Manufacturing Distributors Distributors Maintenance Operations Distributors

The Update Report

The Aviation Suppliers Association

Volume 11, Issue 1 January 2003

UNIFORM COMMERCIAL CORNER

Security Interests and Proceeds

If you sell a part to a distributor on credit, and retain a security interest in the part, is your right to payment fully protected? In same cases, the answer to this question is NO!

Retaining a security interest in an aircraft part sold on credit is often a good way to protect your rights but it is not always a 100% protection. Even if you properly file the financing statement to perfect the lien, there are circumstances where your lien could be functionally extinguished.

A buyer in the ordinary course of business who purchases an article in good faith, without knowledge that his purchase violates someone else's ownership rights, may take that article *free of any liens*. This means that if you sell a component to another distributor on credit, and that distributor sells it to an air carrier, then the air carrier may have a right to that component that supersedes your security interest.

There are some limits on this rule. The buyer cannot acquire the component through a bulk sale. He also may not take the component as satisfaction for a pre-existing debt (he has to give "new value" in exchange for the component). The seller has to be in the business of selling the component and the security interest that is superseded must be one created (e.g. signed) by the seller himself.

If you are selling parts to a distributor, repair station or other business on credit and are worried about losing your security interest due to the resale of the article to a buyer in good faith, there are ways to protect yourself.

It is generally implied that the money received for the secured article (identifiable cash proceeds) is still collateral for the security interest. The problem is that the security interest exists only as long as the party selling the collateral holds onto the cash. If the cash is spent, the security interest is lost (unless the cash is spent on the same type of collateral).

A financing statement that explicitly names proceeds and indicates that non-cash proceeds may be considered collateral can help to preserve a creditor's rights (e.g. "this financing statement covers all proceeds of disposition of covered collateral, whether such proceeds be equipment, inventory or consumer goods").

As a general rule, the proceeds of the sale of a secured item are protected for ten days after the sale of the original collateral. Following this grace period, though, you must perfect your interest in the proceeds in order to retain a security interest.

State law and fact patterns can vary, so be sure to seek a lawyer's advice in any particular transaction.

Inside this Issue:

Congratulations to the newly accredited and re-accredited companies

<u>Newly Accredited:</u>

Ranger Air Aviation
Carrollton, TX

Tradewinds Services Engine & Aircraft
Coconut Creek, FL

Turbine Engine Resources Ltd.
Carrollton, TX

<u>Re-Accredited:</u>

Aircraft Instrument & Radio Company, Inc.
Wichita, KS

Contrail Aviation Support, Inc.
Verona, WI

Infinity Air, Inc.
Tarzana, CA

International Aircraft Associates
Miami, FL

Overseas Aircraft Parts, Inc.
Coconut Creek, FL

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ASA AVIATION SUPPLIERS ASSOCIATION

A Message from ASA's President

The FAA is moving right along with preparing for the implementation of the new 145. The latest information on the release of the new FAR 145 is that the FAA will be posting a Federal Register Notice that delays the new FAR 145 implementation for 6 months, making the effective date October 6, 2003. This was the course of action recommended by ASA and its partner associations in the Petition to Postpone Implementation that we submitted to the FAA. The FAA hopes to have the final version of draft AC 145-MAN released in March, which should give repair stations plenty of time to meet the October compliance date.

It is convention time in the aviation industry, with many meetings coming up this Spring. With budgets tight it is hard to travel but corporate exposure is essential for meeting new business partners, attaining new lines of parts to sell and reshaping your company's direction. There is a list of upcoming events on the last page of The Update Report. These are meetings at which you will find ASA members developing business relations.

Best Regards,
Michele Dickstein

PS: The deadline for submitting nominations for The Edward J. Glueckler Award is March 27, 2003!

