



# The Update Report

The Aviation Suppliers Association

Volume 10, Issue 5

May 2002

## UPDATE

### ASA Petitions for 8130-3 Tag Extension

If you have customers that demand the 8130-3 tag as a requirement for doing business, then you should act NOW to protect you ability to obtain this tag!

Many ASA members have enjoyed the program described in FAA Notice 8130.70. That notice provides instructions for Designated Airworthiness Representatives (DARs) to issue domestic 8130-3 tags for demonstrably airworthy aircraft parts in the inventory of an AC 00-56 accredited distributor.

Although no regulation requires that aircraft parts be accompanied by an 8130-3 tag, FAA employees have actively promoted use of the tag to improve 'traceability.' This has lead to air carriers and repair stations that write the tag into their manuals as a receiving requirement. Because the customers require it, distributors must obtain the 8130-3 tag to meet the customers' demands.

The Notice that provides instructions to the DARs expires on June 15, 2002. The Notice settled questions raised by an internal policy memo that seemed to prohibit DAR issuance of domestic 8130-3s. Some FAA offices are reticent to permit their DARs to continue issuing 8130-3 tags after June 15 in the absence of clear guidance and this is why extension of the Notice is important.

The Notice was issued on a temporary basis because the FAA is considering a future program to require that all new parts be issued an 8130-3 tag as a "birth record" to promote traceability. In the future, when substantially all aircraft parts inventory bears 8130-3 tags, there would be less of a need for DARs to issue domestic 8130-3 tags, and the privilege would be changed.

Until aircraft parts generally bear 8130-3 tags, there will continue to be a serious need for DARs to issue these tags to document findings of airworthiness concerning aircraft parts in a way that is acceptable.

The Association has petitioned the FAA to extend this privilege and make it permanent. This would continue the policy of permitting DARs to issue 8130-3 tags for parts that can be shown to be airworthy. For example, new parts that have come directly from the quality system of a production approval holder (PAH) to a distributor, that bear the PAH's shipping documents, and that can be visually inspected to confirm the absence of damage or degradation are generally eligible for an 8130-3 once the data has been confirmed by a DAR.

A copy of the Association's letter to the FAA is available on the ASA website. Also available are sample letters for members to send to the FAA in support of this effort.

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#### Jet X Aviation, LLC

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*For their accreditation to the Aviation Suppliers Association's Accreditation Program, and*

#### Aero Direct, Inc.

Arlington Heights, IL

#### Air Chariot Aviation, Inc.

Tulsa, OK

*For their re-accreditation to the Aviation Suppliers Association's Accreditation Program*



## A Message from ASA's President

When I stop for a moment to take a look at what we've accomplished in the last year, I am proud to see ASA's government affairs efforts yielding so much success.

Our cover story is about the renewal of an FAA policy that helps distributors to acquire 8130-3 tags from the FAA to use them as traceability documents for sales to air carriers, repair stations and others who ask for the 8130-3. This is a policy that would not exist if ASA had not pursued the issue. Today, the use of 8130-3 tags is on the rise in all sectors of the marketplace, voluntary traceability is increasing, and the safety features associated with traceability are present in our industry in a way that just was not possible ten years ago.

I am also proud that we're running articles on two items that we asked for in the wake of the September 11 terrorist attacks.

ASA was the first voice in our industry to ask Congress for loans, rather than a hand-out. Congress had made it clear that they would not extend to distributors the same sort of cash grants that they'd given to the air carriers. By explaining how a loan program could be administered using existing SBA infrastructure, ASA gave Congress a way to provide the aviation aftermarket with relief without bankrupting the country. This month's issue features a brief article on the extension of the deadline to apply for these loans.

ASA also requested accelerated depreciation for equipment placed into service on or after September 11, 2001 as a way to promote continued growth in our industry. Economic stimulus ideas like this got stalled in Washington, DC partisan politics last winter. The final bill was slow in coming. Our accelerated depreciation idea was one of the few clauses to make it into the final Economic Stimulus Package.

The FAA is working hard on the latest revision to the Voluntary Industry Distributor Accreditation Program, AC 00-56. Although they cannot guarantee that the new draft will be available by the time of the Conference, the FAA has pledged to make every effort to make the revised AC (AC 00-56A) available by then.

As many of you should remember, the FAA issued Notice 8130.70 on June 15 last year in a successful effort to make that document available for the 2001 Annual Conference.

This month's issue is an extra two pages long because we've included a special insert concerning the ASA Annual Conference, which is June 23-25 in Las Vegas, Nevada. We've supplemented our usual fare of workshops on quality and business-ownership issues with workshops focusing on how to make money in the new economy: accessing new markets structuring your transactions to make sure you get paid are just a brief sampling of the educational fare.

Best regards

Michele Dickstein

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### The Update Report

is a monthly newsletter of the Aviation Suppliers Association. Questions/comments should be addressed to:

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### The Update Report

provides timely information to help Association members and readers keep abreast of the changes within the aviation supply industry.

