ABSTRACT

EXCESS BAGGAGE: WEIGHING THE CONTRIBUTION OF POLITICAL AND CORPORATE INTERESTS IN THE W.T.O. CASES OVER COMMERCIAL AIRCRAFT SUBSIDIES

By Annemarie Michaela Spadafore

This dissertation examines the second time that the world’s top two commercial aviation manufacturers, Boeing and Airbus, went head to head in their long-standing competition over subsidies. In this recent dispute, rather than attempting negotiations (as they did in the early 1990s), both sides instead filed cases against each other at the World Trade Organization (W.T.O.) This manuscript attempts to explain the aggressive re-eruption of this dispute and the absence of a negotiated solution such as the ‘1992 Agreement.’ In doing so, it uncovers the most relevant factors which affected the decision on both sides either to negotiate or to proceed with their cases. These include considerations that have been traditionally associated with this industry in the literature, such as national security, along with other factors drawn from recent scholarship that concludes that the close relationship between political and corporate interests is an important hallmark of the commercial aircraft sector. The study concludes that there were multiple factors that contributed to the aggressive re-eruption of this dispute and that the overarching explanation is financial - specifically, the economic interests of the firms. It further concludes that politics only played a supporting role.

This dissertation is divided into five substantive chapters. After an introduction, the second chapter provides an overview of the history of both Boeing and Airbus and the competition between the two firms up to the current dispute. The third chapter reviews the relevant literature to this dispute, providing a background for the variables chosen for examination during the interviews. A fourth chapter describes the data-gathering method and provides a detailed description of the research findings. The fifth and final chapter serves as a discussion of the research findings and also considers the ramifications that these results may have on understanding trade policy in this sector while giving suggestions for future research.
EXCESS BAGGAGE: WEIGHING THE CONTRIBUTION OF POLITICAL AND CORPORATE INTERESTS IN THE W.T.O. CASES OVER COMMERCIAL AIRCRAFT SUBSIDIES

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**Table of Contents**

Chapter 1: Introduction.................................................................................1

Chapter 2: Historical Overview...............................................................5

Chapter 3: Literature Review..................................................................34

Chapter 4: Research Findings.................................................................62

Chapter 5: Conclusion............................................................................98

Bibliography..........................................................................................114
List of Tables

Table 1: Explanations organized in Levels of Analysis........................................3

Table 2: Revised Explanations organized in Levels of Analysis.............................99
This Dissertation is Dedicated To:

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And

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And

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David Anthony Spadafore, my fantastically accomplished twin
John Michael Spadafore, a brother who will always be smarter than me

And to the honor of:
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and
John Kodysh – how I wish you would have been able to come to this graduation

And finally, “the dogs”:
Molly, Salvatore, Justice Puppy & Le Baron
Who are constant reminders that no published material is better than a long walk in the woods or a swim with your best friend

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Chapter One: Introduction

A Puzzle

In the early 1990s the long-simmering feud between the world’s top two commercial aviation manufacturers, Boeing and Airbus, threatened to come to a boil. Both the manufacturers and their government patrons in the United States and Europe were prepared to take their fight to the precursor to the World Trade Organization (W.T.O.), the General Agreement on Tariffs and Trade (G.A.T.T.) However, early in that process the U.S. agree instead to negotiate an agreement (the ‘1992 Agreement’) which would, for the first time, codify specific limits on direct and indirect government subsidies to civil aircraft manufacturers. Despite tensions surrounding its final version that agreement held for just over a decade, until the United States abruptly pulled out indicating that it could no longer accept the perceived benefits the agreement gave to the European manufacturer.

In contrast to the past, no real negotiations were attempted to stave off this most recent dispute and from early on it seemed that there would be no ‘eleventh hour agreement’ this time. Instead, the dispute would proceed all the way to the W.T.O. Dispute Settlement body. How should we understand the aggressive re-eruption of this dispute and the absence of a negotiated solution such as the 1992 Agreement? Is it possible that the much-documented ‘special relationship’ between states and firms in this sector played a major role in the re-eruption (and escalation) of this recent dispute? If so, how?

Research Questions

In order to understand the aggressive re-eruption of this dispute, I have attempted to uncover the most relevant factors which affected the decision either to negotiate or to proceed with the case. In doing so, I examine not only factors that have been traditionally associated with this industry in the literature, such as national security, but I also include the most recent scholarship1 which concludes that an important hallmark of the rivalry is the close relationship between political and corporate interests in this sector. My research questions thus focus on determining if the preferences of firms set the parameters in this

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most recent dispute and, if so, how this occurred. Did firm preferences/commercial interests shape this recent dispute? How did these preferences interact with state preferences? What role did politics play in this process? What role (if any) did the ‘national security’ value of this industry play in this recent dispute? Are there any other factors which spurred on or mitigated this process?

