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Q+A-WTO Airbus, Boeing disputes: what next?

5:08am EDT

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GENEVA, May 31 (Reuters) - Trade judges this month overturned parts of a ruling that accused EU states of giving Airbus (EAD.PA: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) illegal subsidies, but said the aircraft maker received billions of dollars of unfair aid that harmed Boeing (BA.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)). [ID:nLDE74H21N]

Together with a parallel case over U.S. payments to Boeing, the long-running challenges constitute the world's largest trade dispute, affecting more than 100,000 jobs in a plane market worth more than \$2 trillion.

The following looks at what happens next and its significance.

WHAT'S THE NEXT STAGE?

On June 1, the WTO will adopt its ruling published in May. Both the EU and United States say the EU will obey the WTO sentence within 180 days.

But WTO rules are flexible, meaning the EU can argue for a reasonable period of time to comply. If the United States disagrees with that time frame, an independent arbitrator can take until September 2011 to order the EU to comply by the fall of 2012.

IS THAT THE END OF THE ROAD?

Hardly. If the EU's idea of complying with the ruling does not match U.S. expectations, Washington can request a separate panel to arbitrate the EU's compliance, possibly leading to an EU appeal, a second compliance ruling, a second EU compliance offer and a further compliance panel requested by the United States and followed by related appeals.

"That's why it's called dispute settlement -- the system is built in a way to encourage settlement," a person familiar with the matter said.

The process could delay EU compliance until about 2017.

WHY SUCH DISAGREEMENT OVER WHAT THE RULING MEANS?

In its 645-page report, the WTO's Appellate Body lists the amount of government loans handed out for each Airbus model. It also says the EU must "remove the adverse effects ... or withdraw the subsidy".

But it makes no mention of exactly how much should be withdrawn or repaid. And while it rules loans illegal because they were granted at below-market interest rates, it does not spell out by how much loans undercut bank rates.

The U.S. Trade Representative says the EU must pay back or eliminate the effects of subsidies worth \$18 billion, citing subsidies paid out many years ago and cheap loans whose value it says amount to more than the loans themselves.

The EU is likely to argue that many of these subsidies have expired. It will also offer its own interpretation of how far state loans underbid the market.

WHY THE INTEREST IN DELAYS?

Regardless of the final sum, the EU has an interest in slowing down repayments: it is waiting for a WTO appeal ruling on a parallel case brought by the EU against U.S. subsidies for its aircraft maker Boeing.

Psychologically as well as commercially, a final Boeing ruling will improve the EU's negotiating hand when it comes to complying.

The more time passes, the more the EU can also argue that the trade-distorting effects of aid to Airbus has dissolved. Thus the EU is likely to argue that subsidies for its A300, A310 and A340 should be disregarded as these models are no longer being built or are near the end of their production run.

Beyond the Airbus-Boeing spat, delays could similarly benefit both sides as time erodes past subsidies, dulling the possible impact of legal challenges from international rivals.

IS THIS ALL ABOUT OLD SUBSIDIES?

No. One reason the interpretation of this ruling is critical is that the verdict on Airbus's superjumbo, the A380, may affect Europe's ability to inject aid into of its next generation A350, which has already received launch aid.

The United States could decide to mount a challenge against the A350 using case law from the current case.

WHAT SCOPE FOR A SETTLEMENT?

In contrast to Washington, the EU has called for a negotiated settlement for years. This might allow both sides to continue subsidising their aircraft up to a point, keeping out competition from Brazil, Canada, China and Japan.

WTO rulings against both Boeing and Airbus subsidies could by now make such a settlement difficult: a settlement that leaves too many subsidy schemes untouched risks challenge from international rivals.

WHAT DID THE APPEAL PANEL DECIDE?

The appeal partly upheld a 2010 decision that the countries that founded Airbus 40 years ago -- Britain, France, Germany and Spain -- had provided illegal subsidies in the form of launch aid loans, infrastructure support and equity infusions.

It agreed the launch aid loans were beneficial to Airbus because the rate of interest charged on them was more favourable than that Airbus could have secured through private lenders.

It also upheld the panel's findings the subsidies had caused serious prejudice to Boeing in the form of displaced exports and lost sales in some countries, but not others.

WHAT DOES IT MEAN FOR OTHER COUNTRIES?

The ruling is of great interest to countries bidding to enter the passenger jet market to compete with Airbus and Boeing, including China, Russia, Brazil, Canada and Japan.

"This is good news for other countries that want to expand their market share," said Daniel Griswold, director of the Herbert A. Stiefel Center for Trade Policy Studies at the Cato Institute, an independent thinktank in Washington.

(Editing by Michael Roddy)

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