

September 27, 2018

The Honorable Robert E. Lighthizer
United States Trade Representative
600 17th Street, N.W.
Washington, D.C. 20508

Dear Ambassador Lighthizer:

In accordance with section 105(b)(4) of the Bipartisan Congressional Trade Priorities and Accountability Act of 2015, and section 135(e) of the Trade Act of 1974, as amended, I am pleased to transmit the report of the Industry Trade Advisory Committee on Aerospace Equipment (ITAC 1) on the Trade Agreement with Mexico and potentially Canada, reflecting consensus on the proposed Agreement.

Sincerely,

A handwritten signature in black ink, appearing to read 'M. Webber', is written over a solid horizontal line.

Mark J. Webber
Chair, ITAC 1

Trade Agreement
with Mexico and Potentially Canada

Report of the
Industry Trade Advisory Committee on Aerospace Equipment
September 27, 2018

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Industry Trade Advisory Committee on Aerospace Equipment (ITAC 1)

Advisory Committee Report to the President, the Congress and the United States Trade Representative on the Trade Agreement with Mexico and potentially Canada.

I. Purpose of the Committee Report

Section 105(b)(4) of the Bipartisan Congressional Trade Priorities and Accountability Act of 2015, and section 135(e)(1) of the Trade Act of 1974, as amended, require that advisory committees provide the President, the Congress, and the U.S. Trade Representative with reports 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 Bipartisan Congressional Trade Priorities and Accountability Act of 2015.

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 these requirements, the Industry Trade Advisory Committee on Aerospace Equipment (ITAC 1) hereby submits the following report.

II. Executive Summary of Committee Report

On behalf of the aerospace industry, ITAC 1 supports trade agreements that open foreign markets, enable U.S. companies to compete on a level playing field, and strengthen relationships with our trading partners. In addition, we have supported efforts to modernize and improve existing trade agreements. The ITAC 1 members have reviewed the chapters available for final review of the proposed Trade Agreement with Mexico and potentially Canada, hereafter referred to as the "Agreement." It is the considered and consensus opinion of this committee that the modernized Agreement that includes all three parties would be in the best interests of the aerospace sector, and the U.S. economy more broadly, and that the Agreement provides for equity and reciprocity within the aerospace sector.

This opinion is based on several critical assumptions, most notably that a final Agreement will be a **trilateral** agreement that improves and modernizes the North American Free Trade Agreement (NAFTA). At the time of submission of this report, Canada had not yet agreed to the new Trade Agreement. It is vital that Canada participate in this Agreement for it to be effective. In addition, several key provisions of relevance to this committee have yet to be finalized, including provisions authorizing the periodic review of the Trade Agreement (See Chapter 34 Final Provisions.)

Ensuring that the new Agreement provides certainty and predictability for all U.S. trade sectors over the long-term is a key component of the Agreement's value. The final agreement must provide this necessary predictability.

The Aerospace & Defense (A&D) sector is vital to the security and economic future of the United States. Aerospace products enable the movement of people and goods around the world, facilitate the exploration of space, and provide critical infrastructure and technological capabilities. The aerospace sector is a leading innovator and helps to maintain a strong U.S. industrial base, supporting an estimated 2.4 million U.S. workers.

Mexico and Canada are top markets for the U.S. A&D sector. (Note that defense trade is largely exempt from the provisions of this Trade Agreement under the "essential security" exception, which is discussed in more detail below. However, for our purposes here, available trade figures often combine A&D data.) In terms of A&D exports, Canada ranks fourth in top destinations (\$9.3B) and second for A&D imports (\$9.2B). Mexico ranked seventh in A&D imports to the U.S. (\$2.2B).¹ This trade with Mexico and Canada facilitates U.S. A&D exports to other international markets, totaling \$143 Billion in 2017.