Chapter 2: Historical Overview

In this chapter I focus my attention on the individual histories of the Boeing and Airbus companies and describe the evolution of their trade rivalry up through the recent dispute. I also describe the relevant international agreements that are pertinent to this dispute (and the controversies surrounding them) including the 1979 GATT Agreement on Civil Aircraft and the now-defunct 1992 Agreement. The purpose of this chapter is to establish a timeline and background to create some context for a discussion of the most recent events in this rivalry.

Chapter 3: Literature Review

As I stated above, the purpose of this research is to better understand the re-eruption of this dispute and the absence of a negotiated solution this time around. Furthermore, I aim to examine what effect, if any, the close relationship between state and corporate interests in this sector may have had on this process, along with how this may have occurred. As I’ll explain in the literature review, this research focus has its basis in the most recent scholarship surrounding this rivalry, which is in turn a byproduct of traditional theories of the international political economy, international relations and theories on cooperation. The contribution of these theories to my research focus is described in chapter three.

Chapter 4: Research Process and Findings

The purpose of this chapter is to describe the research process and provide a description of my findings. The first two sections provide a brief description of the chief agencies involved in the dispute and a list of interview participants. The next section provides an organized list of interview questions. A final section provides a detailed look at my interview findings and includes a summary and brief discussion of their implications. By way of introduction, I’ve included below a brief description of my specific research foci and how they relate to the literature.
As is explained in the literature review, Neo-Mercantilist thought, with its emphasis on national security, has often dominated thinking about this sector. However, given the results of the most recent research, New Trade Theory, which emphasizes differences in the way states support sectors with special economic characteristics (such as civil aviation) seems to better inform study on this topic. With my research I consider factors informed by both theoretical lenses. Furthermore, there are many theories that have been suggested regarding why cooperation on the long-standing issue of aircraft subsides might occur, or not occur, leading to a dispute. Recent research concludes that domestic political factors must be examined in order to understand cooperation.

In order to consider all of these factors, I aimed my research on several foci of attention, including the commercial interest of firms involved in the dispute, the behavior of interest groups (defined as the firms, Members of Congress and U.S.T.R./D.G. Trade), elites involved in the dispute (the personalities of the heads of D.G. Trade and U.S.T.R.), cultural and ideological differences, the strategic/national security value of the sector and, finally, the trans-Atlantic relationship. Table 1 describes how these explanations are placed into levels of analysis.

Table 1:

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<thead>
<tr>
<th>System Level Explanations</th>
<th>State Level Explanations</th>
<th>Individual Level Explanations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transatlantic Relations</td>
<td>Commercial Interests of Firms</td>
<td>Elite Behavior</td>
</tr>
<tr>
<td>Strategic/National Security Value of the Sector</td>
<td>Electoral/Political Considerations</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Culture/Ideological Differences</td>
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Chapter 5: Conclusion

This final chapter provides a further discussion of the research findings and how my results relate to potential explanations on all three levels of analysis. In this chapter I elaborate in greater detail what role, if any, each of the above mentioned explanations had
on the re-eruption and escalation of the most recent dispute. My conclusion also provides a short discussion on the ramifications that these results may have on understanding trade policy in this sector and gives suggestions for future research.

**Why undertake this research?**

Over the last decade there have been numerous significant developments in the trade rivalry between Boeing and Airbus and in the trans-Atlantic relationship of their state backers. Since their respective commercial aircraft producers began trading the number one spot in market share at the end of the millennium, several contentious issues have come up in the relationship between the United States and Europe. While these factors alone make an examination worthwhile, the pending W.T.O. Dispute Settlement cases, themselves representing the height of acrimony in this long rivalry, virtually demand greater attention from international political economy scholars. This is especially true given the record level of financial interest riding on the results of this dispute and the unprecedented amount of responsibility (indeed, pressure) these cases put on the W.T.O. system.

