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GENERAL AGREEMENT ON TARIFFS AND TRADE

Sub-Committee of the Committee
on Trade in Civil Aircraft

MEETING OF 7-9 JULY 1993

Note by the Secretariat

1. The Sub-Committee held its sixth meeting on 7-9 July 1993 under the Chairmanship of Mr. Mikael Lindström (Sweden). Participants discussed a non-paper put forward by Japan regarding a revised Aircraft Agreement, and a proposal from the United States on the coverage of product categories, as well as the following issues: a definition of applied research, production subsidies/support, indirect support, engines, transparency and the questionnaire circulated to participants in May 1993. At the end of the meeting, Canada introduced a non-paper on issues related to procurement, for discussion at the Sub-Committee's next meeting.

2. One participant said that the subsidy-based approach in Japan's non-paper would be problematic partly because Article 6 of the Draft Final Act (DFA) text on subsidies did not correspond to the realities of the civil aircraft industry and did not take account of royalty-based repayment systems. Another participant said that the threshold suggested in the non-paper seemed to respond to the problems of measurement in this area. One participant asked whether thresholds different from the 5 per cent in the DFA were being considered in the proposal.

3. Regarding the definition of "applied research", one participant said that further reflection had reinforced his concern that the proposal was too broad and would "green light" a large portion of development costs for civil aircraft, thus going against his delegation's goal in the negotiations. The lines drawn between research, development and production in the proposal were not in the right place; for example, "proof of design concept" would largely relate to development, not research. Another participant said that such green-lighting was not only appropriate, but necessary, although he had concerns that this might provide a loophole for disciplines on indirect support; a limited and carefully circumscribed enlargement of the definition of applied research might include "experimental development" and "proof of design concept", as proposed. One participant suggested caution in any enlargement of the "green category" of subsidy covered by the definition of applied research, even though the proposal in this case was specific to the civil aircraft sector. Another supported the proposal as an attempt to adapt new disciplines to the particularities of the sector. Several participants expressed concern with the inclusion of certain activities on the proposed list of excluded activities, and questioned the necessity of such a list.

4. On the issue of the differentiation of product categories, a proposal was made, in the form of a detailed illustrative list, by one participant as to what products would fall in the category of "large civil aircraft key structural components/subassemblies". Primary propulsion systems were excluded from this list. Regarding the treatment of engines in a new agreement, one participant said that there were reasons for special rules for engines, particularly in the area of indirect support/subsidies. Engines were typically produced and sold over a much longer time frame than the aircraft itself, and the disciplines on direct support should take into account this longer period of amortization. The disciplines on indirect support for engines should be tighter than for other products; a ceiling of 1 per cent rather

than three per cent might be envisaged, and plane-to-plane transfers should be specifically covered. Another participant said that there seemed to be no rationale for different treatment for engines, and that the differentiation of disciplines according to product categories was not a good approach.

5. Regarding the issue of transparency, one participant explained that his delegation's proposal in AIR/RN/7 tried to merge the provisions on transparency in the EC/US Bilateral Agreement with those in the DFA in order to adapt them to a multilateral agreement, and that the disciplines were tailored to the information necessary to monitor and implement an agreement on large civil aircraft; transparency provisions on indirect support would be along the lines of the Bilateral Agreement. In his view, there was a misunderstanding as to what the actual level of identifiable benefits from such supports was; what was needed was a means of identifying such benefits. Another participant said that the proposal in AIR/RN/7 went well beyond what was in either the Bilateral Agreement or the DFA and that it introduced the notion of advance notification. The area most in need of improved transparency was indirect support; there would have to be a reasonable degree of transparency regarding the military side of aerospace activities, especially in the crucial area of plane-to-plane transfers. One participant said that publicly available data should be used as much as possible, in order to avoid problems of confidentiality, while another said that this would make transparency provisions virtually meaningless; if the latter approach were to be adopted, it would have to apply to direct as well as indirect support, in order for there to be a balance. Another participant said that one of the problems of transparency in the area of indirect support was the spin-off and unintended nature of the benefits, which was not the case with direct support.

6. On the issue of production support/subsidies, one participant recalled his delegation's proposal for disciplines which aimed at a broad prohibition of all support outside of research and development; he saw no value in trying to link the prohibition to the production process, and cited the dangers of circumvention under such an approach. Two participants asked how a broad prohibition would relate to the proposed disciplines on indirect support; it was explained by another that since indirect support was mainly a question of spin-off benefits, a prohibition in these cases would not be appropriate. One participant said that this would create an unbalanced situation in which the practices of some countries would be prohibited and those of others would be allowed; the broad prohibition suggested would appear to capture all forms of support in his country other than programme-specific development support, and this was unacceptable. Another participant said that a clear definition of "production" was essential if there was to be a prohibition in this area.

7. On the issue of indirect support, Japan's non-paper suggested that in the context of a subsidy-based approach to a revised Aircraft Agreement, the identifiable benefit from, for example, aircraft-related research would be covered by the term "services" in the definition of subsidy in the Draft Final Act (DFA) text on subsidies, and that the operative threshold for such subsidies could be set as a percentage of the total development cost of an aircraft programme. One participant said that the subsidy would have to be specifically linked to a given product. Another said that indirect support was mainly a question of spin-off benefits from government-funded research and development in the military and aeronautical areas and that such research activities generally should not be discouraged. His delegation had made a clear proposal aimed at identifying such benefits for the purpose of disciplines in this area, including transparency provisions. Another participant favoured setting an upper limit, net of recoupment, on such support, and noted that the terms of recoupment had not yet been specified and would have to be worked out. For his delegation, all research made generally available to the civil aircraft sector, and not just what was specific to an aircraft programme, would have to be measured. There would be no meaningful discipline if such support were measured in terms of benefit-to-recipient, as the transparency this would require would be beyond anything the industry could furnish; the only workable approach would be cost-to-government. Another participant said that benefit-to-recipient was the only way to deal with indirect support/subsidies, and that the basic issue was one of

measurement; there was no reason to have different disciplines for, and different ways to measure, benefits from direct and indirect support, as both involved the element of subsidy.

8. One participant signalled the need for special treatment with regard to the application of the new disciplines to countries in the process of moving their economies to a market basis and restructuring their civil aircraft industries. He was not yet in a position to be more specific as to what flexibility would be needed. One participant introduced his delegation's submission on issues related to procurement, which covered the areas of leasing, government and non-government purchasing, military versus non-military uses, duty-free treatment, and technical regulations and standards.

9. Regarding the questionnaire on government involvement in the civil aircraft industry, the Chairman reported that very few responses had been submitted and said that if the situation did not change soon, the exercise would have to be considered a failure. Two participants said that their responses were in the pipeline, and another asked for clarification on some of the questions. Another recalled his delegation's concern that there be balance in the exercise, and said that on indirect support, there could be differing interpretations as to what was being asked about.

10. The Chairman asked participants to put submit comments in writing on the various proposals discussed. The next meeting of the Sub-Committee would be held in mid-September.