



Insight

# Boeing vs Airbus: Explaining the Latest Tariffs on the EU

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Recently, the World Trade Organization (WTO) granted the United States the right to impose tariffs on nearly \$7.5 billion of European imports. These tariffs are the latest of many new trade barriers that the Trump Administration has imposed, but they are markedly different than the president's unilateral tariffs on China and others. Specifically, they follow 15 years of due process at the WTO during a fight between United States and the European Union (EU) over illegal government subsidies for commercial jetliners.

The conflict between Airbus and Boeing started in 2004, when the United States filed a complaint at the WTO against the EU, which followed quickly with a complaint of its own against the United States. Both alleged that unfair government subsidies gave the other's airline manufacturer an unfair competitive advantage in international dealings. In 2010, the [WTO ruled](#) that European subsidies to Airbus, specifically government loans and export subsidies, violated WTO law. That same year, the WTO [also issued a ruling](#) against the United States, ordering it to stop illegal government subsidies for Boeing.

Both the United States and the EU contested the rulings but were unsuccessful in their appeals. By 2011, the EU claimed to be in full compliance, arguing that all subsidies had been withdrawn. The United States made the same claim in 2012. Not surprisingly, both nations challenged each other's claims of compliance, sparking a six-year battle of challenges and appeals.

In 2018, The WTO ruled that the EU failed to halt "launch aid" to Airbus, a type of government loan offered with low interest rates that can be paid back on success-contingent terms, i.e. only if Airbus is able to sell the planes it builds. According to the WTO, these subsidies caused Boeing to lose five sales campaigns it would have otherwise won from 2011 to 2013, in addition to impeding Boeing's operations in six geographic markets. In response, the United States was authorized on October 2 to impose tariffs on \$7.5 billion of European goods.

The [goods](#) facing tariffs, chosen by the U.S. Trade Representative, include European aircraft, apparel, scotch, machinery, and agriculture and food products. The tariffs are scheduled to go into effect at 10 to 25 percent on October 18, but the United States is authorized to raise them up to 100 percent at any time. Of note, the tariffs will not apply retroactively, only moving forward. If the WTO ever finds the EU to be in full compliance having removed all illegal subsidies, the United States will no longer be lawfully allowed to impose the tariffs.

In 2019, the WTO Appellate Body ruled that the United States still had one illegal subsidy in place – a Washington State tax break for Boeing valued at roughly [\\$325 million](#), but that Airbus claims is causing [\\$15 billion](#) in annual harm. If the WTO Dispute Settlement Body rules in Airbus's favor next year, the United States could face tariffs from the EU as soon as early 2020.

There are two important things to note about the Boeing-Airbus tariffs. First, the WTO approved them, meaning other countries cannot retaliate against the United States in response for imposing them. This situation is entirely different than under the president's recent unilateral tariffs on over \$500 billion in Chinese goods and

on steel and aluminum, both of which were levied without WTO approval and thus are subject to retaliation. In response to the president's unilateral tariffs, five nations have levied [retaliatory tariffs](#) of up to 70 percent on over \$100 billion of U.S. exports. Furthermore, [seven countries](#) have launched legal challenges against the president's unilateral tariffs at the WTO.

Second, these tariffs will function like any other, although a portion of them could offset the distortion brought about by the subsidies. Tariffs and subsidies distort the market in opposite ways: Tariffs harm consumers by raising prices, but they help a small segment of producers by shielding them from competition; subsidies benefit consumers by lowering prices, but they harm the producers that must compete with subsidized firms. Therefore, levying tariffs on the products that benefit from illegal government subsidies — EU aircraft, in this case — helps to bring their prices up to fair market value in the U.S. market. The tariffs on food, scotch, and other products are simply to bring the penalties on the EU up to the total amount of harm caused by its subsidies, unfortunately by taxing Americans who purchase European goods.

Tariffs of any kind are undoubtedly harmful to consumers and producers in the United States. The most recent tariffs on the EU, however, are more justified because they are combating illegal government subsidies. Furthermore, unlike the president's unilateral tariffs on China, these were the result of WTO due process and therefore do not come with the threat of retaliation. The best outcome of the Airbus-Boeing case would be if the tariffs push the United States and the EU to resolve their outstanding subsidy claims and to come to an agreement that prevents any future WTO sanctions.