



Trade Facts

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No New Subsidies

U.S. Acts to Stop New Airbus Subsidies, Including “Launch Aid” Loans

U.S. Files WTO Case to Level the Playing Field by Eliminating Unfair European Support for Airbus

Airbus has received subsidies in many forms, including launch aid, debt forgiveness, grants, equity infusions, and dedicated infrastructure support. These subsidies have seriously distorted the large civil aircraft market. The \$15 billion in launch aid is particularly significant because it shifts the commercial risk of airplane development from Airbus to the European treasuries.

Launch Aid Is Risk-Free Money:

- New aircraft development is risky. “Launch aid” shifts much of this risk from Airbus to the European governments because Airbus does not have to repay the launch aid if an aircraft is unsuccessful.
- Airbus has used launch aid to quickly roll out a succession of new aircraft.
- Repayment of large amounts of launch aid has been deferred or forgiven.
- Until recently, Europe claimed that launch aid was necessary to help an infant industry compete against a mature competitor, Boeing.
- Airbus now sells more planes than Boeing. Clearly, the time for launch aid has ended.

*“We will give Airbus the
means to win the battle
against Boeing”*

Lionel Jospin, French Prime
Minister, in the French
Assemblée Nationale, Reuters,
March 8, 2000

An “Infant” No More - Airbus and Boeing Are Now Peers:

	Airbus	Boeing
Global Market Share (2003 orders)	54 percent	46 percent
Global Market Share (2003 deliveries)	52 percent	48 percent
Defense Revenues (annual)	\$23.8 billion	\$23.7 billion

Time to End New Subsidies - The WTO Case Filed by the United States:

- The United States has urged the European Commission (EC) to negotiate a new agreement to replace the 1992 Agreement, which envisioned a progressive reduction in subsidies. This reduction has not occurred. The Airbus A380 is the most subsidized aircraft in history.
- The United States urged the EU to agree to end all new subsidies to commercial aircraft manufacturers, using the WTO definition of subsidy. The United States even offered to end all subsidies going forward.
- But the EU and Airbus appear to want more time for more subsidies for more aircraft. This violates international trade rules and is particularly inappropriate given Airbus' current market position. So the United States decided to bring this case to the WTO, in accordance with the procedures of the multilateral trading system.
- Launch aid and other government support to Airbus constitute subsidies under the WTO Agreement on Subsidies and Countervailing Measures (SCM). The subsidies are "actionable" because they are causing adverse effects to U.S. interests or "prohibited" because they are export-contingent or both. In 1999, in a case by Brazil, the WTO found that Canadian financing with launch aid-type terms was a prohibited export subsidy. Another panel, reviewing a case brought by Canada, found that Brazil's interest rate subsidies to its aerospace industry were also an export subsidy.
- The Request for Consultations filed today is the first step in the WTO process. If after 60 days the parties are unable to reach a solution, the United States would be authorized to request that a WTO panel be established to make findings on this matter. However, if consultations between the United States and the EC are productive, and progress is being made, the United States may allow the consultations period to run beyond the 60 day period.

Dispelling the Myths:

Myth #1: Boeing is Subsidized Through Various State Programs

- Airbus claims that potential tax reductions from Washington State for the 7E7 are equivalent to Airbus's launch aid.
- The Washington State program would only partially reduce the tax on sales of Boeing aircraft. By contrast, Airbus pays no sales tax (value added tax) on its exports.
- The potential tax reductions are in no way equivalent to the over \$6 billion in upfront development and production support that Airbus has received for the A380.
- Boeing will not receive any tax benefits under the Washington State program unless and until it invests its own funds to develop the 7E7 and begins delivering it to customers. The risk is entirely on Boeing's shoulders because, if the 7E7 is unsuccessful, Boeing will receive nothing. In contrast, if Airbus has an unsuccessful aircraft, it does not have to repay the money.
- In addition, the \$3.2 billion figure that some have linked to the Washington State package is an estimate of potential tax reductions over 20 years. Its value today even under optimistic assumptions is only a fraction of this amount.
- In addition to launch aid, Airbus receives substantial amounts of local support. The A380 alone received over \$1.5 billion. For example, the City of Hamburg spent approximately \$800 million for an Airbus production facility.
- Unlike the EU support, the Washington State tax reductions are available to everyone in the aerospace industry, including Airbus and its suppliers.
- Many states and localities in the U.S. and Europe have general incentive programs for companies. Airbus and EADS have taken advantage of such programs in Florida, Louisiana, and Mississippi, as has Boeing in Illinois. These programs are generally consistent with WTO rules because they do not injure foreign companies.

