

Backgrounder on the U.S.-EU Subsidy Dispute December 2011

History of Airbus Subsidies

- Airbus was created by European governments 40 years ago to challenge America's aerospace companies. With the help of massive, illegal government subsidies, Airbus has become the world's largest commercial airplane company.
- European governments paid 100% of the development costs for early Airbus products, and today European governments still provide one-third of the billions of dollars required to develop new airplanes.
- Subsidies are an embedded feature of the Airbus business model, and they give Airbus a huge competitive advantage that adversely affects American jobs.

Competitive Advantages of Government Subsidies

- Significant Pricing Advantage
- Less Investment Risk
- Lower Cost of Capital
- Faster Product Development Times

Impact on American Industry and Workers

- Lost market share – With the help of European governments, Airbus has out-sold and out-delivered American-made Boeing commercial jets for the past several years.
- Lost jobs – Over a five year period covered by the U.S. complaint against European subsidies (1999-2004), the number of Americans producing Boeing jets fell from 116,000 to less than 55,000. Aggressive pricing by subsidized Airbus was a key factor behind the job losses.

WTO Rulings on Airplane Subsidy Issues

- U.S. Challenge – The U.S. Trade Representative filed a comprehensive formal complaint with the WTO on Nov. 15, 2006. It documented the numerous forms of subsidies Airbus has received and their adverse impact on the U.S. aerospace industry and American workers.
- WTO Decision Against the EU – The WTO issued a final report to the parties in June of 2010, and a WTO Appeals Panel in May of 2011 upheld all of the key findings in that report, saying Airbus received illegal subsidies totaling \$18 billion, including \$15 billion of product development “launch aid.” If borrowed on commercial terms U.S. officials have estimated the total benefit to Airbus of the subsidies at more than \$200 billion in 2006 dollars.
- Compliance Deadline – WTO procedures allow six months for parties to come into compliance with rulings against them. The U.S. government notified the EU that it expects compliance by Dec. 1, 2011. Among the key steps European governments now must take is elimination of subsidies on all outstanding loans to Airbus, including some \$4 billion in loans for the A380. European governments also must demonstrate that any new loans to Airbus for future projects like the A350 carry commercial terms.

- Signs of Continued Launch Aid – Despite the WTO ruling, European governments have pledged some \$4.5 billion for the A350 program, and EADS/Airbus financial reports indicate the company received \$1.5 billion in new government loans in 2010. Terms of those new loans were not disclosed.
- Europe’s Counter Case – Europe countered the U.S. filing with its own case alleging the same magnitude of government subsidies to Boeing. The WTO dismissed 80% of the alleged subsidy total in March 2011, confirming the massive competitive advantage Airbus enjoys as a result of its illegal subsidies. The WTO found \$2.7 billion in subsidies to Boeing that had not been addressed previously, most of them (\$2.6 billion) in the form of NASA research. The U.S. is appealing that ruling, maintaining that NASA programs are basic research permitted under WTO rules. The appellate decision is expected in 2012.
- Importantly, the rulings in these cases are separate and distinct, so the parties must comply with any and all rulings against them, regardless of what may be decided in the other case.

Long-Term Impact on America

- American jobs, competitiveness, technological leadership and manufacturing base are all affected by the outcome of this dispute.
- With continued subsidies, Airbus will continue to take market share at the expense of American workers.
- Because the WTO decision will set important precedent, countries with aerospace ambitions (e.g. China, Russia, Canada, Brazil) are watching closely. If European subsidies are left unchecked, other countries will follow the European model, further eroding America’s aerospace industry and American jobs.

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