

Representative King, if limited to products traded primarily between the two countries, can serve to achieve that end. Any negotiations should be preceded by a careful review to determine the merits of eliminating duties on a case-by-case basis. The Department at this time is inclined to oppose elimination of duties on aircraft, but is willing to consider mutual elimination of duties by the two countries on specified components. We would not object to considering the elimination of staging requirements for certain specified aircraft components. Before reaching any firm conclusions on these issues, the Department would want to obtain the views of interested parties.

We have been advised by the Bureau of the Budget that there would be no objection to the submission of this report from the standpoint of the Administration's program.

Sincerely,

JOSEPH W. BARTLETT,  
*General Counsel.*

U.S. TARIFF COMMISSION,  
*Washington, April 15, 1968.*

MEMORANDUM RELATING TO PROPOSED PREFERENTIAL TARIFF TREATMENT BY THE UNITED STATES AND CANADA FOR EACH OTHER'S AIRCRAFT AND AIRCRAFT PARTS

This memorandum is submitted in response to your request of February 15, 1968, regarding a proposal being considered by Representative Cecil R. King to strengthen trade ties between the United States and Canada by further reducing and/or eliminating tariffs on United States-Canadian trade in aircraft and aircraft parts. Representative King states that he has in mind not only prospective negotiations, but also possible Congressional waiving of staging requirements on concessions already made in the Kennedy Round.

The granting of preferential tariff treatment by the United States to Canadian aircraft and aircraft parts, whether accomplished by a bilateral agreement with Canada or whether in the form of the acceleration of the Kennedy Round reductions, would require the enactment of specific legislation. In addition, since the United States is a contracting party to the General Agreement on Tariffs and Trade (GATT) and since the GATT does not provide for such preferential treatment as an exception to the most-favored-nation commitment contained therein, the extension by the United States of such treatment to Canadian products would necessitate, as in the case of the United States-Canadian Automotive Products Agreement, a waiver of its GATT obligations, if such preferences were not to be considered in violation thereof.

TARIFF TREATMENT

While the granting of preferential treatment by the United States and Canada to each other's aircraft and aircraft parts would result in changes in the tariff treatment accorded to a part of the trade in such products between the two countries, it would not effect any changes in the treatment accorded to most of the present trade, since most of it has been free of duty. The bulk of United States imports of such products from Canada has been for the use of United States military departments and has, therefore, been exempted from duty under item 832.00 of the Tariff Schedules of the United States (TSUS); and most Canadian imports of such products from the United States have been of a type not produced in Canada and have, therefore, been temporarily free of duty. This temporary exemption has been extended to July 1, 1969. However, a large rate reduction or duty elimination may stimulate the trade which is now dutiable.

Canadian aircraft imported into the United States for other than Governmental use are dutiable at 9 percent ad valorem under TSUS item 694.40. This rate reflects the first stage of a concession granted by the United States in the Kennedy Round GATT negotiations. Pursuant to the concession, the rate on aircraft will be gradually reduced to 5 percent ad valorem by January 1, 1972. Canadian aircraft parts imported into the United States for other than Governmental use are dutiable under various TSUS items at various rates of duty, the applicable rate depending on the part of part. Parts not covered by specific parts provisions in the TSUS are dutiable under TSUS item 694.60 at 8 percent ad valorem. Like the rate for aircraft, this rate reflects a GATT concession and will be gradually reduced to 5 percent ad valorem by January 1, 1972. Aircraft parts covered by specific parts provisions include such products as automatic flight control instruments, which are dutiable under TSUS item 712.47 at 10.5 percent ad valorem.