

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 4 and 6 October 1983

Chairman: Mr. T. Sato (Japan)

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1. Chairmanship of the Technical Sub-Committee

1. The Chairman drew attention to document AIR/TSC/W/52 "Communication by the Chairman of the Technical Sub-Committee" in which Mr. G. Weise explained that he was unable to chair future meetings of the Technical Sub-Committee and proposed that Mr. P. Douglas (Canada) act as Chairman in his place. The Committee noted the statement and expressed its appreciation for the excellent work done by Mr. G. Weise. It also thanked Mr. P. Douglas for ensuring the acting chairmanship of the Technical Sub-Committee.

2. Report of the Technical Sub-Committee (AIR/TSC/5 and Add.1)

2. The Chairman drew the Committee's attention to document AIR/TSC/5, the Fifth Progress Report of the Technical Sub-Committee which covered five subjects: statistics, tariff classification matters, national tariffs, civil/military identification in national tariffs and product coverage.

3. With regard to product coverage, the Chairman said that there had been developments in terms of new items agreed. He explained that before the summer recess the Technical Sub-Committee had completed its tariff language and concordance work on the sixteen items (in terms of CCCN) agreed at that time. In September 1983, two delegations had made additional contributions by removing more reservations. The United States had removed reservations on eight items, and Japan had removed reservations on twenty-four items plus four further items, subject to satisfactory clarification of the products involved. Thus further items should be forwarded to the Technical Sub-Committee for completion of the tariff language work. He pointed out that this should be done without delay as it related to the Committee's consideration of item 3 - Further Negotiations.

4. In order to give the appropriate instructions to the Technical Sub-Committee, the Chairman invited delegations to confirm or change their outstanding reservations.

5. After some discussion, it was agreed to request the Technical Sub-Committee to complete its tariff language and concordance work on twelve additional items agreed to in September, plus items ex 76.06 and ex 81.04, and to report to the Committee at its meeting on 6 October 1983.

6. Reverting to the Report of the Technical Sub-Committee, under the section "Tariff Classification Matters" the representative of Japan noted that the Sub-Committee had exchanged views and explored certain approaches to the implementation of the Harmonized System. The legal text of the Harmonized System had been finally adopted at the Customs Co-operation Council Session held in June 1983. Therefore introduction of the Harmonized System into Signatories' domestic tariff schedules was expected to take place in the near future. In this connection, a common understanding needed to be reached on the way to treat civil aircraft products in the Harmonized System nomenclature. In his delegation's view, there were two aspects to be solved before introducing the Harmonized System.

7. Firstly, Signatories needed to convert the list of products presently annexed to the Aircraft Agreement in three different nomenclatures, into the Harmonized System, in one language. The Japanese Delegation had prepared a draft conversion table of the products in the Annex. This draft showed only six-digit Harmonized System sub-headings: precise descriptions of products which were to be included in each sub-heading should be drawn up. He proposed that the secretariat, possibly with the help of the CCC secretariat, prepare a new draft Annex in Harmonized System nomenclature. This should also be done for the products which would eventually be added to the Annex. He emphasized that it was necessary that Signatories establish a common description of the products which were to be annexed to the Agreement under the Harmonized System language before the Harmonized System entered into force.

8. Secondly, there was need to reflect on the way in which aircraft products so agreed should be introduced into GATT tariff schedules and domestic tariff schedules of each Signatory. The Japanese delegation was aware that there had already been some exchange of views in this respect in the Technical Sub-Committee. However, his delegation, in preparing the draft conversion list into the Harmonized System, had found that the actual fifty ex-CCCN products in the Annex translated into some 260 products in Harmonized System nomenclature. Furthermore, this number could be expected to increase as the result of further negotiations on aircraft products. Therefore, it was necessary to consider how to simplify tariff schedules when covering civil aircraft products into the Harmonized System.

9. The representative of the United States agreed that the matter needed careful consideration and that the work should be undertaken before the entry into force of the Harmonized System, on 1 January 1987. He suggested that the matter be put on the agenda for the next meeting of the Committee, which should examine it before considering any consultation with the Customs Co-operation Council.

10. The representative of the EEC thanked the Japanese delegation for the draft conversion table, which would be carefully studied by his delegation. He agreed with the United States representative that the Committee itself should look into this matter. It involved important and lengthy work; he therefore urged that this be undertaken at an early date. He said that the Community was also working at a transposition into the Harmonized System. It was his understanding that Canada might implement the Harmonized System at a later date than other countries. Nevertheless, he felt that Canada should also make suggestions with respect to conversion into the Harmonized System.

It was his understanding that the United States was also working at a draft transposition. He suggested that, when all these proposed conversions were ready, they should be merged into a single one.