(Continued from page 1)

Qwest Air Parts, Inc.
Memphis, TN

Qwest Air Parts, Inc.
Deerfield, FL

Universal Turbine Parts, Inc.
Prattville, AL

Volvo Aero Services, LP
Boca Raton, FL

Volvo Aero Services, LP
Kent, WA

Congratulations to the new accreditees and reaccreditees for their accreditation to ASA-100 and AC 00-56A. More information about this program is available at http://www.aviationsuppliers.org

The Glueckler Award
Call For Nominations

The Edward J Gleuckler Award is presented annually in recognition of outstanding commitment, dedication and contribution to ASA and to the aviation industry.

ASA is currently seeking nominations for this year's recipient. Complete information is available on the internet at:

http://www.aviationsuppliers.org/membership/Glueckler_Award.htm

Nominations are due to ASA by March 27, 2003.

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) 347-6899.

Senate Hearing Examines the State of the Airline Industry

The overall health of the airline industry is one of the most important factors affecting distributors' business. Airlines large and small constitute an important part of most distributors' customer base. Events in the past two years have brought changes in the airline industry that will shape the airline sector for years to come. The Senate recently took stock of the state of the airline business and the federal government's measures to aid it.

As one of the first acts of the newly established 108th Congress, the Senate Committee on Commerce, Science, and Transportation held a hearing on January 9, 2003 titled "The Future of the Airline Industry." The Committee heard testimony from representatives of the major airlines, trade associations, academia, and the Department of Transportation.

Committee Chairman John McCain (R-AZ) and Ranking Minority Member Ernest Hollings (D-SC) presided. In their opening statements, both Senator McCain and Senator Hollings warned that federal largesse was not unlimited and that further bailouts for the airlines were not forthcoming. They challenged the airlines to revise their business models and cut costs.

DOT's Views

Jeffrey Shane, Associate Deputy Secretary of Transportation, provided an overview of developments since September 11, 2001 and the federal government's responses to the many changes in the industry. He drew attention to the successful efforts made by the Transportation Security Administration (TSA) to institute congressionally mandated security improvements throughout the U.S. aviation system. On the financial side, Shane described the past two years as the most challenging period for the industry since the deregulation of the airlines, with carriers suffering as much as $9 billion dollars in losses in 2002. Shane noted, however, that the industry has proven very resilient in the past.

Shane highlighted some of the recent changes in the airline industry that could have a long-term effect on the composition of the industry. Large network airlines are reducing capacity in a bid to cut costs, while low-cost carriers are expanding operations and increasing market share. Given the thin margins that normally prevail in this industry, Shane stated, even relatively small market share shifts have important consequences. The large-scale decline in capacity in the mainline operations of large network airlines, he explained, has been only partially offset by the expanded operations of their regional affiliate airlines.

Scheduled capacity for low-fare carriers such as AirTran, American Trans Air, Frontier, JetBlue, Spirit, and Southwest, recovered much more quickly after the September 11 attacks, Shane testified. By March 2002 their scheduled capacity had more than fully recovered and was up 13 percent over a year earlier. Shane noted that these carriers' capacity is continuing to increase, resulting in a total increase from March 2001 to March 2003 of 31 percent, with every carrier except Southwest showing a double-digit increase. As a result, the low-fare carriers' market share expressed in aircraft seat miles (ASMs) is expected to increase from 12.5 percent in March 2001 to 18.2 percent in March 2003, an increase in market share of almost 50 percent. This increase reflects the trend among business travelers – traditionally the key customers of the network carriers – to be much more price-conscious in their travel arrangements and opt for cheaper alternatives.

Government Assistance

Shane went on to offer a progress report on some of the measures Congress enacted to address the industry's post-9/11 problems. Sixteen airlines have filed applications for federal loan guarantees authorized under the Air Transportation Safety and System Stabilization Act. The Air Transportation Stabilization Board (ATSB) established under that Act has approved and finalized three loan guarantees to date. They are a $380 million loan guarantee to America West, a $148.5 million loan guarantee for American Trans Air, and a $40.5 million loan guarantee to Aloha Airlines. ATSB has conditionally approved three other loan guarantee applications for US Airways, Frontier Airlines, and Evergreen International Airlines, but to date none of the carriers have finalized their loans. US Airways received conditional approval for a $900 million loan guarantee to support a $1 billion secured loan. Because US Airways is reorganizing in bankruptcy under Chapter 11, Shane explained, the conditional approval remains in effect subject the bankruptcy court's confirmation of a reorganization plan.

