IATA and Rolls-Royce Statement on Best Practices for Maintaining Competition in Aerospace Aftermarkets

Preamble

IATA is committed to supporting and fostering competition in aerospace aftermarkets. Rolls-Royce (R-R) is committed to providing competitive products and services to its customers through the provision of flexibility and choice for MRO services. IATA and R-R have been working together to re-affirm best practices for competition.

In 2018, IATA entered into a similar agreement with CFM International to guarantee competition in the CFM engine aftermarkets.¹

In particular over the last few years, R-R has fostered a capable network of MRO providers that includes facilities from key third party players in the industry (i.e. with no R-R equity). R-R will continue to do so to support the growing fleet of R-R engines in service. An open and balanced network of MRO providers allows airlines to have access to greater choice and competitive pricing, and it enables R-R as well as its competitors to continue to innovate and develop new parts and alternative repairs.

In addition, R-R has continued to innovate through the introduction of new services. The R-R service portfolio offers maintenance solutions from full risk transfer (TotalCare), through fixed price overhaul (SelectCare) to Foundation Services (which support customers who choose to access the MRO network directly on a T&M basis).

IATA and R-R believe that the following “Best Practices” will contribute to encouraging, fostering and enhancing competition in aerospace aftermarkets, including for parts, repairs and support, all in compliance with applicable laws and regulations.

Defined Terms and Definitions in this statement are capitalized, and have the meaning set out in the Annex.

Scope

1. The Best Practices apply to all R-R Civil Large Engines. They apply to R-R, R-R wholly owned facilities and policies relating to R-R engines.

2. R-R will encourage its joint venture shops and licensees to comply with these Best Practices.

3. In the specific case of joint ventures and licensed MRO shops, as part of R-R’s engagement on the introduction of these Best Practices, R-R will work with them to identify any perceived conflict with their existing agreements, so that such agreements can be amended to remove any conflicts as soon as reasonably possible.

4. In relation to its agreements with all other Beneficiaries (such as airlines), R-R believes there is no major conflict between these Best Practices and its existing agreements. Where any such conflict exists, R-R will not exercise the relevant terms of the existing agreements to the extent of that conflict.

Best Practices

R-R does not prevent the development of legitimate Non-OEM parts or Non-OEM repairs by MRO providers

5. R-R will allow all independent MRO providers and MRO providers in its network (whether joint venture shops, or shops in which it holds no equity stake) to develop legitimate Non-OEM parts or Non-OEM repairs. R-R will allow all independent MRO providers and MRO providers in its network (whether joint venture shops, or shops in which it holds no equity stake) to install such Non-OEM parts or Non-OEM repairs on R-R engines – except that R-R reserves the right to prevent this where an engine is covered by a R-R risk transfer product (such as TotalCare or SelectCare) in which R-R “places the purchase order” for the work. R-R will not use unreasonable pricing of inputs (including data or manuals) as a means of preventing Beneficiaries using Non-OEM parts or Non-OEM repairs. R-R will not take any action that is intended to “punish” any party if they choose to provide T&M services on R-R products, or to have their products serviced on a T&M basis.

6. For “risk transfer products” such as TotalCare and SelectCare, R-R assumes significant risk from the operator, and “places the purchase order” with MRO providers for the work. When assuming risk on a product, R-R needs to understand that risk to cost and price it effectively. This means that, for products where R-R “places the purchase order”, R-R must be free to determine the MRO provider for the work, and the work-scope, including which parts are fitted and which repairs are conducted on the engine or component. For the same reason, when a customer has operated an engine on a T&M basis but then decides to switch to a R-R risk transfer solution, R-R is entitled to have the engine put in a position where it contains only OEM parts and OEM repairs. R-R will not require any Beneficiaries to purchase or subscribe to a R-R risk transfer product.

R-R’s policy is to grant Beneficiaries non-discriminatory access to OEM parts, repairs and support (including access to Rolls-Royce Care)

7. R-R will not discriminate between Beneficiaries when granting access to OEM parts and repairs, solely on the basis of whether they use any approved Non-OEM parts or repairs, or whether they agree to service equipment that already contains Non-OEM parts or repairs.

