

CFM has signed an agreement that will potentially allow more competition in the engine maintenance market. The details are examined.

CFM agreement with IATA raises prospect for increased competition in engine MRO

After a period of protracted negotiations, the International Air Transport Association (IATA) has reached an agreement with engine manufacturer CFM to relax the terms of licencing agreements it has with providers of engine maintenance. It comes into effect in February 2019, and is thought it could ultimately open the market to higher levels of competition.

The first development is CFM providing independent engine maintenance providers with licence agreements that charge lower or zero licensing and technical support fees. A second main development would be that CFM will permit the use or wider use of parts manufacturer approved (PMA) parts and designated engineering representative (DER) repairs for parts.

The process that led to the agreement being signed between CFM and IATA in July started two to three years ago. It began with operators from the Association of European Airlines (AEA) and airlines that fly into Europe complaining to the EU about what they regarded as anti-competitive behaviour. IATA has come to an agreement, and was acting on behalf of the airlines.

Airline concerns

The main changes that CFM, and other engine original equipment manufacturers (OEMs), had put in place over the years to their general terms and licencing agreements with independent and airline-related engine shops were multi faceted. Airlines have complained that these changes have led to anti-competitive behaviour by CFM.

One of these changes has been the introduction of certain flat-rated licencing fees charged for every CFM engine type an independent engine shop is licenced to perform maintenance on. That is, a separate annual fee would be charged to a shop for a licence to perform CFM56-3 maintenance, and a second fee would be charged for performing CFM56-7B maintenance. Moreover, CFM would limit the number of engine shops that it would provide licences to for each of its engine types.

As well as the issue of being charged a licence fee for each engine type a shop is provided a licence for, CFM and other engine OEMs limit the scope of work that airline and independent engine shops can provide. This is often by not providing them with the technical data required to

perform hi-tech and complex parts repairs, or by charging high access fees for the data that makes it uneconomic for the shop to develop the repairs.

A third element that airlines consider to be anti-competitive is the effective prevention by OEMs of the use or widespread use of PMA parts to replace worn out OEM parts, and the use of DER repairs on OEM parts. This forced airline and independent engine shops to exclusively use OEM material, which has higher list prices and so increases the cost of engine shop visits.

Engine OEMs will generally not provide warranties or technical support to airlines for engines or engine assemblies and sub-assemblies that have PMA parts or parts with DER repairs used in them. This effectively made their use impractical or too risky.

With these three main issues, AEA airlines have argued that OEMs have limited the presence and capabilities of engine shops in the aftermarket, and so limit competition.

Following complaints from the AEA, the EU worked to try to establish a legal basis to prove anti-competitive behaviour by CFM. Rather than take the legal route, IATA started talking to CFM directly, and came to an agreement without going through a legal battle. IATA posed questions to CFM relating to its abuse of market power. IATA worked with airlines to build a case against CFM by producing facts to support the claims made by these operators. A main problem IATA was that it would take a long time to collate the facts and provide a case. Instead, IATA has been able to reach an agreement with CFM.

New agreement

The main part of the agreement reached in July 2018 is that it will hopefully result in more competition for engine maintenance work. Under the agreement, CFM has adopted a set of 'conduct policies' that will enhance the

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opportunities available to independent and third-party engine maintenance shops and part providers on the CFM family of engines and the recently-introduced LEAP family of engines. The signing of this agreement between IATA and CFM, has resulted in IATA dropping its complaint against CFM that it filed to the EU.

Under the agreement, CFM has agreed to several practices that include:

- Licence its engine shop manuals to an engine shop, even if the shop uses non-CFM parts.
- Permit the use of non-CFM parts or repairs by any licensee of the CFM engine shop manual.
- Honour warranty coverage of CFM components and repairs on a CFM engine, even when the engine has non-CFM parts or repairs.
- Grant airline and independent shops the right to use manuals without paying technical data access fees.
- Sell CFM parts and perform all types of parts repairs, even when non-CFM parts and repairs are present in the engine.

CFM issued a statement saying that it was committed 'to fostering robust and open competition in the engine maintenance market'.

Reaction by engine shops and PMA providers has so far been reserved. The

agreement does not come into immediate effect, and so it remains to be seen what the long-term consequences will be.