### The Update Report

is just one of the many benefits that the Aviation Suppliers Association offers members. For information on ASA-100, the ASA Accreditation Program, Conferences, Workshops, FAA guidance like Advisory Circulars, Industry Memos, or services and benefits, contact the Association.

### The Update Report

For information on special package rates for advertising, contact the Association at (202) 730-0270.

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## IRS Seeks Citizen Advisors

Almost every American interacts with the Internal Revenue Service. Many ASA members interact with the IRS on their own behalf and some also act on behalf of their companies with respect to tax issues. Your experience may have resulted in useful ideas that could help make the IRS a more responsive agency to better meet the needs of the public.

ASA members have an opportunity to advise the IRS on how to improve its practices. The Department of Treasury has announced that it is expanding the existing IRS Citizen Advocacy Panel (CAP) program. The expanded program is seeking volunteers from all fifty states to provide independent recommendations to improve IRS service and customer satisfaction.

The mission of the Citizen Advocacy Panel is to listen to taxpayers, advocate their concerns and provide input for improving IRS service and customer satisfaction. The Panel's subcommittees will each consist of 10-17 volunteer members and will function as an advisory body to the IRS.

The first pilot Citizen Advocacy Panel was established in the South Florida District in 1998. In 2001, the Citizen Advocacy Panel expanded to a total of ten states including the rest of Florida, Metro New York, Midwest (Iowa, Nebraska, Wisconsin and Illinois) and Pacific Northwest (Alaska, Hawaii, Oregon and Washington). The IRS is accepting applications for membership for the nationwide expansion. The deadline for application is May 24, 2002; the panels will become operational in the Fall of 2002.

The IRS is seeking applicants who have an interest in good government, a personal commitment to volunteer approximately 100 to 300 hours a year, and a desire to help improve IRS

service and customer satisfaction. Panel membership should represent a cross-section of the taxpaying public throughout the United States. Potential candidates must be US citizens, compliant with Federal, State, and Local taxes, and pass a FBI background check.

For the Citizen Advocacy Panel to be most effective, members should have experience in some of the following areas: experience helping people resolve problems with a government organization; experience formulating and presenting proposals; knowledge of taxpayer concerns; experience representing the interests of your community, state or region; experience working with people from diverse backgrounds; and experience helping people resolve disputes. Interested applicants can request an application package by calling, toll-free, 1-888-912-1227 or 1-866-602-2223. Following review of the applications and conduct of tax background checks and FBI checks, panel interviews will be conducted with the most qualified candidates. Final candidates will be ranked by experience and suitability. The Secretary of the Treasury will review the recommended candidates and make final selections.

Questions regarding the Citizens Advisory Panels may be directed to Michael Lewis, Office of the Assistant Secretary for Management and Chief Financial Officer, Department of the Treasury, 1500 Pennsylvania Avenue, NW., Room 2421, Washington, DC 20220, (202) 622-3068.

There may be significant competition to join this prestigious panel. If you are an ASA member applying for this program and would like assistance, please contact ASA to request a letter of recommendation. Contact ASA immediately if you are interested.



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## Congress Looks Over FAA's Shoulder

Despite the recent emphasis on security issues, air carrier maintenance remains a topic of some concern on Capitol Hill. At a recent hearing, members of the Aviation Subcommittee of the U.S. House of Representatives Committee for Transportation and Infrastructure heard testimony that the FAA has not yet managed to fully implement the first phase of its new air carrier inspection system known as the Air Transportation Oversight System, or ATOS. ATOS was to be introduced at 10 major airlines initially, and extended to all air carriers by October 2001.

ATOS was developed following the ValuJet and TWA 800 crashes in 1996 in an effort to improve FAA oversight of air carrier maintenance. The goal was to create a program that would allow both air carriers and the FAA proactively to identify problems in air carrier maintenance programs before those problems resulted in accidents. ATOS is designed to complement the carriers' Continuing Analysis and Surveillance System (CASS). Under ATOS, FAA inspectors collect data on various aspects of air carriers' maintenance programs. These data are then analyzed in order to identify particular areas that need improvement, and follow-up action is implemented to correct problems before safety is seriously compromised.

At the House hearing, a representative of the DOT Office of the Inspector General (OIG) testified that a just-released OIG audit has found that while the overall ATOS concept is sound, ATOS is not yet fully functional at any of the nine major carriers currently implementing the program. The key shortcomings the OIG identified were the inadequate collection and analysis of inspection data, which

in turn preclude effective follow-up action. The result is that maintenance problems identified during inspections have, in some cases, gone uncorrected for as long as two years.

The OIG audit found that the FAA has not adequately trained its inspectors to implement ATOS. Part of the problem lies in the significant conceptual shift in the role of the inspectors, who, under ATOS, now focus their efforts less on "hands-on" inspection of aircraft and more on more paper-intensive monitoring of the air carriers' maintenance program as a whole. Moreover, more than half of all inspectors reported that they had difficulties understanding FAA guidance materials on the program. Data collection has proven inadequate as well because the checklists inspectors use during inspections ask questions that tend to be too broad to identify specific maintenance deficiencies. And insufficient staffing has meant that inspection data are not being analyzed in a timely fashion, making it difficult to identify worrisome trends.

