leaders to “do no harm.” This means resisting the urge to solve fiscal problems by shifting additional burdens onto the business community.

Policy decisions that worsen the business environment in Connecticut would hurt large and small companies alike. As I noted with EB, the large prime contractors in the state draw heavily on Connecticut sub-contractors. Short distances between the sub-contractors and their prime contractors cut down delivery times, helping Connecticut primes remain competitive with their foreign and domestic competitors. This synergy, however, can become a weakness if mismanaged. Higher costs for a sub-contractor create a domino effect that raises prices throughout the supply chain, ultimately ending with the prime contractor. Higher costs on the prime contractor can make it more difficult to win large

defense contracts. If those defense contracts are lost, then industrial capacity – and jobs – will be lost in the state.

On the horizon, a number of big-ticket defense contracts are up for grabs. If future Department of Defense (DoD) budgets are constrained, as expected, then acquisition officials will need to do more with less. Companies that want to win DoD contracts will have to prove that they can deliver at the lowest cost. Recent competitions have indicated that cost has become the driving factor in the source selection process. To stay competitive, Connecticut primes will be trying harder than ever to keep costs down.

Thankfully, the Department of Defense still buys most of its hardware from U.S. companies. From *where* in the United States remains a question, however. Connecticut is still the “Arsenal of America,” but other locations are catching up. Some states are working aggressively to improve their business climate in hopes of winning lucrative contracts. The state needs to think of herself as a competitor for this economic activity. Commissioner Joan McDonald and the Department of Economic and Community Development have helped individual defense companies remain in Connecticut. Strategically, we might also consider how the state can help – or hurt – its chances of winning and keeping businesses in general.

The defense industry includes other sectors, such as professional, technical and scientific services. These areas are already being hit hard by layoffs. Moreover, DoD recently reported that it expects to spend less money on these services in future budgets. Here, too, policy decisions in the statehouse can have a profound effect on the competitiveness of defense firms that already face an uphill battle.

Today we will hear from authoritative sources on Connecticut’s defense industry. First, Brett Rhodes will provide an overview of East Hartford-based Pratt & Whitney Military Engines. Moving from the specific to the general, John Rathgeber, President and Chief Executive Officer of the Connecticut Business and Industry Association, will discuss how state leaders can help keep our defense companies competitive during this recession. Jim Noone of Clark & Weinstock will then discuss the macro-level trends and considerations that could affect Connecticut’s defense interests in these economically uncertain times. We will then engage in an open forum until no later than 10:30. Mr. Rhodes, the floor is yours.