

Boeing gets huge illegal subsidies, the WTO rules

AIRBUS, Europe's aircraft-making champion, has long had its nose in the subsidy trough. This week the World Trade Organisation (WTO) ruled that Boeing, its American rival, is also a guzzler of illegal handouts. More precisely, the WTO gave an interim verdict on a claim by the European Union and Airbus that Boeing received subsidies, mainly channelled through the Department of Defence and NASA, that violate global trading rules.

Not long ago, it was Airbus that was strapped to a seat in cattle class and being pelted with airline food. On June 30th the WTO ruled on an American complaint that Airbus received billions of euros in illegal subsidies that allowed it to snatch half the market for big passenger jets. It found that some government support to Airbus, in the form of repayable "launch aid", was illegal. Boeing's chairman, Jim McNerney, hailed "a landmark decision and a sweeping legal victory".

This time Airbus is jubilant. A European source said "we could not have hoped for more." The trade referee found that much of the \$22 billion benefit Boeing enjoyed from tax breaks and defence and research contracts was also an illegal subsidy. Airbus has long complained that, whereas it repays the launch aid with interest, Boeing never has to pay back a cent.

That is true but disingenuous. European governments shoulder a hefty share of Airbus's risk and the loans are cheaper than private investors would offer. Despite claiming a resounding win, Boeing appealed against some aspects of the June decision. Airbus, in turn, claimed that about 70% of Boeing's allegations had been dismissed by the WTO, which also failed to detect any price undercutting by Airbus as a result of the subsidies.

The scene is now set for further appeals and counter-claims, which could last for another three years or more. This is not just the biggest and most intractable trade row to come before the agency. It has developed into a political battle. If governments on either side were to levy countervailing import duties (as the WTO allows when an illegal subsidy persists), it could spark a disastrous trade war. No one wants that, so it probably won't happen.

Yet the stakes are still high. America's Congress insisted that considerations of illegal subsidies should play a part in the selection of the air-refuelling tanker to be ordered by the US Air Force in November. Airbus (with America's Northrop Grumman) initially won the order (worth \$35 billion) in 2008, only for the award to be overturned after Boeing complained about the bidding process, and a new contest begun. The WTO ruling this week on subsidies to Boeing may come too late for it to influence the way the contract is awarded, with the subsidy stigma counting against Airbus alone. Since both claims were filed on the same day in October 2004, some Europeans believe that America put pressure on the WTO to delay the Boeing judgment.

Government support for developing new passenger aircraft first emerged as a contentious issue in 1988. Airbus was beginning to eat into Boeing's market with its A320 single-aisle jet—the sort of plane that accounts for four out of five planes

sold. An agreement in 1992 limited government launch aid to 33% of the cost of developing an aircraft, to cap subsidies to Airbus, while the support to Boeing from the Pentagon and NASA was held to 3% of turnover. But Boeing tore up this deal in 2004 as Airbus prepared to launch the A380 super-jumbo (to challenge Boeing's 747) and the A350 (to vie with the 777 and 787).

The WTO found that some A380 launch aid was indeed an illegal export subsidy, but Airbus contends this can be dealt with merely by changing the wording of the contracts drawn up by the German, British and Spanish governments to match the French version, which passed muster with the WTO. The A350 case was not considered because its financing agreement was not in place when the investigation began.

The appeals and other arguments could run and run. Even after final rulings are made, there will doubtless be interminable hearings on how to implement them. In the Airbus verdict and again this week, the WTO gave no guidance on how the sins it exposed should be remedied. Airbus has frequently suggested negotiations with a view to a bilateral deal like the previous one, only for Boeing to reject the idea out of hand: this week's verdict might make the Americans more amenable.

An Airbus executive observes that the legal battle could end in one of three ways. The two sides could negotiate a settlement. They could get bored and give up. Or they could carry on fighting indefinitely, to the benefit of no one but lawyers. A European source said he hoped that the latest ruling would persuade Boeing to come to the negotiating table.

Changes to the aircraft business are also increasing pressure for a settlement. Manufacturers in Russia, China and Japan are joining Brazil's Embraer and Canada's Bombardier in the market for big passenger jets. Most of these newcomers get government support.

Indeed Boeing is no stranger to launch aid from government. Japanese manufacturers making a third of Boeing's 787 receive such aid from the Japanese government. And Boeing was in line to get such help directly from the American government back in the days when it was considering building a supersonic rival to the Anglo-French Concorde. One thing is certain: unless the Europeans and Americans sit down to negotiate, there will be nothing supersonic about the speed at which this dispute is resolved.

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