Furthermore, several other developments also call for a greater examination of this recent dispute, including the imminent entry of third-country producers into this industry, particularly from states such as China that have demonstrated a willingness to bypass international trade laws in order to establish dominance in other industries. Finally, an examination of the role of firms in this rivalry is particularly necessary given recent alarm over the perceived undue influence that prosperous trading states such as the United States and Europe (and their firms) have on the world trading system and in particular, the W.T.O. (Shaffer, 2003). It is thus with these considerations in mind that I have undertaken this analysis, with the hopes that my results can contribute to a greater understanding of some of these issues mentioned above.
Chapter Two: Historical Overview

The aircraft production industry has been described as one of the most competitive and cut-throat industries in the world. Companies are intensively exposed to economic and political pressures and are very vulnerable to dramatic boom and bust cycles. The military projects that these companies take part in further complicate their economics and relationship to states. At the end of World War II, a war in which aircraft played a key role for both sides, there were about two dozen companies that could produce large commercial aircraft. A few decades later, only three remained. Currently there are just two, Boeing and Airbus. As these two entities remain locked in a trade dispute over subsidies in the World Trade Organization, it is useful to study their respective histories, along with the history of the conflict between the two.

The Boeing Company

William E. Boeing was born into an Austro-German household which had achieved significant wealth through timber and iron ore holdings. Boeing studied engineering at Yale and moved west to establish a foothold in the lucrative timber business (McIntyre, 1992). He eventually began producing airplanes and first formed his company around airplane contracts for the U.S. Navy during World War I (Bauer, 1991). When it went public in 1928, Boeing Airplane and Transport Corporation shares sold quickly, and Boeing later became chairman of the United Aircraft and Transport Corporation, a combination of his company with others (McIntyre, 1992). At this time, United not only built aircraft but ran an airline and even delivered the mail (Biddle, 1991). It was later dissolved due to anti-trust litigation and Boeing found himself once again overseeing airplane production in 1934.

From the 1930s through the 1950s the dominant players in the aircraft production industry were Douglas and Lockheed; the DC-3 was the first plane to earn a profit strictly carrying passengers (Pattillo, 1998). While all the major airplane manufacturers flourished under the military contracts of the Second World War, there were questions surrounding the long-term future of the industry and several companies that had profited during the war ended up eventually exiting the market.

Aeronautical development greatly increased at this time; new developments were introduced as wartime pressures to produce strictly military aircraft were removed. Some
recent technological developments, such as jet-engineered aircraft, were just reaching operational stage at this time; captured German technology and scientists helped usher in rapid progress in jet and rocket propulsion along with swept and delta-wing aerodynamics, and still later, guided and ballistic-missile developments (Pattillo, 1998). The subsequent American domination of the nascent commercial market was a major frustration to other allies after World War II, particularly the British. They were especially incensed because they felt the United States had taken advantage of a tacit wartime agreement that American industry would produce air transports, while the British would concentrate on combat aircraft (Ibid). Nevertheless, the earliest post-war models were converts from military use, and the first reconditioned Lockheed L049 was bought by TWA in February 1946. Boeing was less successful with its converted C-87, the model 377 Stratocruiser (Pattillo, 1998). All of the airline manufacturers were eager to produce civilian-only models, and progressed quickly on this front.

While the future was clearly in jet-propelled aircraft, the early operating economics made the transition from propeller costly, and many companies were not willing to take such risks when more reliable military contracts were available (Pattillo, 1998). It is important to note that Americans were actually not the first to produce jet designs; instead, the lead was taken by Canada and Great Britain (Bauer, 1991). The British Comet venture, while ending tragically, served as vital to engineering knowledge as well as knowledge of the marketplace (Ibid). In the immediate post war period, the most important program for Boeing was its B-47 strategic bomber (along with the development of the B-52 intercontinental bomber). The company also saw a lucrative future in the field of missiles, yet remained firmly attached to the idea of producing a commercially viable jet airliner (Pattillo, 1998).

Boeing led its competitors in studying advanced airliners after the end of the war, and soon after the B-52 first flew, authorized development on the 707, a model that quickly made Boeing the leading airline builder in the world (Biddle, 1991). Boeing delivered the first twenty 707s to Pan American airlines in 1958, to be followed with orders from United and Eastern airlines (Bauer, 1991). The company also quickly introduced a shortened version, the 707/720, the better to build on its chosen market strategy of developing families of aircraft (McIntyre, 1992). The success of the 707 owed
much to Boeing’s military expertise with the B-47 and B-52, and Boeing soon developed intercontinental models, 707-320 and 707-420 (McIntyre, 1992). With these models, Boeing had command of the jet market.

