

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Special Distribution

Agreement on Trade in Civil Aircraft

COMMITTEE ON TRADE IN CIVIL AIRCRAFT

Draft Minutes of the Meeting held in the Centre William Rappard on 18 June 1981

Chairman: Mr. S. Piper (United States)

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1. <u>Matters under Article 1.2 - Military entities</u>	

1. The Chairman recalled that further to discussions in the Committee some Signatories had been invited to resubmit notifications on entities operating military aircraft.

2. The representatives of Canada and France confirmed that bilateral discussions were still going on in view of reducing the number of entities

notified as operating military aircraft. They hoped that the matter would soon be settled on a mutually satisfactory basis.

3. The representative of Italy said that Parliament had passed a law, No. 121, on the new organization of the national police. This was an outline law requiring application decrees. Pending the introduction of these decrees for which the Government disposed of twelve months, the national police maintained its military status. The representative of the United States suggested that the Italian authorities might want to consider the status of this entity not only for a legal point of view, but with some flexibility insofar as it related the Agreement on Trade in Civil Aircraft.

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

4. The representative of Canada referred to the discussion at the previous meeting (AIR/M/4, page 3) concerning the Order in Council established on 6 March 1981, which had modified the application of the sales tax on Canadian civil aircraft and parts exported for repair and subsequently returned to Canada. He explained that Canada imposed a 9 per cent domestic sales tax at the manufacturing level. The sales tax did not apply to the labour component of repairs effected abroad. The tax was limited to repairs on small aircraft, whether effected in Canada or abroad. He added that the matter was being discussed bilaterally with interested parties. The representative of the EEC said that the Commission was awaiting new information before taking a final position. He expressed the wish that the issue would be reverted to at the next meeting. The representative of the United States said that the matter had been discussed bilaterally. His authorities felt strongly that any differential in treatment between foreign repairs and domestic repairs, with

respect to the sales tax, was not appropriate. It was not a question of the value of the trade affected but whether a duty or other charge was being levied on repairs on aircraft.

5. The representative of Austria said that repairs were duty free in his country.

6. The Chairman noted that bilateral discussions continued on this issue and said that the Committee would revert to this matter at its next meeting.

7. Turning to the question of the binding of duties on repairs the Chairman recalled the discussion that had taken place at previous meetings and drew the Committee's attention to document (AIR/W/25) which contained proposed texts for inclusion in Signatories' GATT Schedules, the second text was for the Canadian Schedule.

8. The representative of United States said that this matter had been under discussion for two years now and that it was time to resolve it. Signatories should bind duty-free treatment of repairs by inclusion of a text in their GATT Schedules, along the lines of the first text in AIR/W/25. The second text in AIR/W/25, which concerned Canada, gave his authorities some difficulties because it did not meet the requirements of Article 2.1.3. It contained some ambiguities; by referring to tariff items in the Annex, which covered duty-free treatment of products only, the text omitted any reference to the labour component of repairs. He suggested that the first text was more appropriate.

9. The representative of Sweden reiterated his delegation's view that there was no need to add any headnote in Signatories' GATT Schedules; the problem of binding was formal, not substantive. However, if there emerged a consensus to include a text in Signatories' GATT Schedules, Sweden would agree with it.

10. The representative of the EEC said that the European Economic Communities could agree to the inclusion of the first text in its GATT Schedule on a basis of reciprocity. The Canadian text, in his view, fell short of fulfilling reciprocity, because it did not cover the service content in the repair bill.

11. The representative of Switzerland said that his authorities had great difficulties with both texts. Swiss law provided for customs duties on products only and not on services.

12. The representative of Japan and Romania said that their authorities did not apply any customs duties or charges on repairs and that they would follow a consensus, if it were developed, on either text. The representative of Romania preferred the first text. The representative of Canada said that the texts were not alternatives; the second text was intended to apply to Canada only. The representative of the United States said that there was no need to have the same text for everybody, what was needed was reciprocity in the level of binding in Schedules. He pointed out that the text in Schedule XX (United States) was different to the two texts before the Committee; this had not caused any difficulties. The representative of Canada reiterated that there was no obligation to have a common text. The representative of Austria said that he would refer the texts in AIR/W/25 to his authorities to verify if they fully covered the Austrian case. The representative of the EEC invited Switzerland and Canada to reflect further on the matter. He felt that a

common text was preferable. The representative of Canada pointed out that the problem was formal, not substantive, and recalled that he had agreed to making a statement in the Committee rather than inserting a note in GATT Schedules. His authorities would consider the matter further. The representative of Switzerland said he would refer the matter to his authorities. There was no intention to avoid an obligation under the Agreement, rather there was a legal problem concerning Swiss tariff law. Because Switzerland did not levy duties on services, binding a zero tariff on repairs of aircraft could imply that a tariff would be levied on repairs of products other than aircraft. The Chairman pointed out that there was no need to include a text in the national tariff but only in the GATT Schedule in order to fulfil the provisions of Article 2.1.3.

