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W.T.O. Rules U.S. Subsidies for Boeing Unfair

By NICOLA CLARK

PARIS — **Boeing** received at least \$5.3 billion in improper subsidies from the United States government to develop its 787 Dreamliner and other jet models, giving it an unfair advantage against its European rival, Airbus, the World Trade Organization confirmed in a report published Thursday.

Washington said it was considering an appeal of the ruling, the latest in a long-running dispute between the two largest commercial plane makers.

[Video -- [WTO Rules Against Boeing Subsidies](#)]

In an 850-page report, the Geneva-based trade body accepted a claim by the European Union that research and development grants provided by United States space programs contributed substantially to the technologies used in building the 787, Boeing's latest flagship aircraft. But it said the amount of prohibited support amounted to a fraction of the more than \$19 billion dating back to the late 1980s that Brussels had originally challenged.

Ron Kirk, the United States trade representative, said Washington disagreed with the W.T.O. panel's findings and was studying options for appeal. He stressed that roughly half of the subsidies condemned by the W.T.O. had been previously remedied by changes in American policy, noting that the panel had recommended the United States withdraw just \$2.7 billion in aid to Boeing.

The European Union hailed the W.T.O.'s decision as a "landmark ruling." Karel De Gucht, the bloc's trade commissioner, called on Washington to "take the appropriate steps that may assist to achieve a mutually agreed solution to this dispute."

European supporters of Airbus had focused much of their complaint on **research contracts that Boeing received from the National Aeronautics and Space Administration** and the

Pentagon since the late 1970s to develop lightweight carbon composite materials that the manufacturer subsequently used in the design of the Dreamliner. As much as 50 percent of the 787's primary structure, including the fuselage and wings, is made of composite materials, more than any other large civil aircraft.

Mr. Kirk said \$2.6 billion of the subsidies that the panel found were from NASA and that the Pentagon contributed only \$110 million.

In addition, he said, 20 of the 23 claims about Pentagon contracts were rejected, with the panel ruling that they were legitimate procurement contracts rather than research grants.

In its report, which was submitted confidentially to American and European trade negotiators at the end of January, the W.T.O. largely agreed that, "absent the aeronautics R&D subsidies, Boeing would not have been able to launch an aircraft incorporating all of the technologies that are incorporated in the 787."

It also found that Boeing's introduction of the 787 program in 2004 had forced Airbus to lower the price of its A330 wide-body aircraft to maintain market share. However, it rejected the claim that the 787 had an impact on the price that Airbus was able to command for its forthcoming challenger to the 787, the A350-XWB.

Several weeks ago, the United States Defense Department awarded Boeing a \$35 billion contract to supply the Air Force with new aerial refueling tankers. Analysts said Boeing's victory in that contest would probably blunt the sting of the W.T.O.'s findings for Boeing's supporters in Washington and expressed hope that the two sides would eventually move beyond this dispute toward a negotiated settlement.

"It has not been a very edifying spectacle," said Nick Cunningham, an aerospace analyst and managing partner at Agency Partners, a London-based consultancy. "It's a lot of sound and fury signifying very little."

In a case decided last June, the W.T.O. found that Airbus had benefited from four decades of improper subsidies to vault past Boeing to become the world's top jet builder.

That ruling, which has been appealed by both sides, concluded that Airbus had received the subsidies, including \$15 billion in loans from European governments at below-market interest rates and several billion dollars in grants, to produce the A380 superjumbo and five other best-selling models. But the W.T.O. stopped short of a wholesale condemnation

of government loans — known as “launch aid” — that are repaid largely through export sales.

The W.T.O. is expected to rule on the appeal of that ruling next month.

Airbus said in a statement Thursday that it was pleased with the findings of the W.T.O. report but that it expected the European Union to appeal a number of issues relating to legal interpretation.

Analysts said they hoped the publication of the report would bring an epic battle over subsidies in the aircraft industry to a close and eventually pave the way for new set of ground rules among the world’s makers of large civil aircraft — a field that has grown substantially since the United States and European governments began their dispute nearly seven years ago.

Embraer of Brazil and Bombardier of Canada, which for decades have specialized in smaller jets with fewer than 100 seats, have begun to develop larger planes with the range and capacity approaching that of the Airbus A320 and the Boeing 737 — single-aisle planes that are the bread and butter of most of the world’s airlines. Mitsubishi of Japan and United Aircraft of Russia also expect to build planes that can carry up to 200 passengers around the middle of this decade, while China’s C919 jet is projected to enter commercial service in 2016.

Last month, the Irish low-cost carrier Ryanair — which currently operates a fleet of 250 Boeing 737s — confirmed it was talking with the Chinese and Russians, as well as Boeing and Airbus, about future jet orders.

“It’s no longer a bipolar world,” said Mr. Cunningham of Agency Partners. “You can’t go down this puritanical road of no government funding for aerospace. You have five up-and-coming competitors who aren’t going to play that game.”

Single-aisle jets are expected to represent more than half of the roughly \$3.6 trillion in anticipated new aircraft sales over the next 20 years, according to industry estimates.