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The UPDATE Report

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FAA Makes It Easier for Distributors to get 8130-3 Tags

The FAA has released two changes to its advisory documents that are intended to make it easier for distributors to obtain export 8130-3 tags.

As ASA members will remember, ASA obtained an exemption that allows Accredited ASA members to apply for export 8130-3 tags for class III aircraft parts. Exemption 8696 granted this authority in 2005, but some ASA members have had trouble finding a designated airworthiness representative (DAR) with the appropriate function codes to support their needs, because of inconsistencies in the way that the FAA interprets the designee guidance.

FAA Headquarters has resolved these differences by making it clear that maintenance DARs with function code 32 privileges are permitted to issue export 8130-3 tags to Accredited ASA members under exemption 8696.

Historically, DAR function code 32 has permitted DARs to issue export 8130-3 tags for class II products. A Class II product is a major component of an aircraft, aircraft engine, or propeller, the failure of which would jeopardize the safety of the aircraft, engine, or propeller. Class II products include wings, fuselages, empennage assemblies, landing gears, power transmissions, control surfaces, etc. Class II also includes any part, material, or appliance, approved and manufactured under a "C" series Technical Standard Order Authorization.

Most parts that are exported are class III products, which means that they are not able to use the legal provisions related to class II export tags. Class III applies to anything that is not a class II part or a complete aircraft, engine, or propeller.

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INSIDE:

MESSAGE FROM ASA'S PRESIDENT

Dear Members,

As you know, economic concerns have become a significant topic of discussion in recent months. With housing woes and rising fuel costs, there is increasing concern about the economy as a whole and the distribution industry in particular.

Following the high growth of 2007, experts have cautioned that the industry is unlikely to see a repeat in 2008. However, ASA members have many reasons to be optimistic. ASA membership is still growing at a high level, indicating that the distribution industry remains robust. While industry-wide growth in 2008 may not be as high as 2007, the industry is still likely to see growth in the short-term.

Moreover, the long-term growth potential for distribution is significant. In order to take advantage of this growth, ASA members should be focusing on long-term objectives in the industry. The global aviation industry is poised for growth in the coming years, and ASA members should be prepared to take advantage of international opportunities. Policies in the U.S. and abroad will also play a major role in the future of aviation, which makes the upcoming U.S. presidential election even more significant for ASA members and the distribution industry.

As we face these economic changes, ASA is committed to keeping members informed and helping them prepare for the road ahead. Communication will be the key to ensuring that we continue to thrive as an industry. If you have questions or would like to further discuss the future of aviation, please feel free to contact me.

While there are concerns in the industry, ASA believes that distribution will have a strong showing in 2008 and beyond.

Take care,
Michele

THE UPDATE Report

is the monthly newsletter of the Aviation Suppliers Association.

OUR COMMITMENT

ASA is committed to providing timely information to help members and other aviation professionals stay abreast of the changes within the aviation supplier industry.

The UPDATE Report is just one of the many benefits that ASA offers members. To learn more about our valuable educational programs, please contact ASA.

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In order to meet customer demands and foreign legal requirements, the ASA community needed a way to get export 8130-3 tags for class III products; exemption 8696 made such tags available.

Although exemption 8696 granted ASA members authorization to apply for class III export tags, many DARs were not allowed to issue those tags. FAA Headquarters has changed the language of function code 32 so that it applies to both class II and class III parts, in order to greatly expand the number of DARs who are permitted to issue class III export tags under exemption 8696.

The recent changes are found in Order 8100.8C change one, which expands the scope of function code 32 to include class III products, and Order 8130.21E change two, which adds new language to make it more clear that function code 32 permits maintenance DARs to issue 8130-3 tags under exemption 8696.

FAA Guidance Highlights Foreign 8130-3 Tags

In addition to the changes to permit distributors easier access to class III export 8130-3 tags (see previous article), the FAA has also added new guidance to implement the recent regulatory change that permits 8130-3 tags to be issued outside the United States.

Order 8130.21E change two has added new language to explicitly permit DARs to issue 8130-3 tags outside the United States. Before this year, 8130-3 tags could not be issued outside the United States unless the applicant had obtained a special exemption from the regulations. Such exemptions had been issued to a number of large companies. The FAA decided to eliminate this limitation in light of the wide range of exemptions that were being issued.

Under the new guidance, designees will still need to apply for geographic expansion in order to obtain the privilege of issuing 8130-3 tags outside the United States. This will require the designee and/or the 8130-3 applicant to file for a no-undue-burden finding with the FAA. Although the FAA has published parameters for making such a finding in the case of a manufacturer-applicant, the FAA does not yet have published parameters for no-undue-burden findings for designees who wish to issue 8130-3 tags for overseas distributors.

