

PRESENTATIONS

WELCOME

Robert D. Fox
Hillcrest Aircraft Company, Inc.
HAI Chairman

I appreciate the opportunity to talk to you this morning. I would like to welcome all of you to what could be the first day of the rest of our helicopter industry's life.

Last night we had a preliminary meeting of the steering committee and the workshop leaders, and it was apparent that we have a wealth of talent assembled here, all very enthusiastic and prepared to make this a valuable event for the helicopter industry. However, the value of this two-day workshop is up to you. We need your participation to help us understand how our industry is going to remain viable.

Many of you have spent years in this industry, as I have. I was with Evergreen Helicopters for over 17 years. My experience also includes several years as chairman of the HAI Economic Committee, preceding the current chairman, Brandon Battles. That committee has always pushed for more and better collection and exchange of operator economic information and continues to do so. For the past four years, I have been on the HAI Board of Directors serving as Assistant Treasurer, Treasurer, Vice Chairman, and, as of July 1, 1991, Chairman. I have seen operator economics from every possible angle, and I am convinced there is a strong correlation between economic viability and sharing of information.

Even though this industry is and always will be competitive, we still must cooperate and share

information on costs. This forum is a logical place for such exchange to happen. I would like to suggest some points for you to consider during the next two days.

First is the need for realistic regulations and consistent enforcement of those regulations by FAA. Through the Aviation Regulatory Advisory Committee, FAA is cooperating with our industry to develop regulations that affect helicopters. We do not have to, nor can we, live under regulations designed for fixed-wing aircraft and modified for helicopters.

The second area is insurance costs, primarily product liability. Something has to be done about it. It is killing our industry.

The third area is advances in manufacturing to increase component life and lengthen the time between overhaul. Through better engineering and better reporting of maintenance and malfunction information, proper data can be collected to help us lower direct operating cost.

Finally, my old song: operators need to be aware of their true costs. We have to avoid unrealistic competition and price cutting born of the mistaken belief that they are ways to increase cash flow and profitability. Some operators are still using 1980s pricing in the real world of the 1990s. We cannot continue to do this and remain in business. Cost accounting among operators has not kept pace with the times and advances in the industry.

As we prepare to divide into five working groups, I thank you again for being here and taking part in what could be the start of a new era in the helicopter industry—one where we share ideas and work together for the common good of the industry that we serve in so many ways.

HELICOPTER OPERATOR ECONOMICS: A FEDERAL PERSPECTIVE

Michael C. Moffet
Assistant Administrator for Policy, Planning,
and International Aviation
Federal Aviation Administration

It is a pleasure for me to be here and see such a good turn-out of people to consider this important issue. It is always good to get outside of Washington and see what

the real world is thinking about. Even though we are in California, I still considered this part of the real world. Southern California is a beautiful place that is particularly apropos to consider aviation problems because it has meant so much in the history and development of the aviation industry.

With regard to industrial development, look at the MacDonnell Douglas facility up the road. With regard to history, consider that the Spruce Goose is just a short way down the road. All around us is one of the most complex pieces of airspace in the country, utilized by

large commercial operators and a very active fleet of general aviation aircraft. Southern California really epitomizes what American aviation is all about, from the smallest pleasure flyers up to the very largest aircraft that operate in our system.

Of course, this is also on the Pacific Rim, and there is no question but that the growth of international aviation is looking east. We see much more significant growth toward the Pacific here than in any other part of the country. Therefore, I think this is a good place for this conference. I hope it will help to inspire us to come up with the kind of ideas that are necessary to solve the problems facing the helicopter industry.

I want to thank the Transportation Research Board for providing these comfortable facilities and for helping us organize this conference. We are here for two days to learn something about helicopter operator economics. We all stand to benefit from this knowledge. We in FAA will gain a better perspective on how to target our guidance and assistance to do the most good. We will also learn something, I am sure, about helicopter operator safety and how we can work cooperatively to improve that. This, of course, is crucial knowledge for the FAA because we all know that well-conceived programs and well-written rules and regulations can help the industry. But if you have poorly thought-out, misdirected efforts, we can hurt it; and we do not want to do that.

The Helicopter Association International and the American Helicopter Society will also gain valuable knowledge from this meeting. They will gain a better understanding of how they can work with helicopter operators to improve performance and how to represent helicopter makers and users better before the government and the general public.

In particular, I expect that this gathering will help HAI build on what it has learned from its recent helicopter operator survey to better tailor its efforts on behalf of the industry. Finally, I am sure you, the operators, will gain a better understanding of each other, your cost structures, your manufacturers, your industry representatives, maybe even your bankers and insurers, and, of course, the FAA.

The formal title of this workshop is helicopter operator economics, problems and solutions. The purpose is twofold. First, we want to describe specific problems faced by helicopter operators. We want to discuss their implications for operational safety and continued (and hopefully expanded) helicopter operations. Second, we will suggest future actions that operators, the industry and FAA can take or avoid to reduce problems. I would like to stress that we all should think about both problems and solutions. It is not

enough to talk only about your problems. We need to brainstorm, discuss, and propose solutions. Cooperatively, we can learn and profit from our experiences.

