

MRO AMERICAS 2009

MRO In A Changing World

April 21-23, 2009

Gaylord Texas Resort Grapevine/Dallas, TX

Maintenance Contracting 2009

A Changing World's Challenges

- A Challenge to the Regulators
- A Challenge to OEMs
- A Challenge to Air Carriers
- A Challenge to MRO Providers—Repair Stations Both “Foreign” & “Domestic”
- A Challenge to Competition
- A Challenge to the Role of the USA in the Global MRO Arena

Some Common Terms

- “Maintenance Contracting” (engaging another entity to perform MRO)
- “Outsourcing” (what the opposition calls Maintenance Contracting)
- “Off Shoring” (when contract maintenance is accomplished in a foreign country - those that oppose Outsourcing also oppose Off Shoring)
- “In House Maintenance” (an operator performs MRO with its own personnel in its own facilities)

MRO Contractor Efficiencies

- Use of technical competencies, facilities and infrastructure—spread over multiple customers
- Lower Costs
 - Real estate/plant costs—choice of location (lower cost of living communities/lower cost of facilities)
 - Workforce efficiencies
 - Quick adjustment to size of the work force (up or down)
 - Lower benefit costs/less NPL
- Innovation rewarded, example: development of repairs benefiting operator which produces lower costs
- Management of piece parts supply chain—lower cost of spares inventory

MRO Contractor Realities

- Same regulatory requirements as the Operator—ultimate responsible for fleet airworthiness
- Creates (or forces) competition at all levels:
 - Enables smaller Operators to enter the market and compete.
 - Repair stations keep OEMs and Operators that provide 3rd party MRO services competitive both domestically and on the world market.
- Domestic competition has world wide ramifications (analogous to Deregulation of the US Airline Industry).

Operators Beware

- Regulatory oversight may be the same; business oversight is different.
 - Select your quality/regulatory oversight representatives wisely.
 - Do not mix business oversight with regulatory oversight.
- Enter business relationships with caution—maintenance providers are experts...
- Price and turn time are important, but quality and regulatory compliance are more important.
- If an airline plans on increasing Maintenance Contracting, get someone on your team that has worked Maintenance Contracting from “the other side”.

Opposition—The “LUMP” Coalition

- Most Labor Unions
- Some Media
- Some Politicians
- Some Airlines (those with contracting MRO capability seem to view themselves as different from a domestic or foreign repair station—even with a part 145 certificate!)
- Some bureaucrats (those who usually know the least about MRO)
- Gadflies, some who will sell their integrity

What Opponents Say

- MRO Contracting (Outsourcing) is less safe (lack of empirical evidence to support this myth).
- Regulations pertaining to 3rd Party MRO providers are less onerous and hence permit a lesser quality product (the regulations are the same).
- MRO Contracting permits airlines to turn key safety oversight to 3rd parties (simply not so).
- Maintenance Contracting moves jobs from union shops to non-union shops meaning a degradation in safety and quality (another myth that lacks empirical evidence to support it).

The Opposition is Silent...and so is Everyone Else

- When maintenance results in a serious regulatory lapse or a rare (unfortunate) aircraft accident and the work was not provided by a domestic or foreign repair station...the opposition is silent and so is everyone else.
- When the serious regulatory lapse or rare (unfortunate) aircraft accident was caused by maintenance provided by the airline operator...the opposition is silent and so is everyone else.
- When the NTSB reports 28 aircraft accidents (by U.S. part 121 operators) in 2008, none of which was caused by (nor was a contributory factor) the maintenance performed by a domestic or foreign repair station, the silence is deafening.

What's Ahead?

- “The traditional paradigms for the airlines and their MRO partners are rapidly disappearing.” *
- “[R]apidly changing business models are forcing airlines, MRO operators and suppliers, to innovate, to rethink their best practices, to drive change and learn from other industries—if they want to remain viable.” *
- “Nothing less than survival is at stake....”*

* Taken from the Conference Agenda

Thunderstorms on the Horizon

- Legislation that already prohibits the certification of new foreign repair stations—effective August 3, 2008
- New legislation to—
 - Require random drug and alcohol screenings at foreign repair stations
 - Require two unannounced FAA inspections of all foreign repair stations each year
 - Prohibit the use of non-certificated MRO providers (even for non-critical and non-routine work).

Where Will This Lead?

- Reciprocal protectionist or retaliatory legislation by foreign countries.
- Less demand for U.S. aviation products in the world market.
- Less aviation related jobs in the USA.
- Profound lessening of the important role the USA plays in worldwide aviation.
- Increased costs and inability to compete globally/ a decrease in competition and innovation.

MY TAKE AWAYS A/K/A OPINIONS

- The competition provided by domestic and foreign repair stations (contract maintenance) is an essential element to keeping the US aviation industry competitive globally. The world of aviation is and has always been “flat”.
- Safety legislation should be fact based, not the product of myths or political paybacks. Labor unions need to understand what it takes to compete. Those that do will reap the rewards of growth and success.

One Final Takeaway

- Maintenance regulatory lapses or maintenance related aircraft accidents/incidents are not the province of either maintenance contractors (domestic or foreign repair stations or airlines that in source maintenance) any more than they are the province of operators/airlines that perform their own maintenance.

Thank you for listening to my views. I hope I have left you with something worth thinking about over the next couple of days and beyond.

AirTran

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