Volume 22, Issue 3 • July 30, 2014

The UPDATE Report

CONGRATULATIONS TO THE FOLLOWING COMPANIES ON THEIR ASA-100 ACCREDITATION:

• AA COMPANIES •

AAF Spares
Miami, FL

Aero Part Service
Staten Island, NY

GMDC, Inc.
Santa Ana, CA

In3 Aviation, Inc.
Ft. Lauderdale, FL

IRCO Group, Inc.
dba IRCO Aircraft Support
Huntington Beach, CA

Par Avion
Scottsdale, AZ

TrueAero LLC
Sebastian, FL

Zina Flight Support LLC
Austin, TX

• AA - 3PL COMPANIES •

MNX
Jamaica, NY
Los Angeles, CA
Ontario, CA
Singapore
London, UK
Amsterdam, Netherlands

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Import of Aircraft Parts

Most ASA members are no doubt aware of some of the complexities of U.S. export law. What members may be less familiar with, however, is some of the details relating to U.S. import law. Import law is important to both U.S. companies (who are importing into the U.S.) and non-U.S. companies alike. Non-U.S. companies may be exporting to the U.S., but that doesn't mean that they can ignore the U.S. import laws. They need to cooperate with their U.S. importers to make sure that the importer can readily clear Customs with the goods without unnecessary delay.

U.S. import law applies to goods that enter the customs territory of the United States. The customs territory of the United States includes only the States, the District of Columbia and Puerto Rico. Other U.S. possessions, such as Guam or the U.S. Virgin Islands, are not considered to be part of the customs territory of the United States.

Imports are regulated for a variety of reasons, but one of the most significant reasons is of historical origin: regulating imports to apply tariffs. The first US Congress passed the Tariff Act of 1789 in order to raise funds to be able to operate the government. Until the federal income tax began in the early 20th century, tariffs were the single most important source of revenue for the United States government.

Modern U.S. policy no longer relies heavily on tariffs as a major source of U.S. revenue – instead the U.S. now uses tariffs to advance industrial, trade and foreign policy issues. For example, when the U.S. believes that foreign goods are being subsidized, and that this subsidy is permitting them to be sold into the US market at a below-cost price, the U.S. may apply heavy tariffs in order to

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MESSAGE FROM ASA'S PRESIDENT

THE UPDATE REPORT

is the 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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Dear Colleagues,

It was nice to see so many colleagues at the annual conference and to welcome everyone to ASA's home city. The conference was well attended with a few more attendees than last year.

At the annual conference, ASA announced its 2014 winner of the Edward J. Glueckler Award. This award was established in 1998 and is named after the founder and first President of the Aviation Suppliers Association. The Award is presented annually in recognition of outstanding commitment, dedication and contribution to ASA and the aviation industry. This year's recipient is Setsko Huffman of ANA Trading Corporation (USA). Setsko was recognized for being an industry leader and an advocate for safety. She has shown a commitment to train and mentor newer persons into the industry. She asks inquisitive questions and probes for solutions that benefit the industry. Having worked with Setsko for most of my career, I have seen her leadership and passion for the industry first hand.

The Quality Committee met at the conference. Their next meeting is December 5th near DFW. Chris Anderson of MidAmerican Aerospace, Ltd. and Nin George of GlobalParts.aero have been the industry leaders for the group. The Committee has asked them to continue as Chair and Vice Chairperson for the next two years. Their leadership has enabled the group to discuss quality issues and move forward on two new BMPs.

As we heard during the conference the industry is changing and distributors will need to evolve to continue to be relevant in the supply chain. ASA is working to help our members be successful. The executive committee that guides ASA's activities is the Board of Directors. The nomination period for three positions on the Board is open until August 14th. If you are interested in running and have questions, please feel free to contact me or any Director.

It is hard to read the news and not think of how damaging the world and local events is to our industry. At the conference Adam Pilarski talked about economic trends and how unpredictable events impact the best of our planning. As distributors we can just do the best we can to support our customers as the world works out the issues.