- The United States is prepared to join the EC in identifying all types of state and regional incentives received by Airbus and Boeing.

Myth #2: Boeing is Subsidized Through Defense Procurement

- Defense procurement is not a subsidy. When Boeing wins a government contract, it must provide a “good” to receive compensation from the government. Airbus, on the other hand, gets money from the government simply to subsidize the cost of developing airplanes, which it then sells in the marketplace.
- In 2003, Boeing’s defense revenues were \$23.7 billion. Airbus and its parent companies (EADS and BAE Systems) had combined revenues of \$23.8 billion.
- EADS recently claimed that its own total outstanding defense orders (without adding BAE Systems) alone exceeded Boeing’s.
- Although U.S. defense contracts, which are subject to intense competition, do not constitute subsidies, the United States has an interest in ensuring that European launch aid is not repackaged to provide subsidies through defense procurement. As such the United States offered to address defense contracts as part of a new agreement.
- BAE Systems is a major prime defense contractor in the United States.

Myth #3: Boeing is Subsidized Through R&D Spending

- The EU claims that NASA and defense research contracts provide subsidies for Boeing’s civil aircraft business.
- Airbus and its parent companies have received billions of dollars in research and development funds from the EC and European governments.
- The European Commission required Boeing to grant Airbus full access to Boeing’s government-funded patents with potential application to civil aircraft as a condition for approving the Boeing-McDonnell Douglas merger. In contrast, Airbus and its parent companies are not required to share their patents with Boeing.

Support for Suppliers:

- Airbus claims that Boeing benefits from support that Japan may provide to certain Japanese suppliers to Boeing.
- The United States does not know the terms of any such Japanese support. However, regardless of the terms, Boeing is not related to its Japanese suppliers, and it conducts business with them on an arm’s-length basis, paying fair market rates for its purchases.
- By comparison, European member states provide launch aid to suppliers of Airbus.

An Attempt to Cap Subsidies - 1992 Large Civil Aircraft Agreement:

- The purpose of the bilateral agreement was to limit and eventually eliminate entirely support to Airbus in return for a U.S. agreement to withdraw a pending GATT subsidies case filed in 1991. Before the creation of the WTO, in 1994, a losing party under the GATT could block follow up action, and the EU had done so in an earlier successful case against Europe over Airbus.
- The 1992 agreement was not intended to balance European subsidies and U.S. defense spending. Unlike launch aid, defense spending is not a subsidy.

“We are now operating within the 1992 agreement, and if we take the initiative of launching a new program, we will ask to benefit from the agreement so long as it has not been terminated.”

Airbus CEO Noël Forgeard, explaining Airbus’ plans to seek new launch aid for the proposed A350 (translated from an article in *Les Echos*, September 28, 2004).

- The 1992 Agreement does not prevent the United States or the European Commission from bringing a WTO case. Rather, its terms are explicitly subordinate to the parties' GATT and WTO rights.
- The 1992 Agreement merely insulates each side from self-initiation of trade actions under their national trade laws, i.e., their countervailing duty laws.
- Even if the EU were complying with the bilateral agreement, it would not be insulated from a WTO challenge. Compliance with the 1992 Agreement is not a defense against violations of WTO obligations.
- In light of Airbus' maturation into a highly competitive company, the bilateral agreement has outlived its usefulness. It serves only to perpetuate the continuing subsidization of Airbus, despite Airbus' peer status with Boeing.
- It is time for a new agreement that will eliminate new subsidies to either company for the development or production of large civil aircraft.

The Transatlantic Relationship – Partners in the Past And in the Future:

- The United States and the EU enjoy a strong and vibrant trillion-dollar economic relationship.
- The United States and Europe have a successful track record in managing disputes while continuing to work together to advance a shared agenda. For example, the United States and the EU were both key to launching the current Doha WTO negotiations, and they have worked together to advance global farm trade reform.
- In Geneva in July 2004, the United States and the EU were instrumental in developing with others the frameworks upon which the Doha negotiations will continue.
- Trade disputes are a normal part of a highly competitive global economic system, and both parties recognize the appropriateness of using the WTO process to resolve trade disputes. The WTO was created for just such purposes. In recent years, the United States and Europe have each brought about the same number of WTO disputes against the other.