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Boeing vs. Airbus

Clash of the Corporate Welfare Titans

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The United States and the European Union (EU) may be on the brink of the largest trans-Atlantic trade war ever. At issue are government subsidies for the makers of passenger jets—Boeing in the U.S. and Airbus in Europe.

Both sides claim the moral high ground in this dispute, but in fact governments on both sides of the Atlantic heavily subsidize their jet makers. Washington launched this dispute, even though Boeing may be the largest beneficiary of corporate welfare in the U.S. Meanwhile, Airbus resembles more a government agency than a private business.

The Dispute. On May 31, 2005 a year of negotiations between U.S. and EU trade officials escalated into the first stages of a trade war when U.S. Trade Representative (USTR) Rob Portman asked the World Trade Organization (WTO) to step in, requesting the WTO establish a dispute settlement panel.

The Bush Administration made this decision after the European Union’s announcement that France, Germany, and Britain would provide well over \$1 billion in aid for Airbus’ next big project, the A350. This news came only four months after Airbus unveiled its “super-jumbo” A380, the first jet ever built to directly compete with Boeing’s 747, which had cornered the super-jumbo market since 1968.

The January unveiling of the A380—the largest passenger jet ever made—was a moment of European pride. British Prime Minister Tony Blair said, “Airbus demonstrates we can

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achieve more together in Europe than we ever can alone. Working together in Europe means we can compete with anybody in the world.”¹ French President Jacques Chirac declared, “It is a technological feat and a great European success....When it takes to the skies it will carry the colors of our continent, and our technological ambitions to even greater heights.”²

At the same time, Boeing was preparing to unveil its 787—a mid-sized jet capable of making long journeys previously only possible for jumbos. With Boeing moving away from the jumbo jet, the European jingoistic pride at making the largest passenger jet in history was eerily reminiscent of the Soviet Union’s quest to demonstrate its superiority by building the biggest of everything—armies, cargo planes, gymnasiums, etc.

However, Airbus did not want the 787 to go unanswered, so the EU turned its efforts to building the mid-sized A350. When European governments said earlier this year that they would subsidize the A350, the U.S. decided to take the EU to court. In response, the EU has filed a counter-complaint at the WTO against U.S. subsidies to Boeing.

The WTO will soon find itself sorting through the various subsidies that flow to the two jet maker giants—and there will be no shortage of material for WTO officials to sift through. European officials point primarily to Boeing’s military contracts, while the U.S. objects to the “launch aid” Airbus receives for developing new planes. The truth is, there’s plenty more corporate welfare on both sides than either complaint suggests.

Boeing, Welfare King. Boeing may be the top recipient of corporate welfare in the United States. Europeans complain primarily about the boost that Boeing’s research and development (R&D) receives indirectly from military and civil government contracts, but many other subsidies to the jet maker are more direct, and far more market-distorting.

Boeing is one of the largest Pentagon contractors, second only to Lockheed Martin. From Fiscal Year 1998 through 2003, Boeing received \$82 billion in contracts from the Department of Defense.³ About half of that money was for aircraft components; slightly less than one-fourth was for R&D.

EU officials claim that Boeing’s research and development numbers amount to a subsidy, because R&D done on the Pentagon’s dime can reap benefits for Boeing in its commercial undertakings. With higher defense spending in the U.S. than in Europe, Boeing has more chances for defense contracts, says Airbus.

The question of military contracts as subsidy points to fundamentally different mindsets on the two sides of the Atlantic. Since the end of World War II, European nations have put relatively little emphasis on defense, while the U.S. sees its strong military as crucial to having won the Cold War and deterring other aggression throughout the world.

But to the degree some Boeing contracts appear illegitimate, “subsidy” just might be the correct word. The Pentagon characterizes 60 percent of Boeing’s military contracts between 1998 and 2003 as “Not Full and Open,”⁴ suggesting Boeing may have received

favoritism in the awarding of contracts. Boeing spent about \$64 million on lobbying in that period.