As Boeing achieved greater success with its commercial products it eased itself out of much of the military aircraft market, and ended B-52 production in 1962. By the early 1960s, Boeing had over 100,000 employees and bomber, airliner, helicopter, missile and space programs, making it the largest aircraft firm in the world (Pattillo, 1998). However, unlike many of its American rivals it remained primarily a commercial aircraft producer. Nevertheless, Boeing used military profits (particularly off of Minuteman missiles) to internally fund new airliner development and advancement including the 320 and 420 versions of the 707 which were the first planes to utilize lower fuel consumption turbofan engines (Ibid). Boeing launched the 727 medium range aircraft in 1960 and the 737 in 1965, further sealing its position as the dominant aircraft producer in the world (Bauer, 1991).

Airliner market growth continued steadily through the 1960s, yet external complications including environmental considerations and energy costs, along with jet noise problems, further constrained the operations of several domestic aircraft manufacturers (Bauer, 1991; Pattillo, 1998). While Boeing consistently did well it was not entirely immune to these considerations, nevertheless it still managed to avoid many of the mergers and forced exits of aircraft manufacturers by the late 1950s. Though it achieved commercial success mostly on the merit of its products, many believe that insufficient competition, especially since many other corporations were heavily involved in Cold War military contract production, along with a lack of foreign competitors, helped Boeing’s prospects dramatically (Pattillo, 1998). Even though Canada, Britain, France and Italy had highly competitive aircraft and missiles, the Buy American Act of 1933 effectively insulated many American companies from foreign competition throughout the 1950s and 1960s (Ibid).

Aerospace, and particularly Boeing, continued to lead the American economy through the latter half of the 1960s. At this time Boeing became the country’s leading industrial employer with 1.5 million employees, with over half directly involved in aircraft production (Ibid). Boeing reached an important milestone in June of 1967,
delivering its thousandth jetliner (Pattillo, 1998). While McDonnell Douglas led in producing military aircraft such as fighters, Boeing had a commanding position in the civilian market\(^2\); however, no one firm completely dominated this sector of the industry.

Boeing pursued even more advanced technology projects with its launch of the 747, coinciding with the Douglas DC-10 and Lockheed L-1011 (Bauer, 1991). With no direct government support, however, American producers absorbed a considerable amount of commercial risk in each high technology offering. At this time Boeing was constantly looking for advanced technology products in which to involve itself. In the late 1960s the company won a government-sponsored competition to produce a supersonic transport (SST) product to compete with the Anglo-French Concorde (Ibid). However, environmental and cost concerns led funding to dry up, and the program was soon ended (Ibid).

In the meantime, Boeing built its market dominance by steadily expanding its family of airliners with its most ambitious undertaking, the 747; it was a project which presented many technical risks to the company (Pattillo, 1998). Significantly, the 747 represented a “major departure” from previous incremental increases in size over earlier models and was designed specifically for intercontinental travel (Pattillo, 1998:277). Boeing was singularly focused on conquering the export market with this new product. Even though the project meant Boeing had to turn its attention away from military projects (with an attendant loss of profits), in ‘betting the company,’ on the success of the 747 Boeing eventually received incredible financial rewards for this gamble. Furthermore, its success with this airplane cemented its domination of the market.

At the same time Airbus Industrie began to take shape in Europe. Its first product, the A300 was developed with an eye towards the North American market from the beginning (Pattillo, 1998). The prototype was first flown in the fall of 1972, yet Americans did not seem too concerned with the plucky European start up at this point, particularly as this plane was thought to be inappropriately sized for the American market. As a result, Airbus was not considered a major threat for many years after its first flight (Bauer, 1991).

\(^2\) According to Pattillo, scholars have suggested that Boeing’s relative absence from the military market was related to its success in commercial aircraft “as the military tended to steer contracts to those firms regarded as more needy” (224)
Nonetheless, rising oil prices meant that many of the major American manufacturers left in the business by the early 1970s had to work hard to maintain their positions in the commercial market, even without considering the threat from abroad (Bauer, 1991; Pattillo, 1998). This was especially true as jet airliners became the most expensive mass-produced projects in history. With the exception of Boeing the other major aircraft manufacturers remained dependent on defense contracts; at the same time, commuter service carriers gained in popularity, raising the need for smaller airliners (Bauer, 1991). Despite its commercial success, the company was still vulnerable to the loss of contracts, and in the late 1960s/early 1970s, found itself “overstaffed and inefficient” (Pattillo, 1998: 304). The company cut its employees two thirds during the three years between 1968 and 1971, causing a major economic crisis in Seattle (Bauer, 1991). Boeing eventually recovered with a much leaner workforce of 38,000 in 1972 (de Melo, 2000). These cuts eventually led to a more efficient company than many of its competitors, and allowed it to better focus on military activities such as the AWACS and the SRAM, whose contracts also greatly aided Boeing’s recovery (Bauer, 1991). The reorganization also divided Boeing’s commercial airplane sector from its Aerospace and Vertol companies, while a separate company handled support for aging military products such as the B-52 and KC-135 (Pattillo, 1998).