13. The representative of the United States said that this question should not become a perennial item on the agenda. He added that if there was no agreement the United States might have to consider withdrawing its binding in Schedule XX.

14. The Chairman noted that most delegations supported the first text in AIR/W/25 for incorporation, on a reciprocal basis, in their respective GATT Schedule. Three delegations would consider the matter further with their authorities. He invited delegations to pursue their consultations in order to reach a consensus by the next meeting.

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

15. The representative of Sweden referred to the discussion on the Report of the Technical Sub-Committee at the previous meeting of the Committee, and

noted that it had generally been felt that the time had come to start negotiations on the extension of the Annex. He recalled that the Aircraft Agreement had been negotiated in a very short time, and that it had been the intention of the negotiators to set up a Technical Sub-Committee to continue the negotiations that had not been completed. Noting that Article 8.3 of the Agreement called for negotiations not later than the end of 1982, he stressed that this did not preclude earlier negotiations. He stated that such negotiations had no link with other issues under the Agreement, in particular perceived progress under non-tariff provisions of the Agreement. The representative of the EEC supported this statement and pointed out that tariff concessions were self-balancing and therefore did not have to be linked to any other provisions of the Agreement.

16. After further discussion the Committee expressed its appreciation to the Technical Sub-Committee for the excellent work it had done so far in developing the list of selected products for possible inclusion in the Annex to the Aircraft Agreement (AIR/TSC/2). Before the end of 1982, the Committee would undertake further discussions with a view to broadening and improving the Agreement on the basis of mutual reciprocity. In order to facilitate these discussions and to provide a sound technical basis for any decisions in relation to tariff proposals the Technical Sub-Committee was asked to note that the following would be of interest:

- (1) specific examples of parts of aircraft and related equipment, which would be included in the proposed product description;
- (2) relevant technical information (including drawings or illustrations, where available) regarding such products;

- (3) an indication of whether the product is likely to have an aircraft manufacturers' parts number;
- (4) problems brought to Signatories' attention concerning non-aircraft uses and trade diversion of products proposed;
- (5) to the extent possible, a rough estimate of trade for each product;
- (6) recommended product nomenclature to be used in the Annex of the Agreement; and
- (7) an identification of those products which the Technical Sub-Committee considers to be rectifications rather than substantive changes to the Annex.

17. The Committee recalled the recommendation it had made to the Technical Sub-Committee in AIR/M/2, paragraph 38, and looked forward to receiving the report of the Technical Sub-Committee on this matter.

4. Matters under Article 5 - Trade restrictions

18. The Chairman recalled the discussion at the previous meeting (AIR/M/4) concerning the Japanese Monitoring Licensing System applied to four categories of aircraft and engines. A number of questions had been put to the Japanese representative and the Committee looked forward to the replies. In particular the EEC had asked: (1) did the Japanese Airworthiness Authorities certify the safety of smaller aircraft; (2) were these safety standards of the same

order for small and larger aircraft; (3) if so why was there need for supplementary safety approval by MITI. In what cases did MITI refuse the import licence, and was the airworthiness certification not considered sufficient by MITI in the case of larger aircraft; and (4) under what conditions could the Japanese authorities consider removing this discretionary import licensing system. The representative of Sweden had noted that the policy of the operator (airline) was relevant to the granting or refusal of the licence, and had asked whether there was no other system which authorized operators or users to fly imported aircraft. He had also asked for further information, in particular in what cases import licenses could be refused: when noise and safety requirements were not met, or when the operator or user was not authorized? He had questioned whether this was a necessary precaution and had asked whether any operator could possibly use an aircraft unless he were an authorized operator.

19. The representative of Japan said that all the questions raised at the last meeting were under discussion in Tokyo, with a view to deciding the appropriate procedure to follow. He reiterated that the system was a monitoring system and that, although it was listed in the quota system, there were no quantitative restrictions involved so far. He added that his authorities could not impose any quantitative restrictions on civil aircraft under the present system. The system was designed to check whether imported aircraft met the same safety standards which applied to domestic aircraft. The system was also designed to verify whether the importer was an entitled operator in Japan. It was basically a simple monitoring procedure. He stressed that discussions were proceeding to consider what procedure to adopt. He added that when these discussions would be concluded, and if there was a solution on the procedure to be adopted, he would report to the

Committee. He added that the review was being carried out in the light of the questions raised in the Aircraft Committee.