Independent engine shops are cautious but hopeful that it will remove many or all of the fees they currently pay under the licencing agreements they have with CFM. The fees that an independent shop currently has to pay will go, and so make it more competitive in the market. These shops still, however, expect to have to pay for various technical support services. These include customer dispatch record, and approval for one-off repairs that are not detailed in the manuals that CFM provides. It has to be appreciated that not all information and technical data is in the manuals provided to airline and independent engine shops. This is particularly the case with hi-tech part and component repairs.

Moreover, engine shops are not sure if the agreement that CFM has with IATA means that it will increase the number of engine types they have in their licencing agreements. Many expect that it will still be hard to get approval to perform maintenance on the LEAP family.

Engine maintenance providers do expect to be freely allowed and permitted to use PMA parts and DER repairs. This has the potential to save several hundreds of thousands of dollars per engine shop visit. This is first because PMA parts have

list prices up to 40% lower than OEM parts. The price of turbomachinery parts is high, and all parts and components form the largest percentage of total engine shop visit costs. Also, the use of DER repairs means that not only can original parts be repaired more times, but also that more engine shops may now be interested in developing DER repairs.

This development may in turn lead to more competitive parts pricing in general. Some engine shops expect the price of OEM parts to increase at a slower rate than in the past.

The amount of technical data that CFM, and OEMs, provide to engine shops varies. In some cases this is limited, and so prevents engine shops performing hi-tech and complex parts repairs. These are potentially lucrative for engine shops to perform. The cost of technical data required to develop these repairs is high, and so cost-prohibitive for many shops. Lufthansa Technik has developed an extensive portfolio of hi-tech engine parts repairs that it markets through its special division EPAR. Few other engine shops have been able to justify acquisition of the technical data.

Some engine shops still expect CFM to continue to charge high fees for technical data used to develop and perform hi-tech DER repairs.

Despite this, CFM will no longer

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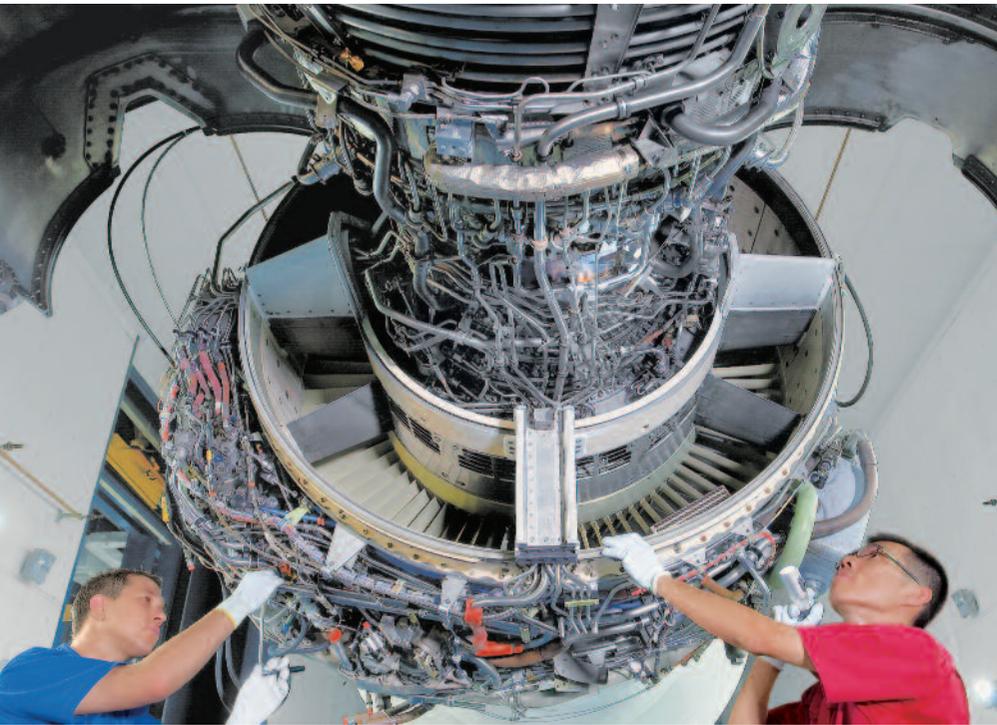


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charge technical data usage fees. These fees relate to the access to technical manuals, including the engine shop maintenance manual. These fees can be a flat fee of several tens of thousands of dollars or a fee of several percent of the shop visit cost. These fees currently weaken an engine shop's competitiveness, but they will be eliminated under the agreement.

