



**SIGNIFICANCE OF STRONG U.S LAUNCH INDUSTRY TO COMPETITIVENESS OF
U.S SPACE BASED INDUSTRIES**

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Chairman Palazzo, Ranking Member Costello and distinguished members of the subcommittee, my name is Alison Alferts and I am the Vice President, Defense and Intelligence for DigitalGlobe, Inc. I also previously served for five years as the company's General Counsel. On behalf of DigitalGlobe, I would like to thank you for the opportunity to testify before the subcommittee on the issue of extension of the Federal Aviation Administration's (FAA) Launch Indemnification Program.

About DigitalGlobe

DigitalGlobe is a leading commercial provider of high resolution satellite imagery and related products and services. We are a publicly traded U.S. company, incorporated in Delaware and headquartered in Longmont, Colorado, with offices in Washington, D.C., London and Singapore. We employ over 700 people and in 2011 our total revenue was approximately \$340 million.

We own and operate the largest constellation of commercial high resolution satellites, with three satellites (QuickBird, WorldView-1 and WorldView-2) on orbit and our fourth satellite, WorldView-3, scheduled for launch in mid-2014. Our largest customer is the U.S. Government and specifically the National Geospatial-Intelligence Agency (NGA). Our customers also include numerous foreign government entities as well as commercial companies such as Google, Microsoft and Nokia.

Our business depends on our ability to cost effectively build, launch and operate our constellation of high resolution imaging satellites.

Developments in Launch Services Industry and Implications for Space Based Businesses

The clear trend over the last several years has been a continuing reduction in demand for launch services by the US Government. This reduced demand for launch services has resulted in significant increases in launch costs as the US launch providers have been forced to spread the high fixed costs associated with launch services across fewer consumers, and available launch vehicle options (e.g. Delta II) have been reduced.

As a commercial consumer of launch services it is our view that US providers are not competitive on price and that their long held advantage over foreign providers with regard to payload safety and delivery (e.g. number of successful on-time launches) is fading rapidly. We concur with the sentiment expressed in the written statement submitted by the members of the Aerospace Industries Association that this loss of global leadership in the launch services market is detrimental US national security interests and the US companies that form the aerospace industrial base.

As a US company whose largest customer is the US Government, our overwhelming preference is to launch with US providers. Foreign launches, especially for our type of payload, come with significant complexities including export control requirements, payload transport, and uncertain insurance costs. That said, as a commercial company we have an obligation to our shareholders to maximize the return we generate from the investments we make. Procuring launch services is an investment we make and the costs we incur must either be flowed down to our customers through our price structure or absorbed by us through reduced margin. To the extent we are forced to raise our prices in the market or take margins down to unprofitable levels, we lose our ability to compete in the global market. We note that our business, like the launch services business, is

facing significantly increased foreign competition from largely government subsidized entities (e.g. the recently launched Pleiades satellite).

Unfortunately, the current status of reduced competitiveness of the US launch providers combined with the increased availability and reliability of foreign providers mandates that in the best interest of our business and our shareholders we seriously consider foreign providers for future launch requirements. As a point of example, while we ultimately elected to contract with a US provider for an Atlas-5 launch for WorldView-3, the cost is more than twice what we paid for the launch of WorldView-1 (2007) and WorldView-2 (2009) and borders on being prohibitive. The cost to launch WorldView-3 is also approximately 35-40% more than the bid we received from a comparable foreign provider. For WorldView-3 we ultimately selected Atlas-5 due to its' stellar performance record and the still developing performance record of the foreign provider, but we expect that if the performance records of the foreign providers are well established over the next couple of years that cost considerations will necessarily become the primary factor in future selections.