Tax Stimulus Package Helps Businesses, Too

Nearly everyone knows that President Bush signed an Economic Stimulus package into law on February 13, 2008. The cash rebates for eligible tax payers are also fairly well publicized. But what has received considerably less press is that there are stimulus items for businesses, as well.

The Economic Stimulus Act of 2008 is intended to forestall a recession by providing individual tax rebates, business tax incentives (related to expensing and depreciation), and an increase in certain conforming loan limits.

Individual Tax Rebates

The new law provides cash rebates for eligible individual taxpayers of $600 ($1200 for a married couple filing jointly), plus $300 per qualifying child (there is no limit on the number of children – except the number that you actually have, of course). A qualifying child is a child under age 17 who lives with the taxpayer more than one half of the year.

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The amount of the rebate phases out for taxpayers with adjusted gross incomes above $75,000 for individuals and $150,000 for married couples filing jointly for the 2007 tax year (the tax filing due April 15, 2008 for most taxpayers). The rebate amount is reduced by 5% of the income amount above these thresholds. This means that married couples filing jointly with no dependents will lose the entire benefit of the $1200 rebate if their joint adjusted gross income meets or exceeds $174,000, and single persons with no dependents will lose the benefit of the rebate if their adjusted gross income meets or exceeds $87,000.

The new law is expected to provide rebates for at least 130 million individual taxpayers. The IRS expects to start issuing rebate payments in May 2008.

Bonus 50% First-Year Depreciation

The new law permits a bonus first-year depreciation deduction of 50% of the adjusted basis of qualified property acquired and placed in service after December 31, 2007, and before January 1, 2009.

The types of property eligible for bonus depreciation will be the same as those eligible under earlier bonus depreciation packages: (1) tangible property with a recovery period not exceeding 20 years; (2) purchased computer software; (3) water utility property; and (4) qualified leasehold improvement property.

Bonus depreciation will be allowed for alternative minimum tax as well as for regular tax purposes. The other half of the property's adjusted basis is depreciated under the normal rules applicable to the property, so the first year’s depreciation will reflect the 50% bonus depreciation PLUS the normal first year depreciation associated with the remaining half of the value of the asset.

Under the limits of the bonus depreciation, the property's original use must begin with the taxpayer, which means used property will not qualify for the bonus depreciation.

Increased Expensing

The new law also increases the amount of assets that a small business can expense under Federal law.

Before the bill was passed, Section 179 of the Internal Revenue Code allowed businesses to expense up to $128,000 (as indexed for inflation) of the cost of otherwise depreciable machinery and equipment that was purchased and put into service in the business. This annual expensing limit was reduced (but not below zero) by the amount by which the cost of qualifying property placed in service during the taxpayer's taxable year exceeds $510,000 (as indexed for inflation).

These expensing amounts are increased under the new bill. For the taxable year beginning in 2008, the new law will increase the $128,000 expensing limit to $250,000 and boosts the overall investment limit from $510,000 to $800,000.

Because the new law refers to a "taxable year beginning in 2008," businesses on a fiscal, rather than calendar, tax year may want to consider deferring purchases of equipment and other Section 179 property until after their fiscal year begins during 2008. At present, this is a one year provision. The increased expensing allowed by the new law is only applicable for the 2008 tax year, unless Congress later decides to extend it beyond 2008.

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Temporary Increase in Conforming Loan Limits

In addition to the tax incentives described above, the Act also provides an increase in the conforming-loan limits for loans that the FHA may insure and the GSEs Fannie Mae and Freddie Mac may buy.

This provision applies to mortgages entered into after July 1, 2007 and before January 1, 2009. The provision increases the FHA and GSE loan limits to 125% of the median house cost in a local market, to a maximum of $729,750, and expires December 31, 2008. This measure is intended to help the struggling mortgage market.

These provisions are unlikely to affect most ASA member companies, although they may affect employees of ASA member companies.

Conclusion

These economic initiatives are intended to bolster the economy and stave off concerns of a recession. The press has reported that 'many economists' believe that a stronger stimulus package is needed. Some members of Congress are considering adding a second stimulus package. The Economic Stimulus Act of 2008 is codified as Public Law No: 110-185.

Worldwide Air Traffic Continues to Grow, But Growth Rates Drop Significantly

According to IATA traffic data for January, international aviation could be facing a major slowdown. High oil prices and the U.S. mortgage crisis and subsequent economic downturn have been linked to lower demand and less growth than in 2007.

IATA has explained that 2007's passenger traffic growth of 7.4% - a very strong number - was a key component in the industry's $5.6 billion dollar profit in 2007. 2007 was the first industry-wide profitable year since 2000.

