

GENERAL AGREEMENT ON TARIFFS AND TRADE

Agreement on Trade in Civil Aircraft

COMMITTEE ON TRADE IN CIVIL AIRCRAFT

Draft Minutes of the Meeting held in the
Centre William Rappard on 8 and 10 March 1983

Chairman: Mr. T. Sato (Japan)

	<u>Page</u>
1. Election of officers	1
2. Matters under Article 1.2 - Military entities	2
3. Matters under Article 2 - Duties and other charges on repairs	3
(i) Interpretation of Article 2.1.2	3
(ii) Binding of duties, Article 2.1.3	5
4. Matters under Article 8.1 - Consultation on developments in the civil aircraft industry	8
5. Matters under Article 8.3 - Further negotiations	12
6. Date of next meeting	15

1. Election of officers

1. The Committee elected Mr. T. Sato (Japan) as Chairman, and Mr. B. Côté (Canada) as Vice-Chairman. The Committee also elected Mr. G. Weise (United States) as Chairman of the Technical Sub-Committee.

2. The outgoing Chairman, Mr. M. Lagorce (France) expressed his personal appreciation of the spirit in which delegations had helped him accomplish his task in 1982. He drew attention to the first Certification of modifications

and rectifications to the Annex to the Agreement, which reflected part of the work done in 1982.

3. Several representatives expressed their appreciation for the chairmanship of Mr. M. Lagorce during his term of office. The representative of Japan expressed on behalf of the Japanese Government, the high appreciation it had for Mr. Lagorce's chairmanship.

2. Matters under Article 1.2 - Military entities (AIR/40)

4. The Chairman drew attention to document AIR/40, a compilation of Signatories' notifications on entities operating military aircraft. This document had been issued for convenient reference.

5. In reply to enquiries the representative of the EEC informed the Committee that the Community was in the process of drafting a new interpretative note to be inserted in the Explanatory Notes of the common external tariff, which would clarify what items were to be considered civil aircraft. The Chairman noted again that the Committee would be informed when such a new interpretative note would be finalized.

6. The representative of the EEC said that the same problem of transparency, i.e. what items were to be considered civil aircraft for customs administrative purposes, applied to other Signatories; he enquired how other Signatories handled the matter.

7. The representatives of Switzerland, Austria and Romania were of the view that there was no need for them to insert an explanatory note in their customs

tariff to differentiate between civil and military aircraft and products. It was not really a customs tariff matter but one of customs administration.

8. After further discussion the Committee decided to refer the matter of civil/military identification for customs purposes to the Technical Sub-Committee for further consideration.

3. Matters under Article 2 - Duties and other charges on repairs

(i) Interpretation of Article 2.1.2 (AIR/W/31 and Addenda 1 to 8)

9. The Chairman recalled the discussions at previous meetings (AIR/M/7 to 9) from which divergence of interpretations of Article 2.1.2 had emerged. In May 1982, the Chairman had circulated a questionnaire to clarify Signatories' customs treatment of both the material and labour content of civil aircraft repairs. The questionnaire and replies were contained in documents AIR/W/31 and Addenda 1 to 8. At the previous meeting it had been agreed that Signatories would reflect further on the question of whether to interpret Article 2.1.2 textually, i.e. to eliminate duties and other charges on repairs on all civil aircraft (as defined in Article 1), or whether to restrict this interpretation to repairs of only those products covered by the Annex to the Agreement.

10. The representative of Japan said that his authorities thought it appropriate to interpret Article 2.1.2 as applying only to those products in the Annex to the Agreement. This for two reasons: firstly, the products not in the Annex were generally not sent abroad for repairs and secondly, the current practice in most Signatories' countries was that products not covered in the Annex were dutiable even if the duties were currently suspended. He

pointed out that should negotiations to extend the Annex be successful, the coverage of duty-free repairs would be increased.

11. The representative of Canada agreed that Article 2.1.2 should be interpreted to apply only to those products in the Annex.