As a commercial company, we are encouraged by recent private sector investments in domestic launch capabilities, including the entry of Space-X into the market. Through private investment, we believe that the US space launch industry has the potential to reverse the current downward trend and to reestablish its global leadership in launch services, but this cannot be achieved without support from the US Government in the form of the risk mitigation backstop that comes from the FAA Launch Indemnification Program. Specifically, the risk of third party claims from damage associated with space launch activities is a risk that we, as a consumer of launch services, would require the launch provider to protect us against. If the indemnification program did not exist, the launch provider would be in a position of having to insure the additional risk, either through third party insurance or self insure. We expect the costs would be significant, especially for new companies trying to compete in the launch services market but who do not yet have the established track record or balance sheet of the larger companies. These increased costs would either need to be passed on to us, the consumer, or absorbed by the provider. If passed on to us, we expect the total launch cost would be so prohibitively high that we would be forced to use a foreign provider absent problematic safety records or related considerations. If absorbed by the provider, we believe the effect on margin would likely impair profitability of the provider to the point where existing providers would be incited to exit the market and potential new providers would be deterred from entry. The end result of both scenarios is a vanishing US launch services industry which, as noted above, we view as very detrimental to US national security interests and the broader US industrial base.

Subcommittee Questions

As part of our written statement, we were also asked to address four specific questions. Our responses are set forth below.

1. Do you consider a government-sponsored launch indemnification program as essential to maintaining a domestic commercial launch capability, and if so, why?

Yes. As a consumer of commercial launch services, we believe the government sponsored launch indemnification program is essential to maintaining a domestic launch capability. In our view, the risk mitigation benefit provided by the program allows the launch providers to at least partially fix their exposure for damages associated with providing launch services and this translates directly into price competitiveness as well as the overall cost-benefit assessment that all providers do when deciding whether to enter or stay in the market.

In an environment of totally uncapped risk, we question whether adequate financial incentive would remain for current providers to stay in the market and new providers to enter, and we are certain that an uncapped risk environment would result in significantly higher and likely prohibitive launch costs.

2. If launch indemnification were to be completely reliant on private markets, would domestic launch prices increase such that launch customers would rely only on foreign providers?

Yes. Domestic launch prices are already not competitive as compared to foreign providers. If the elimination of the launch indemnification program resulted in any incremental price increase, in our view it would likely be the tipping point where the cost differential would be so significant that launch consumers would be forced to use foreign providers absent any significant payload safety considerations.

3. Given the trend of emerging domestic launch markets expected to develop over the next decade, do you believe the current launch indemnification regime should be altered or remain the same?

First and foremost, as a minimum, it is important that the current program be extended. That said we also believe that Congress should consider significantly extending the three year term of the program or eliminating the sunset provision altogether. We typically contract for launches three to four years ahead of the planned launch. If launch providers are uncertain about the future of the indemnification program, we would expect to see them start to negotiate for clauses that allow for price adjustments in the event of elimination of the program during the contract term but prior to launch. The price uncertainty that would be created by such clauses would be untenable for us as a consumer and would be yet another factor in favor of going with a foreign launch. We would also encourage Congress to revisit the current tiered system in light of increasing competition from foreign providers to ensure that it allows for as level a playing field as possible and contributes to an environment where launch risks are fixed in a way that allows launch providers to be more price competitive, both for attracting domestic companies like DigitalGlobe as well as competing for launches of foreign payloads. If the future of the US space industry is to be dependent on private investment in space technology, it is critical that the participants are encouraged and enabled to compete on a global basis because the demand from the US Government alone and from domestic space based companies is not in our view sufficient to sustain a thriving domestic launch industry.

4. Are there any measures related to launch indemnification that Congress could pass, or FAA could implement, to improve the viability of the domestic commercial launch industry?

Yes. As noted in our answer to question three, we believe the current three year term of the program should be extended significantly or preferably eliminate the sunset provision altogether. We also believe the program tiers should be evaluated in comparison with indemnification or similar support provided to foreign launch providers by their governments with an eye towards effect on price competitiveness.

On behalf of DigitalGlobe, thank you for the opportunity to testify before the subcommittee and I would be glad to answer any questions.