



America dreams

The North American fleet will grow in the low single digits in the coming years.
Photo: Airbus

As the United States transitions to a new government there are promises of rebuilding the country's aviation infrastructure. **Keith Mwanalushi** looks at what's ahead for the MRO sector.

Donald Trump's presidential campaign was marked by a combination of populism, nationalism and protectionism. Aviation policy has typically not featured high on the priority list of prospective presidential candidates but Trump's promises on aviation were right up there aiding to drum up support for his election winning campaign.

Interestingly, Mr Trump's campaign expressly attacked Norwegian Airlines International's moves to operate into the US. (Which has now been granted permission). The often-misplaced arguments fell squarely into the category of appealing to voters concerned for their jobs, and who see all the perceived negatives of foreign trade.

With a new Trump administration in the U.S. there have been some global concerns of a likely reversion to protectionism in the U.S. compared to the current trend of globalisation.

"Increased protectionism will likely lead to turbulence as the American MRO industry is a true global industry," Alvin Khoo CFO at GA Telesis foresees. "As the home to many, if not most of the world's component manufacturers as well as the world's largest base of MROs, airline customers from all over the world send their assets to the USA to utilise MRO services. Protectionism may also lead to other countries taking similar positions creating unnecessary global friction," Khoo cautions.

Brian Neff from Fort Lauderdale based CTS Engines is relatively optimistic on the impact of a Trump administration, with the obvious

qualifications regarding trade barriers. Neff says as with all successful members of the global MRO community, CTS has benefitted from free trade, and oppose any unnecessary restrictions. "That being said, we are very happy to hear that the Trump administration intends to reduce the regulatory burden on small to mid-size companies, which has grown greatly over the past 16 years. So we have adopted an eyes open approach with a hope for the best," Neff aspires.

AAR Corp say they provide good-paying jobs for over 3000 American workers at the six facilities in their MRO network, which are all located in the United States. "Airlines that have their heavy maintenance and modifications done by AAR are supporting U.S. jobs," declares Dany Kleiman, Vice President and General Manager of MRO at AAR.

AAR is investing strategi-



The MRO market seems a low priority target for the Trump administration.
Photo: Michael Vardon



Lopez - The challenge for the industry is to be disciplined about capacity matching demand.
Photo: PEMCO

expect positive outcome of any regulation that will level the playing field across the world," he comments.

Aviation will continue to be a global industry, irrespective of America's political landscape. Larry Montreuil VP Asset Management and Business Development believes airlines will continue to seek those MROs that provide the best value.

"Protectionism, while a popular and perhaps an effective concept during a political campaign, is less likely to materialise in the MRO sector to the extent it may in other industries. Imposing tariffs will require the US Congress to approve tariffs. That prospect is unlikely when both houses of congress is controlled by a party that favours free trade."

Montreuil says the ban against new foreign FAA repair stations under the Obama administration was a greater impediment to international trade and competition in the MRO market than we are likely to see in a Republican controlled congress. "The motivation behind it was a key congressman heavily influenced by organised labour. The congressman is no longer in power and organised labour has less sway than it did in the past."

Congressional and GAO reports have found that the outsourcing aircraft maintenance services does not adversely impact safety as labour union sponsored studies have suggested, Montreuil highlights. Further, in a report to Congress the Congressional Research Service (CRS) found that there is a positive balance of trade among U.S. and foreign MROs. The CRS report concluded that the U.S. has not experienced job losses due to foreign MRO providers.

"The MRO market then seems a low priority target for the Trump administration to make good on protectionist campaign promises," says Montreuil.

Obviously, it's far too early to do anything other than discuss the potential of any new regulatory and jurisdiction trends impacting MRO in America. If anything the new administration has been vague and the threats have been veiled thus far. Khoo from GA Telesis is confident

cally in its existing and new facilities, which can support narrow- and wide-body work to U.S. airlines, "and we are ready to support more widebody work which we believe will be repatriated to the U.S, hopefully in the near-term future," says Kleiman.

PEMCO CEO Pastor Lopez' feels aviation will continue to connect people and efficiently deliver goods across the globe. The U.S. election has only just come to an end so he is adamant to see how any new regulation will impact the industry. "We only expect

that after a broad review of the implications and ramifications of any possible protectionist measures, they may never actually materialise. "Suggestions of tariffs may have a significant impact to the cost of components that are manufactured in Mexico or other jurisdictions subject to potential tariffs," Khoo suggests.