Take care, Michele

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make the imported goods more competitive relative to U.S.-manufactured goods. Part of the reason for doing this is to protect the correlative U.S. manufacturing industry because if the correlative U.S. manufacturing industry were to disappear in the face of the subsidized imports, then the prices for those imports could subsequently be increased to supra-competitive levels because there would be no domestic competition to supply downward pricing pressure that could prevent such price increases.

Many of the countries that have significant aviation industries are signatories to the Agreement on Trade in Civil Aircraft, which addresses import tariffs on aircraft parts. Most people in our industry know that aircraft parts are imported "duty-free" under the Agreement on Trade in Civil Aircraft.

But while duty-free treatment is the general rule, there are many exceptions.

Aviation industry personnel often do not realize that many aircraft parts are characterized as other things for import purposes. Some parts that appear to be aircraft parts or are commonly installed on aircraft are treated under other categories for import tariff purposes. This includes things like washers, certain rubber articles, certain bearings, brushes found in machines, and lamps and lighting fittings. These parts will all have classifications other than as aircraft parts, so learning how to identify the right classifications is important.

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• RA COMPANIES •

Aero-Link Arizona
Scottsdale, AZ

Aerospace Distributors, Inc.

ATS Dynamics, Inc.
City of Industry, A

Aviation Concepts, Inc.
Sunrise, FL

Avionics Sales Corp.
Aventura, FL

B.I. Aero
Whitehouse Station, NJ

Dallas Aviation
Arlington, TX

Delta International Technology, Inc.
Bellevue, WA

Fortran Aviation
Singapore

GA Telesis
Miami, FL & United Kingdom

Icarus International
Lake City, SC

Jet International Company, LLC
Glenview, IL

LKD Aerospace, Inc.
Snoqualmie, WA

Maximum Aero Support
Chatsworth, CA

MK Industries, LLC
Mentor, OH

Norcross Air, Inc.
Portsmouth, NH

Reliance Aircraft International
Austin, TX

Salt River Aviation
Gilbert, AZ

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Silver Wings Aerospace
Princeton, FL

TriStar Aircraft Spares
Ft. Worth, TX

Twin Aviation
Jourdanton, TX

FOR THEIR REACCREDITATION TO THE ASA-100 STANDARD

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The importer will be responsible for properly classifying the import goods and this classification may drive the applicable tariffs. Many nations have adopted the Harmonized Commodity Description and Coding System (HCDCS) which is a list that is published and maintained by the World Customs Organization (WCO). The HCDCS serves as the basis for the U.S. Harmonized Tariff Schedule, which is the list of goods used in the United States. Classifications of goods are listed in the U.S. Harmonized Tariff Schedule, so you would find aircraft parts in this schedule; but you will also find exceptions.

How are most commercial airplane parts supposed to be categorized under the Harmonized Tariff Schedule? Many commercial airplane parts will be characterized as "8803.10.00.30." But to accurately characterize parts and determine whether an exception applies (and therefore be subject to possible tariffs), it is important to understand what this string of numbers really means.

Each part or other item must be classified correctly in order to assess the tariff status of that part. Most aircraft parts will fall within the scope of the Agreement on Trade in Civil Aircraft, which provides for the duty-free entry of civil aircraft and their parts into signatory nations (including the United States). But there are significant exceptions to this provision, and there is a significant minority of aircraft parts that will not be classified under the "aircraft parts" provisions of this Agreement.

Most aircraft parts are categorized under Chapter 88 of the Harmonized Tariff Code, and the most commonly used code will begin with 8803 (which is for parts). The additional numbers after the initial "8803" help to specify exactly what sort of aircraft parts they are. Civil aircraft propeller parts are characterized as 8803.10.00.30. Civil aircraft undercarriage parts are 8803.20.00.30 if they are intended for aircraft used by anyone other than the Department of Defense or the Coast Guard (the numbers would change if you altered any of these particulars).

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Seeing a pattern to these numbers? The first set of digits (8803) indicates that it is an aircraft part. If the second sequence is "10" then it is a rotor or propeller part. If it is "20" then it is an undercarriage part. If it is a "30" then it is an "other" part from an airplane or helicopter.

