

THE GENERAL COUNSEL OF THE TREASURY,
Washington, D.C., April 30, 1968.

MR. JOHN M. MARTIN, Jr.,
Chief Counsel, Committee on Ways and Means,
House of Representatives,
Washington, D.C.

DEAR MR. MARTIN: This is in further response to your letter to Secretary Fowler concerning the Treasury Department's views on the Honorable Cecil R. King's proposal to further reduce or eliminate tariffs on Canadian-U.S. trade in aircraft and aircraft components.

This Department is most interested in any proposal which would strengthen the economies of, and the trade ties between, the United States and Canada. In examining such proposals, however, the Treasury Department must take into consideration the short-term as well as the long-term balance-of-payments effects.

There would appear to be three possible alternatives for achieving the reduction or elimination of duties on aircraft and aircraft components traded between the United States and Canada. They are:

1. Bilateral negotiations with Canada designed to reduce existing duties. Such duty reductions would have to be applied on a most-favored-nation (MFN) basis by both the U.S. and Canada to all GATT members, or else a GATT waiver would have to be obtained.
2. An agreement with Canada similar to the U.S.-Canadian Automotive Agreement. This also would require the procurement of a GATT waiver.
3. Acceleration of duty reductions negotiated under the Kennedy Round. Such an acceleration would also have to be applied on an MFN basis or require the procurement of a GATT waiver.

The Kennedy Round negotiations provided for substantial reduction in the duties on aircraft and aircraft components. The U.S. duties were reduced by 50 percent and will be in the range of 4-5 percent when the final Kennedy Round stage is implemented in 1972. Canada also cut duties by 50 percent, with rates being reduced from 15 percent to 7½ percent. Other major importing countries made comparable cuts.

There is a general question as to the desirability of further duty reductions by the United States at this time. Also, obtaining a GATT waiver for a preferential arrangement between the United States and Canada would be very difficult.

A number of factors need to be considered in order to ascertain the immediate balance-of-payments effects of further duty cuts by the United States and Canada on aircraft and aircraft components. Duty reductions would only apply to imports of commercial aircraft and parts. Approximately 80 percent of U.S. imports of aircraft and parts from Canada enter duty-free under the U.S.-Canadian Defense Production Sharing Program. A large portion of our exports of aircraft and parts to Canada are on a duty-free basis because no comparable items are produced in Canada. Overall, we are concerned that duty reductions on U.S.-Canadian trade in aircraft and aircraft components would provide more benefit to Canadian exports than to U.S. exports.

The above comments should not be construed to suggest that no benefit would be derived by the United States from further duty reductions but simply that in the limited context of U.S.-Canadian action, such action would not appear, on balance to improve the U.S. position on trade account. Of course, if agreement could be obtained among the major trading nations to reduce or eliminate tariffs on aircraft and aircraft components, such multilateral action could be beneficial to the United States. However, we do not believe the time is ripe for such negotiations. Thus, in the absence of reciprocal duty reductions by countries other than Canada, the Treasury Department would be opposed to the further reduction by the United States of the tariffs on aircraft and parts, and to acceleration of those reductions negotiated in the Kennedy Round.

With regard to an agreement with Canada similar to the U.S.-Canadian Automotive Agreement, the Treasury Department believes that the efficacy and desirability of such sector arrangements need to be considered within the context of the trade policy study presently being conducted by the President's Special Representative For Trade Negotiations.