



May 10, 2017

Office of the United States Trade Representative  
600 17th Street NW  
Washington, DC 20508

U.S. Department of Commerce  
International Trade Administration  
1401 Constitution Ave, NW  
Washington, DC 20230

ATTN: Patrick Kirwan, Trade Promotion Coordinating Committee Secretariat

Re: Public Comments Regarding Administration Report on Significant Trade Deficits, DOC-2017-003

The Aerospace Industries Association (AIA) and our member companies appreciate the opportunity to comment on the Department of Commerce's request to assist in the analysis for an omnibus report to submit to the President of the United States on significant trade deficits. AIA and our member companies would like to thank the Administration for the opportunity to comment on these issues and look forward to working together to strengthen America's aerospace and defense trade sector.

The U.S. Aerospace and Defense (A&D) industry is the world's leading innovator and producer of technologically advanced aircraft, space and defense systems and supports one of the largest high-skill and high-wage workforces in the United States. Indeed, in 2015, the U.S. A&D industry supported nearly 1.7 million jobs in companies producing products and services for the industry's commercial aerospace and defense manufacturing sectors. Of the jobs supported, 697,000 or 42 percent, were attributable to firms producing end-use goods and services, such as aircraft, space systems, land vehicles, ships and armaments, while 965,000, or 58 percent were attributable to the industry's extensive supply chain. Combined, these jobs accounted for approximately two percent of the nation's total employment base and 13 percent of the nation's manufacturing workforce.

The average labor income per job within the A&D industry, which includes producers of end-use goods and services and the supply chain, amounted to just over \$93,000 – or approximately 44 percent above the national average. Overall, the U.S. A&D industry paid out a total of \$155 billion in wages and benefits in 2015, which represented 2.3 percent of the nation's total labor income. The expenditure of this income also supported an additional \$58.2 billion in induced labor income throughout the broader U.S. economy.

### **U.S. Aerospace and Defense and Global Trade**

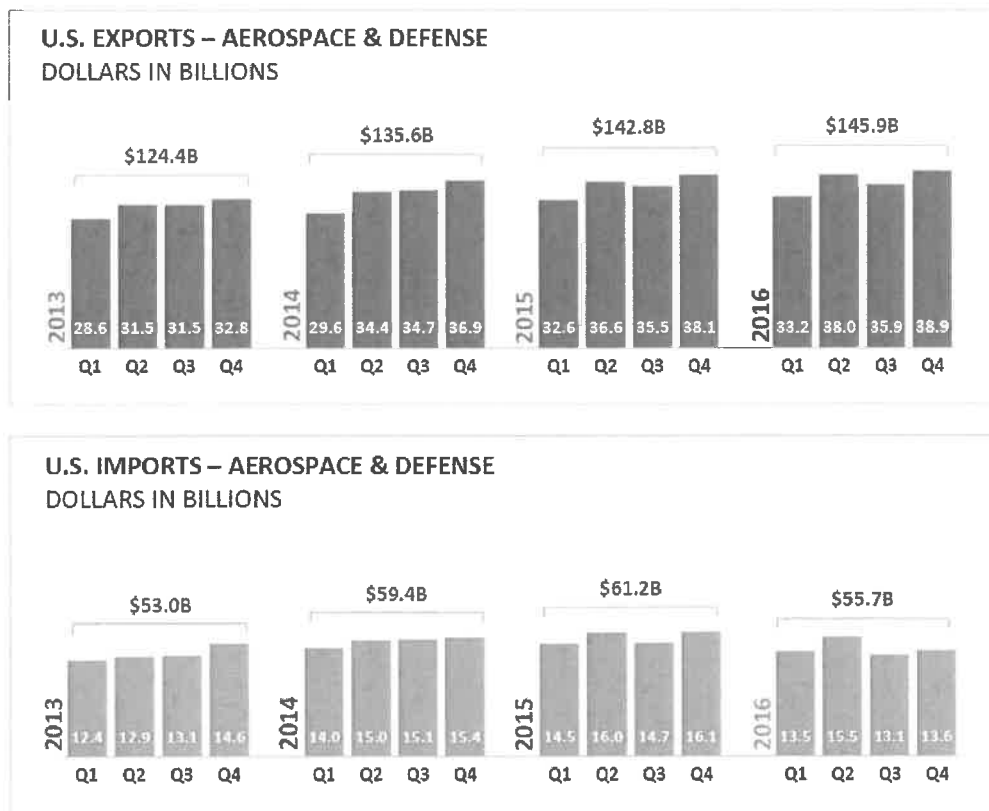
The U.S. A&D sector continues to lead the way in generating net exports for the American economy. In 2016, exports of U.S. A&D products set a fifth consecutive record despite relatively smaller year-over-year (YoY) export gains in the industry's civil aerospace sector. A&D generated \$146 billion in exports and \$55.7 billion in imports, resulting in the industry's largest positive trade surplus to date of \$90.3 billion. A&D exports also outperformed the national



average, growing by 2.2% YoY compared to -3.3% for total exports of U.S. goods. In terms of geography, Europe overtook Asia-Pacific as the industry's largest export destination. In 2016, U.S. manufacturers shipped \$49.9 billion of exports to Europe compared to \$49.5 billion for the Asia-Pacific region. Exports to the Americas followed with \$25.4 billion, the Middle East with \$16.7 billion and Africa with \$3.7 billion.