The growing internationalization of airplane production also put more pressure on the American industry, as higher costs created incentives for risk sharing (Pattillo, 1998). This was significantly foreign to the American corporations, however, as the U.S. really did not have much of a history of collaboration on aircraft. The European aerospace industry had much better experience in these arrangements, and their collaboration presented the first real effective competition for the U.S. industry (Bauer, 1991; Pattillo, 1998). Initially, this competition wasn’t much of a factor for either military or commercial aircraft producers, at least within the American market. In international markets that had long been American dominated, this collaboration indeed warranted notice. Boeing entered a few types of these collaborations reluctantly, more to keep
potential competitors in check than out of a sincere desire for cooperation.\textsuperscript{3} Boeing also reached out to Japan in 1973, signing a Memorandum of Understanding (MoU) to study airliner proposals under the provisional designation, 7J7 (Pattillo, 1998). Further cooperation was not undertaken, however.

The aircraft industry reached another low point toward the late 1970s, as orders for both commercial and military aircraft as well as for missile and space programs all declined (Bauer, 1991; Pattillo, 1998). According to scholars, however, two developments seemed to signal a turnaround point for the industry: a major military buildup under President Reagan along with a significantly lightened regulatory burden for the industry (Pattillo, 1998). This shift coincided with significant growth in commercial air travel, especially outside the United States. During this time, internationalization of production – particularly of components - became much more common. As such, Boeing’s 747 became the first of its civilian products to be \textit{only assembled} at the Everett Plant (Ibid).

Increased penetration of the American market by Airbus began to greatly concern Boeing and the other remaining manufacturers by the early 1980s (Bauer, 1991). Airline deregulation in 1978 and abolition of the Civil Aeronautics Board (C.A.B.), along with the Civil Aircraft Agreement of 1979\textsuperscript{4} were key developments that radically changed air

\textsuperscript{3} Boeing entered into an agreement with Aeritalia of Italy in 1971 on the projected Quiet Short-Haul Aircraft (QSHA) keeping Aeritalia out of the Airbus program while helping Boeing financially. Boeing terminated the program abruptly in 1976, however, to the dismay of Aeritalia. (Pattillo, 1998:314)

\textsuperscript{4}This agreement, undertaken during the Tokyo Round marked an ambitious effort to deal with non-tariff barriers and further represented movement towards sectoral agreements. The catalyst for this agreement was the unorthodox purchase of A300s by Eastern airlines in 1978 (McGuire, 1997). It was later seen as a source of later disputes, particularly as the European Commission “was not inclined to agree to restrict state aids for the aerospace industry” and therefore “the European states approached American attitudes toward open and unregulated trade in commercial aircraft with some suspicion” (McGuire, 1997:79). As such, the final agreement’s preamble did consider American interest in keeping the industry operating commercially but was rather weak and it also recognized that “government-industry relationships differ widely among them” and, as a major concession to the Europeans, included a clause that allows for a trade regime with “widespread entry and participation” (McGuire, 1997:79-80).

All signatories to the agreement were committed to eliminate ‘all customs duties and other charges’ on all aerospace goods in the annex along with repairs/modifications (McGuire, 1997). The agreement also tackled the issue of government influence in procurement by asserting that “purchasers of civil aircraft should be free to select suppliers on the basis of commercial and technological factors” (McGuire, 1997: 81). Articles 4.2 and 4.3 assert that state should not ‘exert unreasonable pressure’ to obtain aircraft from a particular source, and that they will agree to avoid ‘inducements of any kind to the sale or purchase of civil aircraft from any particular source’ (Ibid). However, 4.3 does allow governments to require that its home firms ‘be included and considered for subcontract work’ (Ibid). This is a form of a compromise as it ‘splits the difference’ between the two sides in that “governments may require that
travel at this time (Mowery & Rosenberg, 1989). Entry into the air travel industry was easier and tariffs on aircraft and parts were largely eliminated.

