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U.S. Embarks on Trade Fight With Europe WTO complaint by Washington says Airbus received government subsidies. Boeing taken to task in counterclaim.

Peter Pae, Times Staff Writer

The long-standing bitter rivalry between the world's two largest aircraft makers escalated into an international trade brawl Wednesday as the U.S. announced it was filing a formal complaint against the European Union over what it called "unfair" government subsidies provided to Airbus.

The European Union immediately countered with its own complaint, alleging that Chicago-based Boeing Co. receives "massive subsidies" from the U.S. government in violation of a decade-old accord.

The dueling complaints filed with the World Trade Organization set in motion what is likely to be one of the more heated and challenging trade disputes as the only two remaining large commercial aircraft manufacturers vie for dominance.

"This is equivalent to going to war," said Peter Morici, a University of Maryland economist and former chief economist for the U.S. International Trade Commission. "This is the most anticipated case in trade litigation. It's a big one because it gets to the very fundamentals of international trade law."

At stake may well be Boeing's \$22-billion-a-year commercial aircraft business, which for the first time last year sold fewer passenger jets than Airbus. It is likely to sell fewer again this year.

Because Boeing is the nation's largest exporter, the outcome also would have major economic implications here and abroad. Boeing is Southern California's largest private employer with 36,000 employees, although most work in its defense-related businesses.

"The resolution of this matter will decide the future of the American commercial aviation industry," said Rep. George R. Nethercutt Jr. (R-Wash.), whose state includes many of Boeing's commercial aircraft facilities.

The dispute also could test the WTO's credibility and ultimate authority to enforce international trade laws, analysts said. The Geneva-based WTO, a 147-nation organization created in 1995 to enforce global trade rules and resolve disputes, mostly relies on each nation's cooperation.

"This is the kind of case that can be a real headache for WTO," Morici said. "Even if you find them in noncompliance, how do you change their ways?"

If either side is found to have violated the terms of the accord they signed in 1992, which limited subsidies, remedies could include "countermeasures" such as allowing the aggrieved country to impose tariffs on airplanes and certain other goods, said Gary Hufbauer, a senior fellow at the Washington-based Institute for International Economics.

But the complaints also could backfire, an EU official warned last week. A WTO panel could find that government aid to both Boeing and Airbus was illegal, resulting in "mutually assured embarrassment," said Peter Carl, the EU's top trade official.

The first volley was launched by U.S. Trade Representative Robert B. Zoellick, who announced Wednesday that the U.S. was filing the formal WTO complaint to "level the playing field for American workers and companies."

He said Airbus violated the 1992 accord when it received in 2000 more than \$3.2 billion in "launch aid," or low-interest government loans, to help develop the A380 super jumbo jet. The double-decked airplane, which will seat 555 passengers, is scheduled to begin flying in 2006.

"Since its creation 35 years ago, some Europeans have justified subsidies to Airbus as necessary to support an 'infant' industry," Zoellick said. "If that rationalization were ever valid, its time has long passed. Airbus now sells more large civil aircraft than Boeing."

Last year, Airbus, based in Toulouse, France, delivered 305 jetliners compared with 281 for Boeing. It has been winning a greater share of orders, particularly from start-up airlines such as JetBlue Airways Corp.

The European Union shot back immediately, saying it was filing its own complaint because "it was high time to put an end to massive illegal U.S. subsidies to Boeing, which damage Airbus."

"The U.S. move ... is obviously an attempt to divert attention from Boeing's self-inflicted decline," said EU Trade Commissioner Pascal Lamy. "It's a pity that the U.S. has chosen to go to litigation which could destabilize trade and investment.... "

An EU spokesman later told reporters that Boeing has lost market share because it has been pouring less money into researching and developing new planes. Between 2001 and 2003, he said, Airbus spent \$9.7 billion on research and development compared with Boeing's \$2.8 billion. Boeing executives have countered that a large chunk of Airbus' research and development is government-subsidized.

The complaints from both sides are nothing new.

Boeing has long asserted that Airbus has an unfair advantage because it gets government money to help develop new airplanes.

Airbus, in turn, has maintained that the U.S. government subsidizes Boeing by paying research and development costs of aircraft technology through contracts Boeing has with the Pentagon and NASA, among others.

Richard Aboulafia, an aerospace analyst for the research firm Teal Group, said "a confluence of events has brought matters to a head."

For one, he said, it's an election year, and "catering to the working man is suddenly vital, at least for the next month."

Rep. Sander M. Levin of Michigan, a ranking Democrat on the House Ways and Means trade subcommittee, lauded the action but questioned the timing, criticizing the White House for what he called an "election-year conversion."

"Six months ago, several colleagues and I wrote the administration that enough was enough, and it was time to begin enforcing U.S. rights under trade agreements," Levin said. "At the time, the administration scoffed at our proposal."

Boeing also has been pushing U.S. trade officials to press their case far harder than before, mainly to protect the 7E7 Dreamliner that is now undergoing development.

Boeing is hoping to forestall Airbus from unveiling a directly competitive model that would crowd the market and threaten 7E7's chances for success. The long-range 250-passenger jet is slated to fly in 2008 but major suppliers in Japan and Italy, who are sharing in development costs, are said to be nervous about committing to production amid a possible Airbus competitive threat.

But if Boeing gets the 7E7 backers signed up and the presidential election is decided, the subsidy debate could disappear, Aboulafia said.

Under WTO guidelines, the two sides have a 60-day "cooling off period" before a panel is convened to review the complaints. A decision is usually made in about a year.

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