For these particular subheadings, the third sequence will always be "00" but in other headings and subheadings, you can have different third sequence numbers that help to further distinguish different goods. The fourth sequence helps to further distinguish the nature of the parts, so for example in these subheadings a fourth sequence of "15" usually means the part is for use in a civil aircraft and the civil aircraft is used by the Department of Defense or the United States Coast Guard. A fourth sequence of "30" usually means the part is for use in a civil aircraft that is NOT used by the Department of Defense or the United States Coast Guard.

As you can see, most civil aircraft parts imported by U.S. repair stations will be described as by harmonized tariff code 8803.30.00.30. Civil aircraft parts classified as 8803.30.00.30 may usually be entered into the U.S. on a duty free basis.

But, unfortunately, import classification of aircraft parts is not always this simple. There are many aircraft parts that fit into listed exceptions, and these parts are characterized under different tariff codes. Some of these tariff codes require the payment of import duties (the parts are not treated as duty-free under the Agreement on Trade in Civil Aircraft.

Generally, parts or accessories that are not suitable for use solely or principally with aircraft will **not** be considered aircraft parts. For instance, a lamp which is used 95% of the time in buildings and 5% of the time in aircraft will not be considered an aircraft part for purposes of import tariff categorization, because its principal use is for non-aviation purposes. In addition the following categories of parts are generally NOT considered to fall under the aircraft parts provisions for import purposes:

- Joints, washers or the like of any material (classified according to their constituent material or in heading 8484);
- Articles of vulcanized rubber other than hard rubber (articles of heading 4016);
- Tools (articles of chapter 82);
- Pictures and mirrors (articles of heading 8306);
- Most items of nuclear reactors, boilers, machinery and mechanical appliances, including machine tools and engines, pumps and tools used in nuclear power generation (articles of headings 8401 to 8479);
- Engines or motor parts consisting of taps, cocks, and valves for pipes or ball or roller bearings (articles of heading 8481 or 8482);

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ASA Board of Directors Nominations

a. Accepting nominations now through August 14th.

b. Nominees must be from an ASA Regular Member company.

c. 2 year position with quarterly meetings

d. Nominations made at: https://www.surveymonkey.com/s/2014-Board-Nominations

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- Transmission shafts and cranks, bearing housings, housed bearings and plain shaft bearings, gears and gearing, ball or roller screws, and gear boxes (articles of heading 8483);
- Electrical machinery or equipment (chapter 85);
- Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments (articles of chapter 90);
- Clocks and watches (articles of chapter 91);
- Bombs, missiles, or other arms (chapter 93);
- Lamps or lighting fittings (articles of heading 9405);
- Brushes of a kind used as parts of vehicles (heading 9603); or
- Parts of general use [wires and cables, chains, tube or pipe fittings, locks, clasps, springs, castors, automatic door-closers, mountings, frames, mirrors, sign plates or other placards, washers, certain fasteners (like nails, tacks, drawing pins, staples, screws, bolts, nuts, coach screws, screw hooks, rivets, cotters, and cotter pins), and closures like buckles or hooks] made from metal (including articles of section XV and certain heading sunder chapters 73 and 83) or plastic (articles of chapter 39).

It should be noted that the descriptions provided above are altered to make them more understandable to the layman but they ARE NOT the technical language of the harmonized tariff code, and any questions should be answered from the actual technical language of the tariff code itself. The chapter, section and heading numbers are for reference only – to facilitate review of appropriate language.

Another exception would apply to foreign parts. Under U.S. regulations (19 C.F.R. § 10.183) the duty-free provision applies only to parts manufactured under (1) FAA approval, or (2) foreign approval that is recognized by the FAA as equivalent (e.g. under a bilateral agreement). Thus, parts made under foreign production approval where there is no corollary U.S. approval would not be accorded duty-free treatment into the U.S. because they are not recognized as valid aircraft parts under U.S. regulations. This is unlikely to apply to most U.S. repair stations but it could apply in certain limited cases (such as where the repair station is doing work on foreign-produced aircraft that do not have a U.S. type certificate).