Boeing launched its fourth generation of airliners in 1978, concurrently developing the 757 and 767 (Bauer, 1991). The 767 was to be a twin-aisle airplane with advanced engine technology; its development costs alone were more than Boeing’s net worth (Pattillo, 1998). By this time, Airbus had achieved significant worldwide success with its A300. McDonnell Douglas also reinforced its commitment to producing civilian products by re-designing the DC-9-80 as the MD-80; it was a strong seller throughout the early 1980s (Bauer, 1991).

The increasing costs and risks with the civilian market, along with the credible competition posed by Airbus, renewed Boeing’s interest in collaboration (Pattillo, 1998). In another attempt to make inroads on Airbus, Boeing proposed a British Aerospace production line for the 757, but the offer was rejected (Ibid). Overall, American participation in collaboration efforts mostly began and ended quickly, however, as significant snags were seen in juggling different management styles, languages, logistics and finances (Pattillo, 1998). Also, political considerations often could not be ignored,
particularly when a partner was government owned. In such an arrangement it was feared that government prerogative would overshadow commercial judgment.

Faltering after corruption scandals and unable to maintain its presence in the midst of ever-greater competition, Lockheed announced it was pulling out of the commercial airliner field in late 1981 (Carbaugh & Olienyk, 2001). This left only two commercial aircraft builders in the United States, McDonnell Douglas and Boeing. Boeing continued to remain the more highly competitive of the two, however, as its family virtually covered the entire spectrum of air travel; by contrast, McDonnell Douglas offered only two basic designs (Ibid). Threats from Airbus persisted, however, and Boeing began to complain more vocally that its subsidies constituted unfair competition (Bauer, 1991).

A struggle for sales persisted and Boeing and Airbus became locked in fiercely competitive struggles to make inroads on each others’ sales territory. Each time an American airline purchased an Airbus product it was a significant setback for Boeing, even as Boeing continued to win orders from British Airways5 (despite the fact that Great Britain was a partner in Airbus Industrie). When Boeing criticized the unfair advantages Airbus received the Europeans countered that military R&D effectively subsidized development of the 747 and other Boeing airliners, and in turn emphasized the significant American content of Airbus’ products (Pattillo, 1998). For their part, American airlines valued the competition as long as it held prices down, and bought from the producer whose items most suited their needs.

As competition grew fiercer through the 1980s, producers concluded that it wasn’t enough to offer a competitive, economical aircraft of the right size at the right time (Pattillo, 1998). Major orders were informed by a significant amount of geopolitics, along with generous financing terms such as trade-ins, lenient terms, low interest rates and even counter trade agreements with other products (Ibid). When Americans complained of such behavior on the part of Airbus, the Europeans declared the Export-Import Bank ‘Boeing’s Bank’ for its part in providing credit for foreign countries and airlines to purchase U.S. aircraft (Ibid). In one interesting scenario, the Ex-Im Bank financed exports of the

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Boeing 757 with its Rolls-Royce engines, while it would not finance sales of the Airbus with its GE engines and other American equipment (Pattillo, 1998).

In the late 1980s civil aircraft sales exceeded military sales for the first time in the modern era, and by 1989 Boeing was ranked as the largest aerospace manufacturer, was listed #15 on the Fortune 500, and had over $20 million in sales and almost 160,000 employees (Ibid). Undaunted by the success of the Airbus A330 and A340, in 1990, Boeing announced the long range 777 to fill in the gap between the 767 and 747 (de Melo, 2000). To minimize engineering costs, the 777 was designed almost entirely by computer (Ibid). In late 1994, Boeing also launched derivatives of the 737 and received a significant number of orders when the market recovered in 1995 and 1996 (Ibid).

At this time, McDonnell Douglas was having serious financial trouble competing with Boeing and Airbus, particularly as these two companies were starting to look at entry into the Very Large Commercial Transport (VLCT) category (Ibid). Again Boeing tried to gain inroads with some of Airbus’ partners, exploring production possibilities with two of the main AI consortium members, Deutsche Aerospace (DASA) and British Aerospace (BAe) yet not formally with AI (Pattillo, 1998). At the time, this activity was viewed as a Boeing attempt to head off a European VLCT, with Boeing ending its studies in 1995, turning instead to modifications of the 747 (Ibid). By December 1996, and with McDonnell Douglas in serious trouble, Boeing announced its successful bid for outright acquisition of the company for 13 billion in stock. There were now only two major commercial airliner builders left in the world.

