

The real deal

For Boeing, international trade counts, even in bad times. Here's a look at the myths and truths of trade.

By Tim Neale

To the general public, Boeing is best known for its commercial airplanes and defense and space products. But in political circles, Boeing also is well-known for its strong advocacy of international trade.

"Boeing plays a leading role in debates over U.S. trade policy, including policies and programs designed to ensure U.S. competitiveness and help workers displaced by trade," said Tim Keating, Boeing senior vice president, Public Policy. "The reason for that is simple. As a global company and one of the largest U.S. exporters of manufactured goods, Boeing benefits perhaps more than any other company from international trade—as do all Boeing's employees."

Unfortunately, public support for international trade tends to be lukewarm when times are good, and can be downright chilly when times are bad as they are currently. Fear of unemployment fuels protectionist sentiment. So do numerous myths about trade that protectionists have fostered through the years. Yet Boeing leaders strongly emphasize that global trade directly supports the company's growth—and that Boeing's international sales support the company's jobs in the United States.

"As trade barriers come down, the global economy becomes more efficient. Increased efficiency spurs global economic activity, and that in turn drives up business and leisure travel, shipments by

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air, and the demand for Boeing products and services—including defense and security products and services,” Keating said.

How important have global markets become to Boeing? Here are some telling statistics:

- 40 percent of total company revenue now comes from customers outside the United States.
- Non-U.S. carriers and leasing companies that do business globally combine to account for nearly 90 percent of Boeing’s current commercial airplane backlog, by dollars.
- International sales currently contribute almost 14 percent of Integrated Defense Systems overall revenue, and the plan is to increase this to 20 percent in the years ahead.

While international trade supports Boeing’s growth, it also can help improve productivity. “Global partners help make our own products and services better and more competitive, to the benefit of all Boeing stakeholders—customers, employees, suppliers and investors—in all parts of the world,” said Keating.

“That’s why it’s so important that Boeing stays fully engaged on trade issues—working to fight protectionism, lower barriers to trade, ensure that trade is fair and help workers displaced by trade,” he added. “That’s also why it’s important that Boeing employees have a good understanding of the benefits of trade to our company, to the U.S. economy, and to global prosperity. Employee support of Boeing’s efforts to champion international trade is critical to our collective future.”

To address some of the common misperceptions about international trade, *Boeing Frontiers* spoke to Greg Dole, director, Commercial Trade Policy, for Boeing. What follows are seven myths about trade, and his response to each of them.

Myth #1: Trade is destroying high-paying manufacturing jobs and forcing millions of American workers into lower-paying service jobs.

Dole: It’s true that manufacturing jobs have been trending downward, but studies have shown that foreign competition affects only about 15 percent of the U.S. work force and therefore plays a minor role in this trend. It’s also important to note that employment growth in the service sector of the U.S. economy has more than compensated for the job losses in manufacturing. Before the recent economic downturn, U.S. employment had risen by more than 30 million jobs over the past 20 years. Most of those jobs are in the service sector, where 85 percent of American workers now make their living. And contrary to what some people say, very few of those service workers are flipping hamburgers. Most are middle-to-upper income workers such as teachers, policemen, firefighters, doctors, nurses and accountants. Many work for companies whose customer base extends outside the United States. When it comes to services, the United States is No. 1, with a trade surplus of nearly \$120 billion in 2007 and more than \$130 billion in 2008.

PHOTO: Boeing mechanics in Everett, Wash., load the lower lobe of section 41 for the first 747-8 Freighter. The airplane will play a major role in international trade—specifically, in the global air cargo arena. GAIL HANUSA/BOEING



The Super Hornet appeared at the Aero India air show last month. International business plays a major role in Integrated Defense Systems' growth plans. KEVIN FLYNN/BOEING

Myth #2: The United States hardly makes anything any more, and no nation can be strong economically without a strong manufacturing base.

