MEDIUM COMMERCIAL OPERATORS

Discussion Leaders

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The working group found cause for serious concern about the long-term profitability of medium-size operators (firms with fleets of 6-25 helicopters). Although many medium-size operators are currently profitable, they realize a low return on assets. One member of the group observed that most U.S. operators would get a better return on investment if their money were in a passbook savings account.

Without significant increase in the financial performance of operators in this segment, they will have little capital available to invest in new high-efficiency vehicles. The cost of new helicopters, however, is rising without corresponding increases in speed, payload, and efficiency. If the helicopter transport industry is to have a solid future, manufacturers must develop new products that meet standards like those that airlines have come to expect of manufacturers of large transport aircraft. The focus of new product development should be on characteristics such as acquisition cost vs. speed or payload and operating cost per mile or ton-mile. Without such improvements in economic efficiency, operators will have little incentive to purchase new helicopters.

From this perspective, the working group examined four issues of specific concern: technical improvements, financial performance, regulation, and insurance. Findings and recommendations for each are itemized below.

TECHNICAL

Recommendations

The two main goals of technical improvement in helicopters should be reducing risk and lowering cost. This involves:

- Establishing power-by-the-hour programs;
- Providing just-in-time inventory for major maintenance inspection kits;
- Getting feedback on failure rates from Maintenance Malfunction Information Reports (MMIR);
- Supporting preventive maintenance system (PMS) and SFAR 36;
- Developing a flat-rate shop manual;
- Increasing time between overhaul (TBO);
- Supporting trend monitoring to produce on condition maintenance;
- Standardizing bar coding for technical manuals and IPCs; and
- Improving direct operating cost (DOC) estimates.

Comment

The cost of a part or component may not be as important as the predictability of its service life.

The MMIR system is a good one, and the industry should be encouraged to participate more fully. In addition, HAI should continue development of the system to include feedback and collation of reports.

Operators should communicate more often with manufacturers. Information should be exchanged regarding mean time between removals (MTBR) and mean time between failures (MTBF), perhaps using the MMIR as a conduit for this information exchange.

Manufacturers should improve their product support with more accurate time and cost estimates for repair and overhaul and with cost-effective power-by-the-hour programs for components.

FINANCIAL

Recommendations

The three main goals for improvement in the financial area are 1) providing a mechanism for measuring the financial health of the industry, 2) improving communication with the financial community, and 3) providing an environment that facilitates financing. HAI may be in a position to help the industry achieve these objectives by:

- encouraging operators to send their financial statements to a recognized financial institution for ratio analysis,
- providing a standardized chart of accounts for financial statements,
- encouraging FAA to improve the accuracy of flight hour reporting,
- offering a cost accounting and management course for operators, and
- improving the questions on operating cost and insurance in the HAI survey of operating performance.

Comment

Financial institutions typically do not have sufficient information to make decisions about the viability of a helicopter operator. There are few publicly held

helicopter transportation companies, and financial ratios and comparisons on privately owned firms are not readily available. Without this information, it is difficult for operators to obtain financing. The recent HAI survey to collect this information was overly complex and cumbersome. The working group felt most operators would submit financial information for analysis if they were assured that it would remain confidential and if it were not unduly burdensome to prepare. This approach would relieve operators of filling out lengthy, complicated questionnaires and still provide a data base for collation of financial ratios and statistics.

REGULATION

Recommendations

The regulatory process should be streamlined, and a uniform set of standards should be developed. To accomplish this, it is recommended that FAA, through its Aviation Regulatory Advisory Commission, work on 1) increasing the authority of local and regional office personnel, 2) adjusting the Minimum Equipment List (MEL) in light of local conditions and circumstances, 3) improving the training of FAA field personnel, 4) easing drug testing requirements and procedures, and 5) recognizing the life-cycle costs of regulatory rules.

Comment

Medium operators feel that they are being overregulated by the Federal Government and suffer from duplication or contradictory direction from by various federal agencies. One operator estimated that 25 percent of his mechanic and shop time is spent on government-required recordkeeping.

FAA should recognize that airline procedures are not always appropriate for helicopter operators. Many firms operate from remote bases without basic facilities. Maintenance support, for instance, may be hours or hundreds of miles away. Another example of the difference between airlines and helicopter operators is in random drug testing. Airline crews normally report for duty at major facilities where a random drug testing may be performed easily. A helicopter pilot or mechanic may be hundreds of miles from the nearest facility capable of administering the required test.

FAA should be more conscious of the economic impact of regulations. Realistic cost-benefit analysis of rules, with industry input, is necessary if the helicopter industry is to remain economically viable and competitive.

Minimum Equipment List (MEL) requirements continue to be unrealistic and unworkable. Airline MEL procedures are not appropriate for most helicopter operations. FAA and the industry must solve this problem. Safety should not be compromised, but common sense must prevail. MELs are a serious economic impediment to helicopter operators and result in wasted man hours, lost revenue, and diversion of management attention.

FAA participants in the working group commented that FAA has had to replace a number of retiring experienced inspectors with less experienced personnel. The working group suggested that FAA might compensate for this inexperience by delegating more authority to the industry in areas such as external load approvals, MELs, field approval forms for aircraft modification (Form 337), and supplemental type certificates (STC).

INSURANCE

Recommendations

It appears inevitable that insurance costs will rise. The goal, therefore, should be to control the rise and minimize the effect on helicopter operators. To accomplish this goal, HAI and individual operators should 1) provide insurers with better information on accident rates, prevention programs, the risks of normal helicopter operation, 2) encourage efforts to educate and communicate with insurers, and 3) foster joint operator-insurer programs to reduce insurance costs.

Comment

Operators should be encouraged to help insurance brokers and underwriters understand better the normal risks and safety aspects of specific types of operation. Even though regular communication and information exchange will help control cost, most expect that insurance rates in general will rise in the short run. Helicopters, unfortunately, are part of the larger aviation risk pool and therefore subject to the rate fluctuations of the entire group.

Several working group members felt strongly that FAA is not moving fast and firmly enough in shutting down willful violator and illegal operators. There was also concern that exceptions granted by FAA to uncertified eastern European helicopters for operations in the United States are unfair to domestic firms that have made a sincere effort to fly safe equipment and to operate within FAA rules and guidelines.