Perhaps the most infamous of Boeing's defense contracts was a deal proposed at the beginning of this decade for the Air Force to lease 767s to act as in-air fuel tankers. One Air Force official, who later took a top job at Boeing,⁵ apparently tried to bury the information that buying the tankers outright would save the Air Force \$2 billion. Another Air Force official admitted in a private e-mail, "We all know that this is a bailout for Boeing."⁶ Congress killed the lease deal in 2004 before it went through.

In addition to military contracts, Boeing benefits from civil government contracts, including research programs from NASA and the Federal Aviation Administration.⁷

On the government contracts, the definition of the word "subsidy" is a nuanced question. But one aspect of the federal government's support for Boeing is unquestionably a subsidy: Export-Import Bank financing.

The Export-Import Bank of the United States (Ex-Im) is a government agency that loans money or guarantees private loans to foreign buyers—governments or private companies—so that they will buy American goods. These low-interest Ex-Im loans or Ex-Im guaranteed loans shift part of the cost of the purchase from the foreign buyer to the U.S. taxpayer. In effect, this functions as a direct payment from the U.S. taxpayer to the U.S. exporter, with the foreign buyer only a conduit, and then a debtor to Ex-Im.

Ex-Im is also known as "Boeing's Bank," and for good reason. Between 1998 and 2004, Ex-Im issued loans and long-term guarantees for \$53 billion of U.S. exports. Just under \$28 billion of those deals were Boeing sales.⁸ That means that this federal agency exists not just *primarily*, but *mostly*, to subsidize Boeing's overseas aircraft sales.

In FY 1999, 68 percent of Ex-Im subsidies went to Boeing. In 2001, a Boeing official estimated that 20 percent of Boeing's exports receive Ex-Im financing.⁹

The federal government aids Boeing's exports in less direct ways, too. The Department of Commerce works to promote U.S. goods overseas. A paper from the International Trade Administration (ITA) notes that, "The Advocacy Center supports sales by Boeing," among other U.S. exporters.¹⁰

Beyond the Beltway, Boeing receives generous corporate welfare from local and state governments.

In Washington State, Boeing looms large, so much so that the state's current senior Senator, Patty Murray (D), is known as the "Senator from Boeing." One of her predecessors, the legendary hawkish Democrat Scoop Jackson, had the same nickname.

The Evergreen State took a big hit in 2001, when Boeing announced it would move its corporate headquarters from Seattle to Chicago. To secure Boeing's arrival, the City of

Chicago and the State of Illinois teamed up to offer a \$63 million deal that included a \$1 million buyout from the city to a tenant occupying the office space that Boeing coveted.

When Boeing was preparing to begin assembly on the 787, then known as the 7E7, Washington State wanted the new plane built within its borders. But Boeing pointed to the state's unwelcoming business environment, with high taxes and over-generous unemployment insurance. Prodded by the Democratic governor, the state legislature met in a special session (universally dubbed the "Boeing Session") and lowered the unemployment insurance burden on all employers in the state—a legitimate free-market reform—but then passed some Boeing-specific breaks.

The legislature reduced the state's "business-and-occupation" tax only for the aerospace industry, and offered a credit against that tax for all R&D. For Boeing's suppliers, it created a sales-tax exemption for computers used in designing aircraft. Finally, the legislature added special location-specific property tax breaks in the places Boeing was considering setting up shop.

According to the state's official estimates, the bill would yield a benefit of about \$3 billion over 20 years to the aerospace industry.¹¹ Boeing was not merely a passive recipient of these subsidies. In 2003, the company officially requested bids from municipalities who wanted the 7E7. Tulsa, Oklahoma, for example, offered R&D grants, subsidized loans, and other special benefits worth \$350 million.¹²

Airbus, Europe's Pride and Joy. As the jingoistic comments above from EU leaders make clear, Europe sees the success of Airbus as an intense matter of European pride. To most Americans, Boeing is just another business. Politicians' attempts to lure the company to town are based on simple fiscal calculations—hoping to reap jobs and tax revenue. Europeans, on the other hand, seem willing to lose money in helping Airbus, as part of the cost of beating the U.S. Former French Prime Minister Lionel Jospin declared in 2002, "We will give Airbus the means to win the battle against Boeing." And they sure have tried.