Airbus

Immediately following the Second World War, many countries in Western Europe feared becoming an “economic colony” of the United States (Thornton, 1995:19). Leaders of these countries realized that a high-technology capability was crucial to attaining an advanced economic status, as “a broad capability in high-technology was more than a necessary requisite to military power; it had become essential to status as a first rate economic power” (Ibid). Aircraft production and aerospace technologies were seen not only to tilt the balance of power towards the United States, but they were “strategic elements of national industrial capabilities,” and were crucial to international status (Ibid). The sector was not only important for economic re-development, but to
counter the threat of the Soviet Union. Observers have noted that the ascent of Airbus is a striking example of a sustained, multi-state collaboration over several decades that gained further success through the cautious and constrained response on the part of their American competition (Francis & Pevzner, 2006).

In the 1960s, several European leaders became greatly concerned about the future of their national aviation industries. American firms were growing in influence and seemed poised to take over the world market, especially in the face of Europe’s divided and weaker industry (Ibid). The European market was hit with a 50% reduction in deliveries by the late 1960s; Americans experienced growth at roughly the same rate (Ibid). In describing that time, former Airbus president Roger Beteille maintained that there wasn’t a European manufacturer that had the designs or manufacturing capability to “effectively compete worldwide with American products” (Francis & Pevzner, 2006:637). Yet the sector was seen as “emblematic of a global European presence” and also a commitment to restore European civil aviation (Ibid). As such, interested parties rushed to reorganize and consolidate the state-based European industry as a transnational one: Airbus.

Prior to the development of Airbus, however, was the first example of collaboration in response to this ‘American colonization of the skies,’ the British and French Concorde supersonic program, launched in 1962 (Ibid). However, the restrictions placed on this aircraft in the United States were seen by the Europeans “as another example of the American commitment to maintain its domination of the commercial aircraft industry” (Ibid). This strengthened the European resolve to challenge American supremacy in what had long been regarded as a sector “that exemplified national power” (Ibid). The Airbus collaboration aimed to lead the commercial aircraft market; the French in particular were concerned with strengthening their own domestic aerospace industry “while challenging U.S. hegemony in the commercial aerospace market” (Ibid).

The French and British governments had set up a joint committee in early 1965 to evaluate the commercial prospects of a ‘Airbus’ aircraft, which would provide transportation for several hundred people over short to medium distances, yet no design specifications were established. Aviation firms in those countries also took an interest in these discussions, producing several designs, separately and together (Ibid).
Simultaneously, airlines came together to agree upon a design. Soon these discussions also interested Germany, whose firms also joined the fray (Thornton, 1995). Eventually, these discussions led to greater government involvement and they selected national firms to participate in the official negotiations (Ibid).

The companies met for the first time in autumn of 1966, drawing up a formal request for funds and a brochure describing their proposed A300. Their Memorandum of Understanding (MoU) stipulated that a design be selected by July of 1968, upon which prototype production would begin (Ibid). While not authorizing a final go-ahead, the MoU did describe how the work would be shared among the British (37.5%), French (37.5%) and German (25%) firms, with each state focusing on a different part of the airplane (Carbaugh & Olienyk, 2001). Even though these partners seemed to work together, important rifts were already evident, as deep and mutual suspicion arose “concerning each partner’s ability to deliver its portion of the aircraft as promised” (Thornton, 1995:77). High-level officials eventually bargained for a little more time, and by December of that year, an entirely redesigned prototype emerged which sought to quell concerns over costs and marketability questions (Thornton, 1995).

Design changes and performance problems compromised British collaboration, and the U.K. formally pulled out of the A300 program in April of 1969 (Ibid). While many felt this move might lead to a collapse of the Airbus program, French and German collaborators continued on, signing a new MoU by the following month. Importantly, this document bound both governments to fund the project to completion, even barring default on the part of their domestic industries (Ibid). It also formalized working relations between governments and firms yet did not create a single entity to oversee the project. Instead, an intergovernmental committee was created to approve proposals and arbitrate industrial disputes, while the executive committee would work the governmental levers. Both the French and the Germans were seen to have their own separate but equally important reasons for collaboration. The political and industrial commitment of the French was seen as “a truly European response to the American challenge in civil aerospace” while Germany’s participation reflected its own national political and industrial objectives in aerospace at the time; this involved committing themselves to
‘Europe’ while also gaining technical expertise for its own domestic firms (Thornton, 1995:80-81).