11. The representative of Canada said that in view of the Canadian legislative process it was likely that Canada would implement the Harmonized System at a later date than other Signatories. He also agreed that Signatories should examine the matter of transposition themselves before approaching the CCC.

12. The representative of Japan said that his delegation would study the matter together with other Signatories before the next meeting of the Committee.

13. The Chairman said that in view of the importance of arriving at a common approach in the implementation of the Harmonized System with regard to civil aircraft products, work should be undertaken on the subject without delay. He urged delegations to reflect on the matter, in order to have a productive discussion at the next meeting of the Committee.

14. Under the "Civil/military identification in national tariffs" section of the Report of the Technical Sub-Committee, the representative of the United States said that the issue here was one of transparency. It was his understanding that Signatories would include appropriate identification in the new editions of their tariffs. He suggested that the Technical Sub-Committee could review this matter again in the Spring of 1984, to make sure that the work was completed.

15. At its meeting of 6 October 1983, the Committee reverted to the section on "Product Coverage" of the Report of the Technical Sub-Committee. The Chairman requested the Acting Chairman of the Technical Sub-Committee Mr. P. Douglas (Canada) to make a report.

16. The Acting Chairman of the Technical Sub-Committee said that as requested, the Sub-Committee had completed the work entrusted to it on tariff language and concordance in CCCN, CTS and TSUS for the additional items agreed. The Technical Sub-Committee had arrived at agreed language for the Annex to the Agreement, as well as for Signatories domestic tariff schedules where needed, in all three nomenclatures for a total of thirty-two agreed product categories. In addition, there had been a consensus to add item ex-CCCN 90.02 (which were mounted lenses and prisms), in order to match the agreed item ex-CCCN 90.01 (unmounted lenses and prisms). The Technical Sub-Committee had requested the secretariat to compile the results of this work in a document which would be issued as an addendum to the report AIR/TSC/5.

17. The Chairman said that the Committee noted with satisfaction that the Technical Sub-Committee had completed its work. He asked delegations to confirm whether item ex-CCCN 90.02 was acceptable.

18. All delegations confirmed that ex 90.02 was acceptable for inclusion in the Annex.

19. The Chairman said that it was his understanding that Annexes I and II in AIR/TSC/5 was now superceded by the results just reported by the Acting Chairman, which would be circulated in document AIR/TSC/5/Add.1.

20. The Chairman suggested that the Committee instruct the Technical Sub-Committee to pursue its work on other proposals tabled already or to come.

21. The representative of the United States pointed out that the Technical Sub-Committee would need to complete work on the Harmonized System well before the date of entry into force of the HS on 1 January 1987. Thus he suggested that the Sub-Committee look at additional proposals after 1985.

22. The representative of Canada and Switzerland pointed out that work on product coverage and on the Harmonized System could be carried on in parallel. They recalled that work on extension of the product coverage had taken a number of years to complete; so that it was important to start work on a second package of proposals at an early date if the aim of completely free trade in all civil aircraft products were to be achieved one day.

23. The Chairman concluded that the Technical Sub-Committee should pursue its work on product coverage, including proposals already tabled or to come.

3. Matters under Article 8.3 - Further Negotiations (AIR/TSC/4, AIR/TSC/5 and Add.1, AIR/W/36, AIR/42)

24. The Chairman recalled that Article 8.3 called for further negotiations three years after entry into force of the Agreement. The three years had been completed on 31 December 1982, and the matter was on the agenda for the third time. So far, proposals tabled and discussions had addressed two different aspects of the Agreement, namely the Annex or Product Coverage and the Agreement itself. With respect to the Annex the following proposals and documents were on the table: AIR/TSC/4, the Technical Sub-Committee's report concerning proposals for extension of the product coverage, submitted to the

Committee in July 1982, supplemented by AIR/TSC/5 containing the Sub-Committee's work on tariff nomenclature for agreed proposals, as well as the work reported at this meeting by the Acting Chairman which would be contained in document AIR/TSC/5/Add.1. There was also a Canadian paper - AIR/W/36 tabled in October 1982 proposing coverage of specific testing equipment in the Annex.

25. With respect to the Agreement itself the Chairman said that the following proposals were on the table: AIR/W/36, the Canadian paper mentioned, which contained a proposal for coverage of testing equipment in Article 1, as well as additional changes required by recent technological progress (such as modularly designed engines); AIR/42/Rev.1, a United States proposal for an additional paragraph to Article 6, on Government Support of Export Credit Financing. This proposal replaced a previous United States proposal on the same subject, contained in document AIR/W/34 tabled in October 1982. Also on the subject of export credits, but not specifically linked to an amendment of Article 6, was the Canadian proposal in document AIR/W/36, that an internationally agreed discipline resulting from discussions in the OECD "should be taken into account by Signatories in their review of the Agreement".

