Sky's the Limit: How the Boeing-Airbus Trade Deal Impacts US-EU Relations

The longstanding rivalry between Boeing and Airbus ended last year with an agreement that has international implications. While it signals renewed cooperation between the U.S. and the European Union, other factors are at play, most considerably China's burgeoning influence.

Boeing and Airbus, two of the largest aerospace companies in the world located in the United States and France, respectively, have been in competition since Airbus' founding over 50 years ago. Airbus began as a consortium of European aircraft manufacturers that was developed to compete with McDonnell Douglas, Boeing, and Lockheed. This long-standing duopoly between the American and European commercial aerospace market was solidified in 1996, after Boeing merged with McDonnell Douglas and Lockheed exited the commercial aviation market. Competition between Airbus and Boeing has grown fiercer over time, as each company has continued to innovate in direct competition with the other by developing new aircraft with enhanced capabilities that include increased passenger capacity, range, and fuel efficiency.

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The origins of the trade war began more recently in 2004. Competitive tensions escalated when both sides filed complaints to with the World Trade Organization after the U.S. walked back support for a 16-year-old agreement with the European Union that institutionalized governmental support for both companies. The U.S. accused the EU of providing direct subsidies to Airbus, while the EU accused the U.S. of providing military-funded support. At the time, Airbus was developing the A380 jumbo jet to rival Boeing's 747, which dominated that segment of the commercial aviation market. While the EU would have favored avoiding taking legal action, U.S. Trade Representative Robert Zoellick filed an initial complaint with the WTO in October 2004. In response, the EU filed a parallel complaint to object to the alleged U.S. support for Boeing. Trade experts were skeptical when the U.S. initially decided to bring the case forward to the WTO, as any penalties determined would be mutually detrimental. At the time, Claude E. Barfield, a trade expert at the think tank American Enterprise Institute, commented, "It is irresponsible for both sides to let this go through the WTO. These are … the elephants of the industry. What happens if penalties are levied against either of them? We all lose."

As predicted, the 17 years that followed the 2004 conflict consisted of a string of seemingly endless, mutually damaging, and retaliatory actions between the U.S. and the EU. Eventually, the Airbus and Boeing trade war became the contemporary world's largest-ever corporate trade dispute.

These disagreements came to a head in 2018 when the WTO first ruled that subsidies received by Airbus impeded Boeing sales. In response, the U.S. levied tariffs against $7.5 billion of EU exports annually. The next year, the WTO ruled that Boeing had received illegal subsidies, leading the EU to institute retaliatory tariffs on $4 billion of U.S. goods. From 2018 to 2020, similar retaliatory tariffs between the U.S. and EU remained ongoing, with wide-ranging economic impacts beyond commercial aviation.

A Historic Agreement Two Decades in the Making

After 17 years, intensive negotiations in Brussels in June 2021 led to an end of the dispute. This marked an important milestone in U.S. President Joe Biden's first term in office, reflecting what many thought to be a significant policy change after the trade dispute had escalated under President Trump's administration. Additionally, under the Trump administration, the U.S. had further blunted the WTO's effectiveness by refusing to allow vacancies

in the WTO appellate body to be filled. This new trade deal codified a five-year agreement to suspend punitive tariffs linked to the original dispute, and it established the creation of a senior-level working group to discuss subsidy limits and provide a forum for any future disputes between the U.S. and the EU. Furthermore, the deal provided economic relief to a wide array of national industries that had been drawn into the dispute, including French wine and German industrial equipment.

When the deal was first announced, it seemed to signal a new chapter in U.S. and EU relations. The potential for a return to stronger transatlantic cooperation was initially well-received after the trade policies and tariffs enacted by the Trump administration. However, the ultimate catalyst of this agreement may not have been the Biden administration's desire to repair ailing relations, but rather the motivation from an external threat: China.

As discussed, the aviation industry has long been dominated by the duopoly of Boeing and Airbus, but the emergence of state-backed aerospace manufacturer, the Commercial Aircraft Corporation of China (Comac) has threatened to challenge this dominance. Comac's first passenger jet, the single-aisle C919, is close to achieving approval for commercial flights after over a decade in development and up to $72 billion in state support, as estimated by the Center for Strategic and International Studies, a U.S. think tank. While the C919's approval continues to experience delays, especially as a result of tough U.S. export rules, the existential threat of a new entrant in the Chinese market was enough to accelerate the trade discussions between the U.S. and the EU. Though the competitive threat from Comac may be limited to China for the time being, the company's recent progress in the country may be enough to justify changes in the behavior of both companies given the size of the Chinese market. In fact, Boeing's near-term forecast from last year indicates their belief that China will become "the world's number one passenger market [over] the next few years."

In the months following the Boeing-Airbus agreement, relations between the U.S. and EU have not proceeded as smoothly towards a full reconciliation of prior trade policy. The U.S. continues to prioritize national interests over improved transatlantic trade relations. Trump-era tariffs on EU steel have remained in place, continuing to anger European nations, and a lack of communication around the U.S. withdrawal from Afghanistan has further shaken Europe's faith in the Biden administration. More recently, the submarine manufacture and supply deal among the U.S., the United Kingdom, and Australia that was announced in September 2021 has further widened the rift between the U.S. and the E.U. This deal made very clear that confronting China is a key priority for the U.S. and reframes the Boeing-Airbus agreement to be less of a new chapter in U.S.-EU relations and more of a strategic play to counter China.