ATSB has rejected seven loan guarantee applications, including those submitted by Vanguard Airlines, Frontier Flying Service, National Airlines, Spirit Airlines, Corporate Airlines, MEDjet International, and Great Plains Airlines. ATSB was concerned in most of these cases that the applicants' proposals did not provide a reasonable assurance of repayment; this is one of the factors ATSB is required to consider under OMB's regulations.

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Tax Cut Proposal Promises Benefits for ASA Members

On January 7, the President announced a number of tax proposals that could mean significant benefits for ASA members. The tax proposals are part of an Economic Stimulus Package. The theory is that properly targeted tax cuts will encourage the sort of investment that leads to a growth in the economy and an increase in good jobs for Americans.

The idea of lowering taxes in order to increase tax revenue is not a new one. In the 1960s, after John F. Kennedy's tax cuts, income tax revenues rose from $94 billion in 1961 to $153 billion in 1968, an increase of 62 percent, which was still an increase of 33 percent after adjusting for inflation.

The proposal aims to boost the economy by raising investment, supporting consumer spending, and increasing job growth. Speaking at a recent briefing on the proposals, the president's senior political adviser Carl Rove summarized the three main features of the president's proposal: accelerating the timetable on tax cuts that have already been approved; eliminating instances of double taxation; and creating new assistance and incentives for the unemployed. The president views these measures as long-term "growth insurance" for the U.S. economy.

Rate Reduction

In 2001, Congress passed a phased tax cut bill that reaches most of its tax cut goals by 2010. The President's plan accelerates many of these cuts so that they mostly become effective this year. The marginal tax rates would begin at 10% (instead of 15%) and the maximum tax rate would drop back down to 35%.

The White House plan would make these cuts retroactive to January 1, 2003 so that Americans would see the benefits in their 2003 tax filings as well as in this year's withholding numbers (resulting in larger paychecks).

The Administration points out that temporary, one-year tax changes have proven to have little effect on consumer spending habits and the economy as a whole. Permanent marginal rate reductions, on the other hand, can have a huge positive impact on the economy, an assessment shared by Wall Street analysts. Economists have long known that the "last dollar earned" is the key to discretionary spending. When consumers have a larger take-home paycheck owing to lower tax rates, they are more likely to spend that additional income and boost the economy. The president's Council of Economic Advisers estimates that if the Congress passes the administration's proposal, these marginal rate reductions will put $59 billion dollars back into the pockets of American taxpayers this year alone.

> *The Tax Proposal would triple small-business expensing limits, eliminate personal income tax on dividends, and reduce taxes across the board for all Americans*

Benefits for Your Business

Several key provisions of the plan benefit small businesses, a policy the administration terms "tax cuts for job creators." Under the President's plan, every small business that purchases equipment to grow and expand will get assistance through an increase in the expensing limits from $25,000 to $75,000. It was just a few years ago that the expensing limit was only $10,000. The increase to $75,000 will be a tremendous boon for ASA members looking to upgrade office equipment or other equipment up to $75,000, as it will allow immediate deduction of that property instead of requiring depreciation over a period of years.

Many ASA members have had to let employees go because of the economy. This is never a pleasant task. ASA business owners will be pleased to learn that the President's plan will expand and extend unemployment assistance, including the creation of Personal Re-employment Accounts.

Personal Re-employment Accounts would provide unemployed workers with up to $3,000 to use for job training, child care, transportation, moving costs, or other expenses associated with finding a new job. A person who gets a job within 13 weeks would be able to keep the leftover funds from their account as a re-employment bonus. President Bush proposes giving states $3.6 billion to fund these accounts. The program would be administered through the One Stop Career Center system and would work through existing state unemployment systems to ensure speedy delivery of benefits.