8. R-R will provide access to ICAs and technical support to its airline customers and their approved MRO providers in accordance with its contractual commitments and as required by the regulatory authorities. Airlines are ultimately responsible for the safety of operations and shall freely decide on the MROs providing services to them (except where R-R is “placing the purchase order” for the work under a risk transfer product, as in paragraph 6 above). Airlines can provide unrestricted access to the ICAs to their approved MRO provider. Where airlines direct R-R to provide such access to MRO providers (rather than airlines providing such access themselves), R-R can charge a reasonable fee for doing so.

9. To the extent an ESM is revised to reflect a new part number, R-R will ensure that the repair instructions for the original part number continue to be available in the ESM (absent a valid engineering reason demonstrated as per paragraph 24 below), and that such repair instructions are made available for use with the new part number (absent a technical reason demonstrated as per paragraph 24 below).

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2 The requirement to license OEM repairs does not extend to proprietary repairs developed outside of R-R’s ESMs.
10. R-R is supportive of creating a robust Serviceable Used Material (SUM) aftermarket. It does not oppose the use of SUM by Beneficiaries. R-R encourages the appropriate use of SUM in its risk transfer products, and recognises the sustainability benefits of doing so. R-R’s risk transfer products contain provisions for the use of SUM, and use of SUM on engines covered by R-R’s risk transfer products must comply with those provisions.

11. With respect to R-R’s licensing of its proprietary repairs to Beneficiaries, it will not discriminate between licensees on the basis of whether they use Non-OEM parts or repairs, or whether they agree to service equipment that already contains Non-OEM parts or repairs. Even if R-R decides that it is no longer interested in manufacturing spare parts for legacy / end of life equipment nor in providing intensive technical support or proprietary repair services for such equipment, R-R will continue to license its proprietary repairs to Beneficiaries where it is economically viable to do so.

12. Where a Beneficiary requests support, R-R will negotiate a Technical Assistance Agreement which sets out the terms on which that support will be made available. Those terms will not discriminate based on whether the Beneficiary uses Non-OEM parts or repairs, or whether the Beneficiary agrees to service equipment that already contains Non-OEM parts or repairs.

13. R-R does not inquire on the use of Non-OEM parts or repairs when providing support to Beneficiaries under a Technical Assistance Agreement unless such information directly impacts R-R’s engineering analysis.

14. The speed at which R-R completes requests for support, the price charged for that support, and the terms and conditions to be agreed upon by the Beneficiary for such support, will not depend on the use/non-use of Non-OEM parts or repairs, unless there is a valid engineering reason for this as described in paragraph 24 below. Where reasonably necessary, the Beneficiary will provide R-R with all necessary information (including life limits) on the Non-OEM part or Non-OEM repair to enable R-R to conduct its engineering analysis.

15. Where an MRO provider signs a Technical Assistance Agreement and pays a reasonable fee for such support, R-R will facilitate the access by the MRO provider to the engine data of its airline customer in Rolls-Royce Care (subject to relevant customer consent) irrespective of whether such MRO provider uses or allows the use of any approved Non-OEM parts or repairs, and irrespective of whether it agrees to service equipment that already contains Non-OEM parts or repairs.

R-R does not discriminate against Beneficiaries that use Non-OEM parts or repairs

16. R-R’s pricing of parts and repairs will not be based on whether its customer uses Non-OEM parts or repairs, or whether the customer agrees to service equipment that already contains Non-OEM parts or repairs.

17. R-R’s licence fees and terms and conditions will not be based on whether its licensee uses or allows the use of Non-OEM parts or repairs, or whether it agrees to service equipment that already contains Non-OEM parts or repairs.

18. R-R’s licensees are free to use Non-OEM parts and repairs (subject to the provisions of paragraphs 5 and 6 above where R-R is placing the purchase order under a risk transfer product), and to service equipment that already contains Non-OEM parts and repairs. R-R will not prevent its licensees carrying out repairs on engines which are being repaired on a T&M basis. R-R will not control the price of such repairs by its licensees.
19. Where R-R has its own capability to service a component, it will not refuse to do so on the basis the component includes Non-OEM parts or repairs. Where reasonably necessary, the Beneficiary will provide R-R with all necessary information (including life limits) on the Non-OEM part or Non-OEM repair to enable R-R to comply with airworthiness regulations.