12. The representative of the EEC said that his position had not changed. He believed that Article 2.1.2 should be considered as the aim of the Agreement - free trade for all civil aircraft products. He believed that it was unfortunate to limit the application of this Article.

13. The representative of the United States pointed out that the notifications contained in AIR/W/31 and Addenda 1 to 8 showed consistent practices in most countries, i.e. that articles sent abroad for repair had dutiable status when reimported and that that status was determined by the rate of duty applicable to the product. If the rate of duty was zero then the duty on repairs would be zero. He shared the view of the Japanese delegation that products not in the Annex were not likely to be sent abroad for repair. He recalled that in Article 2.1.3 there was an obligation for Signatories to bind the duties on repairs and that a long delay had been incurred in doing so. He asked the EEC to reconsider its position so that the binding of duties on repairs could go forward.

14. The representative of the EEC said that while it was not felt appropriate to change or amend the Agreement itself, the EEC could accept wording to be included in the Minutes on the interpretation of Article 2.1.2. Such wording should be along the lines of that reproduced in AIR/W/27 Addendum 1.

15. The Committee agreed to the following interpretation of Article 2.1.2 with the understanding that, pending progress in the extension of the Annex, the application should aim at being as broad as possible:

"The Committee agrees that Article 2.1.2 of the Agreement on Trade in Civil Aircraft, which provides for the elimination of "all customs duties and other charges of any kind levied on repairs on civil aircraft", applies only to repairs of complete civil aircraft and those civil aircraft products which are classified for customs purposes under their respective tariff headings listed in the Annex to the Aircraft Agreement."

(ii) Binding of duties on repairs - Article 2.1.3 (AIR/W/39)

16. The Chairman recalled that at the last meeting there had been no common view as to whether this question could be settled before an agreed interpretation of Article 2.1.2 had been reached. This had now been achieved and it was his hope that the matter of binding of duties on repairs in Signatories' respective GATT schedules could be settled. He also drew attention to two proposed texts for insertion in Signatories Schedules; these were contained in paragraphs 14 and 15 of document AIR/M/9.

17. The representative of Canada said that the language to be inserted as a headnote in Signatories' GATT Schedules should reflect the agreed interpretation of Article 2.1.2. The text did not need to be the same as the agreed one on the interpretation; accordingly he suggested the following:

"In accordance with Article 2.1.2 of the Agreement on Trade in Civil Aircraft, duty-free or duty exempt treatment is provided for all complete

civil aircraft and those civil aircraft products which are classified for customs purposes under the tariff headings listed in the Annex to the Aircraft Agreement. (The term "repairs" includes maintenance, rebuilding, modification and conversion.)"

18. The representatives of the EEC, Japan and the United States proposed the following text:

"Duty free or duty exempt treatment is provided for all repairs on civil aircraft in accordance with Article 2.1.2 of the Agreement on Trade in Civil Aircraft, (the term "repairs" includes maintenance, rebuilding, modification and conversion.)"

19. The representative of Canada said that he was prepared to support the second text provided that, for the Schedule of Canada, a reference could be made to the interpretation of Article 2.1.2.

20. The representative of Japan explained that it was difficult for the Japanese authorities to modify its schedule, however they were prepared to insert a headnote in their Loose-Leaf Schedule, on the understanding that the legal status of the Japanese Loose-Leaf Schedule would remain the same as stated in the Tariff Committee.

21. The representative of the EEC noted that Japan was not prepared to insert a headnote in its GATT Schedule but only in its GATT Loose-Leaf Schedule, which from Japan's point of view was not legally binding. He enquired whether the Japanese commitment regarding binding of duties on repairs would be equivalent to other Signatories' commitment.

22. After further discussion it was agreed that the matter of the legal status of loose-leaf schedules should be dealt with in other fora. The Chairman noted that there was agreement that all Signatories would bind their duties on repairs in their respective GATT Schedules according to the obligation under Article 2.1.3. This commitment was the same for every Signatory. The representative of Japan stated that his authorities would observe the provisions of Article 2.1.3 and wished this to be recorded in the Minutes.