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Finally, the normal aviation provisions do not apply to things that look like aircraft but are not aircraft, like reduced scale models (e.g. radio controlled aircraft or other articles under heading 9503) and "aircraft" carnival rides (articles under heading 9508).

If you are importing into the U.S. an article that fits into one of these above-mentioned categories, it is very important to ensure that you do not improperly characterize it under the tariff code 8803.10.00.30.

In conclusion, although most aircraft parts imported into the United States will be tariff-free, it is critically important to understand the Harmonized Tariff Schedule, be able to select the appropriate harmonized tariff code for your import, and correctly determine whether or not tariffs will be owed. By properly understanding the import laws and regulations, repair stations can ensure their imported goods will clear Customs quickly and painlessly.

Counterfeit Parts

A common question we receive from members is whether a "counterfeit part" is *by definition* an "unapproved part."

In the US, there is support for this statement in the FAA's Advisory Circular AC 21-29C, which specifically defines the term "unapproved part" to include counterfeit parts in paragraph 3(p):

> p. **Unapproved Part**. A part that does not meet the requirements of an approved part (refer to definition of approved parts in subparagraph 3b). This term also includes parts that may fall under one or more of the following categories:
> (1) Parts shipped directly to the user by a manufacturer, supplier, or distributor, where the parts were not produced under the authority of (and in accordance with) an FAA production approval for the part (e.g., production overruns where the parts did not pass through an approved quality system).
> **NOTE:** This includes parts shipped to an end user by a PAH's supplier who does not have direct ship authority from the PAH.
> (2) New parts that have passed through a PAH's quality system which do not conform to the approved design/data.
> **NOTE:** Do not report parts damaged due to shipping or warranty issues as an SUP.
> (3) Parts that have been intentionally misrepresented, including counterfeit parts.

The FAA is able to make this definition for several reasons: (1) the term unapproved parts is not defined in the US regulations so there is no regulatory definition or connotation that limits the FAA's ability to define this term in any way that they want; (2) the term unapproved parts is not used in the US regulations so the FAA's definition in an AC has no regulatory affect; (3) the definition in AC 21-29C is limited only to the AC, and does not have legal effect outside the AC; and (4) the term unapproved parts is not the opposite of approved part, and under the FAA's definitions a part may be both unapproved and approved (this is an unfortunate result of their definitions).

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2014 Edward J. Glueckler AWARD WINNER

The Edward J. Glueckler Award is presented annually in recognition of outstanding commitment, dedication and contribution to the Aviation Suppliers Association and to the aviation industry.

Winner:
Setkso Huffman, of ANA Trading Corp., U.S.A.

2014 Winner!

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You may be surprised to see me assert that a part may be both unapproved and approved, but it has actually happened! The problem lies in the fact that the definition of "unapproved parts" includes (a) parts that do not meet the requirements of an approved part and also (b) several other categories of parts that MAY meet the requirements of an approved part. One of those categories is counterfeit parts.

There is actually a case where an OEM accused a PMA company of counterfeiting (OK – there are many of these cases but there is at least one where the OEM was actually *successful* in its claim). There were no findings that the PMA company's parts were unairworthy. The PMA company was required to change the part number on the part in order to remedy the infringement (actually, they were required to apply to the FAA for design changes that would lead to a part number change). See Whittaker Corporation v. Execuair Corporation.

Although there is advisory support for the assertion that a counterfeit part is, by definition, an unapproved part, this case shows that approved parts can also be described as counterfeit in the right circumstances. The reason for this is because counterfeit aircraft parts typically are labelled as 'counterfeit' because they infringe another company's trademarks. Thus, the FAA could approve parts because they meet the technical requirements for such parts, but if those parts are marketed under another company's trademarks then that is counterfeiting.

