



The Daily Dish

Dispute Resolution Done Right

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Eakinomics: Dispute Resolution Done Right

The economic policy world is focused on President Trump's decision to increase tariffs on imports from China, presumably as an *ad hoc*, but strategic, step toward eliciting better Chinese trading practices. The approach will damage the U.S. economy and may yield a trade agreement between the administrations in both countries. If it does not, nobody has any idea what the next step might be.

This is not the only way to approach these issues; indeed it is the polar opposite of the multilateral, rules-based approach used for dispute resolution by the World Trade Organization (WTO) and agreed to by the U.S. Congress. As an example of the WTO process, this week (May 15) the United States International Trade Commission (USITC) will hold a hearing on a [preliminary list](#) of European Union (EU) products that would be subject to duties to counter trade-distorting subsidies from the EU to Airbus.

The hearing represents (nearly) the end of a very long process. Years were spent trying to convince the EU (and, especially, France, Germany, Spain, and the United Kingdom) to stop subsidies for Airbus. Ultimately, the United States filed suit with the WTO in 2004. While open, transparent, and rules-based, the WTO process was also slow. Finally, in 2011 the WTO ruled that EU provided \$18 billion in subsidized financing. The EU responded by dropping some relatively minor subsidies but left most of the financing system in place. The next step, in 2012, was for the United States to request a compliance panel to address the failure to remove old subsidies and the ongoing subsidies on new products. In 2018, the appellate processes ruled in favor of the United States. Based on that ruling, the United States requested the ability to impose roughly \$11 billion per year in tariffs — the U.S. estimate of the value of the adverse effects of the subsidies. A WTO arbitrator is currently evaluating those damages and will issue the final dollar value.

Airbus advocates are quick to point out that the EU filed a countersuit against the United States and Boeing, and the WTO found that the Washington State business and occupancy tax rate for aerospace firms was an illegal subsidy. But students of U.S. business location decisions will quickly recognize a preferential tax treatment as the response of Washington State to the loss of production facilities to South Carolina and headquarters to Illinois. The intent and \$325 million price tag are hardly the same as nation-based subsidies to the tune of \$11 billion to help launch new Airbus models. Moreover, everyone expects Washington State to undo the problematic provisions.

The Airbus case is the largest in WTO history. It has also progressed over the course of a decade and one-half, across multiple U.S. administrations. An outcome was guaranteed, one way or another, and will be recognized by future governments. It is important to note that the goal is not to impose tariffs. The idea is that the threat of imminent tariffs will encourage the EU to alter its behavior. The EU can avoid all the tariffs if it drops illegal subsidies and remedies the ongoing harm of subsidies. In every way, the WTO process is the polar opposite of the China negotiations.