

**GENERAL AGREEMENT
ON TARIFFS AND TRADE**

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**Sub-Committee of the Committee
on Trade in Civil Aircraft**

MEETING OF 27-29 SEPTEMBER 1993

Note by the Secretariat

1. The Sub-Committee held its seventh meeting on 27-29 September 1993 under the Chairmanship of Mr. Mikael Lindström (Sweden). Participants discussed a non-paper submitted by Canada setting out draft disciplines on subsidies in a framework for a new agreement on trade in civil aircraft, as well as a non-paper from Canada on issues related to procurement, and a definition of "basic research" put forward by the United States.

2. It was explained that the framework non-paper was an attempt to reflect a number of ideas that had been expressed by participants to date. The basis of the paper was the Uruguay Round Draft Final Act text on subsidies (the "DFA"), and the key criterion was the value – rather than the form – of the subsidy. The paper included the following elements: a prohibition of production subsidies, a prohibition of subsidies provided in excess of a certain percentage of the total investment costs of any programme, the substitution of the "deemed serious prejudice" provisions of the DFA (Articles 6.1 (b), (c) and (d)) with prohibitions, the non-actionability of research subsidies, and suggested guidelines for the measurement of subsidies.

3. One participant said that a support-based approach would be preferable, as it would cap the degree of development support regardless of what the subsidy element was; it would also address concerns regarding royalty-based repayment systems. The idea was to have disciplines at least as tight as those in the US/EC Bilateral Agreement (the "Bilateral") and which would be complementary to the DFA. Another participant suggested the possibility of a bifurcated approach with both subsidy- and support-based disciplines; in his view, the non-paper clarified what a subsidy-based approach might look like, but seemed to tighten significantly the DFA disciplines on direct subsidies while relaxing those on indirect subsidies. It was explained that the paper intended equally stringent disciplines for both so-called indirect and direct subsidies.

4. Regarding the proposed prohibition of production subsidies, one participant asked whether the intent was to exclude capital costs from this category of subsidy, and this was confirmed. Another participant asked whether an equity infusion related to production would be included; it was explained that equity infusions were usually for capital purposes and thus would not be included under this prohibition unless they were tied to non-capital costs.

5. Regarding the prohibition on subsidies above "X" per cent of total investment costs, it was explained that a royalty-based loan that was never repaid would be prohibited; however, more discussion was needed on this point. The concept of "total investment costs" would include all costs related to a programme up to a certain point in time. One participant said that this term would have to be very comprehensive and should cover total development costs and all research related to the launch of the

programme. Another participant asked how investment costs that were not linked to specific programmes would be treated. It was explained that the intent was to cover all subsidies benefitting a civil aircraft programme for any product covered by the agreement. One participant asked what the criteria for actionability would be for subsidies below the cap and questioned why such subsidies should remain actionable. Participants discussed what the numerator and denominator of the "X" per cent should include.

6. With regard to the prohibition on subsidies to cover operating losses and direct forgiveness of debt, one participant preferred the DFA treatment of these types of subsidy. Another participant said that these prohibitions would represent a significant strengthening of the DFA disciplines on direct subsidies/support but not on indirect subsidies/support.

7. One participant raised the issue of temporary derogations, in specific situations, from the provisions of a new agreement for countries in the process of transition to a market economy, and suggested that disciplines for small- and medium-sized aircraft and their parts be more flexible than for large aircraft. A number of other participants supported this view. One participant noted that there were no special provisions of this nature in the Bilateral, and another said that it was difficult to address this question when it was not yet clear what the new disciplines would be. It was explained that the proposal assumed the application of the DFA provisions on special and differential treatment.

8. Regarding non-actionable subsidies, one participant said that the definition of "applied research" was too broad, and offered an alternative definition of "basic research". Another found this alternative approach unacceptable, and asked what the remedy would be in the case of extensive research subsidies exceeding the cap; in his view, subsidies falling below the cap should be non-actionable.

9. It was suggested that a methodology for measuring subsidies was essential to effective and equivalent disciplines on all subsidies. It was agreed that Canada would provide a revised version of the non-paper within the next month.

10. Regarding the non-paper on procurement issues, one participant queried whether the provisions on leasing would cover "walk-away" leases, and another raised the issue of discriminatory fiscal treatment of leasing agreements.

11. With regard to the questionnaire on government activities in the civil aircraft sector, the Chairman said that due to the small number of responses received to date, he could not circulate any of the submissions to participants.

12. The next meeting of the Sub-Committee would be held in early November.