The OIG audit report recommended that the FAA strengthen its inspection data collection and analysis process, improve inspector training, and develop a system to follow up on deficiencies effectively.

As air carrier maintenance programs come under closer and more effective scrutiny, it is likely that greater attention will be paid to parts procurement. Air carriers will need to adhere to the highest standards in selecting and obtaining airworthy parts and components for installation on their aircraft. Consequently, carriers will continue to be some of distributors' most demanding customers with regard to parts documentation.

## Parts Prosecutions

The Department of Transportation Office of the Inspector General (OIG) announced two parts-related prosecutions.

Gunter Kohlke, owner of Aircraft Components in Zurich, Switzerland, pled guilty in U.S. District Court in New York, NY, to selling substandard military helicopter parts to foreign countries in violation of the Arms Export Control Act. The case arose in June 2000 when Kohlke told an OIG special agent that an American company had sold him substandard aviation parts. Kohlke had resold the parts, but according to the government he'd advertised these rebuilt parts as factory-new. In the plea agreement, he agreed not to contest the forfeiture of \$107,000, the cost of the parts. Kohlke is scheduled for sentencing on May 14.

In the other case, two men were sentenced by a U.S. District Court judge in Missouri for stealing proprietary blueprints for aviation parts. Michael Goodrich, an employee of Textron-Lycoming in Williamsport, Pennsylvania, stole parts and parts blueprints from his employer. He sold them to Larry Sullivan, owner of Air Support International, Inc. and Air Sport, Inc., Springfield, Missouri. Sullivan used the blueprints to manufacture parts at his companies. Sullivan was ordered to pay \$275,000 in restitution, a \$10,000 fine, and sentenced to 12 months in jail; Goodrich to \$70,000 restitution; and each of the two companies to a \$10,000 fine.

The OIG conducts criminal investigations involving aviation safety and security, hazardous materials, contract fraud, employee integrity, and motor carrier safety. OIG investigators frequently collaborate with officials from other agencies. Cases are prosecuted by the Department of Justice.

*OIG's ATOS Audit Report—[http://www.oig.dot.gov/item\\_details.php?item=743](http://www.oig.dot.gov/item_details.php?item=743)*

## SBA Loan Deadline Extended

The Small Business Administration has extended the application deadline for its Economic Injury Disaster Loan (EIDL) program until May 22, 2002. These low-interest loans provide up to \$1.5 million in emergency assistance to small businesses that are unable to meet their current operating expenses as a direct result of the economic disruptions caused by the September 11<sup>th</sup> terrorist attacks or subsequent federal government actions.

The extension gives businesses that originally may have narrowly missed qualifying for the loans an opportunity to determine whether they now

qualify as the result of some recent adjustments to the eligibility criteria for the program. In January, the SBA adjusted its monetary-based size standards for inflation. This change primarily affected the eligibility of repair stations, which qualify for SBA assistance based on their annual receipts. The eligibility threshold increased to \$6 million, a move that potentially makes more small repair stations eligible for the EIDL program.

In March, the SBA also changed the date upon which the small business status of a company is determined for purposes of the EIDL program. Un-

der the revised rule, a business qualifies for EIDL assistance if it was a small business as of the date the SBA accepted its loan application. SBA regulations ordinarily determine small business status as of the date a disaster is declared. The change makes it easier for businesses that have contracted since September to qualify for assistance. Distributors, for example, are considered small businesses if they have 100 or fewer employees. Distributors that have dropped below that threshold may now qualify for EIDL assistance.

*A fact sheet describing the EIDL program is available at  
<http://www.sba.gov/news/current01/economicinjuryfactsheet.html>*

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**CONFERENCE AGENDA**

*Monday Morning General Session*

**Keynote Presentation by John Goglia, NTSB  
Government Affairs Round-up**  
Jason Dickstein, ASA  
**The New 145 – Are You Ready?**  
Sarah MacLeod, ARSA  
**Life Limited Parts**  
Marshall Filler, Filler & Weller, PC

*Monday Afternoon Workshops (You may attend 2)*

**The Corrective Action (Learning from our  
Mistakes)–Richard Mills, Empire Airlines**  
**Sh! Sh! Secrets Behind an Effective Internal Audit**  
Jason Lewis, ASA  
**Protecting Your Profits – Jason Dickstein, ASA**  
**Military Contracts Market**  
Glenn Baer, ARINC & Edward Reynolds, ARINC  
**An Update From the FAA**  
Ken Reilly, FAA & Al Michaels, FAA  
**Aviation Investigations: Protecting Your  
Business – Harry Schaefer, US DOT OIG**