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Despite Progress, Tensions Remain

The current relationship between the U.S. and the EU is one of cautious optimism. Many issues continue to confound relations between the two parties, including the handling of China's abuse of economic policy tools, competing national security concerns, automobile semiconductor supply chain issues, and the lingering tariffs of the former Boeing-Airbus dispute.

To address these challenges, a new forum, the Trade and Technology Council, was conceived. The TTC is led by the U.S. president (Biden), the president of the European Commission (Ursula von der Leyen), and the president of the European Council (Charles Michael), who held their first meeting in September 2021 in Pittsburgh, Pennsylvania, a former powerhouse in the global steel and aluminum industries.

One of the greatest sources of ongoing tension remains tariffs on steel and aluminum that were implemented in 2018 under Trump. Following a stated goal of enhanced national security through protection of vital industries, the U.S. placed a 25% tariff on imported steel and a 10% tariff on imported aluminum. Throughout 2021, there was significant pressure from interest groups and European exporting nations to remove these tariffs, though Biden originally resisted their removal to placate steelworkers and other unions. However, the TTC set as one of its major objectives a resolution by the end of the year. On October 31, 2021, the U.S. and the EU announced that

an agreement had been reached for the rollback of tariffs on European steel and aluminum exports, a welcome development in this saga.

Another obstacle that may prevent these governing bodies from working together harmoniously is a new partnership among the U.S., the U.K. and Australia to provide Australia with nuclear powered submarines. Stylized as AUKUS, the partnership's intentions are to maintain "peace and stability in the Indo-Pacific [region] over the long term." However, it seems likely that a priority for the partnership is to act as a deterrent to any escalated conflict with China across the region. The AUKUS agreement also nullified a $90 billion submarine supply contract between France and Australia, just two weeks before the TTC's first planned session. As a result, France took several swift actions to demonstrate its disapproval, including recalling the French ambassador to the U.S. and calling for a European boycott of TTC proceedings. In the end, French tensions were assuaged and the TTC's agenda has continued to move forward. While not directly related to the legacy Boeing-Airbus dispute, this occurrence would seem to indicate that, for the time being, U.S. intentions are more closely aligned with protecting its own national security as it relates to Chinese economic and military power than wholesale U.S.-EU reconciliation.

What Does the Future Hold for U.S.-EU Relations?

The global trade environment is multifaceted with many nuances and diverging interests among countries and blocks of power, but recent events illustrate that U.S.-Chinese relations will be a central factor shaping global trade in the coming decades.

As discussed previously, the most important trade issues since the beginning of 2021 have often been driven by the U.S. desire to counter China; however, the simultaneity of reconciliatory tariff actions and the AUKUS agreement makes it challenging to anticipate where Washington's priorities lie. Adding a bit of clarity, a senior Biden administration official recently indicated, "Europe and the United States have a shared interest in ensuring that others abide by [the] rules of the road," without naming a particular foreign power.

The question in terms of reconciliation now remains, is the European Union as concerned with China as is the U.S.? EU Foreign Policy Chief Josep Borrell said in September 2021 that the EU's "strategy is not a strategy of confrontation. It is a strategy of cooperation," when the bloc articulated a new approach to the Indo-Pacific region, including China. Despite the EU's recent decision to freeze a trade deal due to human rights concerns, China remains the EU's biggest trading partner, and many in Europe believe that spending too much energy in the U.S.-China dispute will distract from important European issues involving Russia and Ukraine. Indicating further distancing from the U.S. administration, the EU has not followed the U.S. ban on sensitive Chinese technology.

Additionally, the U.S., Europe, and China have different comparative advantages, reflected in the composition of their exports. Europe specializes in high-end consumer goods and machinery; the United States in agricultural products, high-tech components, and services; and China in basic manufactured consumer goods and inputs. Europe and the United States are historic allies and may have shared long-term objectives in dealing with China, but Europe's higher trade and economic integration with China suggests that the competitive aspect of their relationship offers more potential for near-term, mutual benefit.

AUKUS arguably shows that the U.S. will grab opportunities to counter China, even if it means weakening its ties with its European allies. Sooner or later, the EU will need to develop more clarity on its own global trade agenda, especially with regards to China, instead of what has appeared to be a reactive policy towards U.S. decisions. However, Europe is not alone in its frustration with the White House's foreign policy decisions. A median of 68% of polled countries believe that it is not China but the U.S. that has disturbed world trade in the past years by launching a trade war, raising tariffs, and nullifying the WTO's dispute settlement system. If the world is indeed facing a new type of cold war between democratic and more autocratic governments, the path forward for the U.S. may be more effective if it considers the interests of its democratic allies, understanding that not all may be equally concerned with the rise of China's global influence.

This article was written by AJ Tella, David Januario, Kip Werner, Marjorie Baker, and Philip Abboud, members of the Lauder Class of 2023.

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THE LAUDER GLOBAL BUSINESS INSIGHT REPORT | 2022

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