

# Playing by the rules

## Landmark ruling that Airbus subsidies are illegal will help level the playing field for Boeing

By Tim Neale

It was a long time coming, but the decision the World Trade Organization handed down earlier this summer regarding the financial support European governments give to Airbus was a resounding victory for the United States.

"It's a landmark decision because it rules every instance of European launch aid an illegal subsidy that has harmed U.S. aerospace interests," said Ted Austell, Boeing vice president, Executive, Legislative and Regulatory Affairs.

What is launch aid?

"It's a clever practice where governments loan Airbus billions of dollars for new aircraft development on terms a commercial lender would never provide," Austell said.

Launch aid interest rates are pegged to the government borrowing rate, below what commercial lenders would charge, and repayments are pegged to airplane deliveries rather than to a fixed schedule. Also, repayment begins only after Airbus reaches a certain threshold of deliveries, and if it doesn't sell as many units as projected, remaining loan amounts are forgiven.

Austell said launch aid has given Airbus a huge competitive advantage.

"With European taxpayers shouldering a significant portion of both the risk and cost of airplane development," Austell said, "Airbus has been able to bring new products to market faster than it could have otherwise, and sell its products at prices that often are difficult to match when you're developing airplanes the old-fashioned way—with your own money, or money borrowed on commercial terms."

In its ruling, the WTO made it clear that the subsidies helped Airbus become the world's largest commercial airplane company.

"Had Airbus successfully entered the LCA [large commercial aircraft] industry without subsidies, it would be a much different, and we believe a much weaker, LCA manufacturer," the WTO said in its ruling.

Eliminating launch aid has been a Boeing priority not only to level the playing field with Airbus but also to establish important principles for new competitors, Austell said.

A \$3.6 trillion commercial airplane market is at stake, as well as markets for military aircraft based on commercial platforms such as the 767 NewGen Tanker. In the tanker competition, EADS, the parent of Airbus, is offering a plane based on the A330, which along with the A340 received more than \$5 billion of government money.

Jim Arkedis of the Progressive Policy Institute said the ruling is "welcome, not just for Boeing and American manufacturers but because it boosts the credibility of the rules-based global trading system, which lately has shown signs of fraying at the edges."

U.S. officials have long recognized the importance of the Airbus subsidy issue. There's been strong bipartisan, bicameral support in Congress and from multiple administrations for ending the subsidies to Airbus, and President Barack Obama recently showcased the WTO ruling against launch aid as an example of U.S. efforts to ensure a fair and level playing field. "That's why Boeing has been running ads [see Page 6] thanking the U.S. government for bringing this complex case to the WTO," said Tom Downey, Boeing senior vice president, Communications.

What's next? The European Union is appealing the ruling, but the appeals process is expected to conclude early next year, said B. Marc Allen, Boeing vice president, Global Law Affairs, and the company's lead attorney on the case. The organization's rulings seldom are reversed on appeal and the U.S. government remains confident that the core of its victory against Airbus subsidies will stand, he said.

The European Union has a counter-case against the United States for alleged subsidies to Boeing. A confidential preliminary ruling in that case is expected this month, with a final, public decision sometime next year. U.S. officials believe the European case, which does not allege subsidies with the market-distorting impact of launch aid, is weak, and so does Boeing, Allen said.

In any event, the cases are separate matters.

"Any rulings that might be made against U.S. practices will not negate the rulings just made against European practices," Allen said. "If, by chance, the WTO concludes there are some U.S. programs that have crossed the line, the U.S. government will undoubtedly move to remedy that, and we will move in tandem with our government. We fully expect Airbus/EADS and the EU to act in just the same way, making good on their end of the WTO bargain."

Once the appeal is settled in the U.S. case against European subsidies, if the initial panel's findings are affirmed, then European governments will face immediate compliance obligations under the ruling. Compliance will mean the withdrawal of illegal subsidies. In the context of illegal launch aid for the A380, that will translate into Airbus having either to pay back the still-outstanding loans or restructure them on commercial terms, Allen said.

It also means no further government-subsidized loans for airplanes such as the A350, which Airbus is developing to compete against the Boeing 787 and 777.

"In today's global market, it's essential that people play by the rules," Austell concluded. ■

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**PHOTO:** The Airbus A380, which is shown here parked behind Boeing's 787 Dreamliner at the Farnborough International Airshow in July, is one of the Airbus commercial jets that the World Trade Organization has ruled was developed using illegal government subsidies, or launch aid. The WTO decision is considered a major victory for the United States and will help level the competitive playing field for Boeing. The European Union has appealed the decision.

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