Let me give you an example. Let's say that I decide to obtain PMA on parts for a Rolls-Royce engine. If I am able to demonstrate through testing and other proofs that my parts meet all applicable requirements for installation in the Rolls-Royce engine then I might be eligible to obtain PMA from the FAA for the parts (don't forget that PMA entails a compliant quality system as well as an airworthy design). Now, anything I produce that properly conforms to the PMA is an approved part. But if I put those parts into boxes that say Rolls-Royce on them and sell them as if they were Rolls-Royce parts, then I am counterfeiting (because I have improperly used the Rolls-Royce trademark). So by the AC 21-29C definition my parts are also unapproved.

So who has a right to do something about it? The FAA should not take enforcement action against me in this hypothetical scenario, because I have not violated any FAA regulation (FAR 3 does not apply because the parts are airworthy and airworthiness is a 'safe harbor' under FAR 3). But Rolls Royce may have an action against me under the Lanham Act for trademark infringement (in other words, for counterfeiting).

In summary, in the limited context of FAA AC 21-29C, a "counterfeit part" is (by definition) an "unapproved part." But because counterfeiting charges are based on trademark infringement, and not on safety/airworthiness, it is also possible that a counterfeit part could, in fact, also be an approved part.

Beware the Pitfalls of Multiple Dangerous Goods Declarations

We recently had a question from a trade association member who was facing a request that worried him. He was shipping from the United States to a foreign air carrier, and that foreign air carrier uses a freight forwarder, so the expectation was that the parts would be sent to the freight forwarder in the United States. The aircraft parts in question happened to be hazardous materials. The freight forwarder had asked him to provide two sets of dangerous goods documentation:

- one Dangerous Goods Declaration from the distributor's facility to the freight forwarder; and
- one Dangerous Goods Declaration from the distributor's facility to the end user/airline.

For purposes of this article, we will rely on a few assumptions. We will assume that (1) the parts are aircraft parts, (2) the parts are hazardous materials, and (3) the parts are destined for an export location. The answer to this member's question is that you should investigate your potential liabilities thoroughly, because you generally should not provide two (different) sets of Dangerous Goods Declarations.

Generally, the shipper is responsible for creating the shipping papers (such as the Dangerous Goods Declaration). 49 C.F.R. § 171.2(e); IATA DGR 8.0.2.1.

The normal practice would be that you, as a shipper, would produce one shipping document from your facility to the ultimate destination. The ICAO and IATA standards anticipate this and specify that the consignee on the Dangerous Goods Declaration does not need to be the same as the consignee on the air waybill (IATA DGR 8.1.6.2 Note). This means that your air waybill can take the goods to the freight forwarder while the Dangerous Goods Declaration takes them all the way to the end customer. When the air waybill takes the goods only as far as the freight forwarder, but the Dangerous Goods Declaration and other documents anticipate that the freight forwarder is merely acting as a consolidator with the ultimate consignee being the different party to whom the goods will be sent, then the freight forwarder should not be treated as a shipper.

In such a situation, the freight forwarder would issue their own air waybill (known as a "house air waybill") for the consolidated transport from their facility to the ultimate consignee, and the existing Dangerous Goods Declaration would continue to follow the shipment. The freight forwarder may make one or more additional copies of the Dangerous Goods Declaration, because only the first operator was required to receive an original of the Dangerous Goods Declaration (IATA DGR 8.1.2.3.1 Note). There may be a mismatch between the consignor on the Dangerous Goods Declaration (which is you, the original shipper) and the consignor on the air waybill (which may be the freight forwarder); this mismatch is both acceptable and anticipated (IATA DGR 8.1.6.1 Note).

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ASA is blogging!

Check out the two blogs on the ASA website:

- **Cavu Café: Royboy's Prose & Cons**
  and the
- **ASA Web Log by Jason Dickstein**

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In some rare cases, the ultimate customer asks the shipper to ship only as far as the freight forwarder. This may be done where the ultimate customer knows that it needs the articles but has not yet made a decision about which line station the goods will be sent to (which may be based on scheduling and dispatch issues that are yet to be determined). In such a case the freight forwarder becomes the consignee, and then the freight forwarder becomes the shipper (because you, as the originating shipper, have not been informed of any other final consignee)! In such a case, you should be careful about keeping the responsibilities clear. If the freight forwarder becomes the shipper because of the way that the transaction is structured, this is usually at the request of the ultimate consignee, and you as seller/shipper should be careful not to put yourself in a position where you are creating documents for the freight forwarder—and potentially taking responsibility for the actions of the freight forwarder—in cases where you do not have any control over the freight forwarder's compliance.