PMA parts

Two particular points in CFM's agreement with IATA is permitting the use of non-OEM parts and non-OEM repairs, and honouring warranties on CFM parts in an engine that has non-CFM parts fitted and non-CFM repairs used in the engine.

The use of PMA parts, to replace OEM parts, at engine shop visits will reduce overall engine maintenance costs. The lower prices of PMA parts will translate into savings per engine flight hour (EFH) or per engine flight cycle (EFC). The use of PMA parts in CFM engines has been limited over the past 10 years or so because of concerns by airlines and engine lessors over the marketability and value of their engines.

HEICO, based in Florida, is one of several PMA engine parts manufacturers. "The spirit of CFM's agreement with IATA means that CFM's behaviour in the aftermarket should change," says Pat Markham, vice president of technical at HEICO. "That is, it removes barriers to competition. The agreement really means that from March 2019 the CFM and LEAP engine aftermarket will be different to what it is now. HEICO is hoping for more competition, but the real proof is in the details of the agreement, and it also

depends on CFM following through with them.

"We make hundreds of PMA parts for CFM engines. These include small parts, accessories and turbomachinery parts," continues Markham. "In the case of the CFM56-3, we make high pressure compressor blades, and we also make turbine shrouds for various engine types. About 15-20% of all the PMA parts we make are turbomachinery parts for several engine types. In the current market, the restrictions for airlines and engine shops using PMA parts come in when CFM licences the use of its manuals. It will also only provide discounts on the purchase of its parts if they do not use PMA parts. There is also the threat of withdrawing warranties and technical support if PMA parts are used."

There are still cases under the new agreement where the use of PMA parts can be effectively prohibited. CFM will not void any warranties if the PMA parts used are serviceable, and it will not refuse technical support, but only on the provision that the PMA part is not an influencing part on a life-limited part (LLP), such as a disk or a shaft. Markham explains that influencing parts are seals, nuts and bolts, and blades. "This means that CFM will still be able to deny technical support to a shop if PMA airfoil blades or other influencing parts have been used. However, CFM will not deny technical support if the PMA airfoils used are in a different module of the engine," explains Markham. "The implications of this are that if an engine goes into a CFM shop for maintenance, CFM will not work on the modules that have PMA parts installed. It will remove PMA parts from the modules they are working on, however. The only exception

One of the several features of the agreement signed by CFM is that it will longer charge licence fees or fees to access technical manuals to engine shops. The agreement says CFM will also allow the use of non-CFM parts and repairs by the CFM licensee of the CFM engine shop manual.

to this is that they will not do this if the airline did not know that PMA parts were in the module or engine."

Another main issue is that CFM will no longer only offer discounts on the purchase of parts if an airline agrees not to use PMA parts in the engine. "In the future, CFM will have to reduce the clause relating to the engine shop promising not to use PMA parts in its parts pricing," says Markham. "This implies that they might offer price discounts on parts in the future, even when PMA parts are used. Also, engine shops will keep their licences if they start to use PMA parts, and engine shops will no longer have to renegotiate their licencing agreements with CFM."

The overall result of the new agreement is that HEICO is cautiously optimistic about the future. "We have received a lot more interest in PMAs from airlines since CFM signed the agreement," says Markham. "In the meantime, the engine lessors have adopted a wait-and-see attitude."

An interesting side note is that in its announcement, CFM also said that General Electric (GE) has agreed to apply the conduct policies to its own commercial engines. This refers to large turbofans that include the CF6-80C2, CF6-80E1, GE90 and GENx engines that power a range of widebody aircraft.

In addition to CFM and GE, IATA is now in the process of negotiating a similar agreement with Honeywell, which controls a large percentage of maintenance and repair for auxiliary power units (APUs). Moreover, industry observers expect similar agreements to be reached with Pratt & Whitney (PW) and Rolls-Royce (RR).

If the effects of the agreement that CFM has signed are realised, then airlines will have more choice in terms of engine shops and those with hi-tech parts repair capability, and the use of PMA parts and DER repairs should become more widespread. This will ultimately result in lower maintenance costs for CFM engines, providing them with an economic advantage. It will therefore clearly be advantageous for other engine manufacturers to sign similar agreements with IATA. **AC**

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