

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 28 and 30 October 1981

Chairman: Mr. S. Piper (United States)

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1. <u>Status of acceptances</u> (AIR/12/Rev.1)	
1. The Committee noted the status of acceptances of the Agreement in document AIR/12/Rev.1. The representative of <u>Greece</u> said that by virtue of its accession to the European Communities the date of entry into force of the Aircraft Agreement for Greece was 1 January 1981. Greece had signed the Aircraft Agreement on 2 February 1981 subject to ratification. The ratification procedure had been suspended in view of the national elections;	

it would resume shortly but was not expected to be completed for some time. The Agreement was fully applied by Greece as of 1 January 1981.

2. The representative of the EEC said that the Agreement applied to Italy by virtue of a Council Decision as of 1 January 1980, both de facto and de jure. The outstanding ratification by Italy would in no way affect the date of entry into force of the Agreement for Italy.

2. Matters under Article 1.2 - Military entities (AIR/20/Rev.1, AIR/28)

3. The Chairman recalled that at the previous three meetings there had been discussions of this matter and that bilateral consultations had been undertaken. Some delegations had been invited to resubmit notifications, in particular Canada, France and Italy. He drew attention to a recent notification of entities operating military aircraft by Greece, contained in document AIR/28. He added that he had been informed by the representative of Austria that the Austrian notification would be made very shortly.

4. The representative of Canada stated that he was not in a position to settle the matter at present, but hoped to do so in the near future. The representative of France replied that the new notification of French entities operating military aircraft would be made at the same time as the Canadian notification was made.

5. The representative of the EEC recalled the previous statement by Italy, (AIR/M/2) to the effect that legislation had been passed through Parliament, which required further implementation. He informed the Committee that

commissions had been set up to do this, and that it would take some time until the non-military status of the national police was finalized. With respect to the outstanding new notification by Canada, he urged that the matter be settled soon, as the problem had been under consideration for a long time.

3. Matters under Article 2 - Duties and other charges on repairs (AIR/W/25)

6. The Chairman recalled that at the last meeting some delegations had stated that they wanted to revert to the matter of the Canadian sales tax on civil aircraft and parts exported for repair and subsequently returned to Canada.

7. The representative of Canada recalled that the Order in Council of March 1981 had met a large part of the problem. Subsequently further technical problems had emerged and a new Order in Council was required to resolve them. Some members of the Committee asked for an estimated date for the solution of the matter. The representative of Canada replied that he was not in a position to give a date.

8. The Chairman recalled the discussions in the previous meetings on the binding of duties on repairs in Signatories' respective GATT Schedules. A text had been circulated at the June meeting (AIR/W/25) and three delegations had stated that they would consult their authorities on the matter.

9. The representative of the United States said that his delegation had difficulties with the language proposed for the Canadian Schedule contained in

AIR/W/25. The representative of the EEC asked whether Canada was prepared to insert a footnote as suggested in AIR/W/25.

10. After further consultation new texts were drafted. These would be submitted for adoption by the Committee at its next meeting (document AIR/W/27).

11. The Chairman said the Committee would revert to this item at its next meeting.

4. Report of the Technical Sub-Committee (AIR/TSC/3)

12. The Chairman of the Technical Sub-Committee introduced the Third Progress Report of the Technical Sub-Committee (AIR/TSC/3), covering the work within that body on statistics, tariff classification matters, end-use systems, the reproduction of Aircraft Agreement concessions in national tariffs, and on the List of Selected Products (AIR/TSC/2). He drew attention to the lack of progress on the question of statistical reporting and said that the Technical Sub-Committee requested the Committee to provide instructions on whether the matter of statistical reporting should be pursued.

13. The representative of the United States noted that only six Signatories had submitted statistics. He recalled the importance his delegation attached to statistical reporting of trade flows, and hoped that the matter would be pursued. The representative of the EEC said that discussion within the Technical Sub-Committee had shown that some countries had given full

statistical reports as requested, but that others had encountered technical difficulties in doing so. It was clear that with the present collection systems it was not possible to obtain comparable trade figures. He added, however, that what was not possible now could be made possible in the future; and that the collection systems, where inadequate, should be changed.

14. The representative of Japan recalled that he had explained in the past two meetings of the Technical Sub-Committee the legal reasons that prevented Japan from changing its collection system. At present his authorities were studying alternative ways of collecting trade statistics in order to obtain data comparable with other Signatories' data.