This is an unusual situation that will likely make the freight forwarder uncomfortable. We have seen this sort of situation arise where the freight forwarder wanted a second Dangerous Goods Declaration completed with a blank consignee. We recommend that the U.S.-based distributor refuse to provide a Dangerous Goods Declaration with blanks. One reason for this refusal is because the consignment could be redirected to a target that would violate U.S. export laws.

We have seen the request for multiple differing copies of the documents arise a number of times in the past. Where the relationship is an ongoing one, and there is a desire to support the wishes of the freight forwarder, one way that our firm has dealt with it is by creating a contract that clearly explains who is responsible for what, and that establishes clear lines of indemnification in case something goes wrong.

Using I/A/W on Approval for Return to Service

A member of the ASA community recently inquired about acceptable language for approval for return to service documents following repairs. The member asked whether it is acceptable, on an approval for return to service document, to state in the description of work performed that the work was performed in accordance with ("I/A/W") a reference from a manufacturer's manual and ALSO state that other work was done pursuant to another source.

The short answer to this question is "Yes."

Currently, the two most common approvals for return to service documents are the FAA Form 8130-3 and the EASA Form One. Each of these documents is used by repair stations to document work primarily subject to FAA or EASA regulations (respectively).

The instructions for the EASA Form One are found in the regulatory appendices, so these instructions are regulatory in nature. The EASA Form One regulatory appendix requires the completer of the EASA Form One to "[d]escribe the work … either directly or by reference to supporting documentation, necessary for the user or installer to determine the airworthiness of item(s) in relation to the work being certified." Examples of information to be entered in the remarks block of the EASA Form One include the maintenance data used, including the revision status and reference, as well as any other repairs or modification accomplished. The EASA guidance clearly anticipates remarks to describe the work performed that are written in the format "Repaired I/A/W [reference] and also [list of additional repairs or alterations]."

Thus, it is safe to say that it is acceptable to use the phrase "repaired I/A/W [reference]" when work beyond the specific manuals limits is performed, as long as additional language is added to clarify the additional work or the exceptions to the manual instructions. Think of these sorts of entries as 'composite' entries because they reference more than one source of data.

What the person completing the form must avoid is language that ONLY says "repaired I/A/W [reference]" when the work has diverged from the reference (either through additional work or through exceptions to the reference provisions). The reason one must avoid such abbreviated recordkeeping is because it could misleadingly imply that you EXACTLY followed the reference, when a more accurate description would clarify the divergences.

The FAA system produces a similar result. The most important guidance when completing an 8130-3 tag as an approval for return to service is the language of 14 C.F.R. § 43.9. This regulation requires "[a] description (or reference to data acceptable to the Administrator) of work performed." FAA Order 8130.21H provides additional guidance, although it should be noted that this is an internal FAA Order and therefore not a binding interpretation applicable to the public. In reference to the description of work performed the guidance states, "[t]his can be done either directly or by reference to supporting documentation." Thus, a description of the actual work is permitted, and the reference to manufacturer's manuals or other sources is a permissible shortcut. We have seen 8130-3 tags that state "I/A/W [reference]" and then include additional provisions, and we have also seen "I/A/W [reference] except [list of exceptions]." For example, we have seen logbook entries (which are governed by the same FAA rules) that stated "Repaired I/A/W [OEM manual reference] except used PMA Parts Number [PMA Part Number]."