Under the President's plan, these accounts would be available to at least 1.2 million Americans. Workers would receive these Personal Re-employment Accounts in addition to their regular unemployment benefits.

Benefits for Businesses and Owners

The President's plan would eliminate the income tax on dividends collected by taxpayers.

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Targeted Tax Relief Designed to Stimulate the Economy

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This does not mean that dividends would not be taxed! Under current law, dividends are taxed twice, in marked contrast to the policies of almost all other leading industrialized countries. Dividends are taxed a first time as corporate income. Unlike wages, a corporation is not allowed to deduct dividends from income. Then, the dividends are taxed a second time as income to the recipients. Corporate structures have been developed in some cases specifically to defeat this double taxation (the subchapter S Corporate Tax rules are a good example - they permit only one tax payment to be made on dividends). The President's proposal would eliminate the second set of tax payments made by the dividend recipients.

Eliminating the unfair double taxation of revenue is only one goal of this proposal. It would also encourage investment in companies because stock dividends would be tax-free to the stockholders. This could be an important boost to the lagging stock market. It could also help to bring investors back to industries like aviation.

Benefits for You and Your Employees

There are a number of personal income tax changes that could benefit every employee of an ASA member business. Many families in America are two-income families, and the nation has for many years recognized an inequity called the marriage penalty – the provision in the tax code under which many two-income families pay more tax than they would if the parents were both single. The 2001 tax changes will gradually reduce the marriage penalty through 2009; the President's proposal would accelerate this tax benefit to eliminate the marriage penalty this year. The White House estimates that 46 million married couples would benefit under the President's plan, each receiving an average tax cut of $1716.

The president has also proposed to raise the child tax credit from $600 to $1,000 per child this year. This is another acceleration, as the $1,000 per child tax credit is not scheduled to be implemented until 2010. The president has proposed that checks would be issued for the $400 difference in the credit to 34 million families this year.

The President's plan would also move several million working Americans into the lowest tax bracket of 10 percent now instead of waiting until 2008.

Process

The President cannot lower taxes on his own. In fact the only power the President has over taxes is the power to lead and encourage. The real power to lower taxes lies with Congress.

The President's proposals must be passed in both chambers of Congress to become law. Administration officials anticipate that legislation could be introduced by Memorial Day. We can probably expect rapid passage in the Republican-controlled House of Representatives, but the Senate is bound to represent a bottleneck. In the Senate, a super-majority of 60% of the Senators is necessary to break a filibuster. In an effort to prevent unproductive filibusters, common practice in the Senate is to achieve the 60% supermajority for any controversial measure intended to be passed. There are special rules that can be invoked to make a measure filibuster-proof, but these usually carry certain limitations.

For example, the budget rule that allowed the Senate to pass tax-cutting legislation in 2001 also imposed a ten-year limit on these measures (which is why many tax cuts expire in 2010). We can expect significant negotiation and compromise to go on in the Senate. Hopefully it will lead to a bill that both Republicans and Democrats can support; hopefully it will also lead to a bill that provides ASA members with the tax cuts we need to thrive.

The President has expressed pride in a number of his accomplishments during the last two years. He signed into law an economic stimulus bill, tough new corporate accountability standards, terrorism insurance legislation, and an important trade act. All these measures are expected to help our economy recover.

According to the White house, America's economy is recovering and showing signs of growth. The country is now in its second year of economic growth. Nationwide, incomes are rising faster than inflation. Interest rates are the lowest in 37 years, and low interest rates have allowed Americans to refinance their homes, adding more than $100 billion to their pocketbooks.

The aviation industry has always been a cyclical one, and it is a simple fact that travel is an easy element to cut during times of recession so the transportation industry is always hit disproportionately hard in any recession. If the President's program is successful, it should have direct affects for ASA members as well as indirect affects through increase prosperity, increased air travel, and the resulting increased need for replacement parts for aircraft.