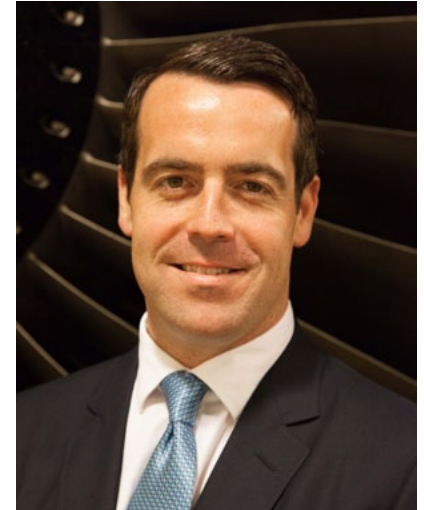
Regarding regulatory trends, CTS Engines are closely monitoring the FAA's position on metal additive manufacturing for repairs. "This is a huge area of opportunity for us, and we think it should be a priority for the FAA," Neff reckons.

Also, Montreuil highlights that the re-authorisation of the FAA in July of this year called out for greater oversight of foreign repair agencies for: drug and alcohol testing, pre-employment background checks

and risk based inspections of heavy maintenance providers.

According to a presentation from analysts at ICF International, the North American fleet will have limited growth over the next decade and the slowest growth globally

1.4% CAGR; +1,300 aircraft. Khoo presumes that this may not necessarily have a significant impact on MRO spend, although the slower growth will have some impact, especially with OEMs like Boeing announcing their entrance into the services sector. "Other factors like age and condition of fleet along with fleet deferrals will also be a major factor. Regardless, if oil prices stay low, older aircraft will continue to fly and may even impact the MRO spend in a positive way," states Khoo.



Brian Neff says CTS welcomes the ageing of the North American fleet

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Dany Kleiman, Vice President and General Manager of MRO at AAR



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Photo: Airbus



AAR is investing strategically in its existing and new facilities.
Photo: AAR

Mr Lopez acknowledges the forecasted growth is slower in the US than in some parts of the world but stresses that the U.S. has adequate capacity to serve this growth. "The challenge for the industry is to be disciplined about capacity matching demand. The U.S. should benefit from insourcing trends as the cost in other parts of the world moves closer to parity with the U.S."

Kleiman from AAR also agrees that the North American fleet will grow in the low single digits in the coming years, pointing out however that slow growth of a large installed base is still significant growth. "A counteracting element to consider is the price of fuel, which appears to be staying at levels that are very positive for our airline customers," says

Kleiman. Clearly lower fuel prices will continue to make it an attractive proposition to maintain older aircraft in operation for a longer period of time. "That brings not only more significant maintenance events, but also the opportunities for additional upgrades including interiors and in-flight entertainment.

"The net result is that we see steady growth in current American operator demand. We also see opportunities to capture widebody MRO work that's not currently conducted in

North America. AAR built a new facility with two widebody hangars in Rockford, Illinois to leverage these opportunities," Kleiman adds.

Larry Montreuil reports the North American MRO market in 2017 will likely remain flat at around 1%, as operators bring new fleets of Neos and Max aircraft online, reducing maintenance costs in the short term.

As a mature engine MRO, CTS welcomes the ageing of the North American fleet. "We don't, and we will never compete on the newer models," Neff stresses. "From our position, the mature segment of the MRO market is growing at much higher rates than one percent. We have some strong programmes expected to impact 2017, so it will be a very good year."

AAR are bullish on this market and anticipate continued growth in their MRO business segment in the New Year. "Our airline customers are financially healthy and that's good for our business," Kleiman tells.

PEMCO have grown their MRO business about 21% CAGR in the last two years as they continue to drive Lean operations and strive for operational excellence. "Our on-time performance is over 93% for 2016 even after doubling the number of aircraft serviced from the previous year. Just recently, we were awarded a three-year contract through the end of 2019, plus two one-year options. Currently, our hangars are fully booked through the later part of 2017," Lopez mentions.

At GA Telesis, Khoo expects to see moderate growth for the MRO businesses in 2017 based on low oil expectations and higher utilisation of older aircraft. "With many airlines electing to defer new aircraft deliveries and thus extending life on their older fleets, we expect more positive results," Khoo projects.



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