Dole: True, there are things that American workers used to make that now are made in other countries, and it's important to retrain the workers displaced by such shifts so they have the skills needed to find new employment. However, contrary to popular belief, the largest manufacturing nation is not China or Japan or Germany. It's the United States, which also is one of the top three exporters of manufactured goods. The U.S., Germany and Japan each exported more than \$1 trillion of manufactured goods in recent years, and together accounted for 25 percent of worldwide exports. High-value items made in America, and in many cases exported to customers in other countries, include machine tools, medical equipment, food products, computer software, chemicals, pharmaceuticals—and of course, commercial airplanes, defense products and satellites. The U.S. aerospace industry last year ex-

ported nearly \$100 billion worth of goods and services.

And many imported products have content that originated in the United States—for example, shoes and clothing from Asia made with American leather, cotton and synthetics.

Myth #3: Trade is pretty much a one-way street, as evidenced by the United States' enormous trade deficit, which is eating away national wealth.

Dole: The United States does have a large trade deficit, but let's put it into perspective: It equates to about 5 percent of U.S. gross domestic product. It's significant, but manageable. It's also likely that key factors behind the trade deficit will change over time.

As developing nations grow richer through trade, they spend more on U.S. goods and services. We've seen that with China, whose imports from the United States last year grew at a significantly faster rate than its exports to the U.S. Trade deficits change the value of the U.S. dollar against other currencies, and right now that makes American goods and services cheaper for people in other countries, spurring U.S. exports. Behavioral changes could have the biggest impact of all. The average American carries more debt, saves less and uses more energy than the average person in other countries. Changes in those factors would affect the trade deficit, and there are recent signs of change in all three areas.

Myth #4: Trade is enabling a foreign takeover of the United States, as foreign interests use the money they earn selling goods to us to buy American assets.

Dole: Direct foreign investment in the United States is indeed substantial, but that's a plus for our economy. In 2008, despite the economic downturn, foreign direct investment in the United States exceeded \$2 trillion. That investment came primarily from companies in Europe, as well as Japan and Canada. That money was used to build factories, stores, homes and offices—and create jobs. Foreign-owned businesses in the United States currently employ nearly 5.5 million Americans. What's more, foreign investment demonstrates confidence in the U.S. economy. People invest here because they see the potential to make money here. There are national security concerns with some foreign investments, but there are stringent U.S. regulations in place to address those concerns.

Myth #5: The United States has lost its competitive edge.

Dole: In fact, the United States is ranked No. 1 on competitiveness factors by the World Economic Forum. U.S. workers are among the best trained and most productive in the world. The United States also has an unmatched environment for starting new companies, and is better than any other nation at translating R&D expenditures into innovative new commercial products. In 2007, American inventors registered 80,000 patents, more than the rest of the world combined. U.S. companies and workers field a strong team, and that's why U.S. exports were a bright spot in an otherwise dismal economy the last two years. In fact, exports accounted for 40 percent of U.S. GDP in 2007.

Myth #6: The United States would be better off if it bought only American-made products.

Dole: First of all, other nations would retaliate, drying up mar-



Greg Dole, director, Commercial Trade Policy for Boeing, says protectionist trade policies would imperil U.S. exports and jobs.

FRED TROILO/BOEING

kets for U.S. exports. Many of the 57 million Americans whose jobs are tied to international trade—including Boeing workers—would be hurt in the process. Second, closing our market to foreign goods would be inflationary. Pretty much everything we buy would cost more. Third, imports provide real value that American consumers want: greater product choice; greater product innovation; fresh vegetables, seafood and flowers year-round; and lower prices. Fourth, competition from abroad forces U.S. companies to become more innovative and productive. Fifth, trade better enables American companies and their employees to take advantage of foreign-made components, services and innovations to make their own products and services better.

Myth #7: Trade has hurt America because the U.S. government has done a poor job negotiating and enforcing trade agreements.