The A&D industry is highly dependent on the international marketplace. For example, approximately three quarters of U.S. large commercial aircraft are exported, and international customers are critical to the development of joint defense programs that support partner capacity, increase interoperability, and lower the cost for systems critical to the American warfighter. A&D leads all U.S. industries in positive impact on America's annual trade balance – an \$86 billion surplus in 2017 – which exceeds the motor vehicles, chemicals, machinery, and agricultural sectors in gross exports. In addition, the aerospace sector's supply chain is extensive and interconnected, with sourcing and selling both domestically and internationally. U.S. manufacturers lead the world in developing cutting-edge, high value components, from aircraft engines and avionics to other systems and components. These products are exported to other manufacturers around the world to incorporate into their aerospace products.

The Agreement will preserve the free flow of manufactured goods across borders and continue to impose no tariffs on such items. Duty-free treatment for manufactured goods strengthens these strategic relationships and helps to spur investment and export opportunities in A&D. As the sector that contributes the most to a positive trade balance of any U.S. industry, we believe that it is vital to the future of the aerospace sector and our highly-skilled employees that the Administration continue to pursue trade agreements that make the U.S. more competitive in the international marketplace. As a general matter, with the exception of one member of the committee, the consensus opinion of this committee is that this Trade Agreement will support that objective.²

¹ Source: Aerospace Industries Association (AIA).

² The labor union representative on the committee expresses concern that the agreement include meaningful provisions to curtail the outsourcing of U.S. aerospace work to Mexico. He also raises concerns regarding the need for stronger labor provisions, including standards and enforcement, in Chapter 23.

III. Brief Description of the Mandate of the Industry Trade Advisory Committee on Aerospace Equipment (ITAC 1)

The Industry Trade Advisory Committee on Aerospace Equipment (ITAC 1) currently consists of 19 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 as well small and medium manufacturers. One member represents the largest aerospace labor union.

ITAC 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.

ITAC 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 the aerospace 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.

IV. Negotiating Objectives and Priorities of the Industry Trade Advisory Committee on Aerospace Equipment (ITAC 1)

As a general matter, ITAC 1 believes that the Trade Agreement with Mexico and potentially Canada under review reaffirms the principles and standards of the trading system under which the United States operates. The Agreement will modernize the existing NAFTA to address economic and technological developments since that agreement first entered into force in 1994, and it sets a high-standard for future commercially meaningful agreements.

Although ITAC 1 members reviewed the entire agreement, the focus of the review was on chapters related to: National Treatment and Market Access for Goods, Customs and Trade Facilitation, Government Procurement, Digital Trade, Intellectual Property, State-Owned Enterprises, Exceptions and General Provisions, and Final Provisions – Review and Term-Extension. Our specific comments for each chapter are provided in Section V below.

V. Advisory Committee Opinion on Agreement

The Industry Trade Advisory Committee on Aerospace Equipment (ITAC 1) concludes that the Trade Agreement under review will promote the economic interests of the United States and achieve the applicable overall and principle negotiating objectives set forth in the Bipartisan Congressional Trade Priorities and Accountability Act of 2015 and the Trade Act of 1974.

However, as noted above, the committee's recommendation to implement the Agreement assumes that the final agreement will include both Canada and Mexico as adopting parties and that Canada,

in particular, has agreed to a final text. We cannot recommend implementation of a bilateral agreement with Mexico that replaces the trilateral NAFTA. With this in mind, we offer the following comments on the chapters of greatest interest to ITAC 1.

National Treatment and Market Access for Goods

Essential to the success of the Trade Agreement is the commitment that no party shall increase duties or customs on goods, except as provided in the agreement. The free flow of aerospace-related items between Canada, Mexico, and the United States is vital to the U.S. aerospace sector's competitiveness and success.

Customs and Trade Facilitation

The Customs and Trade Facilitation Chapter standardizes the Customs regimes for both exporters and importers and sets a high standard for future agreements. To increase efficiency and enhance the capacity and performance of today's globally interconnected supply chains, global harmonization of Customs regulations, processes and procedures is an absolute imperative. As U.S. companies expand their international presence and take on the role of Importer and Exporter of Record, the Customs issues faced in many jurisdictions are becoming increasingly challenging. Today, it is often difficult to understand each other country's Customs regimes. Having to comply with different requirements poses a constant challenge, as well as a growing threat of incurring a violation. The standards set by this chapter will be important to help U.S. companies operate more effectively and efficiently within the other countries in the future.

