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“The Global Competitiveness of the U.S. Aviation Industry: Addressing Competition Issues to Maintain U.S. leadership in the Aerospace Market”

**Statement for the Record
on behalf of the Aeronautical Repair Station Association
Before the U.S. Senate Subcommittee on Aviation Operations, Safety, and Security**

July 18, 2012

Chairman Cantwell, Ranking Member Thune, and members of the Subcommittee, thank you for the opportunity to submit a statement for the record about the global competitiveness of the aviation maintenance sector.

The Aeronautical Repair Station Association (ARSA) is an international trade association with a distinguished record of representing certificated aviation maintenance facilities before Congress, the Federal Aviation Administration (FAA), the European Aviation Safety Agency (EASA), and other civil aviation authorities (CAAs).

ARSA’s primary members are companies holding repair station certificates issued by the FAA under part 145 of the Federal Aviation Regulations. These certificates are our industry’s “license to do business.” They authorize repair stations to perform maintenance and alterations on civil aviation articles, including aircraft, engines, and propellers. The certificates also permit maintenance on the components installed on these products. Certificated repair stations perform maintenance for airlines, the military, and general aviation owners and operators.

This statement will touch on three key points:

- The aviation maintenance industry has a substantial, positive economic impact on the U.S. economy;
- Bilateral Aviation Safety Agreements (BASAs) help ensure the continued global competitiveness of the aviation maintenance industry; and
- The ban on new foreign repair station certificates is preventing U.S. companies from tapping into growing global markets.

Repair stations are an integral part of the U.S. economy

Repair stations are thriving across the country and the aviation maintenance sector is one of the top reasons aerospace is the United States’ leading export. A recent study by AeroStrategy for ARSA determined that spending in the global maintenance, repair, and overhaul (MRO) market exceeded \$50 billion in 2008, with North America (the U.S. and Canada) accounting for \$19.4 billion of the total. When induced and related economic effects are considered, the industry’s impact on the U.S. economy is \$39.1 billion per

year. The more than 4,000 repair stations in the United States - 85 percent of which are small and medium-size companies - collectively employ more than 274,000 individuals.¹

The association's study determined that North America has a \$2.4 billion positive balance of trade in aviation maintenance services. While North America is a slight net importer of heavy airframe maintenance, it has \$1.4 billion and \$1.2 billion trade surpluses in the engine and component maintenance services markets, respectively. Our competitive advantage in these two areas has important economic benefits because one dollar of spending on airframe heavy maintenance generates just \$1.38 in additional monetary activity, while a dollar spent on engine and component maintenance services generates \$1.85 and \$1.67, respectively.

The contract maintenance industry is a stable and growing sector of the economy. According to ARSA's 2012 member survey, there is optimism about economic prospects in the coming year; 65 percent of survey respondents expect business and markets to grow. This economic growth will translate into job creation; more than 60 percent of respondents plan to add workers and positions in 2012.

BASAs help U.S. companies remain competitive

An important factor contributing to the growth in domestic aviation services are Bilateral Aviation Safety Agreements (BASA). BASAs dramatically reduce regulatory compliance costs for the aviation maintenance industry, make government oversight more efficient, help repair stations be more profitable, and ensure the continued global competitiveness of the U.S. aerospace industry.

BASAs are government-to-government arrangements that allow cooperation between aviation safety regulators in areas including design, production, flight operations, environmental certification, and maintenance. BASAs allow the "domestic" aviation authority to perform audits and make findings on behalf of the "foreign" authority, thereby avoiding regulatory duplication and government waste. While the United States has concluded more than 30 BASAs, maintenance sub-agreements exist only with Canada and the European Union (EU).

A 2011 study conducted for ARSA, examined the economic impact of existing maintenance BASAs on certificated repair stations.² The report found:

¹ For details, see the "Aviation Maintenance Industry Employment and Economic Impact" table, found on ARSA's website at the following link: <http://www.arsa.org/files/ARSA-StatebyStateOnePager-20100505.pdf>.

