

**INDUSTRY SECTOR ADVISORY COMMITTEE ON
AEROSPACE EQUIPMENT
FOR TRADE POLICY MATTERS**

March 5, 2004

The Honorable Donald Evans
Secretary
Department of Commerce
Fourteenth and Constitution Avenue, NW
Washington, DC

Ambassador Robert Zoellick
United States Trade Representative
600 Seventeenth Street, NW
Washington, DC

RE: U.S.-Australia Free Trade Agreement

Dear Secretary Evans and Ambassador Zoellick:

Pursuant to Section 2104 (e) of the Trade Act of 2002 and Section 135 (e) of the Trade Act of 1974, as amended, I am pleased to transmit the report of the Industry Sector Advisory Committee on Aerospace Equipment for Trade Policy Matters (ISAC 1) on the U.S.-Australia Free Trade Agreement, reflecting our consensus advisory opinion on the proposed agreement and our *strong* support for Congressional approval.

We appreciate the diligence and professionalism of your staffs in the negotiating of this agreement.

Sincerely,

Gregory S. Dole
Chairman, ISAC 1

The U.S.-Australia Free Trade Agreement (FTA)

Report of the

**Industry Sector Advisory Committee on Aerospace Equipment for Trade Policy
Matters (ISAC 1)**

March 2004

March 4, 2004

The Industry Sector Advisory Committee on Aerospace Equipment for Trade Policy Matters report to the President, the Congress, and the United States Trade Representative on the U.S.-Australia Free Trade Agreement.

I. Purpose of the Committee Report

Section 2104 (e) of the Trade Act of 2002 requires that advisory committees provide the President, the U.S. Trade Representative, and Congress with reports required under Section 135 (e) (1) of the Trade Act of 1974, as amended, not later than 30 days after the President notifies Congress of his intent to enter into an agreement.

Under Section 135 (e) of the Trade Act of 1974, as amended, the report of the Advisory Committee for Trade Policy and Negotiations and each appropriate policy advisory committee must include an advisory opinion as to whether and to what extent the agreement promotes the economic interests of the United States and achieves the applicable overall and principle negotiating objectives set forth in the Trade Act of 2002.

The report of the appropriate sectoral or functional committee must also include an advisory opinion as to whether the agreement provides for equity and reciprocity within the sectoral or functional area.

Pursuant to those requirements, ISAC 1 hereby submits the following report.

II. Executive Summary of the Committee Report

ISAC 1 *strongly* supports the negotiated text of the U.S.-Australia Free Trade Agreement. The ISAC members found the agreement—the first to be negotiated between the United States and a developed country since the U.S.-Canada Free Trade Agreement of 1988—to be fair, balanced, and, in terms of the immediate reduction of tariffs on industrial goods, precedent-setting.

III. Brief Description of the Mandate of ISAC 1

The Industry Sector Advisory Committee on Aerospace Equipment for Trade Policy Matters (ISAC 1) currently consists of 13 members representing the U.S. aerospace industry. Its members are drawn from the major airframe, engine, general aviation, electronics, equipment, space vehicle, and satellite manufacturers.

ISAC 1 advises the Secretary and the USTR concerning the trade matters referred to in Sections 101, 102, and 124 of the Trade Act of 1974, as amended; with respect to the operation of any trade agreement once entered into; and with respect to other matters arising in connection with the development, implementation, and administration of the

trade policy of the United States including those matters referred to in Reorganization Plan Number 3 of 1979 and Executive Order 12188, and the priorities for actions there under.

ISAC 1 provides detailed policy and technical advice, information, and recommendations to the Secretary and the USTR regarding trade barriers and implementation of trade agreements negotiated under Sections 101 or 102 of the Trade Act of 1974, as amended, and Sections 1102 and 1103 of the 1988 Trade Act, which affect the products of its sector; and performs such other advisory functions relevant to U.S. trade policy as may be requested by the Secretary and the USTR or their designees.

In particular, ISAC 1 prepares Advisory Committee Reports as set forth in [STAT.1012] (e). This Report is required under section 135 (e) (1) of the Trade Act of 1974 regarding any trade agreement entered into under section 2103(a) or (b) of this Act shall be provided to the President, the Congress, and the USTR no later than 30 days after date on which the President notifies the Congress under section 2103 (a)(1) or 2105 (a) (1)(A) of the President's intention to enter into the agreement.