15. The Committee concluded that the matter of statistical reporting of trade flows was important and that work within the Technical Sub-Committee to achieve full comparability of statistics should be pursued.

5. Matters under Article 5 - Trade restrictions

16. The Chairman recalled that questions put to the Japanese delegation on its import quota system with respect to certain aircraft at the two previous meetings (AIR/M/4 and 5) were still on the table. The representative of Japan had said that its "monitoring" system was under review. The Committee was awaiting a report on this review and on possible new procedures.

17. The representative of Japan said that following discussion in the Committee of Japan's IQ system with respect to aircraft, his authorities were re-examining the system with a view to revising it in the light of the comments made. He stressed that it was a simple monitoring system and did not

involve any quantitative restrictions. The review of the system would not involve Diet approval; nevertheless, a process of consultation between Ministries concerned was necessary in order to reach a consensus. This required some time to complete. Despite his authorities' efforts to accelerate the revision, he was not in a position to report on its results at this meeting, but hoped to do so at the next meeting.

18. The representative of the United States noted with interest that the Japanese authorities were reviewing the system as a result of discussions in this Committee. While discussions had taken place over several meetings, he still failed to understand the basic rationale of the system and its necessity. It was clearly not in conformity with the provisions of the Aircraft Agreement and the provisions of the Import Licensing Agreement. He urged the Japanese representative to explain and clarify the basic rationale behind the system. The fact that no quantitative restrictions had, so far, been applied to aircraft did not remove his authorities' concerns, especially over problems that could arise in the future. He stated that his authorities were not satisfied with Japan's response to its concerns.

19. The representative of Canada said his authorities shared those concerns and looked forward to getting an early clarification of the system as it worked at present, and as it would work after review. The representative of Sweden reiterated the concerns he had expressed in previous meetings. He noted with satisfaction that the Japanese IQ system was under review, but also noted that he had not been given any details of the way it functioned. He recalled the many unanswered questions that had been put on this subject in previous meetings, (AIR/M/4 and 5), and stated that these remained on the

table. The representative of Switzerland supported the statements made by the United States, Canada and Sweden and said that he looked forward to replies to the questions that were on the table. The representative of Norway also supported these statements and requested early clarification of the matter.

20. The representative of the EEC said that he considered the "monitoring" system as part of the Japanese import quota system, which caused problems in many areas, not only in aircraft. The Japanese IQ System was clearly incompatible with Article 5 of the Aircraft Agreement. While he welcomed the information that the system was under review, he drew attention to the fact that the Aircraft Agreement had been in force for nearly two years now; such a period was too lengthy for a Signatory to bring its practices into conformity with the Agreement. He stressed the hope that the review would not result in a further ambiguous situation. The present IQ System, despite its "monitoring" rôle was clearly not compatible with the provisions of the Agreement. He warned that any modifications which would not be compatible with these provisions would lead to further discussions in this Committee. He awaited further clarification of the "monitoring" rôle and urged that the present IQ System be abolished.

21. The representative of Japan said that he would forward these statements to the responsible Ministries in Tokyo, and expressed the hope that the matter would be resolved promptly, so that this item could be removed from the agenda.

22. The Chairman drew attention to document L/5168 which contained an outline of Japan's import quota system submitted by Japan under the Notification and

Surveillance Procedures of GATT. He noted that the questions raised concerning the Japanese import quota system as it applied to aircraft had not been satisfactorily answered. He said that the matter would be reverted to at the next meeting.

6. Matters under Article 6 - Questions relating to subsidies

23. The representative of the United States referred to previous discussions on export credit subsidies in the civil aircraft sector and to a paper circulated by his delegation, document AIR/W/23. It was not his purpose to continue that discussion though his delegation might wish to revert to the subject at a future meeting.

24. He recalled that considerable attention had been devoted to the question of export credit subsidies in the OECD, at the Ottawa Economic Summit and in bilateral consultations. In keeping with the consultative spirit of the Agreement he wished to express his delegation's thinking regarding the problem of export credit subsidies for the consideration of Signatories whether in this form or some other, whether on a multilateral or bilateral basis. The basic provision was that the United States sought international agreement for the eventual elimination of government subsidized export credits. This was a priority issue of the Reagan administration. His delegation was prepared to work in any fora to achieve the objective of reducing the economic cost to governments and their citizens of official export credit programmes and to eliminate official financing competition as a factor in international sales. The ultimate objective was that export credits should be extended at commercial rates of interest. While some limited reductions in these subsidies had been negotiated recently much more needed to be done.