*Tuesday Morning Workshops (You may attend 2)*

**Financial Cost of Poor Quality - Amy Cochis, Pratt &  
Whitney SMMO & Jeff Fiscus, Pratt & Whitney SMMO**  
**The Importance of Distributor Accreditation**  
Jason Lewis, ASA  
**Ground Support Equipment Market**  
Michelle Garetson, GSE Today  
**Regional Airline Market - Debby McElroy, RAA**  
**ILSmart.com - Jim Sdoia, ILS**  
**Making the Digital Transition**  
Steve Peterson, Continental DataGraphics  
**Valuations - The Appraisers Perspective**  
Ed Lindquist, Morten Beyer & Agnew

*Tuesday Afternoon General Session*

**Airline Economics** Roy Resto, Tracer Corp.  
**Export-Import - Jason Dickstein, ASA**  
**Post 9/11 - For Every Action There Is A Reaction –**  
Bob Agnew, Morten Beyer & Agnew  
**Industry Discussion–Back by popular demand.**

*This is a partial agenda.  
For the full agenda and registration form,  
visit ASA's web site or call and ask the Association  
to mail/fax the full conference agenda.*

PLEASE EITHER ATTACH A BUSINESS CARD, TYPE OR PRINT CLEARLY

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**CONFERENCE SCHEDULE**

Saturday, June 22, 2001	3:00 PM – 6:30 PM	Registration
Sunday, June 23, 2001	6:30 AM – 9:00 PM	*Golf, Registration, Welcome Dinner
Monday, June 24, 2001	6:30 AM – 9:30 PM	Registration, Breakfast, Exhibits, Conference, AM/PM Break, Lunch, Exhibits, Workshops, Reception & Dinner Banquet
Tuesday, June 25, 2001	7:30 AM – 4:15 PM	Member's Only Breakfast Meeting, Exhibits, Workshops AM/PM Break, Lunch, Exhibits, General Session

(\*All events except Golf are at The Four Seasons)

**WORKSHOP SCHEDULE**

<u>Monday – June 24, 2002</u>	<u>Tuesday – June 25, 2002</u>
PM SESSION ONLY (90 minutes)	AM SESSION ONLY (60 minutes)
2:00 PM – 3:30 PM	9:00 AM – 10:00 AM
4:00 PM – 5:30 PM	10:30 AM – 11:30 AM

**Circle 2 Workshops**

- (A) The Corrective Action
- (B) Secrets behind An Internal Audit
- (C) Protecting Your Profits
- (D) Military Contracts
- (E) Updates From the FAA
- (F) Aviation Investigations

**Circle 2 Workshops**

- (G) Financial Cost of Poor Quality
- (H) Importance of Distributor Accreditation
- (I) Ground Support Equipment
- (J) Regional Airline Market
- (K) ILSmart.com
- (L) Making the Transition to Digital Data
- (M) Valuations -The Appraisers Perspective

SPOUSE/COMPANION? Guest name: \_\_\_\_\_

Sunday and Monday evening social events are included in Spouse/Companion registration fee. (A Spouse/Companion is one who does not work for the company whose representative is attending the ASA conference.)

Interested in exhibiting, contact ASA. For information on children's activities, special rates for air carrier and government personnel, contact ASA.

**PHOTOCOPY THIS FORM FOR ADD'L REGISTRANTS. MAINTAIN A COPY FOR YOUR RECORDS. CONFIRMATIONS WILL BE FAXED TO REGISTRANTS.**

CANCELLATION POLICY - All conference cancellations must be received in writing. Cancellations before May 24, 2002 will be charged a \$75.00 service fee. There will be no refund for cancellations received on or after May 24, 2002. There will be no refund for golf tournament cancellations by registrants. If the golf tournament is cancelled by the golf course a percentage of the golf fee will be refunded.

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In order to retain your room reservation, ASA must receive your conference registration form by May 24, 2002.

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Member.....	\$545
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Non-Member.....	\$645
Additional person from non-member company.....	\$575
Spouse/Companion.....	\$100
Golf Tournament.....	\$100

Payments – On-Site

(after June 12, 2002)

Member.....	\$595
Additional person from member company.....	\$525
Non-Member.....	\$695
Additional person from non-member company.....	\$625
Spouse/Companion.....	\$150
Golf Tournament.....	\$100

Total enclosed: \_\_\_\_\_

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## Repair Station Manual Guidance Draft is Available for Comment

As part of last year's revision to the repair station regulations in 14 C.F.R. Part 145, the FAA changed the types of basic procedural manuals repair stations are required to maintain to document their organizational scheme and business practices. The familiar and traditional Inspection Procedure Manual (IPM) is being phased out. In its place, the new section 145.209 requires repair stations to maintain a Repair Station Manual, and new section 145.211 requires maintenance of a Quality Control Manual.