IV. Negotiating Objectives and Priorities of the ISAC 1

Trade is critical to the economic growth and strength of the United States and to its leadership in the world. Stable trading relationships promote security and prosperity. As the industrial sector that contributes most to a positive balance of trade—aerospace—it is absolutely vital to the future of the members comprising ISAC 1 and their highly-skilled employees, and thousands of suppliers across the United States that an effective, rules-based trading system be continued.

One of the key priorities of ISAC is found in Article 2 of The Agreement on Trade in Civil Aircraft of 1979, which states:

"Signatories agree to eliminate by 1 January 1980, or by the date of entry into force of this Agreement, all customs duties and other charges of any kind levied on, or in connection with, the importation of products, classified for customs purposes under their respective tariff headings listed in the Annex, if such products are for use in a civil aircraft and incorporation therein, in the course of its manufacture, repair, maintenance, rebuilding, modification or conversion."

Another key negotiating objective and priority for ISAC 1 is to ensure that the current disciplines on aerospace subsidies in the Subsidies and Countervailing Measures Agreement are not weakened. Inclusion of the provision in that agreement was an important achievement of the Uruguay Round. Therefore, consistent with Section 135 (c) of the Uruguay Round Agreements Act (Public Law 103-465)—the United States must “maintain vigorous and effective disciplines on subsidies practices with respect to civil aircraft products under the WTO Agreement on Subsidies and Countervailing Measures.”

V. Advisory Committee Opinion on Agreement

Australia never signed the 1979 Agreement on Trade in Civil Aircraft Agreement. Among other things, the 1979 agreement eliminates tariffs on civil aircraft, civil aircraft engines, parts and components. As a result, Australia has maintained limited levels of tariffs on imported aerospace products and components. The recently negotiated U.S.-Australia Free Trade Agreement, however, eliminates any remaining vestiges of import tariffs on these products and provides for equity and reciprocity in the aerospace sector. Based on the information available and for the following reasons, ISAC 1 *strongly* supports the agreement as written:

Australia is America's ninth largest export market. It is a significant consumer of U.S. military and commercial aircraft and U.S. components. Under this agreement, more than 99 percent of U.S. manufactured exports to Australia will become duty-free immediately upon entry into force of the Agreement. As such, this agreement represents the most significant immediate reduction of industrial tariffs ever achieved in an FTA negotiated by the United States. These exports of manufactured goods account for some 93% of total U.S. sales to Australia's large market and support 150,000 American jobs. The value of these annual exports is approximately \$13 billion. It is estimated that the elimination of tariffs on all manufactured goods could result in \$2 billion per year in increased U.S. exports of manufactured goods to Australia. Virtually every state in the U.S. sells to Australia.

For the aerospace sector, the importance and longstanding nature of the positive relationship between the U.S. aerospace industry and Australia cannot be overstated. For some U.S. companies and their subsidiaries, U.S. aerospace manufacturers have enjoyed doing business in Australia for more than 75 years. For instance, The Boeing Company is the preferred supplier for large commercial airplanes in Australia. The same can be said for other U.S. suppliers of their products, including Rockwell Collins, United Technologies, and General Electric, among others. Two of Australia's airlines operate more than one-hundred and fifty Boeing commercial aircraft. Furthermore, Boeing forecasts demand for commercial airplanes and related services in Australia to be valued at \$20 billion over the next twenty years. Australia also influences what the other carriers in the region acquire, representing another \$5 billion in commercial aircraft sales over that same period.

The U.S. aerospace industry is the source of high-technology, high-paying jobs. Many of those jobs are critical to maintaining our industrial base and ensuring the future of our national security interests. In creating new export opportunities for all American manufacturers, this agreement will vitally assist an important sector of our economy.

ISAC 1 *strongly* supports this negotiated agreement as fair, balanced, and precedent-setting.

VI. Membership of the Committee

Mr. Gregory Dole
Ms. Susan Walsh
Mr. Glenn Beyer, Jr.
Mr. Mark Bitterman
Mr. Ed Bullard
Mr. Neil Clark
Mr. John Grisik
Mr. Woolf Gross
Mr. Joel Johnson
Mr. Richard Kirkland
Ms. Linda Sadler
Mr. Gregg Spendlove
Mr. Barry Valentine