

## Deadline Looms in US - EU Aircraft Subsidy Dispute

By Douglas Bakshian  
Luxembourg  
08 April 2005



A fresh chapter in the dispute over subsidies for aircraft makers Boeing and Airbus opens Monday when a three-month negotiation period ends, leaving the United States and the European Union free to push ahead with their rival cases at the World Trade Organization. But so much is at stake on both sides of the Atlantic, analysts say, that Washington and Brussels may not be ready for the WTO to take over.

Crucial to Airbus is so-called "launch aid" that it uses to fund the development of new aircraft. In turn, Europeans say, Boeing benefits from tax breaks, military sales and indirectly from subsidies by foreign suppliers like Japan.

Despite a lot of heated political talk over the past weeks, the difficulty for both sides is that by submitting to the WTO they will lose control of the decision making process. John Wyles, is an E.U. analyst with the public affairs group GPlus Europe in Brussels

"There's a severe risk that in fact neither side would win and both sides could lose. It's quite possible a WTO panel might find that the kind of aid that each side is giving to its industry is against the rules," he says.



**Robert Zoellick**

Both the E.U. and the United States say they are ready to resume talks, but on their terms. The E.U. has said many times that this is not the time for WTO action, and it will not accept a one-sided deal. U.S. Deputy Secretary of State Robert Zoellick this week said he is willing to use the WTO, but he was vague about when this might happen. Mr. Zoellick also made remarks critical of the E.U. position on launch aid subsidies, which some Europeans interpreted as a hard-line stance.

"We've discovered that...the European Union's constituencies may not be comfortable moving to the elimination of launch aid," Mr. Zoellick says. "Even after we made our agreement in January I noticed that the Airbus representatives were out almost the next day saying they wanted to proceed with launch aid."

In January Washington and Brussels agreed to suspend their cases at the WTO, and enter a three-month negotiation period ending April 11. But E.U. Trade Commissioner Peter Mandelson has been firmly holding his ground. He says the United States is not being flexible in the debate because of heavy domestic pressure.

"Bob's mandate from Boeing is to get rid of all Airbus launch investment, and to do so immediately, without any delay. Politically, therefore, he has little or no room to compromise given that Boeing has things pretty sewn up in Washington," Mr. Mandelson says.

The history of the issue dates back to the early 1990s when the United States and the European Union agreed to allow Airbus to borrow as much as one-third of the development cost of new aircraft from European governments. At the time, Airbus was

very small, but in the past few years it has passed Boeing as the world's largest aircraft maker. Washington unilaterally canceled the agreement last year, saying future aid will be illegal under WTO rules.

There is also an immediate commercial impact. Both Boeing and Airbus are coming out with new aircraft that will be in sharp competition, so the start up aid is important. Airbus is building the A380 super jumbo for long flights, while Boeing is producing the

Boeing 787, a midsize plane for long hauls.

However the issue is resolved, analysts say, the diplomatic and business skills of both parties will be put to the test.