20. R-R’s pricing of such component servicing will not be based on whether the component being serviced includes Non-OEM parts or repairs (absent a valid engineering reason described in paragraph 24 below).

21. Subject to paragraph 6 above and consistent with these Best Practices, R-R will encourage MRO providers in its network not to remove serviceable Non-OEM parts or repairs when providing MRO services on R-R’s equipment (absent a valid engineering reason described in paragraph 24 below). Where reasonably necessary, the Beneficiary will provide the MRO provider with all necessary information (including life limits) on the Non-OEM part or Non-OEM repair to determine whether the relevant part is “serviceable”.

22. Usual procedures for warranty claims apply. The installation of Non-OEM parts or repairs will not in itself render R-R’s warranties void. The use of Non-OEM parts or repairs will only be relevant on a warranty claim to the extent engineering analysis demonstrates (on the balance of probabilities) that the Non-OEM part or repair caused the component failure.

23. R-R is not responsible for repair or replacement of Non-OEM parts, or parts which have had a Non-OEM repair. R-R is equally not responsible for repair or replacement of OEM parts where engineering analysis demonstrates (on the balance of probabilities) that the Non-OEM part or repair caused the component failure.

24. In each of paragraphs 9, 14, 20 and 21 above, the assessment of a “valid engineering reason” or “valid technical reason”, including the amount of evidence reviewed, will always be proportionate to the value of the issue to the Beneficiary, and the cost and engineering burden to R-R in conducting the analysis. On request, R-R will explain its reasons for any decision. If a Beneficiary disagrees with that decision and provides additional data to R-R, R-R will either (1) carry out a new analysis in light of these data, or (2) explain why the additional data do not merit a new analysis. If a Beneficiary continues to disagree with R-R’s analysis, then the issue will be passed to in-house Counsel at R-R, IATA and the Beneficiary for further discussion and resolution.

25. R-R will ensure all its communications relating to Non-OEM parts or repairs are based on reliable data that validate the proposed communication. R-R’s communications will not suggest that an aviation authority, FAA and or EASA approved Non-OEM parts or repairs have not been approved by such agencies and pose a safety threat. Similarly, R-R’s communications will not suggest that use of Non-OEM parts and repairs leads to loss of economic value unless supported by reliable data; it may, however, point out valid differences between the efficiency, durability or life-cycle of OEM and Non-OEM parts where these differences are supported by reliable data. R-R remains free to recommend its own parts and repairs by referring to reliable data on their efficiency and durability; the lack of any data on Non-OEM parts or Non-OEM repairs shall not preclude R-R highlighting the benefits of its own products where it has reliable data to support this.

**TotalCare and SelectCare**

26. R-R is committed to transparency in order to ensure a robust and competitive MRO framework. It has developed a range of products, as described in the Preamble, all of which are available to prospective customers on a voluntary basis. The availability or pricing of such product will not be based on whether
the customer uses (or has used in the past) Non-OEM parts or repairs. Where R-R is marketing solutions to existing and prospective customers, it will describe available maintenance or power options offered by R-R, as well as the option for the customer to seek solutions from independent MRO providers or engine traders. R-R confirms that the choice of solutions for R-R engines is at the sole discretion of its customers and Beneficiaries. R-R will not require any Beneficiaries to purchase or subscribe to a R-R risk transfer product. Nothing in this paragraph shall affect the validity of any existing risk transfer product.

Miscellaneous

27. These Best Practices are a statement of policy developed jointly by IATA and R-R, and do not create any legally enforceable obligation by R-R, or grant any right to IATA, its members or any third party. No provision of the Best Practices should be seen by any party as an admission, or evidence of a violation of competition law or any other laws by R-R. R-R will take no action intended to deter, nor retaliate against, any Beneficiary of the Best Practices from raising concerns related to R-R’s compliance with the Best Practices.

28. R-R will issue guidance and communicate these principles and ensure that that its existing internal communications or interpretations do not contradict such principles.

29. R-R and IATA will meet at least once a year to discuss the operation of these Best Practices, look to resolve any concerns and where appropriate make clarifications to this statement.

30. Five years after the Best Practices are published, R-R and IATA will consider whether they should be retained, amended, or rescinded.

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