To begin with, Airbus was born from the womb of European governments. The consortium of European aerospace firms came together "at the direction of the French, German, British, and Spanish governments," according to the U.S. International Trade Administration (ITA).¹³ Indeed, a Memorandum of Understanding signed in 1967 between the British, French, and German governments spurred production of Airbus' A300. An ITA report notes that, "[t]hose governments paid for between 75 percent and 100 percent of the total costs of development of Airbus's original product line."¹⁴

Today, Airbus is significantly a government-owned company. Since 2001, the European Aeronautic Defence and Space company (EADS) has owned 80 percent of the company and British Aerospace (BAE) the other 20 percent.

The Spanish government owns 5.5 percent of EADS through a state holding company, SEPI. The French holding company SOGEADE—itsself half-owned by the French

government—owns 30 percent of EADS. EADS, therefore, is 20.5 percent government-owned, making Airbus 16.4 percent state-owned.

The U.S. WTO complaint against Airbus centers around the R&D money Airbus receives that has no real counterpart in the U.S.—“launch aid,” which consists of forgivable loans from various European governments.

Neither Airbus nor the governments will disclose the exact terms of these loans, but their general form is not in dispute: European nations issue low-interest loans to Airbus for a portion of the cost of developing new planes. Airbus, in turn, pays back the loans depending on its ability to sell the planes. In other words, if the research doesn't pan out or the plane doesn't sell, the European governments forgive all or part of the loan. Airbus, then, is operating without risk.

For the Airbus A380, launch aid totaled \$4 billion—one-third of the total R&D cost—and came from the governments of France, Germany, Great Britain, Spain, Holland, Finland, Belgium, Italy, and Sweden.¹⁵ European leaders have made it clear they will support the A350. Airbus CEO Noel Forgeard said last fall that he will ask for €1 billion (at the time, that was over \$1.3 billion):

“The A350 is easily financeable by Airbus without launch aid because it is a derivative of an existing aircraft, but as long as there is refundable launch aid available we will apply for it.¹⁶”

The launch aid not only allows Airbus to develop its new jets without risk, it is also widely believed to be lent at below-market rates, providing a subsidy to Airbus. In addition to the A380 and A350, Airbus' other recent planes received launch aid: the A330-200 and the A340-500/600.

On top of launch aid comes support from the European Investment Bank (EIB), a government-capitalized lender and an EU institution. EIB has helped fund the development of some Airbus planes, including €700 million (around \$840 million) for the A380.¹⁷

While the U.S. is not objecting to Airbus' government contracts, it is worth noting that the parent companies of Airbus are top military contractors like Boeing. The combined military sales of EADS and BAE just about equaled those of Boeing in recent years. In fact, in 2003, the European companies surpassed Boeing with \$29.7 billion in military contracts, compared to Boeing's \$27.4 billion¹⁸

On civilian R&D, European governments take instruction from the EU's Sixth Framework Program for Research, Technology Development and Demonstration Activities (FP6), a five-year plan that addresses many areas of science and technology. In the field of aerospace, official European Commission documents suggest that FP6 is primarily aimed at boosting Airbus over Boeing, rather than simply aiding scientific progress, by defining the aim of aerospace industry support as being “to strengthen, by

integrating its research efforts, the scientific and technological bases of the European aeronautics and space industry and encouraging it to become more competitive at international level.”¹⁹ The U.S. International Trade Administration estimates that the EC has spent about \$1.2 billion on aeronautic R&D over the past four years.

In addition to pan-European cooperation, individual European nations provide R&D money to Airbus.

