

SUPPORT TO BOEING AND AIRBUS: SEPARATING THE MYTHS FROM THE FACTS

How is Boeing supported by the US Government?

Boeing receives different forms of support from the US federal and state governments that benefit the development, production and sales of its civil aircraft. Taken together (e.g. tax breaks, R&D and infrastructure support), US support has consistently exceeded the limit allowed under the EU-US Agreement of 1992 by 2 to 3 times. This support has not and will not be repaid to the US government.

Does Boeing receive R&D support?

Boeing relies on the R&D subsidies it receives from a variety of quarters.

In the US, Boeing receives subsidies from NASA's and Department of Defense programmes and contracts (estimated at being at least \$22 billion), as well as the Department of Commerce and the Department of Labor, e.g. by providing funds for specific research into composite technology from which the 787 airframe will be constructed and sophisticated software tools that Boeing will use for 787 design and manufacture. Civil R&D support in the EU is granted in the form of generally available programmes (e.g. the EU R&D Framework Programme) in which a large number of companies participate, including Boeing.

Surely, the subsidies Boeing receives only benefit its military or space business?

No.

So-called "military" and "space" subsidies provide considerable benefits for Boeing's civil aircraft business. Department of Defence and NASA subsidies for military and space assignments have helped Boeing develop technologies (e.g. composites) which the company in turn transfers without any cost to its civil aircraft production to improve and manufacture the necessary technology. Boeing also makes use of DOD centres and testing facilities to work on the design and wings of its civil planes. Those subsidies have for instance enabled Boeing to develop the technologies used in its B-787 and other civil aircraft models. This reduces, and effectively subsidises, Boeing's production costs and puts Airbus at a competitive disadvantage.

Another issue are non-competitive "military" contracts at inflated prices which benefit Boeing's civil aircraft business. The situation is therefore problematic: Boeing receives a number of benefits courtesy of US government programmes, its non-competitive military contracts, awarded at inflated prices by the US government, benefits which are passed on to its civil airplane production. In other words, R&D for Boeing's civil airplanes is effectively being paid for from US military budgets, rather than Boeing's own pocket.

What is Reimbursable Launch Investment (RLI)?

“Launch aid” is a term sometimes used by the US as a misnomer for royalty based financing granted by certain EU Member States in individual circumstances to a number of companies, including Airbus. Since its creation in 1970, some Airbus aircraft development programmes have been financed in part by royalty based financing, otherwise known as “launch investment”. This kind of finance works in the same way as commercial investments.

The US itself had agreed with the EC in a 1992 international agreement¹ that Airbus may receive such financing within specific and detailed limits. As laid down in the Agreement,

- Member State governments advance money to Airbus up to the limit agreed with the US, namely 33% of the total development costs of a new aircraft model.
- This advance is then repaid by means of a levy on the sale of each aircraft.
- The levy is set so that, once an agreed sales target is reached, the whole amount should be repaid with a rate of return, i.e. with interest, over a repayment period of 17 years (i.e. 11-12 years from the first delivery).
- The sales target is based on a conservative forecast of future sales, which is established when the investment is made.
- The interest rate reflects the investing government’s objective to earn a good return on its money. It is always in excess of the government’s borrowing rate (i.e. typically 6-8% nominal) and may be considerably higher, depending, for instance, on the anticipated commercial success of the project and on the Member State (Some Member States insist on a higher return).
- Once the actual sales exceed the target, as has happened, investing governments continue to collect “royalties” or “upside” on the additional sales, which will further increase their rate of return.

Airbus has paid significant amounts of royalties to the Member States which exceed by far the Member States’ investments since 1992. Therefore, this instrument is characterised by “*success-sharing*” (i.e. extra profit for the investing government) rather than a certain element of risk inherent in any kind of investment (in the present case insofar as payback is linked to the actual sale of aircraft).

None of the individual launch investments granted by the Member States since 1992 has ever exceeded the limits, terms and conditions to which the US government agreed.

¹ 1992 EU-US Agreement on Trade in Large Civil Aircraft.

If Reimbursable Launch Investment is such a good investment, why don't other countries do it?

They do.

Reimbursable Launch Investment schemes are in fact, a widely-used form of financing the development, and outside Europe, also the production, of civil aircraft. They are used, for instance, in Canada and Japan.

In fact, Boeing benefits from a Japanese scheme for development and production of Boeing's 787 aircraft, which competes with the Airbus A350. In effect, 35% of the B787 will be produced in Japan and it is understood that Boeing's risk-sharing partners have received financing from the Japanese government of up to 70% of development costs (the ceiling in the EU is 33%). And this is on top of the other forms of support Boeing receives.

The example of Japan demonstrates that even if the Airbus-Boeing dispute is presented as a US jobs issue, Boeing increasingly outsources its R & D projects to non-US firms, and therefore non-US workers, while continuing to receive US government support. The opposite is true for Airbus, which imports more and more jobs into the US, but does not benefit from US government funding.

It is also noteworthy that Boeing itself sought royalty-based launch investment from the US government in the 1970's. However, Boeing is significantly better off under the current system since the company benefits from subsidies (e.g. \$3.2 billion tax subsidies by the State of Washington for the B787 alone) which do not have to be repaid.

How much Reimbursable Launch Investment has Airbus received and repaid?

Since 1992, the Member States concerned have granted royalty based financing subject to the strict limits agreed with the US in the 1992 EC-US agreement.

Since then, Member States have committed a total of €3.7 billion in RLI to Airbus. Of the Airbus programmes launched since 1992, the A330-200 and the A340-500/600 and the A380 received launch investment. The A318 was developed without launch investment.

Since 1992, Airbus has repaid to the Member States concerned around €6 billion, or €9 billion (\$12 billion) in real present value. This means that since 1992, Airbus has repaid over 40 percent more than it has received from EU governments.

Airbus currently repays €300-400 million per year. Principal and interest of RLI launch investment to Airbus have been and continue to be re-paid on the delivery of each aircraft, along with royalty payments thereafter.