

Aircraft dispute didn't exactly end in a draw, but it may still be a stalemate

BY DAVID NICKLAUS

March 16, 2012

As Americans, we're used to contests that have a winner and a loser. Even when a soccer match ends in a tie, at least one side usually walks away disappointed.

Not so with one of the biggest trade disputes ever fought, a seven-year donnybrook over commercial aircraft subsidies in Europe and the U.S. After a final appellate ruling this week, both sides are claiming victory.

Measured in dollars, the Americans have a stronger claim. This week's ruling by the World Trade Organization found the U.S. guilty of giving Boeing \$5.3 billion worth of illegal help. Last year, the WTO said the European Union gave Airbus \$18 billion of improper assistance, more than three times what Boeing got.

Money, though, isn't the only way of keeping score. Airbus spokesman Rainer Ohler issued a statement saying that the U.S. subsidies had been declared "substantively illegal," while Europe's direct government lending "is legal and may continue."

Boeing, not surprisingly, sees things differently. More than \$2 billion of the illegal U.S. aid, it points out, came from an export tax credit that has expired.

As the case enters the compliance phase, then, the U.S. has only to address about \$3 billion of improper subsidies. Of that, \$2.6 billion came from National Aeronautics and Space Administration research programs and the rest from various state and local governments.

Tim Neale, a Boeing spokesman, says NASA has already wound down many of the programs in question. "There may not be a lot that the U.S. needs to do to comply with this ruling," he said.

Europe's path to compliance, he contends, is more difficult. Airbus still owes European governments about \$4 billion it borrowed to develop the A380, a wide-body that it introduced five years ago. So-called launch aid was a major part of the WTO complaint against Airbus, and Boeing says the Europeans won't be in compliance until the practice is discontinued.

The US and EU now have a few options: Both sides can eliminate the problematic subsidies, or they can negotiate a settlement that allows some of the payments to stay in place. If none of that happens, one or both sides can ask the WTO for permission to impose punitive tariffs on unrelated goods, like French wine or Florida citrus.

Daniel Ikenson, a trade expert at the Cato Institute in Washington, thinks that with both sides claiming victory, a negotiated deal seems likely. "Unfortunately, I don't think we will see the end of subsidies for aircraft," he said.

Richard Aboulafia, an aerospace analyst at Teal Group in Fairfax, Va., predicts that this epic dispute will have little effect on the market for airliners.

Today's international aircraft sales, he explained, are dependent on government-provided export loans, a type of aid that wasn't involved in the WTO case. The U.S. Export-Import Bank finances Boeing's overseas sales; Europe has a similar program for Airbus.

"Both sides have ramped up so heavily on jetliner financing that this ruling is sort of meaningless," Aboulafia said. "If there'd been a clear, lopsided victory, you would have seen some action taken. As long as both sides are convinced they're in the right, that's a recipe either for gridlock or trade war, and I don't think either side wants a trade war."

Let's hope not. A trade war would devastate businesses and consumers who have nothing to do with the aircraft industry. After slugging it out for seven years at the WTO, Boeing and Airbus may have to settle for a stalemate.