Government Procurement

The ITAC commends the Administration for negotiating a Government Procurement chapter that satisfies the objective of maintaining broad exceptions for special government procurement regarding: national security; measures necessary to protect public morals, order, or safety; protecting human, animal, or plant life or health; and protecting intellectual property. Chapter 32: "Exemptions and General Provisions" includes the long-standing exemption for "essential security" (See Art. 32.2). ITAC 1 notes that this exemption will apply to all chapters of the Trade Agreement, including the Government Procurement chapter, which continues to ensure that the majority of defense trade and security cooperation will not be subject to the provisions contained in this chapter.

Digital Trade

Given the rise in technological advances since NAFTA was signed, we commend the Agreement's inclusion of a new Chapter on Digital Trade that sets forth non-discriminatory treatment of digital products and protections of personal information, among other 21st Century standards.

Intellectual Property

The Intellectual Property Chapter is generally consistent with U.S. Intellectual Property (IP) law and serve as a template for other countries to improve their IP laws and to strengthen their enforcement systems. Specifically, this provision would require the governments to establish

criminal, civil and administrative procedures and remedies to combat IP theft. It would require the countries to establish criminal penalties for trade secret theft, including via a computer system. ITAC 1 fully supports this provision as a significant step forward and an important precedent that supports U.S. companies facing significant challenges involving trade secret theft.

Final Provisions: Review and Term Extension

While a sixteen-year review of the Agreement is a significantly better timeframe for an assessment than earlier proposals, we would urge that the parties ensure the process takes into account the economic merits of the deal and protect its review from politicization. As stated previously, our industry is global and interconnected, and it thrives on consistency, transparency and predictability.

VI. Membership of Committee

Mr. Donnie L. Adkins
Vice President, Sales and Marketing
Precision Coil Spring Company

Mr. Charles A. Auclair II
Director, Global Quality
and Export Compliance
Electroimpact, Inc.

Mr. Steven A. Casazza
Manager, Policy and Technology Release
General Atomics Aeronautical Systems, Inc.

Mr. Richard S. Ermeti
President, International
Pelican Products, Inc.

Mr. Derek (Dak) M. Hardwick
Assistant Vice President, International
Affairs
Aerospace Industries Association

Owen E. Herrnstadt, Esq.
Chief of Staff to the International President
International Association of Machinists
and Aerospace Workers

Ms. Christine H. Ramsdell
Director, Commercial Trade Policy
The Boeing Company

Mr. Joel L. Johnson
Executive Director, International
Teal Group Corporation
Mr. Stanley O. Kennedy, Jr.
President
Oakman Aerospace, Inc.

Mr. Gregory T. Kiley
Consultant
Kiley & Associates, LLC
Representing Sequa/Chromalloy
Corporation

Mr. David J. Logsdon
Executive Director
CompTIA/The Space Enterprise Council

Mr. Vincent P. Logsdon
Vice President, Business Development
Textron Systems

Mr. Paul J. McNeill
Director, Strategic Partnerships
Click Bond, Inc.

Mr. Dale A. Rill
Director, International Trade Compliance
Honeywell International, Inc.

Ms. Michelle Schulz
Partner
Akerman LLP
Representing Air Tractor, Inc.

Mr. Edward T. Smith
Senior Vice President, International
and Environmental Affairs
General Aviation Manufacturers Association (GAMA)

Ms. Susan M. Walsh
Director, Commercial
and International Programs
Pratt & Whitney/United Technologies Corporation

Mr. Mark J. Webber
Director, International Trade Policy,
Government and Regulatory Affairs
Lockheed Martin Corporation

Mr. Mark D. Zimmerman
President and Chief Executive Officer
Simplex Aerospace