

# GENERAL AGREEMENT ON

RESTRICTED

AIR/72

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# TARIFFS AND TRADE

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Sub-Committee of the Committee  
on Trade in Civil Aircraft

MEETING OF 21-23 APRIL 1993

Note by the Secretariat

1. The Sub-Committee held its fourth meeting on 21-23 April 1993 under the Chairmanship of Mr. Mikael Lindström (Sweden). Participants discussed three submissions put forward by the United States, the European Community and Japan (AIR/RN/7, 8 and 9), respectively, as well as general issues relating to the development of a new aircraft agreement.

2. Several participants stressed the importance of having comparable levels of disciplines for all of the areas to be covered by the new Agreement, regardless of the type of support used. One participant emphasized the need to adopt disciplines on direct and indirect support that would have equivalent economic effects. Another welcomed the suggestion that there might be subsidy-based disciplines for products other than large civil aircraft.

3. Two submissions on direct government subsidies/support were discussed, one of which contained detailed draft provisions on support-based disciplines for large civil aircraft and for notification requirements. One participant said that a support-based approach with caps was the best way to provide the necessary discipline. With respect to the proposed definition of "direct government support", one participant said that it was too open-ended in one sense and not comprehensive enough in another, and suggested that Articles 1 and 2 of the draft Subsidies Agreement (Uruguay Round) could provide a better basis for such a definition. One participant warned that there could be serious problems of interpretation if one tried to combine support-based disciplines with the definitions provided in the draft Subsidies Agreement. Several participants also expressed concern that the definition might be too broad, as it would include some types of loans in the aircraft sector which might not be considered to be a support.

4. Regarding another proposed text on direct government subsidy/support, it was explained that the overall subsidy/support should not exceed a certain per cent; only the portion of the subsidy/support above that cap would be considered to be a violation. Any loan provided by the government on commercial terms would be allowed. This system would take account of the fact that particular types of support were provided in different ways by different countries, with different resulting levels of benefit. One participant said that the concepts of "net present value" and "net benefit" might provide a possible yardstick. Another participant expressed concern that this proposal would leave open the possibility of the government providing 100 per cent of development costs.

5. Regarding the prohibition of production support, one participant said that the aim in its proposal was to prohibit government subsidy/support in four categories (grants, equity infusions, loans and loan guarantees) but with an element of specificity as to what would be prohibited, based on whether any benefit was conferred by the subsidy/support. Another participant said that this proposal was too broad, and stressed the importance of having programme-specific disciplines. Another said that the draft Subsidies Agreement would provide the specificity needed. One participant recalled the need for a clear definition of the term "production subsidy/support". Another supported the idea of prohibiting such subsidies/support but said that the key question was what sort of government intervention would be prohibited. One participant said that not only direct monetary expenditure should be covered, but any similar form of government support for production, such as the provision of plant and machinery, which could be provided directly or indirectly.

6. Regarding the proposed text on the progressive reduction in direct government development support, one participant said that the level of disciplines on direct development support contained in the EC/US Bilateral Agreement on Large Civil Aircraft was what he could accept. Another said that the proposed tightening of disciplines on such support only aggravated the existing imbalance in disciplines on direct and indirect support in the EC/US Bilateral Agreement and was unacceptable; some practices that would be covered were not trade-distorting, and one would have to look at all the terms and conditions of a loan, or of an indirect subsidy or support, in order to determine this. Several said that they could not accept the idea of a progressive reduction of the caps on direct development support. One participant asked how the progressive reduction concept would find a balance with regard to indirect support, as the latter could not be subject to this discipline.

7. Regarding the proposal on prior government support commitments, it was explained that the idea was to prevent the undercutting of the new disciplines and to seek to avoid the aggravation of trade frictions over existing commitments through the provision of specific detailed assurances that this support would have no trade-distorting effects. One participant said that it was not clear from this proposal exactly what would be "grandfathered". Another queried the need for such assurances, noting that indirect support could not be grandfathered. One participant asked how the provision on assurances would be made operational, and said that Article 28 of the draft Subsidies Agreement would be a better basis for dealing with prior government support commitments.

8. Regarding the proposal on pricing of civil aircraft, questions were raised as to the meaning of various terms in the text. One participant said that this provision could address the problem of programme cross-subsidization, but that the language was not clear; research and development for civilian purposes and by civilian research institutes should also be included.

9. Regarding the proposed provisions on notification, one participant asked how notification provisions from the draft Subsidies Agreement related to a support-based system of disciplines, and noted the absence of any reference to indirect support. Another participant said that it might be difficult to require firms to provide disaggregated financial results. One participant stressed the importance of confidentiality, while another said that the exception regarding "essential security interests" might provide a dangerous loophole.

10. With respect to dispute settlement and remedies, one participant said that the proposal on remedies went beyond anything in the draft Subsidies Agreement, which provided for reimbursement only in the case of a prohibited subsidy; there was also the problem of how to deal with confidential information in a case where a private party was involved in dispute settlement. Another participant said that the dispute settlement system being developed in the Uruguay Round should be the basis for the new Aircraft Agreement.

11. Participants also discussed a proposal for a two-stage approach to the negotiations with, for example, the first stage covering large civil aircraft and their key structural components, and the second stage covering all other products. Several participants said that this approach would be unacceptable; it might prolong the negotiations and prejudge the outcome for products in the second stage. Others stressed the importance of a comprehensive package with a balance in disciplines on the various products.

12. Various ways were suggested to determine what disciplines should apply to what products. One participant said that more information was needed as to who was producing what in the aircraft sector and under what programmes. Participants generally supported an exercise to gather more information through the circulation of a questionnaire prepared by the Secretariat. One participant stressed the need for balance in this exercise, which would have to cover information on indirect supports; each participant would have to respond fully to the questions asked.

13. The Chairman said that the discussions during the past three days had yielded a clearer idea of participants' respective positions, and also of the distance between them. He asked participants to concentrate their work on compromise proposals. Replies by participants to the questionnaire, to be prepared by the Secretariat in consultation with delegations, should be received by the end of May. The next meeting of the Sub-Committee would be held in May.