

# GENERAL AGREEMENT ON

RESTRICTED

AIR/73

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# TARIFFS AND TRADE

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Sub-Committee of the Committee  
on Trade in Civil Aircraft

MEETING OF 26-27 MAY 1993

Note by the Secretariat

1. The Sub-Committee held its fifth meeting on 26-27 May 1993 under the Chairmanship of Mr. Mikael Lindström (Sweden). Participants discussed submissions put forward informally by Canada and by the United States, as well as the following issues: subsidy-based versus support-based disciplines, direct government development subsidies/support, indirect subsidies/support, prohibition of production subsidies/support, prior government commitments, and disciplines for products other than large civil aircraft.
2. On the issue of subsidy- or support-based disciplines, one participant said that the definition of subsidy in the Uruguay Round draft text on Subsidies was sufficient to cover all of the measures of concern in the aircraft sector; his delegation favoured a subsidy-based approach. Another participant favoured a support-based approach and said that his delegation's proposed definition of "direct government support" provided an adequate basis for such an approach. One participant noted that his delegation's proposal was a mixture of the two approaches, with the bulk of the disciplines being support-based, but incorporating a substantial part of the draft Subsidies text in order to close remaining loopholes; such an approach would cover royalty-based repayment systems, would preclude difficult problems of measurement and would allow for feasible disciplines on indirect support. Another said that once it was decided what type of government involvement would be disciplined, the appropriate basis for the disciplines would be more clear; however, if subsidy-based disciplines could be applied more easily than support-based disciplines, that approach would be preferable. One participant said that the issue was whether delegations were ready to subscribe to disciplines that were as strict as those in the EC/US Bilateral Agreement, regardless of the approach used.
3. Regarding direct government development subsidies/support, participants discussed an informal paper containing a broader definition of the term "applied research" than that in the draft Subsidies text, and a list of research activities that would not be covered by the definition. It was explained that the definition was based on concepts from the draft Subsidies text and was intended to cover both direct and indirect support. One participant questioned the concept of "experimental development"; the proposed definition was too broad, and elements in it could result in making non-actionable a large amount of the support provided to the

aircraft sector. Another was of the view that the proposal would not adequately provide for the non-actionability of support that fell below an established cap; for his delegation, the latter was essential if strict disciplines and caps on government support were to be agreed.

4. On the question of indirect subsidies/support, one participant said that indirect and direct subsidies/support should be treated in the same manner, and that the problem was one of measurement of each type; it would not be inherently more difficult to measure indirect subsidies than indirect support. Another said that direct and indirect support were fundamentally different; the latter involved basically spin-off benefits from the non-civil aeronautical sector, and there was no direct correlation between non-civil research projects and benefits to the civil side. His delegation's proposed definition of indirect support (linked to the provision in the EC/US Bilateral Agreement) was based on the idea of identifiable benefit and identifiable reduction in cost. One participant said that both direct and indirect support should be equally disciplined; this would not be achieved by having, as had been suggested, a rough system of measurement for direct support and a complex and detailed system for indirect support. The only feasible measurement would be cost-to-government; a benefit-to-recipient approach would eviscerate the disciplines on indirect support.

5. On the issue of production subsidies/support, one participant explained that the definition in his delegation's informal paper was aimed at capturing production subsidies that were directly related to the production process and specific to the civil aircraft sector; this approach would prevent such production subsidies from being otherwise "green-boxed" under the guise of regional development as covered in the draft Subsidies text. Another said that the definition was very narrow and fell far short of what was needed; in his delegation's view, "production" covered everything beyond the development phase, and disciplines on such support should be broad-based. Another participant said that he could not accept that "production" covered everything that was not research and development. He welcomed the thrust of the proposal, which he said should be kept as a basis for further negotiation, and agreed with the notion of trying to specify the linkage between the subsidy and the production process.

6. On the issue of prior government commitments, several participants said that existing government subsidy/support programmes should continue to be subject to existing rules. One participant noted that such commitments had been made on the basis of the disciplines in existence at the time, and said that new rules should not be applied to them. Another suggested that changes in such commitments that were in line with the new disciplines should be allowed, and that the prohibition on production subsidies could, for example, be subject to a three-year phase-in period, along the lines of Article 28 of the draft Subsidies text.

7. Regarding the issue of measurement of subsidies/support, one participant submitted an informal paper on principles regarding the application to the aircraft sector of the rules in Article 14 of the draft Subsidies text; the paper covered equity infusions, loans, loan guarantees, provision of goods or services, and "plane-to-plane" transfers, and was based on a benefit-to-recipient approach to the identification of subsidies. He said that there was a clear need for measurement guidelines, regardless of whether the disciplines were subsidy- or support-based. One participant asked how, under the approach suggested, the calculation of subsidy in a royalty-based system would be made, and questioned the practicality of such an approach. Another said that the draft Subsidies text should remain intact, and that further reflection was needed on the proposal, particularly with regard to equity infusions. One participant said that he understood that the proposed measurement guidelines would not apply just to Article 14 of the draft Subsidies text, but to all relevant parts of that text.

8. On the question of engines, one participant said that disciplines on engines should be tighter than those on large civil aircraft. Another agreed, citing the prevalence and amount of indirect support for engines in certain countries, and suggested a support-based approach with caps of less than three and four percent on indirect support, or an increase in the caps on direct support. Another participant favoured more lenient disciplines, citing the greater risk involved in this sector.

9. Regarding small and medium aircraft, some participants favoured subsidy-based disciplines. One participant said that these should be as strict as possible. Another advocated more flexible disciplines, saying that different economic characteristics applied to this sector than to the large aircraft sector. One participant said that tighter disciplines on indirect support in this area were needed, particularly with regard to helicopters. Another said that support-based disciplines would be preferable, but remained open to a subsidy-based approach.

10. The Chairman asked the proponents of a support-based approach to disciplines on small and medium aircraft to specify, at the next meeting, exactly what products would fall in such a category. He also asked for clarification of what was meant by "major components and subassemblies". Regarding the questionnaire that had been circulated to participants in AIR/RN/11, he noted that thus far no responses had been received, and encouraged all participants to give this matter priority attention. The next meeting of the Sub-Committee would be held in late June or early July.