Examples of acceptable composite language (assuming that the language accurately describes the work performed) could include:

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- Overhauled I/A/W [OEM manual reference] except used PMA Parts Number [state PMA Part Numbers used]
- Repaired I/A/W [OEM manual reference] and also repaired I/A/W DER Repair [state DER Repair identifier]
- Repaired I/A/W [OEM manual reference] except repaired I/A/W DER Repair [state DER Repair identifier] instead of [the specific elided OEM manual reference]
- Repaired I/A/W [OEM manual reference] and also performed service bulletins [state service bulletin identifiers]

An example of potentially unacceptable language would be a situation where work that materially diverged from the OEM manual was performed, but the description of work performed only said:

- Repaired I/A/W [OEM manual reference]

This could be potentially unacceptable under U.S. law if disclosure of the divergence was necessary to allow the installer to make a determination concerning airworthiness. For example, if a service-bulletin-based alteration was performed that changed the dash number on the part, then that sort of work probably needs to be disclosed in the approval for return to service. Similarly, a major alteration based on independent DER-approved data (so, something that was not in the OEM manual) would likely need to be separately disclosed on the approval for return to service.

This discussion is general in nature and is not based upon any particular fact pattern. It does not constitute legal advice and it does not create an attorney-client relationship.

Being an Aerospace Leader

If you missed last month's ASA/AFRA Conference in Washington, DC, then you missed some truly inspirational discussions.

Jean Paul Ebanga, CEO of CFM International, was the keynote speaker at the Conference. He focused his comments on leadership and what it takes to be a leader in our industry.

As a leader, you are under constant pressure to deliver solutions. This means bringing technology to the market now. But the only way to do this consistently is to have a technology pipeline. As a leader, you need to have a long term vision. You need to generate the right conditions to permit a generation of technology innovations, and you need to understand the importance of doing this over generations.

Mr. Ebanga discussed the remarkable state of CFM's current technologies, like the unbelievable strength of modern carbon fiber being used in blades. And he discussed the difficult combination of sacrifice and foresight that is necessary to achieve success.

CFM set out to develop a high-bypass engine for narrow body aircraft, and went five years without a single sale. Then U.S. airline deregulation happened around the same time fuel prices spiked. The changed circumstances made fuel-saving engines a hot commodity and CFM's investment paid off. CFM's founders recognized this possibility and invested to be able to capitalize on it.

So what factors will help shape the next great company? Mr. Ebanga notes that we are living in a world of transition. It is the world that the west built; but the east and the south are rising. The wise leader must examine the needs of these rapidly-developing regions in order to be successful.

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The demographics are changing in a way that favors aerospace. In 1960, there were 1 billion in the west and 2 billion in the developing world and air travel tended to be primarily focused among those in the West. But in 2014 the world holds seven billion. One billion of them are considered wealthy, and the wealthy are a primary target for commercial aviation. Another 2 billion are struggling and they are less likely to be passengers in the short term. But the remaining 4 billion people will fall in between. And this "in between" group reflects people who will take vacations by air; and this rising global middle class needs to be considered in any aerospace strategic plan.

A principle message of Mr. Ebanga's talk was to think beyond the numbers, and understand the world you are living in. Great changes are usually obvious in retrospect. But they are frequently unpredictable by those who merely look at the numbers of the past and expect those numbers to accurately predict the future. The trick is to recognize the factors that will influence the next great change.

Mr. Ebanga also joined Dr. Richard Levin, as well as CEOs Jimmy Wu and Mitch Weinberg on a business panel during the break-out workshops. The Wu-Weinberg panel is a perennial favorite among business executives at the Conference but it was particularly exciting to have Jean Paul Ebanga join the panel in the more intimate setting of the break-out workshop.

ASA Conference Aviation Industry Predictions

Economist Adam Pilarski is known for being one of the smartest individuals in the industry. But his performance at the ASA/AFRA Conference demonstrated that he is also one of the most entertaining.

Dr. Pilarski notes that unpredictable events cannot be predicted. Why not? Because that is their definitional nature!

While we cannot predict these events, their consequences CAN be predicted. And one aid to predicting consequences of future events is an examination of the data of the past.

