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How to head off a battle of aerospace titans

The recent breakdown of the 1992 agreement between Boeing and Airbus on how to manage the government subsidies each receives could very soon be referred to the World Trade Organisation for adjudication. It would immediately become the largest and nastiest trade dispute of this decade.

Should a case be filed, transatlantic relations will be further poisoned, just when there is a critical need for co-operation on Iraq, Iran and other explosive political issues. Co-operation between Washington and Brussels, so essential to successful global trade talks, could be undermined. The WTO dispute resolution process could be overwhelmed by the case's complexity, jeopardising the mechanism's effectiveness in other issues.

The judicial outcome is already clear: both aerospace companies have taken considerable government handouts. The court will declare both guilty, creating a political stalemate in which both sides will probably ignore the penalties the WTO wants to impose.

The US trade representative should nevertheless file a trade action quickly. Here is why: the old agreement is outdated and a new one sorely needed. A formal filing is essential if the two sides are to end their war and get down to serious negotiations.

The new civil aviation agreement should be negotiated in parallel with the WTO work, but it should be finished much more quickly, allowing for the complaint to be withdrawn from the Geneva forum. The deal would have five parts that would differentiate it from the 1992 treaty.

First, the number of parties to the agreement should be expanded. The 1992 accord encompassed just the US and EU. But, given the extensive amount of foreign outsourcing that occurs today, Japan should now be part of the agreement, too. After all, companies such as Mitsubishi, Fuji and Kawasaki are leading subcontractors to Boeing, and they are no doubt receiv-

ing financial assistance from Tokyo. Indeed, the EU has estimated that such help exceeds \$1.5bn for the building of Boeing's long-haul, fuel-economising 7E7 jets. Provisions should also be made for the eventuality that other governments, including those from China, Taiwan, and Brazil will need to be part of the agreement.

A new accord would also need to ensure transparent book-keeping consistent with post-Enron standards of good governance. The 1992 accord sets limits on indirect subsidies – which is what Boeing receives from the defence department and from the state of Washington and what Airbus gets from European defence ministries. It contains rules for direct subsidies of the kind Airbus receives in the form of state-donated venture capital and loan forgiveness, called launch aid, and estimated by the US to have amounted to more than \$15bn. But the accounting of both companies is so opaque that it is impossible to know the terms of the public support they received and what they have repaid. A new agreement should be based either on recognised international accounting standards or US generally accepted accounting principles. All subsidies, direct and indirect, ought to be registered and audited by a Big Four accounting firm; the companies' chief executives should verify their accuracy personally and the numbers should be published annually.

Next, the agreement should set not only a ceiling for direct and indirect subsidies but goals for a gradual reduction of both kinds of public assistance over a specified period – say, five years. The annual targets should be modest to insure a realistic chance that a progressive pattern could be set.

Fourth, unlike the 1992 treaty, the agreement ought to contain meaningful financial penalties for governments that are guilty of violations.

Finally, the WTO should appoint an independent overseer for the new arrangement, someone with international stature who is not from a country that is party to the agreement. This overseer's function will in effect be to manage implementation.

The existence of Boeing and Airbus represents a singular arrangement in the global marketplace – an unchallenged duopoly that is too big and too important to be governed by market forces alone. Given these companies' significance in terms of employment, research, and national defence, neither the US nor the EU can tolerate one or the other company becoming dominant. It is in everyone's interest to have as much competition as possible between Boeing and Airbus, but, let's be frank, it will have to be highly managed competition. Shouldn't it at least be well managed?

The writer is dean of the Yale School of Management and was undersecretary of commerce for international trade in the first Clinton administration

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