Dole: Actually, the trade agreements that U.S. government officials have negotiated in recent years have been serving U.S. workers and business interests very well—in particular, the bilateral free trade agreements (FTAs) since typically those agreements significantly lower existing tariffs on U.S. goods. For the first six months of last year, the United States ran a trade surplus in all categories, including manufactured goods, with the 17 nations with whom the United States has FTAs.

As for enforcement, international trade agreements have provisions for settling disputes and a means for enforcing rulings in those disputes. The U.S. government has aggressively pursued grievances; remember, it filed a complaint against the European Union for the government subsidies provided to Airbus. It's true that trade agreements don't always treat all nations the same, but that's because all nations are not the same. Some are more developed than others, and trade agreements often recognize that fact by affording some protection to some industries for some period of time. However, trade agreements must provide tangible benefits to all its parties. Otherwise, there would be no agreements. ■

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Subsidy dispute:

When actions violate trade rules

As in any competition, it's important to have rules—and to blow the whistle when competitors violate the rules. That's what happened more than four years ago when the U.S. Trade Representative (USTR) filed a formal complaint with the World Trade Organization (WTO) against European governments for the subsidies they provide to Airbus. Of particular concern to USTR and Boeing is the “launch aid” governments give to Airbus for new aircraft development.

“The interest rates charged for these so-called loans are below the rates available from commercial lenders,” said Ted Austell, Boeing vice president, Executive, Legislative and Regulatory Affairs. “In addition, Airbus repays the money, if it repays it at all, only as it delivers aircraft to customers. That gives Airbus a significant competitive advantage, considering the capital-intensive nature of the commercial airplane business.”

This aid also protects Airbus from the full consequences of market miscalculations. A 2004 study by aviation experts suggested that Airbus would never repay the billions of dollars of European loans to develop the slow-selling A380.

On the heels of the U.S. filing, the European Union (EU) filed a counter-complaint alleging U.S. subsidies to Boeing. The EU claimed that the U.S. government subsidizes Boeing's commercial airplane business through defense and NASA pacts. Responding to that charge, USTR noted that defense and NASA contracts—where government money is paid for products and services delivered—are entirely legal under WTO rules. “In addition, Airbus parent EADS is itself a major defense contractor and each year receives substantial amounts of product-specific R&D funding from European governments,” Austell said.

The issues behind both complaints are complex, and the filings voluminous, which is why the WTO panels reviewing the complaints have yet to rule. A preliminary ruling in the U.S. complaint is expected this summer, and a preliminary ruling in the EU case is expected about six months later. Final rulings typically follow within weeks of preliminary rulings and rarely diverge much from the preliminary decisions.

“The stakes in both cases are high,” said Austell, who noted that USTR and Boeing are confident of a positive outcome in both cases. “The WTO rulings will affect the competitive playing field for Boeing and Airbus, and they will establish important precedents for other nations that want to enter the commercial airplane business.”

—Tim Neale

Wanna
talk trade?

Boeing's right there



The skyline of Shanghai reflects the growth of the Chinese economy. Boeing played a key role a decade ago in efforts to normalize U.S. trade relations with China. SHUTTERSTOCK.COM

When international trade is the subject of a policy debate, Boeing is on the field and typically in the middle of the action.

A decade ago, Boeing led the private-sector charge to convince Congress to normalize trade relations with China—a nation whose airlines have purchased some 700 Boeing commercial airplanes and are expected over the next 20 years to buy another 3,700 jetliners. Boeing helped secure congressional approval for market-opening bilateral trade agreements with Singapore, Australia, Bahrain, Oman and a regional pact with several Central American countries. The company also supports congressional passage of agreements with Colombia, South Korea and Panama.

Going forward, Boeing's top priorities include reviving the so-called Doha round of multilateral trade negotiations under the auspices of the World Trade Organization. According to Christine Ramsdell, director, Legislative Affairs for Boeing, studies estimate

that a successful round would expand international trade by \$336 billion. On the other hand, trade could decline by more than twice that amount if nations adopt more protectionist policies. "That's a real danger given current economic conditions throughout the world," she said.

