

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Agreement on Trade in Civil Aircraft

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MATTERS UNDER ARTICLE 8.3 - FURTHER NEGOTIATIONS

Discussion Paper Submitted by Canada

1) Product Coverage (Article 1)

The typical procurement of a modern aerospace sub-systems package (e.g. an airborne navigation system) includes not only the equipment to be installed in the aircraft but also test equipment designed specially for the sub-systems. The purpose of such dedicated test equipment can be, for example, the simulation of airborne circumstances in a test laboratory environment in order to verify and calibrate the performance of the airborne equipment. The design data to accomplish this function is available only to the manufacturer of the airborne equipment and thus the test equipment is as much a proprietary product as the system it serves. Such test equipment is not interchangeable with competing systems and neither can it be employed for any other purpose. In addition, the complexity and unique characteristics of this category of test equipment is similar if not greater than that of the airborne equipment it is designed to service and its unit costs are often substantially larger.

At the present time, this type of test equipment (whether for avionics, hydraulic, mechanical and pneumatic sub-systems) is not covered under the agreement. Consequently, a large portion of a total aircraft sub-systems package, when imported, may be subject to customs duties and priced accordingly, with the resulting advantages in favour of the domestic manufacturer.

In the preamble to the agreement, signatories have expressed the desire "to achieve maximum freedom of world trade in civil aircraft, parts and related equipment, including elimination of duties, and to the fullest extent possible, the reduction or elimination of trade restricting or distorting effects". In this spirit, Canada would propose that signatories consider the desirability of covering under the agreement specific test equipment as described above and examine ways of achieving such a coverage.

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2) Export Credits (Article 6)

The question of export financing for aircraft will be the object of discussions in the OECD at the time of the October Committee meeting. Canada attaches the highest priority to greater international discipline in the field of export financing and will be participating actively in these discussions. Canada considers that any internationally agreed discipline resulting from such discussions should be taken into account by signatories in their review of the agreement.

3) Possible changes to the Annex

Canada considers that the list of products identified by the technical sub-committee (AIR/TSC/4) constitutes a good basis for discussions on possible changes to the lists of tariff items in the Annex. However, the technical sub-committee list should not be considered exhaustive. For instance Canada recently discovered, as a result of a ruling by the customs authorities of one signatory, that major aircraft engine component parts are not covered under the Agreement. The authorities in question have ruled that the compressor section of a modularly designed gas turbine engine is not part of an engine but a compressor in its own right. Parts of compressors, which would include blades, guide vanes, discs, shafts, housings, etc., are not included in the tariff items listed by this signatory in the Annex. Similarly, it appears likely that the turbine section of a modularly designed engine would also be classified under a tariff item included in the Annex to the Agreement which does not include the parts. Canada believes that the inclusion of such parts should be considered by signatories when discussing changes to the lists of tariff items in the Annex.