Today's airport and air traffic system is the product of almost 90 years of experience, primarily with fixed-wing aircraft. FAA and its predecessors have responded to new technologies and market demands in creating the national airspace system that we enjoy today. Vertical flight aircraft have been around for only about half as long as fixed-wing aircraft. Since their introduction vertical flight aircraft have had to make accommodations to fit into the system, a system that was designed to meet the needs of fixed-wing aircraft, not the unique operating characteristics of rotorcraft.

Helicopter operators have done an impressive job of adapting to this fixed-wing environment. The aviation system has also adapted somewhat to helicopters. While these accommodations have allowed helicopters to operate, vertical flight aircraft are not really integrated into the national aviation system as well as we or the operators want and need. We must work hard to change this.

This workshop is a direct result of FAA Administrator Busey's participation in the 1991 Rotorcraft Roundtable. In a meeting last March with HAI's Frank Jensen and AHS's John Zugschwert who, as you know, has recently gone to Bell Helicopter, Administrator Busey expressed the desire to increase the body of knowledge and understanding of operator economic problems. Such knowledge will help FAA, the industry, and the operators themselves.

The importance that you attach to this subject is apparent when we look at the list of participants. We have leaders from business, academia, manufacturers, trade associations, the insurance and banking industry, consulting firms and, of course, the government. Mostly, and most important, we have helicopter operators of all sizes and types here to discuss helicopter economics.

The operating needs of vertical flight aircraft have gained added recognition within FAA in recent years. More than a year ago, the vertical flight program office was established to coordinate our efforts and to provide a single focal point for rotorcraft within the agency. This office, headed by Jim McDaniel and represented here today by Paul Erway, works closely with flight standards, air traffic, and airports to identify problems and give the needs of vertical flight high visibility within FAA.

Throughout the agency, people have been made within their offices focal points on vertical flight. Some of them are here today to discuss their problems and provide you with insights on our current programs. FAA Southwest Region, represented here today by Jim

Erickson and Larry Bartledge, has the lead in rotorcraft certification. Working closely with industry, this office is dedicated to keeping abreast of the latest technological developments. For example, test pilots have already completed ground school, and they are training in simulators to prepare to certificate tiltrotor aircraft pilots.

Experts at our Atlantic City technical center are working on new ATC procedures, obstruction avoidance, steep angle approaches, and heliport and vertiport development. These efforts will make vertical flight safer and more efficient.

Within my area—policy, planning and international aviation—a part of our job is to make sure that vertical flight is an integral part of the system. My staff worked closely with HAI, AHS, and TRB to bring about this workshop. The System Requirements Branch, managed by Chuck Dennis, put together the Rotorcraft Master Plan and is responsible for many R&D studies. This office is also responsible for the overall FAA strategic plan, whereby we are trying to insure that vertical flight is integrated into the FAA planning process.

THE USES OF ECONOMIC DATA FOR HELICOPTER OPERATORS

Edward Walls
University of North Carolina, Charlotte

It is a thrill to be here. I have been observing the helicopter transportation industry for 23 years and never believed this would happen—operators, manufacturers, and FAA sitting down together to discuss common concerns. It is a truly historic opportunity that may not come again if we muff it.

The survey of operating and financial ratios of helicopter transportation firms recently completed by the HAI Economics Committee under the chairmanship of Brandon Battles is a significant achievement. In my business—studying and teaching corporate financial management—I quickly learned that data provided by industry associations and investment advisory companies such as Standard and Poor's and Moody's are the basic indicators of company financial strength and trends.

A look at a typical industrial sector summary published by such firms shows a classification of companies by size, measured in terms of assets and asset ratios. This permits comparison of companies of similar size. In some industry summaries firms are also listed by

With your help, we will become even more responsive to helicopter problems and concerns. Our co-sponsorship of this workshop should be considered but one step in the larger effort to improve our knowledge base and integrate vertical flight into the aviation system. We have a way to go before helicopters can operate within the system as easily as fixed-wing aircraft, but we are committed to that goal.

To step back just for a minute, look at the critical role the aviation industry plays our national economy. About 5.6 percent of our gross national product is generated through aviation. One out of every 14 jobs in the United States is either in aviation or related to aviation. As I mentioned before, southern California is a cradle of aviation development and activity, and it is particularly appropriate that we here today think about this. As we deliberate, we need to keep in mind the importance of aviation to our national economy and to the nation as a whole. We need to continue to care for and nurture this industry. This workshop is a small but very important part of the effort.

geographic region to reflect different economic conditions in various parts of the country.

With such data one company can be compared with others of similar size, or in different regions, or with similar product lines, and so on. This can be very enlightening for management as well as for lenders, investors, regulators, or anyone with access to company and industry data.

The recently completed HAI economic survey of helicopter operators—of which you will hear more from Brandon Battles later in the program today—fills a long-standing need in our industry.

There are a number of ways in which such data, reported annually, can be of use. The first that occurs to me is the education of new or small operators who have little or no experience in collecting and using financial information. Survey data can show them the margins that are normal, encouraging them not to underprice. The data can also give them an idea of normal cost structure—the percentage that goes maintenance, insurance, labor, and so on, thereby alerting them to the possibility they are skimping on something or paying too much for something else.

An expected result would be more widespread financial health in the industry and earlier demise of marginal firms which do not operate efficiently. Their