Parts Fraud Allegations Lead to Indictments

NASA's Office of the Inspector General recently announced new indictments in a long-running case concerning an alleged counterfeit parts scheme. Although the indictment was announced by NASA, the government has also accused the defendants of fraud that is alleged to have addressed parts in the commercial market as well.

A superceding indictment has been filed to add new charges in a case against RAM Enterprises, Inc., of Valencia, CA, Richard Monstein, RAM's President, and Timothy Gordon, RAM's Quality Assurance Manager. The new indictment also names Precision Components of Camarillo, CA, and their owner, David Erickson. The case against RAM was originally opened in 1998.

The indictment alleges that RAM, with the help of Precision Components, produced its own electrical connector pins, which were not approved for use by the United States government. The indictment further alleges that Monstein and Erickson caused trademarks of manufacturers such as Tri-Star Electronics International to be affixed to the connector pins without the permission of the trademark holders, and then sold the connector pins to Department of Defense and NASA contractors and subcontractors, as well as commercial aircraft and marine vessels, while representing the pins to be genuine products of those manufacturers.

The Government claims that as part of the alleged scheme, when RAM did not have the specific pins requested by its customers, RAM would fill the orders by substituting these self-produced counterfeit parts or by altering the appearance of other, lower-quality connector pins. RAM's quality assurance manager would then allegedly conceal the substitution by falsifying certificates of conformance.

The defendants are charged with conspiracy, trafficking in counterfeit goods, fraud involving an interstate carrier (for shipping the parts using a commercial shipper), knowingly and willfully making false statements on a matter within the jurisdiction of the U.S. government (for falsifying certificates of conformance), and for causing an illegal act to be done (for knowingly and willfully transmitting false certificates of conformance to customers).

The trial is currently scheduled to take place in March. ASA plans to keep abreast of this case and to provide an update on the outcome.

FAA Announces Appointments to Top Posts

The new leadership at the FAA continues to take shape. FAA Administrator Marion C. Blakey has announced the following appointments by President George W. Bush to top agency posts.

Robert Sturgell is appointed Senior Counsel to the Administrator. Sturgell will advise the Administrator on policy and management issues, as well as on the agency's capital programs and modernization efforts. Sturgell joins Administrator Blakey from the National Transportation Safety Board (NTSB) where he had served the former Safety Board Chairman as primary advisor and coordinator on the NTSB's recommendations, policy programs and other safety initiatives.

David Mandell is appointed Chief of Staff to the Administrator. Mandell acts as Administrator Blakey's primary aide and advisor in the management and administration of the agency. Mandell also serves as a key legal advisor to the Administrator on many legal issues including all procurement and acquisition disputes as well as civil penalty cases. He previously served Blakey as Special Counsel to the Chairman at the NTSB.

Greg Martin is appointed Assistant Administrator for Public Affairs. Martin is the FAA's chief spokesperson and is responsible for the strategic development and overall management of both the agency's external and internal communications programs, media relations and website. Martin previously oversaw strategic communications planning, speechwriting and advocacy efforts at the NTSB.

David Balloff is appointed Assistant Administrator for Government and Industry Affairs. Balloff becomes the FAA's chief liaison to Congress as well as overseeing relationships with industry to promote and implement policies that will ensure the safety and enhance the capacity of the national airspace system. Balloff served in a similar position with Administrator Blakey at the NTSB. Before joining the Safety Board, Balloff was the longstanding transportation policy advisor and press secretary to Congressman and House Aviation Subcommittee Chairman John J. Duncan, Jr., having worked on the AIR-21 legislation and the Aviation Security Bill.

FAA Hazmat Enforcement Increases

In recent months, DOT spokespersons have announced that hazmat enforcement will enjoy increased emphasis in the coming year. The FAA's December hazmat enforcement activities support the notion that hazmat is becoming an increasingly important area of regulatory compliance.