Giovanni Bisignani, IATA's Director General and CEO, explained that "Despite the ambiguity of strong passenger growth accompanied by weaker freight demand, we can say clearly that 2007 was the best in recent memory."

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"We can state equally clearly that there will be no encore performance in 2008. Oil prices are higher than ever. Economic uncertainty accompanying the US credit crunch is broadening. And the slower growth for passenger demand in December sets the trend for the coming months. In a tough business environment the mantra remains the same: efficiency everywhere is everything," said Bisignani.

Global passenger traffic growth slowed from 6.7 percent in December to 4.3 in January, while air freight grew 4.5 percent, down slightly from 4.7 percent.

Regionally, European passenger carriers saw the weakest growth at 0.3 percent, down from 5.5 percent in December, while Latin American airlines showed the highest growth at 16.9 percent from 14.4 percent in December.

North American and Asia Pacific carriers both recorded slight drops in growth - with North America going from 6.0 percent to 5.0 percent, and Asia Pacific carriers at 5.7 percent from 6.2 percent.

African airlines growth was down to 2.8 percent from 3.0 percent. Middle Eastern growth slowed sharply from 12.9 percent to 7.4, which according to IATA information – "seems due to slower growth in capacity rather than any change in the strong oil-driven upward trend in growth."

Air freight growth remained fairly steady at 4.5 percent in January, following 4.7 percent growth in December. Asia Pacific airlines saw air freight demand increase in January, to 6.5 percent from 6 percent, largely due to booming demand in China and India. European airlines growth dropped from 3.6 percent to 0.4 percent, with the decline being partially attributed to the strong Euro reducing European carriers' competitiveness.

"January traffic results show that we could be at a turning point. A month's data is not enough to define a trend; however, the sharp shift in demand growth patterns makes it clear that the US credit crunch is negatively impacting air travel. Fasten your seatbelts. There is likely to be turbulence ahead," said Giovanni Bisignani.

"The association expects air traffic growth to slow from 5.9 percent in 2007 to 4 percent this year," said Bisignani.

International Focus on Counterfeits

The United Arab Emirates hosted the Fourth Global Congress on Combating Counterfeiting and Piracy in February. 500 decision makers from 70 countries attended in an effort to identify solutions to the escalating global problem of product counterfeiting and intellectual property piracy. An area of focus for the Congress was the health and safety risks counterfeit products pose to consumers.

Michel Danet, President of the Fourth Global Congress, said: "Nothing has changed; counterfeiting and piracy continues to grow at an alarming rate and these fake products, which often prove fatal to consumers, are now being produced on an industrial scale." Mr. Danet added: "We have to invent our own future; it's time to take action and the time is now."

The UAE Federal Customs Authority (FCA) has called on private companies and owners of trademarks to aid in identifying counterfeit and forged goods. The applicable laws in the UAE include the Trademark Law, Author Protection Law and the law regulating industrial intellectual property rights, in addition to the country's responsibilities within the framework of international

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organizations such as the World Trade Organization and the World Customs Organization. Items being forged and counterfeited range from foodstuffs to aircraft parts.

In the United States, counterfeit aircraft parts are often identified as a consequence of accreditation and SUPs training within the aviation industry. Nonetheless, distributors should continue to remain vigilant in their approach to aircraft parts receiving inspections in order to help keep the aviation industry clear of counterfeit parts.

Teamsters Call for a Moratorium on Aircraft Maintenance "Outsourcing"

On February 12, the Teamsters Union and the Business Travelers Coalition co-sponsored an Aircraft Maintenance Outsourcing Summit in Washington, DC. Outsourcing, also known as contract maintenance, is evidenced anytime a party enters into a contract for the performance of maintenance services (e.g. when an air carrier contracts for maintenance services with a repair station). The Summit organizers were calling for a moratorium on contract maintenance with non-U.S. repair stations until there are uniform maintenance standards and FAA oversight of repair stations.

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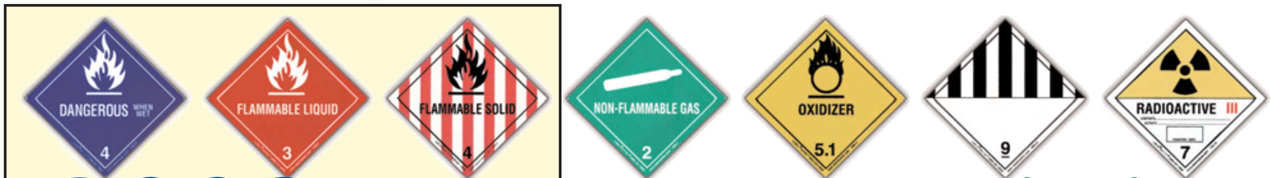

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Participants in the panel discussions debated the current state of contract maintenance and were urged to discuss possible solutions. Some of the ideas presented include: increasing frequency and depth of FAA inspections of both domestic and foreign repair stations; requiring criminal background checks for repair station employees; mandating drug and alcohol screenings for all repair stations (currently, some foreign repair stations and some general aviation repair stations are not required to have drug testing); and harmonizing the manner in which U.S. airlines contract-out maintenance to repair stations.