26. The Chairman invited discussion on proposals concerning the Agreement itself.

27. The representative of the United States said that while Article 8.3 did call for further negotiations, it also provided that such negotiations be done with a view to broadening and improving the Agreement on the basis of mutual reciprocity. So far, mutual reciprocity had been considered only

within the context of product coverage. He recalled that his delegation had referred to the subject of officially supported export credits in document AIR/W/34 of October 1982, and had expanded on the subject at the last meeting of the Committee (AIR/M/9, page 6). The United States had stressed that officially supported export credits should be subject to an effective international discipline, and had proposed that when negotiations in the OECD were concluded, the results of such negotiations should be incorporated as a new paragraph to Article 6. He also recalled that the Preamble to the Agreement sought to eliminate adverse effects on trade in civil aircraft resulting from governmental support in civil aircraft development, production and marketing and that the trade operate on a commercially competitive basis. His delegation had sought discipline on export credit financing for aircraft in the original negotiations in 1978 and 1979. No export provision had been accepted at the time because of the then ongoing discussions in the OECD, although the words "Export Credits" did appear in the caption of Article 6. Since the original negotiation of the Aircraft Agreement, there had been only two OECD meetings on export credits for civil aircraft (other than large transport aircraft). Progress had been so slow; some delegations there had no negotiating instructions. His delegation was therefore not sympathetic to the argument that, as negotiations were going on in the OECD the subject should not be discussed in this Committee. His delegation did not propose to duplicate the OECD negotiations; what it did propose, was that it was appropriate for an international agreement on trade in civil aircraft to contain a policy statement on the question of government supported export credits. Noting that some delegations in the OECD had expressed the view that subsidization of export credits for aircraft should be avoided altogether, his delegation proposed that a third paragraph be added to Article 6 to read as follows:

"Signatories agree that financing for exports of civil aircraft should be on commercial terms and conditions. Accordingly, they agree that government support of such financing should be limited to insurance and financial guarantees, without any support of interest rates."

He explained that the first sentence was a policy statement the second sentence an obligation. The formulation of the obligation in the second sentence was in accordance with US practices, objectives and institutions. He recognized that the precise wording of the second sentence might be uncomfortable or unacceptable to some. He invited delegations interested in doing away with export credit subsidies, but would like to modify the second sentence to take account of their national systems or institutions, to express their views.

28. The representative of Canada said that his delegation's views on export credit subsidies were well known. He fully supported the objective behind the United States proposal. However, the language would cause his authorities some problems, and would make it difficult for Canadian manufacturers to find adequate financing. He added that the United States proposal had been received only a few days before the meeting, and that his delegation had not had a chance to study it. He wanted to have time to reflect; clearly the subject was important to the Committee and he suggested that it be kept on the agenda for further consideration.

29. The representative of Japan remarked that while discussions were going on in the OECD, the United States representative had made a proposal to this Committee, and asked what the relationship between the two fora was.

30. The representative of the United States said that the forum was not as important as the governments involved with making the trade rules. There had been an oversight in Article 6 in the Aircraft Agreement, and it was therefore appropriate to make a policy statement to the effect that Signatories did not want subsidies in the area of export financing of civil aircraft. Discussions in the OECD were held by financial experts, at a very technical level. What this Committee should do was to make a policy statement and leave the detailed technical questions to the financial experts.

31. The representative of the EEC said that he had not yet studied the United States proposal in AIR/42/Rev.1, and was therefore not in a position to make specific comments. The EEC did not differ on the objectives of the proposal; however, while negotiations were going on in Paris (which were expected to make progress very soon) he did not think it was appropriate to enter into the same exercise in this Committee. He did not exclude that, should the OECD not reach a conclusion, the Committee should reconsider its position.

32. The representative of Switzerland said that he had received the document too late to discuss it with his authorities. He agreed with the objective of the United States proposal but had some doubts as to the means to achieve it. He noted that there was a Subsidy Code in the GATT and that the Aircraft Agreement referred to it. He cautioned against duplicating provisions concerning subsidies in the Aircraft Agreement, lest it set precedents for the Subsidies Agreement.

33. The Chairman said that it was his understanding that all delegations recognized the importance of avoiding trade distortions, in particular those

caused by officially supported export credits. He said that the Committee had taken note of the United States proposal and of the objective behind it. The Committee agreed to continue to consider the matter and would put it on its agenda for the next meeting.

34. Turning to the proposals for extension of the Annex, including the items reported on by the Acting Chairman of the Technical Sub-Committee, he asked the Canadian delegation whether the proposal contained in AIR/W/36 concerning technologically new products, such as modularly designed engines, needed further discussion.

35. The representative of Canada said that the question was a general issue of coverage of new technological products and would need to be addressed as well as the question of the inclusion of testing equipment. However, the matter should be raised in the Technical Sub-Committee at a future date.