The nuclear accident at Chernobyl, the Iraqi invasion of Kuwait and the 2001 terrorist attacks in the United States (9/11) were all unpredictable. Analysts have been able to look at all three and describe the factors that should have caused them to be predictable. A handful of experts in each case claimed to have predicted the events before-hand. But none of them were credibly predicted in a way that permitted them to be averted or mitigated.

All three were very different events. All three were unpredictable in their own factual frame sets. But if you look at the effects that each event had on aviation, you can see that the consequences of each were quite similar. For example, revenue passenger miles (an important aviation industry metric) fell and then recovered in very similar patterns (the 9/11 recovery pattern looks lightly different on a graph due to the outbreak of SARS that followed it, but remove SARS and you get the same exact pattern).

Dr. Pilarski explained that the two questions he hears the most right now are:

- How long will airlines remain profitable?
- Are aircraft orders justified by existing demand?

Taking the second of these questions, he explained that generally there has been an excess of orders over deliveries. This excess leads to a large backlog. Part of the historical reason for this is that leasing companies and airlines have both ordered to meet the same demand. This leads to double counting and thus orders become an unrealistic prediction of deliveries. But the current large number of aircraft orders could actually be different than past orders due to differing circumstances. Sometimes changed circumstances mean that the past does not really predict the future.

Dr. Pilarski explained that the present economic expansion has lasted 56 months. The average post WWII economic expansion lasts for 58 months. So we are looking at an expansion that could be curtailed, if it were to follow past precedent.

But Dr. Pilarski thinks this one is different.

Revenue passenger miles are often closely tied to economic performance, so understanding the larger economic cycle is critical. In the first 56 months of past economic recovery cycles, aircraft deliveries were generally down. In this recovery, though, deliveries are not down on the front end of the recovery. This raises the important question: “Is this a different situation for aviation or do the current order and delivery numbers reflect an industry planning mistake?”

Dr. Pilarski thinks that this recovery is different. He sees a number of sectors that have not yet recovered, but that will recover. Based on this, he predicts that the economic recovery will continue, and that airline profitability will likewise continue.

Pilarski Prediction: Another three years of economic expansion.

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What other factors will help bolster aviation? Dr. Pilarski explained that oil is becoming less relevant in other industries so oil prices will be coming down. This is good news for aviation, where he does not see the industry straying far from its reliance on petroleum.

With the world moving away from oil, lower oil prices would be translated into more aviation traffic. But environmental concerns may ground some older aircraft which could also affect aircraft deliveries.

Lower fuel prices will make aviation even more important to shipping because aviation will be more competitive as a shipper. He also sees interest rates rising, and when they do, this will make it more important to move inventory more quickly, in order to obtain immediate return on investment while minimizing the cost of credit (which is often used to obtain the inventory). This is another factor that will promote the recovery of aviation cargo as a viable alternative to maritime and land-based cargo carriage.

Pilarski Prediction: By October 16, 2018 fuel prices will be down.

Dr. Pilarski insisted that the audience check spot oil prices at 2:43 pm (don't mark it on your calendar – he was kidding).

The real point of Dr. Pilarski's somewhat tongue-in-cheek predictions are that you need to follow the data. His public predictions are based on data just as his predictions for clients are based on data. Reality can change due to unpredictable events. And while you cannot predict the events, you can predict the consequences. When reality changes, data helps you move faster to react to the new reality, and past patterns can help you model the consequences of that changed reality.

CALENDAR OF EVENTS

ASA Workshop Series/Training

August 27, 2014 . . . . . **Regulatory Workshop** • *Newark, NJ*
October 14, 2014 . . . . . **Regulatory Workshop** • *Miramar, FL*
October 16, 2014 . . . . . **Regulatory Workshop** • *Los Angeles, CA*
December 5, 2014 . . . . . **Regulatory Workshop** • *Los Angeles, CA*

Industry Events

September 13-16, 2014 . . . . . **ACPC** • *Washington, DC*

ASA 2015 Annual Conference

June 7-9, 2015 . . . . . *Hyatt Regency at Gainey Ranch Resort – Scottsdale, AZ*

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ASA Staff is always interested in your feedback. Please contact us with any comments or suggestions.

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