25. Subsidized official export credit financing of civil aircraft sales in the United States had become a serious and contentious problem. Competition for sales in the United States' market, among both foreign and domestic suppliers, had become particularly intense due to the size of the market, and the potential for sales in third markets following sales in the United States. While the United States welcomed free competition in its domestic market among all aircraft manufacturers, and while it recognized that governments might as a matter of policy wish to foster exports, both the Aircraft Agreement and the Subsidies Code provided that such assistance should not adversely affect the trade interest of others. The United States specifically objected to subsidized financing by foreign governmental institutions in support of sales of civil aircraft in the United States, because such financing gave an artificial advantage to foreign suppliers over domestic ones, who were obliged to finance on a commercial basis.

26. As set out in the 8 July 1981 statement on US Trade Policy, the United States intended to exercise its trading rights and strictly enforce the United States laws and international agreements relating to international trade. It was important to stress that the United States did not seek confrontation. However, its trading partners should know that the United States was prepared to act firmly, using such available remedies as were appropriate to the particular circumstances, to ensure that goods were fairly traded in the US market without being dumped or subsidized in an injurious way.

27. The representative of the EEC welcomed this statement and said that it was prepared to continue negotiations on the problem of export credits. It was his view that the OECD was the right forum for such discussions. He agreed with the United States representative that confrontation should be avoided. He remarked that all Signatories had rights and obligations under the relevant Codes.

28. The representative of Canada shared the concerns of the United States concerning export credit financing. His delegation would reflect on how best to resolve the problem. The representative of Japan also shared the concerns of the United States.

29. The representative of the EEC introduced a paper tabled in the Committee (AIR/29 - Declaration of the European Communities in Regard to the Relationship between the Aircraft Agreement and the Agreement on Subsidies and Countervailing Measures). This declaration was a clarification of positions previously held and expressed by the European Communities. It recalled the link between the Aircraft Agreement and the Agreement on Subsidies and Countervailing Measures, in particular concerning Article 6 of the former and Article 7 of the latter. The United States had made several proposals for an exchange of information which, in the view of the EEC, went beyond the provisions of Article 7 of the Agreement on Subsidies and Countervailing Measures because they involved the supply of information on subsidies that did not automatically affect trade. In the view of the EEC, the causal link between subsidies and distortion of trade was of paramount importance, and for

this reason the contracting parties had decided to lay down GATT rules only for those subsidies which affect trade and to leave the responsibility for state support measures in the hands of the individual contracting parties so long as trade was not affected. The United States' proposals for an exchange of information implied that subsidies automatically affected trade. This sort of approach was hardly compatible with the provisions of the Agreement on Subsidies and Countervailing Measures and of the Aircraft Agreement. If an exchange of information were to take place in accordance with Article 7 of the Subsidies Agreement, it should be noted that there was, as yet, no agreed definition of the term "Subsidy". The United States' proposal did not therefore appear, for now, to be practicable. In summary, the EEC view was that Article 7 of the Agreement on Subsidies and Countervailing Measures should only be involved where a Signatory had reason to believe that a particular subsidy was affecting trade and this belief could be substantiated in its request for information.

30. The representative of the United States said that his delegation would consider whether to make a formal response to this position at a later date. As a preliminary comment he could not agree with the EEC's conclusion that proof of trade distortion was a pre-requisite for requests for information under Article 7 of the Agreement on Subsidies and Countervailing Measures. Such an argument did not take into consideration the obligations under Articles 6.1 and 6.2 of the Aircraft Agreement. He welcomed the EEC's desire to avoid confrontation and stressed the need to discuss problems before they became acute rather than after.

31. The representatives of Canada and Japan said that they noted with interest the statements by the United States and the EEC. They wished to reflect and examine the matter before making comments. They fully supported the view that problems should be approached in a spirit of open discussion, before they became acute.

32. The Chairman said that the matter would be discussed in future meetings of the Committee.

7. Report to the Contracting Parties

33. The Chairman recalled the provisions of Article 8.2 of the Agreement which called for an annual report to the Contracting Parties to the GATT.

34. The Committee adopted its second report to the Contracting Parties, contained in document L/5225.

8. Dates of next meetings

35. The dates of the next meetings were set for the weeks starting 8 March and 28 June 1982.