In December, the FAA announced fourteen new hazmat enforcement actions involving allegedly improperly packaged and marked hazmat shipments, offered for transportation by air. The proposed civil penalties ranged from $51,000 to $96,250.

Each of the fourteen cases described in the FAA press releases fell into a similar mold: a company attempts to ship an item containing hazmats using either an air carrier's cargo service or a shipping service such as UPS or Federal Express. The carrier's ground handling personnel notice the package leaking, and upon closer investigation, find that the contents are indeed hazmats that were either improperly marked or not marked at all. The incident is reported to the FAA, and enforcement begins.

The New Piper Aircraft Company was cited for allegedly shipping an electric fuel pump that contained mineral spirits, a flammable liquid, via UPS. In a similar vein, an automotive parts distributor was cited for allegedly shipping a fuel pump containing diesel fuel residue. The other companies illustrate the range of potential violations: a construction company cited for allegedly shipping a hydraulic unit containing flammable fluid; a beauty supply distributor cited for allegedly shipping flammable aerosol cans; several companies cited for allegedly shipping paint by air; a firm cited for allegedly shipping explosives on a passenger aircraft.

There are three sets of charges that we are seeing again and again in incidents of this sort.

The first is that the alleged offender offered the hazardous material for transportation when it was not packaged, marked, classed, described, documented, or in condition for shipment as required by regulations. Scrupulous compliance with the hazmat regulations is required.

Failure to ensure that employees were trained to properly package and handle hazardous materials is another common claim. A surprising number of companies do not retain acceptable records of employee training, even when the training has been accomplished. Participants in ASA-sponsored hazmat training always get two records of training – one for the employee to retain and one for the employer's compliance records.

Finally, incidents like these often result in a charge that the shipper did not make available the required emergency response information. This is a U.S. rule that appears to be most-often missed in air transportation because it is not well described in the IATA book of hazmat regulation that is favored by many in our industry. This helps to illustrate why proper training is so important.

The full text of the FAA press releases can be found at http://www1.faa.gov/index.cfm/apa.

ASA remains committed to raising members' awareness of possible pitfalls when shipping hazmats, and offering training designed to avoid those pitfalls. Our next hazmat training course will be in the Arcadia, CA, which is near LAX and Burbank airports.

Senate Hearing Examines the State of the Airline Industry

(Continued from page 3)

In addition, on December 4, 2002, ATSB decided that it could not approve the proposal of United Airlines for a $1.8 billion loan guarantee, based on its conclusion that United's business plan was not financially sound. United subsequently filed for Chapter 11 bankruptcy on December 9, 2002, and because the Board never formally rejected or denied United's proposal, the airline can still revise its application with the ATSB. Shane explained, however, that any approval of a loan guarantee to United could be made only if the guarantee and the underlying financial obligation is part of a bankruptcy court-certified reorganization plan for emerging from bankruptcy. Shane predicted that this matter is unlikely to be resolved in the near future.

ATSB is now examining two other loan guarantee applications from Gemini Air Cargo for $29.7 million and World Airways for $27 million.

Congress authorized $10 billion in loan guarantee authority. Applications approved to date, or conditionally approved, represent a total of $1.6 billion. Applications still pending, together with further consideration of United's application, would represent as much as $1.9 billion in further loan guarantees. The total potential expenditure under the loan guarantee program is therefore likely to be about $3.5 billion.

Shane provided updates on two other programs as well. The Air Transportation Safety and System Stabilization Act also provided for $5 billion in direct compensation to the airline industry, to include not only large commercial airlines, but thousands of smaller direct and indirect air carriers as well. More than 450 applications for compensation were submitted to the Department and, to date, over 400 air carriers have been paid $4.6 billion in compensation. Under another program, the FAA has been providing third party war risk coverage to U.S. passenger and freight carriers since shortly after September 11, 2001. The Homeland Security Act of 2002 mandates that this coverage be continued and expanded.

Industry Views

The Committee also heard testimony from Air carrier CEOs, the Air Line Pilots Association (ALPA), the Business Travel Coalition, and Professor Alfred Kahn of Cornell University.