² For the complete study see "Bilateral Aviation Safety Agreements: Reducing Costs for the Aviation Industry", found on ARSA's website at the following link: <http://www.arsa.org/files/ARSA-BASAs-ReducingCostsForTheAviationIndustry.pdf>

- **It costs repair stations significantly more (almost three times as much) to become certificated by "foreign" civil aviation authorities (CAA) when the home country does not have a BASA.** The study determined that initial FAA certification for a repair station located in the United States on average costs a little over \$15,000. Approval by the European Aviation Safety Agency (EASA) for U.S. facilities costs slightly less (around \$11,500). EASA certification is less expensive because the EU's BASA with the United States allows the FAA certificate to serve as the basis for EASA approval. By contrast, the cost for a repair station in the United States to become certificated by the Civil Aviation Administration of China (CAAC) is more than \$30,000.
- **BASAs help make repair stations more profitable.** On average, FAA certification renewal costs consume two cents of every dollar generated by the FAA certificate, while EASA approval renewal consumes about four cents. By comparison, renewing a CAAC certificate consumes 16 cents of the average revenue dollar it generates. In addition, non-BASA certificates typically generate lower revenues (relative to FAA/EASA business). High certification costs therefore make the work more expensive – and less profitable – for the repair station.
- **The collapse of the U.S.-EU BASA would disproportionately hurt small companies.** Larger companies are better able to spread out (i.e., internally amortize) regulatory compliance costs. EASA certificate renewal consumes a greater portion of revenues for smaller companies (one to five employees) than large companies (200+). If the U.S.-EU BASA did not exist, compliance costs would increase for all U.S. repair stations, but small companies would be hit harder because the costs would consume a greater percentage of their revenues.

Past legislative proposals would have mandated duplicative biannual inspections of all repair stations and required drug and alcohol testing for overseas maintenance facilities without regard to laws of other nations, threatening the system of BASAs (particularly with the E.U.) that allow U.S. aviation maintenance companies to compete internationally. Congress must ensure that our BASAs remain intact and should encourage the administration to forge more aviation alliances with our key trading partners.

Foreign repair station certification ban prevents U.S. companies from expanding globally

U.S. competitiveness in the international arena is undermined by a congressional restriction on the FAA's ability to certificate new foreign repair stations. A provision in VISION-100, an FAA reauthorization law enacted in 2003, required TSA to issue security rules for all aviation repair stations by August 2004. When TSA failed to meet

that deadline, lawmakers (in the 9/11 Recommendation Implementation Act) demanded the security regulations be completed by August 2008.

The penalty for the TSA's failure to comply: Congress prohibited the FAA from issuing new foreign repair station certifications. This ban has undermined U.S. leadership in maintenance services and has prohibited American companies from competing in rapidly emerging markets, ceding this work to competitors certificated by other CAAs.

Nearly four years later, the TSA has yet to issue final repair station security regulations and the FAA remains banned from issuing new foreign repair station certificates. In 2011, ARSA completed an informal survey of aerospace companies to assess the effect that TSA's inaction and the resulting foreign repair station certification prohibition is having on the industry. The results demonstrate the detrimental impact on industry:

- **The ban is hurting small to medium-sized businesses.** Half (50 percent) of respondent companies employ fewer than 500 workers. Of these, an overwhelming majority (83 percent) are seeking to open new foreign repair stations.
- **Companies want to tap into rapidly expanding international aviation markets.** Three quarters of respondents (75 percent) indicated their company has an application for FAA foreign repair station certification pending or will submit an application when the moratorium is removed.
- **U.S. companies are losing revenue.** U.S.-based companies responding to the survey report they are losing more than \$18 million in combined revenues annually because of the FAA's inability to certificate new foreign repair stations.
- **The ban is stifling job growth.** Over half of respondents (55 percent) said their companies would hire new U.S.-based employees if they could obtain FAA foreign repair station certification. Two companies anticipated hiring more than 100 new U.S.-based employees.

The results of ARSA's informal survey are clear: TSA's failure to complete repair station security rules is preventing U.S. aviation companies from tapping into rapidly expanding overseas markets, preventing domestic job creation and growth. The longer the ban is in effect, the more damage it will cause to the country's competitive edge in aviation maintenance services. Further, ARSA believes that it is only a matter of time before foreign countries impose a reciprocal ban that prevents repair stations located in the United States from gaining approval from foreign CAAs.

Given TSA's lack of progress toward finalizing repair station security rules, Congress must stop penalizing the aerospace industry and again allow the FAA to certificate new foreign repair stations. Prohibiting one federal agency (FAA) from doing its job because another (TSA) is ignoring congressional mandates is bad policy, does not work, and is hurting the industry's global competitiveness. TSA has committed to completing the security rules during the fourth quarter of this year; if the agency does not meet its self-imposed deadline, Congress must take action and permit the FAA to do its job and once again certificate new foreign repair stations.

Conclusion

Repair stations have long been, and continue to be, a vital part of the aviation industry and our nation's economy. As the U.S. economy recovers, we should be nurturing small and medium-sized aviation maintenance companies, not obstructing their ability to export and compete internationally. In order for repair stations to compete globally, Congress must encourage the negotiation of more BASAs, respect our current aviation agreements, and refrain from micromanaging the aviation maintenance sector. ARSA looks forward to working with Congress to ensure the global competitiveness of the aviation industry.

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