#### Highlights:

- In 2016, the U.S. A&D industry shipped \$146 billion worth of exports, which is an increase of 52% over the past five years.
- The U.S. A&D industry accounted for 10% of all U.S. exports in goods and is the nation's second largest gross exporter.
- The U.S. A&D industry generated the largest trade surplus of any U.S. industry – \$90.3 billion in 2016 – a distinction A&D has enjoyed for several decades.
- American supply chain companies, many of which are small and medium sized companies, were responsible for 56% of the value of the A&D industry's trade surplus last year.
- In 2016, civil aerospace exports accounted for 85% of total A&D exports while defense accounted for the remaining 15%.
- Europe was the A&D industry's largest export destination, accounting for 34% of total U.S. A&D exports in 2016. Exports to the region have grown by 39% since 2011.



## Relationships with Trading Partners

Overall, the American A&D sector continues to be the manufacturing exporter of choice for U.S. trading partners. In 2016, the sector enjoyed a trade surplus in 94 of the top 100 export markets, a distinction no other manufacturing sector can claim. To address the specific countries noted in the Federal Register Notice, the following chart provides data on exports, imports and the associated trade balance. These trade balance figures do not account for the implicit effects of globally-sourced content in each country’s exports, nor third-country re-exports, which, if included, may affect the balance of trade between two countries.

### 2016 Trade Accounts for Selected Aerospace & Defense Export Partners<sup>2</sup>

Country	Exports	Imports	Balance
<b>European Union</b>	40,554,490,990	25,356,004,658	<b>15,198,486,332</b>
<b>China</b>	14,688,498,843	1,066,122,777	<b>13,622,376,066</b>
<b>Japan</b>	8,680,276,622	6,544,130,630	<b>2,136,145,992</b>

<sup>1</sup> Aerospace Industries Association, based on data from the U.S. Census Bureau and the International Trade Commission (2017). Trade balance figures herein are calculated in accordance to the statistical guidelines established by the U.N. International Merchandise Trade Statistics and the World Trade Organization. Commodity classifications are based on the U.S. Harmonized Tariff Schedule (HTS) and are computed at the HTS ten-digit code level based on their relevance to the industry’s manufacturing value chain.

<sup>2</sup> Aerospace Industries Association, based on data from the U.S. Census Bureau and the International Trade Commission (2017). Trade balance figures herein are calculated in accordance to the statistical guidelines established by the U.N. International Merchandise Trade Statistics and the World Trade Organization. Commodity classifications are based on the U.S. Harmonized Tariff Schedule (HTS) and are computed at the HTS ten-digit code level based on their relevance to the industry’s manufacturing value chain.



<b>Canada</b>	7,840,262,340	9,460,853,243	<b>-1,620,590,903</b>
<b>Korea</b>	6,035,316,513	976,836,227	<b>5,058,480,286</b>
<b>Taiwan</b>	3,966,523,938	321,765,675	<b>3,644,758,263</b>
<b>Mexico</b>	3,605,210,556	2,276,729,097	<b>1,328,481,459</b>
<b>Switzerland</b>	2,034,537,603	417,198,633	<b>1,617,338,970</b>
<b>India</b>	1,209,162,134	249,987,385	<b>959,174,750</b>
<b>Thailand</b>	1,026,215,295	73,224,162	<b>952,991,133</b>
<b>Malaysia</b>	920,382,825	180,592,232	<b>739,790,593</b>
<b>Vietnam</b>	868,733,260	75,837,012	<b>792,896,248</b>

In addition, the following chart proves an overview of the exports, imports and the associated trade balance for the top 25 A&D export partners:

