

## Research



# Examining the Temporary Détente in the Boeing-Airbus Dispute

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*Update: On June 14, 2021, the United States and European Union (EU) agreed to suspend tariffs from the Boeing-Airbus trade dispute for an additional five years. The tariffs were initially suspended for a four-month period from March 2021 to July 2021.*

## Executive Summary

- The United States and European Union (EU) have agreed to suspend tariffs from the Boeing-Airbus trade dispute for four months.
- The tariffs, which were in effect from October 2019 to February 2021, have covered \$12 billion of traded goods and cost the United States \$1.6 billion.
- The four-month suspension of these tariffs and possible future repeal will increase economic cooperation between the United States and the EU, which could help counter the economic influence of China.
- Other major trade tensions remain between the United States and EU that could offset the added benefit from the repeal of these tariffs.

## Introduction

On March 5, 2021, the United States and European Union (EU) agreed to a four-month suspension of [tariffs](#) that they originally imposed on each other in retaliation for the subsidies that they had given to their respective competing airplane manufacturers Boeing and Airbus. This announcement comes just days after the United States and the United Kingdom similarly agreed to suspend for four months the tariffs that stem from the same dispute. Taken as a whole, the tariffs covered almost \$12 billion of traded goods annually. The United States has incurred a net additional cost burden of \$1.6 billion due to the tariffs.

Due to the long and bitter nature of this trade dispute, the retaliatory tariffs have been chosen strategically to create economic damage and are not limited to the aircraft industry. The complete suspension of these tariffs thus serves as an economic boost for many sectors of the economy. The suspension also raises the hope of improved United States and EU trade relations, but there remain other disputes that are an obstacle to additional cooperation on trade issues.

## The Boeing-Airbus Dispute

The [conflict](#) between Airbus and Boeing began in 2004, when the United States filed a complaint at the World Trade Organization (WTO) against the EU, which then filed its own complaint against the United States. Both alleged that illegal government subsidies gave the other's airline manufacturer an unfair competitive advantage in international dealings. In 2010, the WTO finally ruled that both the EU and United States had engaged in

illegal government subsidies. Both the United States and the EU contested the rulings but were unsuccessful in their appeals. By 2012, both sides claimed they had entered full compliance. Perhaps unsurprisingly, both nations challenged each other's claims of compliance, starting a six-year legal battle.

In 2018, the WTO ruled that Airbus had continued with its unfair business practices and that Boeing had lost significant sales as a result. In response, the United States imposed tariffs on \$7.5 billion of European goods. In 2019, the WTO similarly ruled Boeing had continued to receive illegal subsidies, and the EU imposed retaliatory tariffs on \$4 billion worth of U.S. goods in November 2020.

### **Economic Impact of the Tariffs**

The table below lists the approximate value of U.S. imports that are subject to the Boeing-Airbus tariffs. It additionally displays estimates of how much the United States has paid due to these tariffs.

Parts 1 and 19 are the only products related to aircraft. Parts 2 through 18 cover non-aircraft goods, including, but not limited to cheese, wine, scotch, and seafood. Parts 2 through 18 account for approximately two-thirds of the goods covered. The tariffs have so far covered \$7.7 billion worth of goods and cost the United States \$1.6 billion.

Table 1: Total Cost of Section 301 Large Civilian Aircraft Tariffs

<b>Tariff</b>	<b>Value of Affected U.S. Imports</b>	<b>Tariff Rate</b>	<b>Additional Cost Burden</b>
Part 1	\$2.3 B	10 – 15%	\$285.0 M
Part 2	\$20.8 M	25%	\$5.2 M
Part 3	\$340.3 M	25%	\$85.1 M
Part 4	\$470.8 M	25%	\$117.7 M
Part 5	\$5.6 M	25%	\$1.4 M
Part 6	\$308.7 M	25%	\$77.2 M
Part 7	\$25.0 M	25%	\$6.2 M
Part 8	\$25.6 M	25%	\$6.4 M
Part 9	\$130.6 M	25%	\$32.6

Part 10	\$1.1 B	25%	\$270.2M
Part 11	\$122.7 M	25%	\$30.7M
Part 12	\$889 K	25%	\$222 K
Part 13	\$325.1 M	25%	\$81.3 M
Part 14	\$550.2 M	25%	\$137.5
Part 15	\$1.4 B	25%	\$355.4 M
Part 16	\$6.4 M	25%	\$1.6
Part 17	\$3.2 M	25%	\$806K
Part 18	\$280.9 M	25%	\$70.2M
Part 19	\$230.4 M	25%	\$34.6M
<b>Total</b>	<b>\$7.7 B</b>	<b>10 – 25%</b>	<b>\$1.6 B</b>

One might hope that EU prices would decline enough that when the tariffs are added on the ultimate price to U.S. users is unchanged. Unfortunately, prices tend to be sticky, at least in the short run. To the extent that prices have not adjusted since the tariffs went into effect in October 2019, U.S. importers will likely bear the burden; a burden that adds to the woes of industries that may have been hard hit by the COVID-19 pandemic. The complete revocation of these tariffs would therefore serve as an additional economic boost for different sectors of the economy.

An Excel file detailing the tariffs and the products they affect can be found [here](#).

### **A Limited Increase in Economic Cooperation between the United States and EU**

The joint temporary suspension of tariffs related to the Boeing-Airbus dispute marks the first major bilateral trade action between the Biden Administration and the EU. The U.S.-EU joint statement indicated the need to “ease the burden on their industries and workers.” It also indicated the need to rein in “trade distortive practices of and challenges posed by new entrants to the sector from non-market economies, such as China.” This note is significant because better trade cooperation between the United States and EU is essential to countering the economic influence of China.

While both sides agree on countering the growing economic influence of China, the United States and EU have other major trades disputes such as the Section 232 aluminum and steel [tariffs](#). The justification for the steel and

aluminum tariffs is largely the same as noted in their agreement, to combat unfair trade practices by China. Yet these tariffs are to remain in effect for the near future and come at a large cost for the United States and EU. This ongoing conflict suggests that a four-month suspension at the end of 16-year trade dispute will not be a panacea for U.S.-EU trade relations.