23. The representative of the United States noted that there was a consensus in the Committee to bind duties on repairs according to Article 2.1.3. Should any Signatory execute that commitment inadequately, the matter could always be taken up under the appropriate procedures (e.g. in the Tariff Committee or during the procedure for approval of schedules).

24. Summing up the Chairman stated that there was agreement that every Signatory would bind its duties on repairs according to Article 2.1.3 of the Agreement; that in this respect, Japan's commitment concerning Article 2.1.3 was equivalent to other Signatories' commitment; that the following text should be considered as a common guideline for binding of duties on repairs, to be inserted as a Headnote in Signatories' respective GATT Schedules:

"Duty free or duty exempt treatment is provided for all repairs on civil aircraft in accordance with Article 2.1.2 of the Agreement on Trade in Civil Aircraft, (the term "repairs" includes maintenance, rebuilding, modification and conversion.)"

Any Signatory requiring additional language would be free to include it, provided the obligation under Article 2.1.3 was fulfilled.

25. The Committee agreed with the Chairman's summing up.

4. Matters under Article 8.1 - Consultation on developments in the civil aircraft industry

26. The Chairman said that this item was on the agenda at the request of the United States representative and therefore asked him to introduce it.

27. The representative of the United States said that his delegation was interested in having an exchange of views with industry experts or government policy experts in the aircraft sector on current developments in two important sectors of the industry: the so-called 150-seat transport, and the 30-50 seat commuter aircraft. His objective was to have some broad trade policy discussion on developments, as they could affect the trade interests of Signatories. He recalled that, four years ago when the Agreement on Trade in Civil Aircraft was being negotiated, his delegation knew that it was dealing with an international sector, an industry that was very much oriented to international trade. He recalled that the United States was the largest consumer of aircraft, the largest single country market with about 45 per cent of the market for commercial transport aircraft, about 55-60 per cent of the market for commuter aircraft, and about 65-70 per cent for general aviation aircraft. It was instructive that of the seven programmes announced in the 30-50 seat category nearly all the manufacturers, only one and a half of which were in the United States, had announced that the United States was the principal market for which they were designing their aircraft. It seemed that these manufacturers were planning on obtaining some 20-30 per cent of the US market in order to justify the economics of their programmes. The US airline industry enjoyed that competition and that breadth of choice. To illustrate the international aspect of the industry he quoted three articles from the

Financial Times, one concerning Rolls Royce which had signed a £200M agreement with Gulf Stream Aerospace Company to provide engines for their new series of executive turbo-fan jet aircraft; another on a British firm expanding its carbon fibre output with a view to its application in the Boeing 757 carbon fibre reinforced brakes, developed by Dunlop of the United Kingdom and by Saab-Fairchild in their propellers for the SF-340; another article dealt with a joint venture between Rolls Royce and a Japanese consortium together with Pratt-Whitney, German and Italian partners in a work-sharing agreement to develop a programme proposal for a 25,000 lb. thrust commercial turbo-fan jet engine that could be employed on a new generation commercial transport. He remarked that a new aircraft programme was probably going to cost \$2-2 1/2 billion to launch and another \$1-1 1/2 billion for the engine. The high costs forced firms to spread the risk by taking on partners internationally. The world wide economy, however, had discouraged new programme commitments, both by engine manufacturers who have to take a four to five year risk, and by airframe manufacturers who have to take a four-year risk. The A310 and Boeing 767 had both been launched in 1978 with an auspicious market forecast. Unfortunately in the four to five years that it took to develop these programmes the economic situation changed drastically and the airline economic situation went into recession, leading to a slack in sales. The development of new technologies, such as carbon fibres, was another market factor which made the decision of when to commit to developing a new aircraft programme more difficult. If manufacturers waited for a couple of years there would be significant technological benefits to be gained by fly-by-wire, active controls, after flight controls and increased use of composite materials which would provide better aircraft for the world's airlines. New engine technologies were also continuing to improve engine efficiencies so that airlines' buying criteria for new generation aircraft had to include their

economic operation in the 1988 up to the year 2000. There was a good amount of information concerning how many aircraft might be ordered; there was a significant ageing of the world airline fleet to the extent that about half of all 2 and 3-engined aircraft now in service would be more than fifteen years old in 1988, and two-thirds of those were in the United States fleet. He added that the same considerations applied to commuter aircraft although the risks involved were not as great. Finally the representative of the United States looked forward to hearing the views of other delegations who were involved in other programmes.

