SNAPSHOT

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The Boeing-Airbus dispute – European business in the firing line

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The Boeing-Airbus dispute is one of the longest sagas in international trade. Dating back to 2004, it is only now reaching its conclusion after years of claims and counterclaims. In the first of the cases (US v EU), the US Government has been recently authorized by the WTO to slap $7.5bn worth of tariffs on many EU products. The WTO Appellate body ruled in 2011 and 2012 that both airplane manufacturers received billions of dollars in illegal subsidies ranging from R&D funding to tax breaks and, in the case of Boeing, military contracts. After the WTO found that both the EU and the US have not stopped all the illegal practices, the door was opened for retaliatory tariffs. The US case has a few months head-start over the European action (EU v US) meaning that Brussels will have to wait until 2020 to be able to apply similar sanctions against the US. It will likely be one of the first main challenges facing the incoming EU Trade Commissioner Phil Hogan combined with the even more high-level dispute on car tariffs President Trump threatens to impose against the EU.

Potential impact

The US Government currently has the timeline advantage in this more than decade long tit-for-tat dispute. The first WTO decision in favour of the US was music to the ears of President Trump. It allowed him the right to impose massive tariffs across a wide range of European business sectors. The US slapped 10% tariffs on EU imports of large civil aircraft and 25% on over 300 other product categories, mainly on agricultural goods, textiles, optical equipment, tools, kitchen utensils and knives.

Airbus is likely to be able to stomach the 10% tariffs across one of its most important markets thanks to its own manufacturing facilities in the US. But US Airlines that have ordered planes from Airbus will now have to pay 10% extra.

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The real shock has come to the many European businesses which have no relation to the aircraft manufacturing industry yet face a 25% tariff for exports to the US. The US has chosen – unsurprisingly – to target highly sensitive traditional products from the main EU countries behind the production of Airbus aircraft:

- Germany (machinery, knives, pork products, optical equipment, wine)
- France (wine, olives),
- UK (textiles, single malt whisky, and
- Spain (olives, wine, pork products)

Many of the tariffs will also hit other EU countries that had nothing to do with Airbus and saw absolutely no gain from the subsidies handed out by Brussels to the European aircraft manufacturer. Italy is expected to feel the pain as one of Europe's most important exporters of traditional agricultural products.

In a highly competitive market place, 25% tariffs can be a potential death blow for a small and medium sized producer or company. And whilst it is possible that some form of settlement may be found between the two sides in the coming months, it is fair to expect that the real damage to European business could last for years to come. And it’s not all good news for the US either. The imposition of trade tariffs doesn’t just harm your opponent but can also boomerang back to hit you. Such huge tariffs will mean prices hikes on European products in the US market leaving US consumers out of pocket and with a reduced choice.

The tariffs also risk pushing the world economy closer to a recession. So far it has proven surprisingly resilient against the various trade disputes that the Trump administration has started but it is hard to say when the tipping point will be reached. The enemy of business is uncertainty and insecurity. Businesses can lose confidence in a marketplace very quickly. The reactions of the stock markets when the US raised the tariffs against Europe show that investors are getting nervous. And they become even more jittery when the Trump administration regularly repeats the threat of US tariffs on the European automotive industry.

With the US and EU locked in combat, the winners from such a trade war are third countries. Countries such as Australia and Brazil are set to see a sales boost in similar agricultural products whilst China and other Asian countries will see the benefit in sales of their textiles and machinery. The aircraft dispute has already benefited Beijing as it seeks to gain market share for its own state sponsored aircraft manufacturer COMAC.

Next steps

The tariffs were imposed on 18 October and EU exporters must pay the tariffs on the targeted products immediately. The question is how the EU is going to react.

One option for the EU is to wait until the WTO ruling in early 2020. The EU will try to hit the US at least as hard as the US did – depending upon the WTO decision. This could be the moment for the US to enter negotiations with the EU. US Commerce Secretary Wilbur Ross said in an interview with the FT that the Boeing tariffs could simply be subtracted from the Airbus tariffs once the WTO authorises EU retaliation.

Another option could be that the EU uses ‘asymmetric’ retaliation by using old cases Brussels has won at the WTO. According to EU Trade Commissioner Cecilia Malmstrom, and as reported by Politico, the EU could raise €4bn in tariffs against the US based on a ruling from 2006 which the US has not yet complied with. The advantage would be that the EU could potentially soften the impact of the US tariffs in that way. On the other hand using this tool would risk escalating the trade dispute even further with unpredictable consequences.

A further uncertainty derives from the fact that the WTO’s Appellate Body is likely to cease functioning by the end of this year. The EU is concerned that there will be no instance that can declare the trade remedies as fulfilled. If that is the case then tariffs can only be lifted when both parties agree to do so.

In recent months, the EU side has repeatedly offered negotiations, after the US has not reacted to these advances it is quite logical that the European Commission now looks for possibilities to raise retaliatory tariffs as soon as possible. This could be a risk for business in Europe and even raise the chances for 232 tariffs on cars. Both sides need to decide whether the tit-for-tat nature of the trade war continues or whether this case can mark the start of a de-escalation.
This combination of dealing with such a major trade case and attempting to keep the WTO alive into 2020 creates the perfect storm for incoming EU Trade Commissioner Phil Hogan within weeks of taking on his new job. A true baptism of fire.

What can business do

It is obvious that business will lose out if the trade dispute escalates further. Previous efforts over the years to make a deal have gone nowhere. But now that this case is reaching its end game, the chance of a deal is now appearing a realistic possibility.

For this to happen business should engage with the governments on both sides of the Atlantic and be vocal on the need for a deal to prevent a further escalation of this damaging trade war. Ideally business should work together across sectors to make sure that the potential impact on the whole economy is understood. It would also be important to involve consumer organisations which have so far been absent from the discussions.

Often it is necessary to amplify the messages through different channels. For example, Members of the European Parliament could support sectors if it provides jobs in their constituency. Associations of down- and upstream industries can co-sign letters to the Commission and Trade Unions can get on board if jobs are at stake. In any case business will have an important role to play to prevent further escalation and normalise the trade relationship between the US and the EU.

Trade Experience

FTI Consulting's trade team has experience working on many different trade issues such as anti-dumping and anti-subsidy cases, export promotion, impact assessment of EU trade policy and monitoring across a wide array of sectors. The team also helps clients impacted by the ongoing trade dispute between the US and the EU. We supported an international aluminium producer to prevent EU safeguard measures and a motor-cycle manufacturer to fight EU tariffs.

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