In an effort to explain what these two manuals will entail, the General Aviation and Commercial Branch of the FAA's Continuous Airworthiness Maintenance Division (AFS-340) has recently published draft guidance explaining how to set up repair station manuals under the new regulations. (Draft) Advisory Circular (AC) 145-MAN, Guide for Developing and

Evaluating Repair Station Manuals and Quality Control Manuals, is currently available for comment on the FAA's Opsecs.com website (see URL listed above).

When completed, this draft is meant to replace current AC 145-3, which is best known for a significant appendix, that provides a sample inspection procedures manual.

One of the first points the new draft AC makes is that the regulations do not necessarily require repair stations to maintain two separate manuals. Repair stations are free to organize their manuals in a variety of ways, as long as all the elements required by the regulations are included – this could be a single manual or a series of manuals. A repair station could, for example, have a single repair station manual that includes a section or chapter that satisfies the section

145.211 requirements for a quality control manual, as well.

The draft AC discusses the various elements that must be included in a repair station's manual system, such as procedures for revision of the manual, an organization chart, a personnel roster, and a description of the repair station's operations, housing, facilities, equipment, and materials, etc. An appendix provides a checklist of elements the manual(s) must contain. The draft AC does not, however, provide a complete sample repair station manual or quality control manual.

AFS-340 has not specified a deadline for submitting comments on the draft AC, but interested parties should probably submit them at their earliest convenience to be sure their input is considered. Comments can be sent in hard copy or electronically. Opsecs.com features an online discussion board on the draft AC as well.

## Draft Field Approval Guidance Out for Comment

In response to numerous complaints from field approval applicants that their applications were being denied without adequate explanation, the FAA has issued a draft bulletin instructing FAA employees to be more communicative when delaying or denying field approvals. (Draft) FSAW 02-FLDAPP, *Field Approval Requests*, has been released for review by the FAA and posted for comment on the Opsecs.com web site (see URL listed above).

The bulletin instructs inspectors that when a data submittal is incomplete, the inspector should inform the appli-

cant specifically what information is missing. If the work involves an alteration of sufficient complexity to require a Supplemental Type Certificate, inspectors are to inform the applicant of that fact and refer the applicant to the STC application instructions. Inspectors are to give applicants an estimate of when the field approval will be completed, and keep the applicant informed of any delays, particularly in cases where Aircraft Certification Office coordination is required. When inspectors decline to perform a field approval, they are to inform the applicant of the specific reasons for the denial.

While these measures are unlikely to fix all of the problems associated with the field approval process, they represent a step in the right direction. One of the greatest sources of frustration associated with the process has traditionally been the seemingly arbitrary approach some inspectors have exhibited toward performing field approvals. Better communication may help identify where the real problems lie.

Interested parties are invited to submit comments on this draft. The Opsecs.com web site offers an electronic discussion board as one means of offering feedback.

*UPNs are published by the FAA's SUPs Program Office. They are republished here as a service to our readers. The Association is not responsible for claims made by the Notification. All questions should be directed to the FAA contact office listed in the Notification.*

# UNAPPROVED PARTS NOTIFICATION



U.S. Department  
of Transportation  
**Federal Aviation  
Administration**

SUSPECTED UNAPPROVED PARTS PROGRAM OFFICE, AVR-20  
45005 AVIATION DRIVE, SUITE 214  
DULLES, VA 20166-7541

No. 1999-00154  
April 29, 2002

*UPNs are posted on the internet at <http://www.faa.gov/avr/sups.htm>*

Published by: FAA, AFS-610, P.O. Box 26460, Oklahoma City, OK 73125

## **AFFECTED APPLIANCES**

Aircraft appliances that were repaired, overhauled, or inspected and approved for return to service by Goodrich Aerospace Component Overhaul and Repair between March 24, 1993, and November 12, 1998.

## **PURPOSE**

The purpose of this notification is to advise all aircraft owners, operators, manufacturers, maintenance organizations, and parts distributors regarding maintenance performed by Goodrich Aerospace Component Overhaul and Repair, Federal Aviation Administration (FAA)-certificated repair station (Air Agency Certificate No. UL2R217L), located at 5250 NW 33rd Avenue, Fort Lauderdale, FL 33309.

## **BACKGROUND**

Information received during an FAA suspected unapproved parts (SUP) investigation revealed that Goodrich Aerospace Component Overhaul and Repair (Goodrich Aerospace) failed to use the current manufacturers' maintenance manuals; Instructions for Continued Airworthiness; or other methods, techniques, and practices acceptable to the Administrator when performing maintenance on appliances and approving them for return to service.

Attached to this notification is a partial list of parts that may have been improperly returned to service by Goodrich Aerospace. Goodrich Aerospace attempted to notify its customers through recall letters; however, not all parts have been accounted for.

## **RECOMMENDATION**

Regulations require that type-certificated products conform to their type design and be properly maintained using current data, required equipment, and appropriately trained personnel. Aircraft owners, operators, manufacturers, maintenance organizations, and parts distributors should inspect their aircraft and/or parts inventory for the appliances identified on the attached list. These appliances were approved for return to service by Goodrich Aerospace. Appropriate action should be taken if any of these appliances have been installed on an aircraft. If any existing inventory includes these appliances, the FAA recommends that you quarantine the appliances to prevent installation on an aircraft until a determination can be made regarding each appliance's eligibility for installation.

