

effect prior to 1972. However, we believe such a waiver of staging should be conditional on the agreement of our major trading partners to take parallel action. If such agreement were not possible, legislation eliminating staging on a most-favored-nation basis for those aircraft parts supplied primarily by Canada might be considered.

If the United States were to negotiate in the future with Canada to eliminate duties on aircraft and parts, the United States would be obliged under the General Agreement on Tariffs and Trade (GATT) to extend duty free treatment to all countries to whom the United States accords most-favored-nation status. Other major aircraft and parts suppliers to the United States, including the United Kingdom, European Common Market countries, and Japan, would gain significant benefits from such a duty elimination without giving anything in return. Even if the administration were authorized to negotiate with these countries as well as with Canada, we do not believe that at present the other major producers would be willing to eliminate their tariffs on aircraft and parts.

Another alternative approach might be for the United States and Canada to enter into a bilateral agreement to reduce or eliminate duties on aircraft and parts only on imports from each other. The United States obtained a waiver under GATT from the most-favored-nation rule to permit implementation of the United States-Canada Automotive Agreement which provided for the elimination of duties on certain automotive products only when imported from Canada. The GATT waiver was obtained because of the very special and unique nature of the North American automotive market and industry. We do not believe that similar conditions exist in the aircraft industries of the two countries. On the basis of our preliminary consideration, we do not think that it is likely that an arrangement patterned on the Automotive Agreement would be in the interest of the United States aircraft industry.

During the current study of United States trade policy, Ambassador William Roth, the President's Special Representative for Trade Negotiations, will be considering among other subjects future trade negotiating methods and possible industry or sector approaches to trade liberalization. We believe that free trade in specific sectors as well as other possible future broad approaches to United States-Canada trade are appropriate subjects for further analysis by Ambassador Roth.

The Bureau of the Budget advises that from the standpoint of the Administration's program there is no objection to the submission of this letter.

Sincerely yours,

WILLIAM B. MACOMBER, Jr.,
Assistant Secretary for Congressional Relations.

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 reply to your letter of February 15, 1968, regarding the Honorable Cecil King's proposal with respect to United States-Canadian trade in aircraft and aircraft parts. The proposal envisages strengthening the economies of, and trade relations between, the two countries by negotiating further mutual reductions and/or elimination of tariffs. The proposal also envisages possible Congressional waiving of staging requirements on tariff reductions already made in the Kennedy Round.

The U.S. aerospace industry appears to be in a strong competitive condition with the value of shipments increasing at about 10 percent per year. Employment in the aircraft sector has increased from 319,200 in 1964 to 488,000 in 1967, and employment in aircraft engines and components has increased from 286,800 in 1964 to 356,000 in 1967. The average hourly earnings in January 1968 were \$3.58 in the aircraft industry and \$3.46 in the components industry. The United States has a significant export surplus in aircraft and parts; in 1967 exports were \$1,828 million and imports were \$283 million.

The U.S. and Canadian aircraft industries are complementary: Canada produces no large transport planes but allows their duty-free entry from the United States. The Canadian industry produces only light special type aircraft. There is a great deal of trade in military aircraft and components, free of duty in both directions.