20. The representative of the United States said that the matter was also being discussed bilaterally. No-one was disputing the need for safety standards. However, the Japanese Airworthiness Authorities were competent to verify safety standards, and it did not seem appropriate to burden the system further with an additional licensing/monitoring system. There should be an easier way for private companies selling aircraft and equipment to conduct business, especially in an area where so many procedures and technical regulations existed. He was also concerned about the conformity of this licensing system with Article 5 of the Aircraft Agreement and with the Agreement on Import Licensing.

21. The representative of Japan said that his authorities were reviewing the system in order to make it more simple. This entailed a comparison of the Japanese Airworthiness Authorities' functions with those of other airworthiness authorities.

22. The representative of Canada said that his contention was not with checking of safety regulations, but with the fact that the checking was done under a quota system. He added that, generally, one should avoid all hindrances in time or red tape to trade.

23. The representative of the EEC noted that the procedure was under review in Tokyo and looked forward to a report, at the next meeting, on a possible new procedure.

24. The representatives of the EEC and of Sweden stated that meantime the questions they had raised at the previous meeting remained on the table.

5. Matters under Article 6 - Government Supports (AIR/W/23 and AIR/W/24)

25. The representative of the United States drew attention to document AIR/W/24 which was a new proposal by his delegation which replaced the previous proposal made under this item (AIR/W/17). The aim of this proposal was to implement the provisions of Article 6 of the Agreement by attempting to get better transparency of information with respect to Government Supports. It was his delegation's view that there were a number of public documents giving information on government supports to the aircraft industry. However these were not always complete or of great accuracy. A system whereby governments would indicate those publicly available documents giving information on government supports would provide a basis on which the Committee could discuss government supports.

26. The representative of the EEC said that his delegation maintained the view that the appropriate procedures for notification of subsidies were contained in Article 7:2 of the Subsidies Agreement. Questions concerning subsidies practices were best answered by the Signatories involved. It was also his view that a massive supply of information would not advance transparency. He recalled that the negotiation of this provision in the Agreement on Subsidies and Countervailing Measures had been difficult and that the result had been reflected in the Agreement on Trade in Civil Aircraft; at present his delegation was not prepared to move beyond what had been agreed to in those negotiations.

27. The representative of Canada said that while he supported the idea of transparency he did not feel that public documents would add much useful information. Furthermore, self-notification of subsidies was not required under the Aircraft Agreement. He asked whether the United States' representative could be more specific on what type of information should be circulated and on the definition of the words "generic research", which was to be excluded from these notifications. The representative of Japan said that his authorities had studied the proposal with interest. It was his view that one would need to agree on a comparable level of detail of information to be given. Should the Committee arrive at a consensus on this matter Japan would be prepared to follow.

28. The representative of the United States welcomed the support for the idea of greater transparency. The US proposal was not specific on the level of detail to be supplied, which was left for Signatories' consideration. The United States would also expect reciprocity in the extent of the information given. He explained that "generic research" was research not associated with a particular product programme.

29. The representative of the EEC said that for his delegation it was not a matter of definition of "generic research", or of the extent of detail to be furnished. His delegation did not agree with the proposal. Such exchange of information could be undertaken bilaterally if necessary. He was opposed in principle to any notification procedure under the Aircraft Agreement. He expressed the hope that at the next meeting there could be agreement that the appropriate procedure was that provided for under Article 7.2 of the Subsidies Agreement.

30. The representative of the United States noted that some interest had been expressed in the idea of greater transparency. He hoped that it might be improved, and invited delegations to reflect further in order to make suggestions.

31. The Chairman said that for the next meeting, when the Committee would undertake its annual review, delegations might reflect on how to improve the operation of the Committee in terms of availability of information.

32. The Committee then had an exchange of views on document AIR/W/23, a discussion paper on export credits submitted by the US delegation. There were divergent views with respect to the issues raised in AIR/W/23. It was felt that consultations in capitals would determine at a later date whether the matter should be reverted to at a later meeting.

6. National tariffs

33. Under Other Business the representative of the EEC raised the question of the way aircraft concessions were reflected in certain national tariffs. He felt that full transparency had not always been achieved and asked that the Committee agree that this matter be examined by the Technical Sub-Committee.

34. The representatives of Canada and of Japan supported this proposal.

35. The Chairman recalled that Article X of the GATT required that trade regulations be published clearly. He noted that the terms of reference for the Technical Sub-Committee enabled that body to look into the question of

national tariffs. He looked forward to receiving the Technical Subcommittee's report on this subject at the next meeting.

7. Date of next meeting

36. The date of the next meeting of the Committee was set for Wednesday, 28 October 1981 at 3 p.m., and Friday, 30 October. There would be no meeting on 29 October.