Boeing also would like to see Congress grant the president Trade Promotion Authority (TPA). "TPA is considered essential to the successful negotiation of mutually beneficial trade agreements because it would allow the executive branch to present trade agreements to Congress for an up or down vote, without any amendments," Ramsdell said.

While expanding global trade is a key Boeing trade objective, it's not the company's only goal. "We recognize that the rules governing trade must be fair to all parties and vigorously enforced, and that the government and industry must partner to help workers and small companies adjust to the new, global business environment," Ramsdell said.

Boeing is working with leading industry groups in Washington, D.C., to support U.S. government efforts to level the competitive playing field through negotiations and enforcement actions. The business community would like greater access to foreign markets, greater protection for intellectual property rights, and greater international cooperation on regulatory matters.

"Most important of all, we're advocating the expansion of government programs that help displaced workers learn new, marketable skills," Ramsdell said. "It's been more than 40 years since Congress passed the Trade Adjustment Assistance Act. It's too narrowly focused and needs to be modernized, and federal training programs need to be better coordinated with the business community to ensure a better match of skills to needs."

The business community itself has stepped up to the training challenge in a very big way. According to the American Society for Training & Development, U.S. companies and private organizations spend nearly \$130 billion annually on employee learning and development, or more than \$1,000 per worker. Boeing's commitment to employee development easily beats that average: Last year the company spent an average of about \$5,500 per worker on employee training programs, from leadership training to tuition reimbursement for employees attending outside institutions.

—Tim Neale

Trade **'critical'** to growth, productivity

An overwhelming majority of Commercial Airplanes' backlog comes from non-U.S. carriers and leasing companies. That's one of the main reasons why trade policy is important to this Boeing business unit. *Boeing Frontiers* spoke to Travis Sullivan, managing director of Geopolitical and Policy Analysis for Commercial Airplanes, to get more information about why international trade matters.

Q: Why is a free trade policy important to Commercial Airplanes?

A: International trade is critical to our growth and productivity. In terms of growth, one only has to recognize that nearly 90 percent of Boeing's commercial backlog (by dollars) is made up of orders from airlines outside the United States and leasing companies that do business globally. Looking forward, non-U.S. markets will account for 80 to 85 percent of demand over the next 20 years. Trade policies help to enable exports and also stimulate economic activity, which increases air traffic demand and, consequently, airplane demand.

On the productivity side, existing international trade policies have substantially reduced or eliminated tariffs on airplanes and many airplane parts. These policies have driven cost reductions for our customers and continue to save millions of dollars for Commercial Airplanes in supply chain costs each year.

Q: How significant is Commercial Airplanes' contribution to U.S. exports?

A: We are one of the nation's top exporters. If you look at public trade data, U.S. aerospace products totaled \$99 billion in 2008, with civil aircraft representing about half of that figure. To put that in perspective, total U.S. merchandise exports totaled about \$1.3 trillion last year.

Q: How could protectionist changes in trade policy affect Commercial Airplanes?

A: Protectionist policies, whether in the U.S. or around the world, would harm our long-term business. Growth in trade and economies have been, and will continue to be, crucial drivers of air traffic demand. Simply put, the anti-trade policies associated with protectionism would undermine these drivers of air travel demand. And that would reduce the demand for our products.

—Eric Feters-Walp



International trade is important to Commercial Airplanes' growth and productivity, says Travis Sullivan, the business unit's managing director of Geopolitical and Policy Analysis. **ED TURNER/BOEING**

Boeing International's focus: 'Fair trade'



Boeing Korea President Bill Oberlin believes that strong trading relationships can help the United States retain and create jobs.

For many countries, a healthy trade relationship with the United States is critical to the economy. It fuels the engine that enables governments to purchase defense products and services, and air carriers to buy Boeing airplanes.