28. The representative of Japan said that its industry was at this stage co-producing a model called the XX; it was also developing a derivative called the YXX in the form of an international joint programme. He was not in a position to say what the Japanese aircraft industry would undertake in the future, after completion of the YXX.

29. The representative of the EEC thanked the US representative for his exposé and said that, in his view, it would be more appropriate to take up such matters on a bilateral basis.

30. The representative of Canada said that the latest developments in the Canadian aircraft industry was the Dash 8. It was also developing jointly, with Pratt-Whitney, a new engine which should have its first deliveries in 1984. He recalled that the Canadian aircraft industry did not build large commercial transports; however, it was associated with such large commercial transports as a purchaser and sub-contractor. The Canadian aircraft industry

hoped to be associated with the next generation of commercial transports and was exploring all opportunities for continued co-operation in this field.

31. The representative of the United States suggested that perhaps more details could be handled on a bilateral basis. He wished to conclude this discussion by sharing some thoughts that had been raised in the United States at a Ministerial level which could be described as perspectives and concerns about certain trends in the civil aircraft sector. With the world-wide recession and the economic problems of airlines, all manufacturers were facing a sharply reduced volume of orders as well as requests that deliveries be stretched out. Under those circumstances manufacturers could press governments with requests for assistance. It was his authorities' view that it was particularly important that those responsible for trade policy avoid, in the words of the GATT Subsidies Code, the use of domestic subsidies which would or might adversely affect conditions in normal competition, especially as it had been agreed in the Aircraft Agreement that civil aircraft activities should operate on a commercially competitive basis. It was not his intention to comment here on any past practice or instance but to reach a common perspective if possible on future governmental involvement in civil aircraft programmes. He said that the US expected and urged that any government monies advanced for industrial participation be advanced on a commercial competitive basis and that there not be any effort to influence international airlines to procure aircraft of domestic production. He raised this to share with the members of the Committee the view that the United States would be vitally concerned by any action which might compromise the ability and opportunity of US manufacturers to compete for civil aircraft sales throughout the world. It was the US view that there was great benefit in the Aircraft Agreement to international trade; the US looked forward to its airlines continuing to have

the benefits of such international competition and collaboration. The United States had pledged to do what it could to ensure the continued expansion of free and fair trade opportunities for aircraft. Finally he said that it was in the interest of good trade policy to share perspectives early in an effort to avoid any difficulty or differences of opinion that might arise in the future.

5. Matters under Article 8.3 - Further negotiations

32. The Chairman recalled the terms of Article 8.3 which provided for further negotiations three years after entry into force of the Aircraft Agreement. The three years had been completed on 31 December 1982. The matter had been on the agenda of two meetings so far. Three written proposals were on the table: namely AIR/TSC/4, the Technical Sub-Committee's proposal for extension of the product coverage, submitted to the Committee in July 1982; secondly, AIR/W/34 a United States paper, tabled at the October 1982 meeting, containing a time-schedule for negotiations and proposals concerning Articles 2.1.2 and 2.1.3 duties on repairs, Article 6 to address the questions of export credit subsidies and information on government support of aircraft programmes; thirdly, there was AIR/W/36, a Canadian paper also tabled in October 1982, proposing coverage of testing equipment in Article 1, and specific test equipment in the Annex, possible coverage of any relevant export credit agreement resulting from OECD discussions, and additional changes to the Annex required by recent technological progress (such as modularly designed engines). The Chairman also recalled that in addition a number of more general comments on further negotiations had been made at the previous meeting in October 1982. On product coverage there had been two informal

consultations to examine proposals on product coverage. It was his intention to inform the Committee on the progress made in these consultations on product coverage. To date of the sixty-nine ex CCCN items which had been reviewed, sixteen had been agreed on; a number of additional proposals needed further examination or clarification.