36. The Chairman said that the thirty-two new categories of products agreed for inclusion in the Annex were before the Committee for approval.

37. The representatives of Canada, Japan, the EEC, the United States, Switzerland, Sweden, Norway and Romania agreed that those thirty-two new categories of products should be recommended for inclusion in the Annex to the Agreement. They also saluted the Chairman for his remarkable leadership in bringing this negotiation to a successful end.

38. The representative for Egypt said that he had no instructions to approve or disapprove. However, as his authorities had not yet ratified the Agreement, they would have to examine these proposals before ratification.

39. The Chairman concluded that there was unanimous agreement on thirty-two new categories of products for inclusion in the Annex. He said that a good deal of hard work and patience had led to the final conclusion of this first phase of further negotiations under the Agreement. The second phase would concern the implementation of the thirty-two new categories of products in each Signatory and he raised the question of the date for possible entry into force.

40. The representative of the EEC suggested 1 January 1985.

41. The representative of Japan said that his Government would make every effort to meet the date of 1 January 1985.

42. The representative of Canada said that the majority of agreed products were already duty free in the Canadian list. For the remaining items the Canadian authorities would envisage entry into force any time between April 1984 and April 1985 so that the date of 1 January 1985 was feasible.

43. The representative of the United States said that, as in the case of Canada, a number of the aircraft parts which were being added were already duty free under the TSUS list in the Annex. For others, his delegation would begin immediately to seek the necessary Congressional approval. This would entail public hearings and notices. The International Trade Commission would conduct a Section 332 investigation on the economic impact of adding these items to the tariff coverage. Prior industry consultations indicated that the ITC's report would most likely be favourable, and that would provide the necessary support for legislative action in the United States Congress in the Spring of 1984. Legislation was expected to be introduced in February or

March 1984, which would eventually give the President the authority to promulgate zero duty for these items, subject to his finding that zero duty was being offered also by other Signatories. Thus there were several steps to the US domestic procedure: Congressional approval, explicit Congressional authorization to the President to issue a proclamation, and then the Presidential promulgation followed by the International Trade Commission's publication of the tariff. To do this in a timely way, it would be very helpful to be able to consult with the secretariat from time to time to ascertain which Signatories would have notified their unconditional willingness to accept this amendment to the Annex with effect from 1 January 1985. This date was acceptable to his delegation. Finally, he proposed that at the next meeting of the Committee Signatories could report on progress in national implementation.

44. The representative for Switzerland said that his authorities would have to submit these items to Parliament. The date of 1 January 1985 was acceptable. He supported the United States proposal that Signatories report on the progress of their legislative procedures at the next meeting.

45. The representative of Sweden said that although all these items were already duty free in Sweden under an end-use system, his authorities would have to submit the Agreement to Parliament. He could agree to the date of 1 January 1985.

46. The representative of Romania said that his authorities would undertake the necessary legislative procedures to implement the Agreement on 1 January 1985.

47. The representative of Austria said that it would take about one year for the legislative procedures to be completed; thus the date of 1 January 1985 was acceptable in principle.

48. The representative of Norway agreed with the date of 1 January 1985, and added that for his authorities there would be no difficulty to implement the Agreement at an earlier date as these items were already duty free.

49. The Chairman concluded that there was a consensus to recommend to Signatories' governments implementation of the extension of the Annex on 1 January 1985. He invited Signatories to report to the next meeting of the Committee on the progress of their domestic legislative procedure for implementation.

4. Report to the CONTRACTING PARTIES

50. The Chairman recalled his statement at the end of the last meeting concerning the Council chairman's proposal with regard to the review of the MTN Agreements and Arrangements: "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 the 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 will discuss the matter." The Chairman added that, at its meeting of

20 April 1983, the Council had agreed to the Chairman's proposal. He pointed out that the Committee now had an obligation to submit its report by 10 October 1983. He said that the secretariat had prepared a draft report which could be used as a basis for work.

51. After examination of the draft the Committee adopted its report to the CONTRACTING PARTIES (L/5554).

5. Rectification of the Annex - TSUS list

52. The representative of the United States said that his delegation proposed to rectify the List of the US tariff items in the Annex to the Agreement to include TSUS item 688.39 concerning solid state electronic clocks. The technical details of this rectification had been sent to the secretariat, which would circulate it in accordance with the rectification procedure.

53. He also referred to a letter by the United States delegation to Canada, on 29 July 1983 concerning the reclassification of certain products and the attendant customs regulations. A copy of this letter would be made available to the Chairman and any interested Signatories.

54. The representative of the EEC said that his delegation would be interested in receiving a copy of that letter as well as the final customs regulation referred to.

6. Dates of next meetings

55. The dates of the next meetings of the Committee were set the weeks starting 19 March and 8 October 1984.