### 2016 Trade Accounts for Top 25 U.S. Aerospace & Defense Export Partners<sup>3</sup>

<b>Country</b>	<b>Exports</b>	<b>Imports</b>	<b>Balance</b>
<b>China</b>	\$14,688,498,843	\$1,066,122,777	<b>13,622,376,066</b>
<b>United Kingdom</b>	11,585,347,394	3,769,502,506	<b>7,815,844,888</b>
<b>France</b>	11,362,163,499	11,480,524,217	<b>-118,360,718</b>
<b>Japan</b>	8,680,276,622	6,544,130,630	<b>2,136,145,992</b>
<b>Canada</b>	7,840,262,340	9,460,853,243	<b>-1,620,590,903</b>
<b>United Arab Emirates</b>	7,476,653,201	58,339,285	<b>7,418,313,916</b>
<b>Germany</b>	6,415,410,030	5,325,829,697	<b>1,089,580,333</b>
<b>South Korea</b>	6,035,316,513	976,836,227	<b>5,058,480,286</b>
<b>Saudi Arabia</b>	5,799,843,139	25,969,017	<b>5,773,874,122</b>
<b>Brazil</b>	4,872,656,853	3,460,744,750	<b>1,411,912,103</b>
<b>Singapore</b>	4,522,333,442	1,870,680,717	<b>2,651,652,725</b>
<b>Taiwan</b>	3,966,523,938	321,765,675	<b>3,644,758,263</b>
<b>Mexico</b>	3,605,210,556	2,276,729,097	<b>1,328,481,459</b>
<b>Qatar</b>	3,315,976,152	117,269	<b>3,315,858,883</b>
<b>Turkey</b>	3,296,409,986	544,125,091	<b>2,752,284,895</b>
<b>Australia</b>	2,902,011,759	495,438,555	<b>2,406,573,204</b>
<b>Netherlands</b>	2,690,068,549	421,532,664	<b>2,268,535,885</b>
<b>Chile</b>	2,119,800,233	2,551,401	<b>2,117,248,832</b>
<b>Ireland</b>	2,070,807,777	46,815,306	<b>2,023,992,471</b>
<b>Switzerland</b>	2,034,537,603	417,198,633	<b>1,617,338,970</b>
<b>Norway</b>	1,542,625,212	266,948,205	<b>1,275,677,007</b>
<b>Israel</b>	1,509,797,413	1,022,872,031	<b>486,925,382</b>
<b>Spain</b>	1,452,862,076	219,862,364	<b>1,232,999,712</b>
<b>Hong Kong</b>	1,422,172,578	16,258,540	<b>1,405,914,038</b>
<b>Russia</b>	1,333,449,565	541,103,808	<b>792,345,757</b>

<sup>3</sup> Ibid.



Overall, net positive trade with U.S. partners remains strong and is anticipated to continue in 2017.

### **Global Trade Practices Affecting the National Security of the United States**

As the U.S. examines the national security impacts of global trade, it is important to recognize the U.S. A&D sector relies on both access to a global supply chain as well as market access through strong U.S. economic, political, and security ties with other countries. Our companies leverage both advantages to provide the U.S. and allied warfighters, as well as our commercial customers worldwide, with the best American technology at the best price and generate a significant trade surplus year after year. Reducing and eliminating barriers to trade in A&D and concentrating on domestic competitiveness policies (e.g., tax and regulatory reform, infrastructure investment, etc.) will allow U.S. companies to focus on technology advancement and the development of specialty capabilities to further bolster our companies' global competitiveness.

Global investment for upgrades and service programs for previously purchased American A&D systems have significant impact on overall business strength, which further grows the U.S. economy. This is particularly true for the "Essential Exporters" that make up the American A&D supply chain. The long-term, mutually reinforcing relationships created by upgrade and service programs create reliance on and preference for U.S. partnerships and U.S. products, and gives the U.S. A&D sector the predictable customer demand needed to thrive in global markets.

### **Trading Partner Participation Requirements and Practices for the Defense Industrial Base**

Many U.S. allies maintain defense procurement requirements mandating some form of local participation as a condition of sale, primarily in aerospace and defense acquisitions. For a U.S. defense company to be competitive (or even compete) in this international market, it must agree to local participation or be non-compliant in the bidding process. These local participation obligations are legal, regulatory or policy requirements; U.S. firms cannot secure international contracts in many key countries if they cannot comply with the requirements.

Local participation can take many forms, including engineering services, provision of maintenance/repair or test equipment, training, subcontracting, technology transfer, collaborative research and development, joint ventures, and/or capital investments. Foreign governments impose these participation requirements to help justify to local constituencies and stakeholders the large expenditures for American-made defense capabilities. It is important to note that the foreign government ultimately pays American companies for these local benefit activities through the overall procurement cost of the defense acquisition in almost every case.

The U.S. government retains the final say over technology transfer to foreign partners through various national security and foreign policy review requirements and restrictions. Local participation requirements vary from country to country in accordance with foreign development priorities. U.S. defense companies work diligently to structure proposals to meet the local participation requirement and to comply with U.S. government export control policies. For example, a U.S. defense company could fulfill its local participation requirement by supporting engineering services in a foreign country to demonstrate how a U.S. radar or short range missiles could be integrated into an existing foreign platform to augment the capabilities of that foreign defense article. As a result of the engineering study, the procuring country may later decide to acquire new U.S. radars/missiles to further its defensive capabilities, which would result in



additional U.S. exports and job creation, and support U.S. security cooperation with that allied country.

### **Conclusion**

In closing, the U.S. aerospace and defense sector is strong, thanks in part to U.S. manufacturing prowess, reduced barriers to trade, an integrated global supply chain, global preference for U.S. products, and continued support by the U.S. Government. We appreciate the opportunity to comment on the Department of Commerce's request to assist in the analysis for an omnibus report on significant trade deficits and look forward to our continued partnership with the U.S. Government on this and other trade issues.

Best regards,

A handwritten signature in black ink, appearing to read 'Remy Nathan', with a long horizontal flourish extending to the right.

Remy Nathan  
Vice President, International Affairs  
Aerospace Industries Association