## **FURTHER INFORMATION**

Further information concerning this investigation and guidance regarding the above-referenced appliances may be obtained from the FAA Flight Standards District Office (FSDO) shown below. The FAA would appreciate any information regarding the discovery of the above-referenced appliances from any source and the action taken to remove them from inventory or service.

This notice originated from the Fort Lauderdale Flight Standards District Office, 1050 Lee Wagener Boulevard, Suite 201, Fort Lauderdale, FL 33315, telephone (954) 356-7520, ext. 145, fax (954) 356-7531; and was published through the FAA SUP Program Office, AVR-20, telephone (703) 661-0580, fax (703) 661-0113.

## Economic Stimulus Package Offers Tax Relief to Businesses

On March 9<sup>th</sup>, President Bush signed the long-awaited economic stimulus legislation into law. The House and Senate managed to craft a compromise version in fairly short order in recent weeks, overcoming the partisan gridlock that prevented agreement prior to the winter recess in December. Part of their motivation was a desire to see the law enacted before the six-month anniversary of the Sep-

tember 11 attacks. The law has been dubbed the *Job Creation and Worker Assistance Act*.

The Act contains a number of provisions designed to help both businesses and individuals. It extends unemployment benefits for most workers by an additional 13 weeks, allows small businesses to write off expenses more quickly, offers tax incentives to invest

in New York City, and extends a number of tax breaks that were scheduled to expire, such as Archer Medical Savings Accounts, work opportunity credits, and credits for qualified electric vehicles.

Like most significant legislation from Washington, the measure represents a compromise that enables both parties to claim at least a partial victory. Democrats point to the extended unemployment benefits and take credit for averting deeper corporate tax cuts. Republicans emphasize the \$43 billion in tax cuts that did make it through the legislative process.

At the same time, the bill represented a mere shadow of more ambitious proposals that both sides advanced last fall. Republicans originally hoped for some \$100 billion in tax breaks, to include the outright elimination of the corporate alternative minimum tax, and the accelerated reduction of marginal income tax rates for individuals. Democrats had originally argued for provisions that would make it easier for the unemployed to afford health insurance, and for extending last summer's tax rebates to low-income people who did not qualify under the Bush tax cut plan.

### New Tax Breaks for Businesses

The new law offers businesses two significant tax breaks. The first is a 30% depreciation bonus for eligible investments made after September 10, 2001 and before September 11, 2004. Eligible property includes:

- property with a recovery period of 20 years or less, meaning almost all office equipment and most manufacturing equipment;

(Continued on page 60)

### PARTIAL LIST OF PARTS

Part Name	Part Number	Serial Number
Torque Signal Conditioner	30005-0000-31	299
Torque Signal Conditioner	30005-0000-31	469
Torque Signal Conditioner	30005-0000-31	621
Torque Signal Conditioner	30005-0000-31	665
Torque Signal Conditioner	30005-0000-31	658
Tank Unit, Fuel Quantity Transmitter	391046-197	1761D
Tank Unit, Fuel Quantity Transmitter	391046-197	1860D
Tank Unit, Fuel Quantity Transmitter	391046-197	2232D
Tank Unit, Fuel Quantity Transmitter	391046-197	2574D
Tank Unit, Fuel Quantity Transmitter	391046-197	2836D
Tank Unit, Fuel Quantity Transmitter	391046-197	3158D
Tank Unit, Fuel Quantity Transmitter	391046-197	2953D
Liquid Quantity Transmitter	391046-200	804C
Liquid Quantity Transmitter	391046-200	1042C
Liquid Quantity Transmitter	391046-200	1182C
Liquid Quantity Transmitter	391046-200	1284C
Liquid Quantity Transmitter	391046-200	1302C
Liquid Quantity Transmitter	391046-200	1696C
Liquid Quantity Transmitter	391046-200	1932C
Liquid Quantity Transmitter	391046-200	9400
Liquid Quantity Transmitter	391001-397	0030D
Tank Unit, Liquid Quantity Transmitter	391063-002	773F
Tank Unit, Liquid Quantity Transmitter	391063-002	755F

## Economic Stimulus Package Offers Tax Relief to Businesses

(Continued from page 59)

- most types of computer software;
- qualified leasehold improvements to nonresidential real property (except enlargement of the building, installing an elevator or escalator, improvements to common areas or improvements to the building's structural framework);

To qualify, the property must be purchased during the dates above and placed in service on or after September 11, 2001 and before January 1, 2005.

For small businesses, this extra depreciation deduction can be used in addition to the small business expensing election, which allows a deduction of up to \$24,000 for assets purchased and placed in service in 2001 or 2002. Small businesses can also benefit from changes in the expensing limits for automobiles. Under the new law, small businesses can take an additional \$4600 depreciation in the year in which the vehicle is placed in service if both the purchase and the business use started after September 10, 2001.