Although almost all of the witnesses described in similar terms the dismal financial state of the industry, with further losses of $3 billion projected for 2003, there were no calls for direct aid to the carriers themselves. Instead, the witnesses identified factors that contributed to the current condition of the airlines and offered recommendations on how the federal government could help without further direct bailouts.

One area of concern shared by almost all of the witnesses is the tremendous increase in security-related costs. These costs take many forms, all of which impact on the carriers' bottom lines. Airline tickets already bear a September 11th security fee. In addition, the Congress is requiring airports and airlines to bear the costs of various federal security functions: the provision of TSA office space at airports; security at airport perimeters; additional local law enforcement officers at airports to meet new TSA requirements; airport screening of caterers and other service employees; the funding of much of the build-out of airports needed to deal with new TSA requirements; and the payment of the costs of the permanent cockpit door modifications. Most of these costs remain un-reimbursed. Several of the witnesses urged the Congress to provide more federal funds to shift these burdens away from the industry.

Taxes represented another issue on which there was a broad consensus among the witnesses. Northwest's CEO Richard Anderson and ALPA's Captain Woerth provided figures showing how average taxes on airline tickets have increased from 7% in 1972 to 15% in 1992, and are currently averaging 26%. On some low-fare tickets, over 40% of the ticket price consists of various taxes. The Business Travel Coalition's Mitchell cited these levels of taxation as one of the three biggest threats to low-fare competition. The witnesses called on the Committee to work for greater tax relief.

Captain Woerth, speaking also on behalf of the Transportation Trades Department of the AFL-CIO, called for greater aid and protection for aviation industry workers, 150,000 of whom are out of work. Many have exhausted their unemployment benefits and health care coverage. Woerth noted that 7,000 of ALPA's 66,000 member pilots have been idled by layoffs and downsizing, and stressed that other employee groups have been similarly affected and have been making significant sacrifices in pay and benefits as airlines have re-negotiated their labor contracts. Woerth called for greater efforts to protect aviation workers' pensions and provide improved unemployment assistance for aviation employees.

The witnesses' opinions diverged on some questions, however. Northwest CEO Richard Anderson, for example, complained that the Department of

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The State of the Airline Industry

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Justice's delay in approving the code sharing alliance between Northwest, Continental, and Delta was impeding the recovery prospects of all three carriers. The Business Travel Coalition's Kevin Mitchell, on the other hand, argued that the proposed alliance – which would comprise nearly forty percent of the marketplace – is bad for low-fare competition and would be harmful to consumers and the corporations that fund business travel activities.

The Outlook

The witnesses offered few firm predictions as to the industry's prospects for recovery in the near term. Almost all agreed that recovery to pre-2001 levels of business could eventually be expected, but all saw the near-term outlook clouded by a number of significant variables, the main one being the potential for war with Iraq. The consensus seemed to be that the airlines' recovery has clearly stalled somewhat since early 2002, and industry observers do not expect any significant improvement in the near future.

Secretary Shane cited three factors that complicate the revenue picture for the large network carriers. The first is the increasing price-sensitivity of business travelers, which studies indicate may represent a permanent shift in buying habits. The second is a sharp increase in network airline unit costs, which has coincided with this loss of business traveler revenue and which opens a wider spread between the network carriers' costs and the costs of their low-fare competitors. Third, whether or not the business market remains more price sensitive, the ability of the network carriers to charge high fares is gradually being eroded by the expansion of low-fare carriers. For many years low-fare competition was primarily limited to large, short-distance markets, but this is no longer the case, Shane observed. Several carriers such as JetBlue and AirTran have introduced low-fare service in transcontinental markets and lower density markets.

As Shane pointed out, the challenge faced by large, networking carriers is clear: the continued profitable growth of several low-fare airlines demonstrates that there is still considerable demand for air travel. While major carriers have been seeking ways to restructure their operations – including capacity reduction, fleet retirement, cancelled or deferred orders for new aircraft, furloughed employees, closed stations, and hub de-peaking – it will take time for such efforts to produce major results. Moreover, absent major reductions in labor costs it is unclear whether these efforts will produce the cost savings necessary for the large network airlines to maintain their current position in an increasingly competitive industry.