That's partly why Boeing takes a leadership role in international trade policy matters, said Boeing Korea President Bill Oberlin. The other reason is that a strong trading relationship, particularly when it comes to industrialized nations such as South Korea, benefits the U.S. economy, adding new jobs in the United States and retaining existing jobs, he said.

"Korean companies are now building factories in the U.S., employing local work forces, and in many cases, are buying and keeping open facilities in the U.S. that otherwise would have closed," Oberlin said.

In 2005, Korea and the United States agreed to begin bilateral negotiations on a trade pact. Since then, Boeing has worked closely with several organizations to help negotiators forge the Korea-United States Free Trade Agreement, the most comprehensive trade agreement ever negotiated between two nations.

Oberlin and his team have partnered with American Chamber of Commerce in Korea, the U.S.-Korea Business Council and the U.S. Chamber of Commerce to help encourage the landmark accord. In Washington, D.C., Boeing leads the business coalition formed to support its passage. The KORUS FTA is expected to be considered by the Korean National Assembly in the coming months, and the U.S. Congress may vote on it by the end of 2009.

The pact is critical for the United States—and Boeing—because it opens Korean markets to U.S. businesses. "U.S. markets are open to Korean companies already, so this agreement would level the playing field," said Oberlin, noting that the term "free trade agreement" can be misleading. "Fair trade agreement" is a more accurate term, he said, because the agreements have provisions addressing such issues as government procurement, investment protections, environmental safeguards, labor regulations and intellectual property rights—all of which are critical for Boeing.

Boeing, through Boeing International and the company's Washington, D.C. Operations, works closely with government agencies in the United States and many other nations to help overcome barriers to balanced and fair trade policies. According to Oberlin, that work creates invaluable relationships—which in turn deepens Boeing's presence in international markets with respect to investment, research & development, teaching and community service.

—Conan Kisor

Without trade, jobs might

'cease to exist'

International business plays a critical part in Integrated Defense Systems' growth plans. Among the many IDS programs bolstered by international trade is the F-15 program. *Boeing Frontiers* spoke to Bryan Scott, St. Louis-based quality program manager for the F-15 Program Office, about the link between international trade and work on this jet fighter.

Q: Why is international trade important to IDS and the F-15?

A: It's very key to our growth and productivity goals for IDS and the F-15 program in particular. Trade helps us out domestically; it helps our suppliers and our customers. For the F-15 program right now, all the production F-15 customers we have are overseas, primarily in Korea and Singapore. We support each other between here and those nations with technology, resources and strategies. As we continuously improve our products with our international partners, we create solutions that we can apply to the F-15s that the U.S. Air Force still flies.

Q: How would protectionist trade policies affect the F-15 program?

A: Without trade, the F-15 line would probably cease to exist. But it wouldn't affect just us in St. Louis. We have over 300 domestic suppliers in 39 states that provide 55,000 jobs and an estimated \$9 billion economic impact. Without our trade agreements in place now, all that might cease to exist.

Q: If U.S. trade policies shifted toward protectionism, would that hurt Boeing's ability to compete in international markets and thus boost competitors?

A: Absolutely. There obviously are other companies and nations that sell jet fighters around the world. That's not just the case with jet fighters, but with other weapons systems as well.

Q: When the topic of international trade and U.S. jobs comes up in discussions outside work, what do you say to individuals who support protectionist policies?

A: A lot of the time, the prevailing belief is that companies are just shipping jobs overseas. If that's your whole understanding of international trade, I can see why people would be for trade barriers. But the F-15 program in particular and Boeing overall show how international trade can work. The production and supplier base for the program is overwhelmingly in the U.S. When it's put into those terms, it's easier to see the benefits of trade. So once we talk about it in those terms, it's really an eye-opener for many people.

—Eric Fetters-Walp



Bryan Scott notes how Boeing and the F-15 program demonstrate the benefits of international trade. PETER GEORGE/BOEING