

EU – US Agreement on Large Civil Aircraft 1992: key facts and figures - Brussels, 6 October 2004

The 92 EU-US Agreement

Until the late 70s the US enjoyed almost a *de facto* monopoly in the Large Civil Aircraft (LCA) sector. The Airbus consortium (created in 1969) started competing effectively in the 80s. At that stage the US became concerned about the European competition and the alleged subsidies paid by the European governments for the developments of the early models of the Airbus family. This became a major issue of contention, as the European side was equally concerned by subsidies accruing to US LCA manufacturers through NASA and Defence programmes.

The EU and the US started bilateral negotiations for the limitation of government subsidies to the LCA sector in the late 1980s. Negotiations were concluded in 1992 with the signature of the EC-US Agreement on Trade in Large Civil Aircraft which imposes disciplines on government support on both sides of the Atlantic which are significantly stricter than the relevant WTO rules: Notably, the Agreement regulates in detail the forms and limits of government support, prescribes transparency obligations and commits the parties to avoiding trade disputes.

Disciplines on EU and US support

- On the one hand, the agreement puts a ceiling on the amount of direct government support (33% of the total development costs) for new aircraft programmes. It establishes that such support (granted in the form of launch investments, which are repayable royalty-based loans) will be repaid at an interest rate no less than the government cost of borrowing and within no more than 17 years. Basically, this discipline applies to the form of government support mainly in use in Europe.
- On the other hand, the agreement establishes that indirect support (e.g. benefits provided for aeronautical applications of NASA or military programmes) should be limited to a 3% of the nation's LCA industry turnover. This discipline is primarily targeted at the support system in use in the US. In contrast to the European system of repayable launch investment there is no requirement for indirect support to be reimbursed and the generous ceiling of 3% is calculated on the larger basis of the turnover of the LCA industry and applies per individual year.

European Government Support

European governments provide repayable launch investment – not grants - to Airbus at the time of program launch. European government investments support the European technology research & development sector, just as US government R&D schemes have sought to do, through NASA, FAA, Department of Defence (DoD) and export tax relief programs. However, the EU governments spend three times less on aerospace R&D than the US government.

All European government loans for Airbus programs have been made entirely within the letter and the spirit of the 1992 US-EU Agreement on Trade in Large Civil Aircraft since its entry into force and this will continue to be the case for all future Airbus programs. The US have not disputed this fact.

- Of the eight Airbus aircraft launched since 1990, only three programs have been launched with government investment.

- Airbus pays royalties to governments over the entire life of the aircraft programs. Interest and principal is repaid on deliveries, even before the programs break-even and irrespective of the sale price.

U.S. Government Subsidies

U.S. government subsidies, mostly in the form of military and NASA contracts, research and development expenditure and tax subsidies have enabled the U.S. aerospace industry to maintain its global dominance for more than 50 years.

- Unlike European launch investment, none of this support has to be repaid - and in fact is not repaid
- Since 1992, Boeing has received around \$ 23 billion in subsidies from the U.S. government.
- The total U.S. Government indirect support of the U.S. LCA industry in FY 2003 alone was up to \$2.74 billion. This represents around 11.9% of the FY 2003 commercial turnover of the U.S. LCA industry.
- Since 1990, Boeing has outsourced increasingly large shares of its civil aircraft programmes to other countries, e.g. Japan (more than 60% of the 7E7). The governments of these countries subsidize these shares, such that Boeing's programs also receive substantial foreign subsidies.
- Since 1990 Boeing has avoided paying around more than \$1.2 billion in federal taxes through the use of off-shore Foreign Sales Corporations (FSC). This is a direct (and illegal) government subsidy prohibited by international rules.

The real issue is one of competitiveness: From 2001 to 2003, Boeing has invested only \$2.8 billion of its own funds in commercial aircraft R&D and capital expenditure compared to \$9.4 billion by Airbus. Lack of R&D and capital investment, has meant that Boeing has not launched any new programs since 1990.

US subsidies in the form of Defence Procurement

There are massive benefits accruing to Boeing's large civil aircraft business from military R&D programmes and overpriced DoD contracts, e.g. sales of subsequently converted civil airplanes to the US Department of Defence at inflated prices. Recent examples include:

- Regarding the possible sale of B-767 refuelling "tanker" aircraft, a 2003 Morgan Stanley report establishes a subsidy margin of 9% or \$1.6 to \$2.3 billion in profits for Boeing. The report argues that the lease deal is the equivalent "*at least 700 firm deliveries of Boeing 737s*", that the normal profit margin for the 767 is 6% and that the Pentagon plans to give Boeing up to 15%.
- On 14 June 2004, the US Navy awarded Boeing a contract worth potentially about \$44 billion until 2030 for the production and maintenance of 108 civil B-737 and their conversion into long-range submarine hunter Multi-Mission Aircraft. It appears that airplanes will be built at Boeing's civil plants in Wichita, Kansas, and Renton, Washington.

US subsidies in the form of R&D expenditure

Boeing’s large civil aircraft business benefits significantly from NASA and DoD R&D programmes. In 2003 alone, Boeing received US\$ 2.74 bn in subsidies, including around US\$ 2 bn from the US Department of Defence and more than US\$ 600 million from NASA.

The largest part of funds spent by the Government in R&D for a specifically aeronautical product constitutes a reduction in R&D expenses for the main potential user of the technology, i.e. Boeing. This is the case even if the R&D is eventually not successful.

Subsidies to the planned Boeing 7E7: over \$ 6 billion

Planned subsidies for Boeing’s 7E7 programme from Washington State (\$3.2bn), Kansas (\$0.5bn), Oklahoma (\$0.35bn). Washington State 7E7 subsidies alone are about as high as European launch investment for A380. The only difference is that A380 launch investment is paid back and is compatible with the 1992, while Washington support is not. In addition, Washington 7E7 production subsidies are illegal under the 1992 Agreement. To this must be added the planned 7E7 subsidies of around US\$1.6 billion from Japan.

EU-US links in the aeronautics sector

Numerous European companies participate in US programmes and vice versa, e.g.

Airbus A380 – U.S. suppliers	
Eaton	Hydraulic systems
General Electric	Engines
Goodrich	Main landing gear; evacuation systems; interior lighting
Honeywell	Avionics
Northrop Grumman	Navigation equipment
Parker Hannifin	Fuel; flight control; hydraulic & pneumatic systems

Boeing 7E7 – European suppliers	
Cobham (U.K.)	Pumps & valves
Dassault Systemes (France)	Software & tools
Finmeccanica (Italy)	Airplane elements
GKN (UK)	Materials technology development
Groupe Latecoere (France)	Structural development work
Rolls-Royce (UK)	Engines

- Airbus spent in US ca. US\$ 50 billion since 1990, 15 million per day, procures USD 5.6 billion -per year.
- Airbus supports 120 000 jobs in US aerospace industry.
- Boeing continues to move jobs abroad via outsourcing to foreign subcontractors.
- Boeing is indirectly benefiting from European launch investment through its European partners.

Key Facts and Figures

- US \$ 23 billion in subsidies from the US Government to Boeing since 1992.
- US \$ 1 billion in illegal FSC/ETI subsidies to Boeing between 2000-2003 and continues to receive around US\$200 million per year
- US \$ 2.7 billion subsidies to Boeing in 2002 alone: this represented 8.6% of Boeing's turnover in 2002, i.e. almost three times the 3% limit of the 1992 Agreement. The situation in 2003 is similar.