Like the aid that Chicago and Seattle offer Boeing, cities in Europe are eager to accommodate Airbus. Between its A380 factory in Toulouse, France, a massive landfill on the Elbe River in Hamburg, Germany to provide space for a runway extension and a paint shop for the new plane, and other new construction in Germany, Spain, France, and the U.K., the U.S. Department of Commerce finds more than \$1 billion in infrastructure aid to Airbus.²⁰

Airbus also finds aid on this side of the Atlantic. In 1997, county officials in Miami gave Airbus a reported \$6.6 million to build a training facility near Miami International Airport.²¹ In Louisiana, Governor Mike Foster gave a \$1.5 million grant in 2002 to a local airport authority to subsidize a new hangar for making Airbus planes.²²

Airbus’ main government patrons—France, Germany, the U.K., and Spain—also subsidize Airbus Ex-Im style. Each has its own counterpart to the U.S export finance agency. The UK’s Export Credit Guarantee Department (ECGD), France’s COFACE, Spain’s CESCE, and Germany’s Hermes all underwrite Airbus’s sales by offering subsidized financing to potential buyers.

Airbus demands these subsidies, and demands that they be generous. For example, in the summer of 2004, Airbus CEO Forgeard complained about the UK’s ECGD: “Each time there is a certain degree of risk, they charge huge premiums. We do not need them if they behave like a bank—there are plenty of banks that will finance our deals.”²³

As of 2002, the French government has made it clear that it will guarantee 100 percent of loans financing Airbus exports.²⁴ In fact, the EADS board of directors includes François David, chairman and CEO of COFACE, France’s export-subsidy agency, which, in this capacity, operates almost literally like Airbus’ bank.

Beyond subsidies, European governments use their clout to pressure foreign airlines—many of which are state-owned—to buy Airbus. In fact, European governments have even suggested that favoritism to Airbus was a condition for accession to the EU. When the Czech Republic moved toward freer trade in 2000, a European Commission report admonished the Czechs on their nation’s accession hopes:

“The Czech Republic has unilaterally applied a suspension of MFN tariffs levied on imports of 12 civil aircraft products. Despite the Commission’s strong opposition, this exceptional measure, introduced in 2000, and due to end in 2001, was prolonged until December 2002. The Czech Republic

will need to ensure that this tariff suspension will not be prolonged beyond 2002.²⁵”

In other words, restore tariffs against Boeing, or forget EU membership.

Turkey had a similar experience while pursuing EU membership. According to a Turkish news source, German Foreign Minister Joschka Fischer told one Turkish Parliamentarian to “let 80 percent of the airplanes you buy be Airbus.”²⁶

In a particularly unsavory example, weeks after the tsunami hit the Indian Ocean at the end of 2004, while most of the world was sending aid to the affected countries, the European Union sent Thailand a threat. On December 31, the EU slapped a new tariff on Thailand’s perfume exports, on top of existing EU tariffs on shrimp. The disaster-stricken nation could escape these tariffs, EU trade officials stated, if Thai Airlines would buy six A380s.²⁷

European governments regulate slots at European airports, and airlines who buy Airbus are often favored. In 2003, *The Economist* reported, “no sooner had Air Mauritius bought Airbus A340s in 1994 than it obtained an upgrade from Paris Orly [a second-tier airport] to Charles de Gaulle airport, which is Air France’s main base with better onward connections.”²⁸

Germany, in 1998, forgave nearly DM7 billion (\$4 billion) in debt. According to the USTR, such debt forgiveness is not unique.

Incalculable Benefits. The World Trade Organization will encounter all of these subsidies, and likely more, as it sifts its way through the benefits Airbus and Boeing each receive from their respective governments. Which is the worse offender will be difficult to judge, because of the incalculable financial benefit that some of these government favors yield.

Considering how heavily subsidized Boeing is, though, one must wonder whether President Bush’s Trade Representative, by complaining about Airbus, is throwing stones from the front porch of a glass house. A particularly optimistic free trade advocate could read a boldly clever agenda into the White House’s actions: A WTO rebuke to Boeing’s subsidies would give the administration political cover for rolling back corporate welfare (which Bush’s economists know increase the deficit and drag down the economy).

Even if the President’s complaint to the WTO is not a shrewd anti-subsidy tactic, this threat of a trade war could have the effect of tearing down subsidies on both sides of the Atlantic. The U.S. has already scrapped a 1992 agreement under which the EU and the U.S. pledged not to challenge the other’s airplane subsidies.

If all Boeing and Airbus subsidies are put on the table, at least the world will have the chance to see just how dependent on taxpayers these corporate welfare titans really are.

Notes

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