Aeronautical Repair Station Association

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**TESTIMONY OF CHRISTIAN A. KLEIN
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BEFORE THE INTERNATIONAL TRADE COMMISSION**

**INV. NO. 332-509
SMALL AND MEDIUM-SIZED ENTERPRISES:
U.S. AND E.U. EXPORT ACTIVITIES, AND BARRIERS
AND OPPORTUNITIES EXPERIENCED BY U.S. FIRMS**

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Good morning. My name is Christian Klein and I am executive vice president of the Aeronautical Repair Station Association. ARSA is an international trade association that represents the aviation maintenance and manufacturing industries. Our primary members are companies that have been licensed by the Federal Aviation Administration (FAA) and other national aviation authorities (NAAs) worldwide to maintain and alter aircraft and aircraft engines, propellers, and components. Our members perform work for airlines, as well as for the military and for general aviation aircraft owners and operators.

My major theme today is that the small-business dominated aviation maintenance industry is an important contributor to the U.S. economy and has a strong, positive balance of trade. However, legislation pending on Capitol Hill threatens to disrupt international commerce in aviation maintenance, drive up costs for U.S. companies struggling to compete in the global marketplace, and undermine our exports in this area.

The Aviation Maintenance Industry Contributes $39 Billion to the U.S. Economy

First, let me provide some background about the aviation maintenance industry's economic footprint. My comments are based on a 2009 study commissioned by ARSA and completed by AeroStrategy, an international aviation consulting firm. A copy of the study accompanies our written testimony.

AeroStrategy determined that global spending in the civil aviation maintenance, repair, and overhaul (MRO) market exceeds $50 billion per year. At $19.4 billion, North America represents the largest geographic market. AeroStrategy estimates that, globally, MRO generates $80 billion in overall economic activity, with North America accounting for $39 billion or approximately 50 percent of the world's total.

The MRO industry is an important job creator in communities around the country. The nearly 4,200 FAA-certificated repair stations in the United States collectively employ 200,000 people. Approximately 85 percent of these companies are small and medium-size enterprises (SME)[1]. SMEs account for 21 percent of all employment in our industry. When air carrier maintenance and replacement parts manufacturing and distribution are factored in, total industry employment exceeds 274,000.

Despite the challenges facing the U.S. economy, our industry is continuing to make positive contributions. According to a recent ARSA member survey, roughly one-third of our

[1] For purposes of the study, AeroStrategy defined SME as companies with less than $6.5 million in revenue or fewer than 50 employees.

members intend to add employees in 2010 and close to half intend to make substantial capital investments this year.

The United States Has a $2.4 Billion Positive Balance of Trade in Aviation Maintenance

My second point is that the United States is a major net exporter of aviation maintenance services, enjoying a $2.4 billion positive balance of trade. While North America is a slight net importer of heavy airframe maintenance services, it has $1.4 billion and $1.2 billion trade surpluses, respectively, in the engine and component maintenance markets.

North America's competitive advantage in these areas is important because one dollar spent on airframe maintenance generates just $1.38 in additional economic activity, while a dollar spent on engine and component maintenance generates $1.85 and $1.67 respectively. In other words, we have strong, positive balances of trade in the types of aviation maintenance work that have the most additional benefit to the U.S. economy.

The European market is by far the most important to U.S. repair stations serving foreign customers. There are 1,237 repair stations in the United States with approval from the European Aviation Safety Agency (EASA) to work on European Union-registered aircraft and related components. As an example of the volume of transatlantic business generated for U.S. companies, this country's repair stations are servicing 25 percent of the $5.7 billion in demand for engine services generated by Europe, the Middle East, and Africa. However, the export of U.S. aviation maintenance services is by no means limited to Europe. For example, U.S. companies perform 50 percent of the $426 million worth of component maintenance generated by Central and South American air carriers.

Pending FAA Reauthorization Legislation Will Make U.S. Companies Less Competitive and Hurt International Trade in Aviation Maintenance

My third and final point is that legislation pending on Capitol Hill threatens America's global leadership in the aviation maintenance sector.

