Statement on Tariffs and the Aviation Sector

May 2025

The Aviation Working Group (***AWG***), a not-for-profit entity comprised of the world's major aviation manufacturers, leasing companies, and financial institutions, addresses regulatory and policy matters impacting the aviation sector. AWG members manufacture all large Western civil aircraft and associated engines, and lease or finance a very substantial majority of them. AWG has worked closely with the U.S, European, Brazilian, Chinese, and many other governments since the late 1990s – helping to promote the international aviation sector in line with national interests.

In this Statement, AWG sets out four fundamental principles that has guided its work for the last 25 years, then applies them as the basis of policy recommendation on tariffs and the aviation sector.

<u>Fundamental Principles</u>

Fundamental Principle 1 – market primacy

AWG develops and advances rules and regulations for the manufacturering and sale, financing, leasing, acquisition, and use of aircraft assets globally based on the primacy of open commercial and financial markets for aircraft and associated parts and components (***market primacy***) – without distorting regulations, subsidies, or trade barriers from whatever source.

Market primacy, which includes cross-border transferability of aviation assets toward their highest and best use, has produced substantial economic benefits globally. They have been fairly and widely distributed. Developed and exporting countries have benefited in terms of profitable trade, employment, and development of advanced technologies – with cross over effects to other strategic sectors including military and information technology. Developing and importing countries have benefited in terms of transportation capacity, finance costs, employment, tourism, and a substantial enhancement of aviation safety. As one example, the U.S. aerospace sector exported $135.9 billion of goods, producing a $ 75 billion net positive trade surplus, in 2023 (Source: Aerospace Industries Association). Similar or comparable results were produced by other leading aircraft manufacturing and exporting countries.

AWG promotes market primacy and cross-border transferability to counter financial and non-financial barriers to, or adverse impacts on, trade (such as protectionist financing-related national laws, superseded and replaced by the Convention on International Interests in Mobile Equipment (commonly known as the 'Cape Town Convention'), a treaty with which AWG is closely associated. These principles enhance the value of the global civil aircraft fleet.

Fundamental Principle 2 – level playing fields

AWG develops and advances market primacy-based rules for the manufacturing and sale, financing, leasing, acquisition, of use of aircraft assets in a manner which provides a level playing field for all aviation manufacturers, financiers, lessors, and airlines *vis-a-vis* whomever they compete (***level playing field***). Regulatory policy, subsidies, or trade barriers from whatever source should not be used to favor one party over another. Parties should compete on the basis of products and skills, not a favorable regulatory framework.

Fundamental Principle 3 – predictable international trading rules

AWG supports the provision of predictable international trading rules for countries whose companies are involved in the manufacturing and sale, financing, leasing, acquisition, and use of aircraft assets (***predictable rules***). That is needed given the relatively long-term processes, and high capital costs which need to be efficiently allocated in, the aviation sector. Predictable rules help minimize geo-political risks in what is already a highly cyclical market. Commercial parties need to be able to make long-term and capital intensive industrial and financial commitments which presuppose, and rely on, a stable set of rules for trading and aircraft deployment.

That explains why aviation, the quintessential international activity, is grounded in and fortified by a range of international treaties designed to permit such reliance by commercial parties. These include, *inter alia*, the Convention on International Civil Aviation - 1994 (providing a framework for state sovereignty over airspace and standards safety, navigation, and security), the above-mentioned Cape Town Convention – 2001 (providing rules that reduce the risks in financing and leasing transactions), and the Convention on the Unification of Certain Rules for International Carriage by Air – 1999 (providing rules for liability to passengers and for cargo damage in international aviation).

Most directly related to tariffs is the landmark 1979 Agreement on Trade in Civil Aircraft ('Civil Aviation Agreement'). The Civil Aviation Agreement sets out a zero-tariff regime, which has served key manufacturing countries and their industries and well, for example, producing a doubling of the work force, and increasing exports over 2000%, in the U.S alone since its adoption (Source: Aerospace Industries Association). Similar or comparable results were produced by other leading aircraft manufacturing and exporting countries. The applicability of the Civil Aviation Agreement has been assumed in the above-mentioned long-term processes and expensive legal and financial commitments and allocations made globally in the aviation sector.

Fundamental Principle 4 – aviation safety

AWG supports the establishment of rules designed to enhance the safety of aviation, which, as signaled above, must be internationally based, stable, and predictable. In the public interest, commercial parties should be aided in, and regulations should facilitate, actions which promote highest safety standards. The U.S. Federal Aviation Administration and the European Union Aviation Safety Agency set a high bar for, and actively encourage, the creation and maintenance of such highest safety standards. The International Civil Aviation Organization, a UN body, has been successful is promoting such high safety standards globally, including in other important aircraft manufacturing countries.

Select Recommendations on Tariffs

Applying the above four fundamental principles, AWG makes these policy recommendations on tariffs and the aviation sector.

1. All parties to the Civil Aviation Agreement should reconfirm the zero-tariff international rules thereunder – by excluding aircraft assets or aviation activities covered thereby from any new tariff remine (and therefore from any counter or reciprocal tariffs).

2. All key countries involved in the manufacturing and sale, financing, leasing, acquisition, and use of aircraft assets who are not signatories to the Civil Aviation Agreement should join that agreement, or, as suggested below, a new parallel or superseding instrument.

We suggest a supplemental or superseding instrument be prepared for such countries, including China and India. We suggest that the parties to the Civil Aviation Agreement, with the above-mentioned additional countries, craft a new instrument to achieve, expanded and modernize its objectives – on the basis of the principles of market primacy, level playing field, predicable rules and aviation safety.

3. Pending the above:

(a) We suggest all such countries take interim measures to achieve the same result; and

(b) Tariff rules should be carefully reviewed and tailored to avoid unintended and adverse impacts on the global aviation sector, most notably by not imposing (or if imposed repealing) new tariffs on day-to-day financing, leasing, and operational activities involving existing (in-service installed) on used aircraft, engines, and parts, including their on-going leasing, maintenance, transfer, and operation. These activities do not impact the core trade economics that tariffs (generally) are designed to address. Technical rules on 'importation' give rise to a range of such unintended consequences – including a likely active system of structured tariff avoidance or workarounds. These will raise resource-draining regulatory monitoring costs to governments and compliance risks to industry.

Without limiting other adverse impacts, the added costs and complexity of tariff regimes could give rise unintended safety-related issues.

An agreed definition of 'used' and 'in-service' aircraft assets, and 'operational activities', as a basis for uniform carve outs from tariffs (and therefore from any counter or reciprocal tariffs) would prevent a range of economic problems and avoid unintended consequences.

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In this Statement we have not outlined the various and substantial adverse economic consequences, and level playing field breaching competitive issues, linked to a move from zero-tariffs in the aviation sector. Others have - see, e.g., *Impact of Tariffs on the Aviation Industry*, KBRA, Corporate Research, May 2, 2025.

These include and are based on well-supported forecasts of **(a)** increased transaction pricing and administrative, compliance, and operational costs, **(b)** reduced revenues - from decreases in transaction volumes and demand for products and services, and **(c)** material supply chain disruptions.

In closing, the aviation sector stands out as a unique and highly valuable field of trade, which itself facilitates high levels of economic activity. It is anchored in international rules that have served global commerce well. It has not seen the types of trade imbalances that might warrant a costly and unpredictable change from the relied upon, and highly successful, zero-tariff regime.

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