The other tax break is a temporary extension of the net operating loss carryback period from two to five years, for losses arising in tax years 2001 and 2002. This can reduce alternative minimum tax liability by up to 100 percent.

Both can be extremely important in the 2001 tax filing season because they may result in immediate tax savings for businesses. Businesses that have already filed their 2001 federal tax returns can still get the benefit of the tax breaks by filing an amended return.

### A Window of Opportunity

As welcome as the federal tax breaks are for taxpayers, they have caused considerable consternation among state governments. Governors and other state officials have been complaining vociferously over the law's effect on state finances. The recent economic downturn has left many states struggling to find enough revenue to maintain basic services. Because states generally base their corporate income taxes on federal rules, the cuts instituted in the federal stimulus package deprive the states of a much-needed source of revenue. State officials estimate that the new rules allowing businesses to accelerate depreciation of new investments will cost the states \$14.6 billion over the next three years.

*For those who place equipment into service that exceeds the \$24,000 expensing limitation, the 30% depreciation bonus represents a significant tax savings in the early years of use*

If Congress does not provide some sort of relief to the states, it is likely that some of them will take matters into their own hands by raising state taxes. One example that is already shaping up involves the estate tax. The tax cut legislation signed into law last summer gradually reduces the federal estate tax from now through 2010, at which point it would briefly be eliminated entirely before the sunset provision in the law returns the estate tax back to its current level in 2011. In addition to the federal estate tax, all the states have their own state estate taxes. But because these state

taxes are computed based on the federal tax, the states stand to lose that revenue as the federal cuts take effect. Not willing to forego that revenue, several states, such as Virginia and Maryland, are amending their tax laws to separate state and federal estate taxes. This would allow them to keep state estate taxes at their current levels regardless of the federal cuts. At least eight other states are considering similar moves.

As a result, it is difficult to predict how much benefit the average taxpayer or business will derive from the economic stimulus package. In some states, the federal cuts will be at least partially offset by increases in state taxes. The overall balance, though, is likely to be positive for most taxpayers.

The current situation represents a window of opportunity. Businesses should take advantage of every tax break they can now, before second thoughts start to take hold in Washington and in state houses across the country. President Bush's tax cuts were controversial last summer, before the vast increases in government spending authorized in the last few months. Opponents are making even stronger arguments now, as the heated debate over the stimulus package showed. It seems safe to say that further tax cuts are becoming increasingly unlikely, barring a dramatic upsurge in the economy. Legislation to make last summer's cuts permanent by striking the ten-year sunset provision will face a tough enough struggle in Congress, without the addition of any new proposals.

A qualified tax professional may be able to suggest even more ways the new law can help your business. The new law offers significant advantages to those who act soon.

## FAA Forecasts Decline This Year, Strong Recovery in 2003

The FAA anticipates that airline passenger traffic will continue to decline this year, followed by a strong recovery in 2003. This prediction is part of the agency's annual Commercial Aviation Forecast, which was released on March 12th.

The latest Forecast sees airline passenger traffic returning to more normal levels of growth by Fiscal Year (FY) 2004, expanding at an average annual rate of 4.0 percent for the next ten years, reaching 1.0 billion passengers in FY 2013. That is three years later than predicted in last year's Forecast, and the slippage is due largely to the recession last year and the terrorist acts of September 11.

Speaking at the agency's 27th Annual Commercial Aviation Forecast Conference in Washington, D.C., FAA Administrator Jane Garvey said: "Regardless of the short-term decline in air traffic, our Forecast underscores the need for the government and the aviation industry to continue adding capacity to our system to meet the demand that will return and grow."

The FAA said airline passenger traffic fell 1.8 percent in FY 2001, which ended September 30, 2001. That figure did not reflect the impact of the events on September 11, which was felt in the fourth quarter of Calendar Year (CY) 2001, which is the first quarter of FY 2002. Therefore, there will be relatively large differences between FY and CY growth rates for 2001 - 2003, and the FAA is reporting data on both a FY and CY basis for those years.

For example, the Forecast says passenger demand in FY 2002 - the current year - will fall 12.0 percent to 600.3 million enplanements, whereas the decline on a calendar year basis is spread over two years - down 6.9 per-

cent in CY 2001 and 4.7 percent in CY 2002. In FY 2003, passenger traffic is forecast to increase 14.0 percent; the comparable figure in CY 2003 is 12.5 percent.

The FAA sees several uncertainties facing the airline industry in the next two years. These include:

- Exactly how soon and to what extent will passenger traffic recover from the September 11 attacks?
- When will airline finances recover, considering that carriers are facing large losses this year while coping with reduced passenger demand and increased security and insurance costs?
- How soon and to what extent will the high-fare business traffic - which provides a large percentage of airline revenue - return from depressed 2001 levels?