Congress is currently working to complete a new, multi-year FAA authorization law. Unfortunately, both the House and Senate versions of the bill contain language that would dramatically alter FAA's oversight of foreign repair stations (i.e., facilities outside the United States that have been licensed by the FAA to work on U.S. air carrier aircraft and components.)[2]

The new FAA inspections mandated by the reauthorization bills contradict existing bilateral aviation safety agreements (BASA). Under these, the United States accepts oversight of foreign repair stations by the CAA in which the facility is located. In exchange, the foreign government agrees to accept FAA's oversight of repair stations in our country. This reduces the need for foreign regulators to directly inspect U.S. companies and vice versa. The United States only has bilateral agreements with foreign governments like the

[2] Sec. 521 of S. 1451 as reported by the Senate Commerce, Science & Transportation Committee and Sec. 303 of H.R. 915.

European Union (E.U.) that have demonstrated the highest safety standards, equivalent regulations, and an effective oversight system.

While the FAA bill currently being debated by the Senate directs that the new inspections be carried out in a manner consistent with U.S. obligations under international agreements, the House-passed bill contains no such exemption. The European Commission has made it clear that if the House version is enacted into law, the E.U. will retaliate by withdrawing from its BASA with the United States. As a result, EASA would stop accepting FAA oversight and begin directly inspecting U.S. repair stations that serve European customers. The U.S. aviation maintenance industry would see a dramatic spike in oversight costs.

ARSA has estimated that if the U.S. BASA with Europe collapses, the annual cost for the average U.S. repair station to maintain EASA approval would rise from $960 to $37,500, an increase of approximately 3900 percent. Not surprisingly, close to two-thirds of our members have said that the collapse of the U.S.-E.U. BASA would have a “major” or “devastating” impact on their companies, with 20 percent saying that it would threaten their ability to stay in business. The fact that the cost increase would take money out of the U.S. economy and put it directly into E.U. coffers only adds insult to injury for America’s small businesses.

It should also be kept in mind that the BASA does not just impact maintenance, it covers many aspects of aviation, including mutual acceptance of design and production authorizations, simulator training for pilots and other long-standing provisions that will increase costs for the entire aviation sector.

The pending FAA legislation would also have a dramatic impact on trade between the United States and Canada. Both the House and Senate bills contain new limitations designed to prevent non-certificated companies and individuals from working on air carrier aircraft.[3] Unfortunately, the bills do not take into account the U.S.-Canada BASA, under which certification granted by Transport Canada to an Approved Maintenance Organization (AMO) is recognized by the United States as the equivalent of an FAA repair station certificate.

If enacted, the House and Senate FAA reauthorization bills will prevent Canadian AMOs from performing maintenance on U.S. air carrier aircraft and dramatically impact cross-border relationships with our largest trading partner. Many Canadian AMOs are actually subsidiaries of U.S. companies, meaning the economic repercussions of the legislation will be felt on both sides of the border. Canada will also likely retaliate against the United States.

We believe this issue is the result of an inadvertent omission and we are working with Congress and the administration to resolve this and other concerns with the bill. However, this demonstrates the complex nature of the international aviation regulatory regime and

[3] Sec. 522 of S. 1451 and Sec. 310 of H.R. 915.

potential (though perhaps unintended) consequences of the FAA legislation on international trade.

As Congress works to complete the FAA bill, there is more at stake in the debate than simply the $39 billion and 274,000 jobs that our industry contributes to the U.S. economy. If the FAA legislation passed by the House of Representatives becomes law, it will not just become more difficult and expensive for U.S. repair stations to serve foreign customers, it will become more difficult (and, in some cases impossible) for foreign repair stations to serve U.S. air carriers. This will increases costs for U.S. airlines operating overseas and put them at a disadvantage against foreign competitors. Ultimately, this will have consequences for the entire U.S. aerospace industry and our whole economy.

Conclusion

For all the foregoing reasons, we respectfully urge the ITC to do everything possible to ensure that Congress does not undermine global trade in the aviation maintenance sector.

Repair stations are thriving, even in difficult economic times, but the collapse of international aviation agreements will lead to duplicative oversight and increased compliance costs, which will quickly undermine our competitive advantage and hurt U.S. exports.

Thank you again for the opportunity to discuss these issues and to provide you with background about our industry's important contributions to the U.S. economy. I look forward to answering any questions you may have.