At the Conference, Kevin Mitchell, chairman of the Business Travelers Coalition, introduced his aircraft maintenance outsourcing reform principles:

- A single and highest maintenance standard should be emplaced for airlines' in-house facilities and domestic-U.S. and foreign repair facilities.
- FAA oversight of domestic-U.S. and foreign repair facilities should be increased to a level that is commensurate with the volume and complexity of current outsourcing practices.
- The fully-burdened costs of FAA inspections and audits should be borne by airlines that choose to outsource to overseas repair facilities.
- Airlines that outsource to overseas repair facilities should hold such facilities to high environmental standards with respect to disposal of toxic wastes and other processes associated with aircraft maintenance.
- Domestic-U.S. and foreign repair facilities should have adequate safeguards in place regarding personnel backgrounds, aircraft access and parts inventory to frustrate terrorists who might exploit an opportunity to do harm to the U.S. or other countries.

The FAA Reauthorization Act of 2007 (HR 2881) currently awaiting Senate action would require the FAA to perform two inspections a year on each FAA-certificated repair station outside of the United States. Presently, the U.S. has agreements with France, Germany and Ireland to perform repair station inspections on behalf of the FAA, with similar agreements being negotiated with EASA, Australia, China and New Zealand. In return, the FAA oversees 1200 repair stations in the U.S. on behalf of foreign regulatory authorities. These arrangements create efficiencies by permitting one authority's inspectors to audit to each authority's regulatory standards in a single visit.

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Prior to the passage of HR 2881 in the House of Representatives, the White House issued a Statement of Administrative Policy (SAP) in which it condemned the bill for falling short of reforms proposed by the Administration. The Administration opposes the provision that would require additional FAA inspections of foreign repair stations and additional safety-related provisions that the SAP claims would divert resources from ongoing safety projects and the "overall safety agenda which has resulted in the safest period in aviation history." According to the SAP, the bill's language would prohibit the Administration from taking advantage of the reciprocal agreements with other governments to oversee repair stations. The SAP states that the bill would "make the status quo worse" by defeating progress made in prior Congresses, and that if presented to the President in its current state, his senior advisors would recommend a veto.

The effort by Congress to micromanage FAA resources undercuts the FAA's current efforts to use risk-based analysis to assign its resources to the projects that represent the highest levels of safety risk. The risk-based approach to regulation and enforcement is consistent with recent international recommendations from the International Civil Aviation Organization (ICAO).

While some participants in the Summit opposed virtually all outsourcing, others favored continued contract maintenance with additional oversight and enforcement by the FAA. It was noted that the FAA suffers from under-staffing and budget restraints, and with a large percentage of FAA inspectors eligible for retirement in the next five years, manpower planning issues must be addressed as well.

One reason for Teamster involvement in the Summit is because if air carriers are precluded from outsourcing their maintenance, then those carriers must bring the work in-house and the employees who are hired to perform the work in-house will become part of the Union's bargaining unit. This labor issue is one of the underlying issues driving the contract maintenance discussions.

Sarah MacLeod, executive director of the Aeronautical Repair Station Association, said - "Contract maintenance is here to stay." With major U.S. carriers spending two-thirds of their maintenance dollars on contract repair stations, and the FAA using risk-based analysis to focus its resources on the most pressing safety issues, it seems like she's correct.

Russian Aviation Seeks a Renaissance

Since the collapse of the Soviet Union in 1991, Russia's aviation industry has slowed dramatically, going from producing 100-plus commercial aircraft per year to fewer than 10 per year.

In an effort to revive the flagging industry, outgoing Russian President Vladimir Putin (and soon-to-be Prime Minister under the Medvedev administration) has ordered the creation of an aviation "industrial cluster" with an estimated cost exceeding $1 billion.

The plan to resurrect Russia's aviation sector includes the formation of a national aviation center in Zhukovsky for designing, testing, building and marketing aircraft.

The goal is to build 5,800 new civilian and military planes by 2025 and win 15 percent of the world market.

"It will require a lot of resources, and we can afford it," Putin said, according to Bloomberg.com

Putin is expected to further discuss joint venture projects in aircraft production, and helicopter and aircraft engines and components with his Ukrainian counterpart Yulia Tymoshenko.

CONTACT US!

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