For general aviation, there will continue to be declines in the short term as the industry copes with the effects of recession and September 11. In the longer term, business flying is expected to grow, with the number of jet aircraft increasing by an average of 3.5 percent annually, while flying hours are forecast to be up 4.1 percent. The outlook is much less robust for personal or sport flying, however, which is expected to grow less than 1.0 percent in the long term. The number of student pilots fell 6.6 percent in FY 2001 and is expected to decline further in 2002 and 2003. Although the number of student pilots is expected to grow by 1.0 percent annually after 2004, it is not forecast to reach the level attained in 2000 by 2013, the end of the current forecast period.

Activity at the FAA's air route traffic control centers - a measure of demand on the air traffic system - is forecast to fall 4.4 percent in FY 2002, expand by 5.0 percent in FY 2003, and then grow at an average annual rate of 2.2 percent beginning in FY 2004. The system is estimated to reach 56.6 million aircraft handled by FY 2013. This is three to four years later than predicted in last year's FAA Forecast.

The parts distribution community can look forward to an outlook that is related to the rise and fall of the air carriers. So long as passenger traffic remains in a decline, air carriers will continue to scrutinize their budgets carefully.

This can mean that carriers will continue to defer certain types of maintenance and the related purchase of replacement parts. Scheduled alterations and upgrades may also be deferred, with a related deferral of purchase of parts needed for the alterations/upgrades. Less traffic is translating in to fewer flights as air carriers try to optimize their routes. This means that aircraft are being retired instead of overhauled. Once again, this translates into fewer parts purchases in the aftermarket.

Curtailing parts purchases is not the only air carriers reaction. Demands for preferred financing and payment terms are putting significant strain on the resources of many distributors.

The FAA's forecast is optimistic about air carrier recovery in 2003. ASA shares this optimism and is looking forward to the natural results of an air carrier recovery - a major recovery for ASA members in 2003.

The FAA Commercial Aviation Forecast is available at:

<http://www.api.faa.gov/content.asp>

# Issues of the Update Report Are Now Online!

Are you reading a borrowed copy of the Update Report? Subscriptions to the Update Report are now FREE to persons in the aviation industry or the government. To receive your free subscription, send your name, title, company, address, phone number, fax number and email address to ASA. Our email address is info@aviationsuppliers.org and our fax number is (202) 730-0274.

Back issues of the Update Report are now on-line! Missing a prior issue? Issues of the Update Report are being added to the ASA web site about one month after they are published. Complete sets of volumes six through nine are now on-line!

## UPCOMING EVENTS

\* = Look for ASA personnel on the speaking program

*ASA is currently working on the 2002 workshop and training schedule. Tentative dates are listed here.  
More information will be available soon. Keep checking our website for the latest updates.*

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|--------------------|---|
| <b>June 23-25</b>  | * <b>ASA 2002 Annual Conference</b> , Four Seasons Hotel, Las Vegas, NV. Call (202) 730-0271 for details. |
| <b>Aug. 24-27</b>  | * <b>Air Carrier Purchasing Conference</b> , Wyndham Anatole, Dallas, TX. See www.acpc.com on the web.    |
| <b>Sept. 10-12</b> | <b>NBAA Conventi on</b> , Orlando, FL. See www.nbaa.org on the web.                                       |
| <b>Sept. 23-25</b> | <b>European Aviation Industry Suppliers Conference</b> , Toulouse, France. Call (310) 203-9603.           |
| <b>Oct. 10</b>     | * <b>ASA Workshop: Achieving Improved Practices</b> , Atlanta, GA. More details will be published soon!   |
| <b>Oct. 17</b>     | * <b>ASA Workshop: Achieving Improved Practices</b> , New Jersey/New York. More details soon!             |
| <b>Oct. 29</b>     | * <b>ASA Workshop: Achieving Improved Practices</b> , Seattle, WA. More details will be published soon!   |
| <b>Oct. 31</b>     | * <b>ASA Workshop: Achieving Improved Practices</b> , Los Angeles, CA. More details published soon!       |
| <b>Nov. 3-5</b>    | <b>Regional &amp; Corp. Aviation Industry Suppliers Conf.</b> , Rancho Mirage, CA. Call (310) 203-9603.   |
| <b>Nov. 19</b>     | * <b>ASA Workshop: Achieving Improved Practices</b> , Dallas, TX. More details will be published soon!    |
| <b>Nov. 21</b>     | * <b>ASA Workshop: Achieving Improved Practices</b> , Chicago, IL. More details will be published soon!   |
| <b>Dec. 10</b>     | * <b>ASA Workshop: Achieving Improved Practices</b> , Fort Lauderdale/Miami, FL. More details soon!       |

*Start making plans: the ASA 2002 Annual Conference will be at the Las Vegas Four Seasons again. The hotel sells out every time we hold the meeting there so be sure to register early! You can register on-line now or send in the form from the conference brochure — conference registration packages were just mailed. Watch your mailbox!*

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**Aviation Suppliers Association**

May 2002