33. The representative of the EEC referred to the US proposal in AIR/W/35 concerning Articles 2.1.2 and 2.1.3 and noted that the matter had been fully discussed and settled. Turning to the question of product coverage, he said that progress had been made and possibly more progress would be coming in the weeks ahead. Some twenty ex CCCN items might be added to the list of agreed products for inclusion in the Annex to the Agreement; nevertheless the EEC was disappointed that no progress had been made on inclusion of parts of parts and expressed the hope that some progress could be achieved in the future. He proposed that those delegations, mainly the United States and Japan, which were to re-examine the reservations they had on the inclusion of certain items, would do so in time for these items to be referred to the Technical Sub-Committee which would hopefully meet in June. The Technical Sub-Committee should draw up the tariff language in the three different nomenclatures before items could be formally added to the Annex and in Signatories' respective GATT Schedules. Turning to the US proposal on export credits he said that it was not the rôle of this Committee to discuss export credits; negotiations were under way in other fora. He recalled in this context that at previous meetings the representative of the United States had referred to two studies undertaken by the International Trade Commission, one for the USTR and one for the US Senate. It was his understanding that both studies had been completed; it was of interest to his delegation to hear the outcome of these studies and possibly obtain copies.

34. The representative of the United States agreed that the matter of Articles 2.1.2 and 2.1.3 had been settled and that there was now only a question of implementation. His delegation also looked forward to moving concerning product coverage. He agreed that the Technical Sub-Committee should proceed with the technical work on the sixteen agreed items. The question of export credit was an important sector of concern to the US Government which sought to reach agreement on the elimination of such subsidies. It was his hope that this could be arrived at in the OECD.

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Concerning the two studies commissioned from the International Trade Commission he said that he would make published copies available through the secretariat. He added that the administration had not drawn any conclusions as to what course of action to take further on these studies.

35. The representative of Canada said that good progress had been made regarding product coverage and said that the Technical Sub-Committee could usefully do the tariff concordance and tariff classification work on the sixteen agreed items so that they could be included in the Annex without delay. He recalled that one of the Canadian proposals would entail modification of Article 1 and of the headnote to the Annex.

36. The representative of the EEC invited the Japanese and US delegations to re-examine their reservations on a number of outstanding items in good time for forwarding to the Technical Sub-Committee.

37. The representatives of the United States and Japan took note of this request.

38. The Chairman said that the sixteen items tentatively agreed to would be forwarded to the Technical Sub-Committee to work out tariff concordance and tariff language. The Technical Sub-Committee would also be asked to work out tariff classification on a number of other items. He noted that should reservations on outstanding proposals be lifted in time for the Technical Sub-Committee to work out the tariff language these items would also be sent to the Technical Sub-Committee.

6. Date of next meeting

39. The Chairman drew attention to an item before the Council of Representatives, concerning the Ministers' decision to review the operation of the MTN Agreements and Arrangements. The following proposal was made at the Council meeting of 9 March 1983:

"The Council would invite the MTN Committees and Councils to take account of this Ministerial decision in their annual reports, and to transmit these reports to the Council, so that the Council can assist the CONTRACTING PARTIES in the review called for in that decision, in the light of these reports and of observations by delegations. The Council would report to the CONTRACTING PARTIES at their thirty-ninth session on the results of its discussions. For this purpose, these reports by the MTN Committees and Councils would need to be in circulation and available to members of the Council not later than 10 October 1983, that is, well

in advance of the Council's meeting on 1 November 1983 at which the Council would discuss the matter."

This would be reverted to at the following Council meeting of 20 April 1983. The Chairman said that the proposed deadline of 10 October for the Committee's report should be taken into account.

40. Accordingly the date of the autumn meeting was set for 4 and 5 October 1983. The possibility of a summer meeting was left open.