The outlook is considerably brighter for the low-cost carriers and many regional airlines. As the industry adjusts to the new market conditions, these sectors represent the strongest growth potential.

For distributors, the coming year will present a number of challenges. As long as business with larger carriers remains weak, there is likely to be keen competition for the low-cost carrier and regional carrier markets. Distributors will have to work hard to control their own costs and keep a careful eye on trade credit arrangements with their existing customers.

Further information on the Senate hearing can be found at http://commerce.senate.gov/~commerce/press/03/2003107712.html.

FAA UPDATE

New Address for SUPs

Several ASA members have contacted us asking why they cannot seem to get in touch with the FAA's SUPs Office. The reason is because the SUPs Office has moved!

The FAA's Suspected Unapproved Parts National Program Office, which is also known by its mailstop code, AVR-20, has moved to a new location. The new location is still close to Dulles Airport. The new contact information is as follows:

Address
Suspected Unapproved Parts National Program Office
13873 Park Center Road, Suite 165
Herndon, VA 20171

Office E-mail Address
9-AWA-AVR20-SUPS@FAA.GOV

Internet Address
http://www.faa.gov/avr/sups

Phones
Main Phone Line (703) 668-3720
Main Fax Number (703) 668-3002

The new office is located right next door to the Dulles Airport Hilton in Reston, VA. Those flying in to see the SUPs Office may use the Hilton shuttle from the airport to reach the AVR-20 offices.

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) 347-6894.

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 ten are now on-line!

UPCOMING EVENTS

**** = Look for ASA personnel on the speaking program***

ASA is currently working on the 2003 workshop and training schedule.
Keep checking our website for the latest updates.

Feb. 26-27	*** Hazmat Training for Aviation Professionals**, Arcadia, CA at the Embassy Suites. Call ASA at (202) 347-6899 to reserve your spot today! See page 7 for more details. For registration information see http://www.aviationsuppliers.org.
Mar 7-10	**ARSA Annual Symposium**, Washington, DC. Call (703) 415-5000/(800) 241-3333 or visit http://www.arsa.org for more information.
Mar. 24-26	**Speednews Aviation Industry Suppliers Conference**, Los Angeles, California. Call (310) 203-9603.
Apr. 6-8	**CCMA**, Costa Do Sauipe, Brazil, see http://www.ccmasuppliers.com for more information.
Apr. 15-17	**MRO**, Fort Lauderdale, FL, see http://www.aviationnow.com for more information.
Apr. 23-26	*** Aircraft Electronics Association Convention**, Orlando, FL. Call (816) 373-6565 for details.
May 13-15	*** GSE & AS3**, Las Vegas, NV, see http://www.gseexpo.com for more information.
May 18-21	**RAA Annual Conference**, Phoenix, AZ, call (202) 367-1170 or visit http://www.raa.org.
June 22-24	*** ASA 10th Anniversary Celebration and Annual Conference**, Ritz-Carlton, Naples, FL. Call (202) 347-6899 for details. See our ad on page 8. For more detailed information see http://www.aviationsuppliers.org.
Sept. 22-24	**Speednews Aviation Industry Suppliers Conf in Europe**, Toulouse, France. Call (310) 203-9603.
Nov. 2-4	**Speednews Reg'l & Corp. Aviation Industry Suppliers Conf.**, Rancho Mirage, CA. (310) 203-9603.

2003 is ASA's 10th Anniversary. The Annual Conference will be held at the Ritz Carlton in Naples Florida. Hotel reservations are already being taken as (800) 241-3333 or contact the hotel directly at (239) 598-3300. Please be sure to identify yourself as an ASA participant to get the ASA discounted room rate of $139 per night. Registration packages will be mailed in March.

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