The 1969 MoU set up ‘Airbus International,’ a “petite organization” whose sole purpose was to quote prices and delivery schedules; it was “merely a sales office” (Thornton, 1995:81). However, by the end of 1970, and during lengthy and difficult negotiations under French law, a corporate entity was set up, a Groupement d’Interet Economique (GIE)⁶, which would be called Airbus Industrie. This group was to serve three functions: (1) provide a single interface with clients, arranging commercial terms, payment and service; (2) assure technical and industrial coordination, including product definition and work-sharing; and (3) conduct flight-testing (Thornton, 1995:82). The creation of Airbus Industrie was the most significant of these developments, as it meant that this industrial collaboration would be one in which none of the partners had authority over the others. The re-design of the A300 was thought to reflect this change, as it represented commercial considerations over political ones (Thornton, 1995).

Airbus Industrie had a larger purpose than merely producing a final product that was satisfying to the industrial partners, national governments or their ultimate customers, the airliners (Ibid). Instead the consortium emerged as an effective way for the states and industrial partners to cooperate that reconciled the demands of each of the aforementioned entities (Ibid). This cooperation would in turn produce a technically and commercially viable product that could directly compete with those currently produced by the leaders in the industry. Given the formal structure, while tensions among these entities did not disappear, they could at least be institutionalized and dealt with in a systematic fashion.

The Airbus entity that came out of the December 1970 agreement was specifically created to undertake the development, production, sales and support of A300B (the re-designed original A300). It was located in Paris, and was owned in equal parts by Aerospatiale and Deutsche Airbus, and had no capital of its own; furthermore, it would

⁶ A GIE is “a form of business organization that permits participating firms to integrate their activities in certain domains while preserving their individual identities and without resorting to such an extreme process as a merger” (Thornton, 1995:90-91). This is an unlimited partnership where the partners are corporations and remain separate entities, yet they are also responsible both individually and collectively regarding obligations incurred through their shared business venture. All partners are jointly and severally liable to third parties with whom the GIE becomes contractually obligated.
accept new partners only with the agreement of both existing partners. This entity dealt
directly and exclusively with third partners and did much more than just sell aircraft; it
also provided pilot and crew training, ensured spare part availability and developed
maintenance procedures (Thornton, 1995).

The A300B was first rolled out and tested in autumn of 1972 and FAA approval
was achieved in 1974; a Paris-London route flown that month proved the technical
feasibility of the program (Ibid). As an entity, Airbus Industrie would act primarily as a
moderator and sometime arbitrator in disputes among industrial collaborators, putting
together agreements that became obligations for development, production and sales (de
Melo, 2000). The GIE functioned as a general contractor and would ‘buy’ components
from the members with the proceeds of sales: the ‘prices’ charged by the partners
provided the basis of an invoicing system linking Airbus Industrie to its contractor-
owners (Ibid).

By 1978, the major question in worldwide civil aviation was whether or not
British expertise would ultimately ally with the United States or Europe (Thornton,
1995). Between 1975 and 1978, sales for Airbus were slow to materialize making this
time “one of maximum uncertainty for the partners, governments and consortium alike”
(Thornton, 1995: 104). Even the French began to look at the U.S. for possible
collaboration (Ibid). Because of this, Boeing was at first dismissive of Airbus success, but
was soon “stung” by its come-from-behind sales to airlines in the United States (Ibid). In
an attempt to prevent them from returning to Airbus, Boeing tried to draw in the British
to help construct the 757. Great Britain ultimately refused, however, and in October
1978, France, Germany and Great Britain agreed that British Aerospace would become a
full partner in Airbus as of the 1 January 1979, with a 20 percent stake (Thornton, 1995).

With the return of the British, Airbus focused its attention on developing a family
of aircraft similar to what Boeing developed over the years. The A300B product had
succeeded in bringing Airbus to the focal point of European civil aviation, with all its
attendant difficulties “of collectively defining a viable product and attaining agreement
on division of labor that would serve the interests of all parties” (Thornton, 1995:105).
For British firms seeking viable long-term work, the French and German commitment to
Airbus meant that its prospects for being involved in European civil aviation “hinged” on
being a part of Airbus Industrie (Thornton, 1995). Boeing’s failed attempt to get the British involved in its 757 – and subsequently to lure its money and expertise away from Airbus – not only failed, it marked the real beginning of head to head competition for the two producers. According to Thornton, “when contemplating its American versus European options in 1978, because of the existence of AI, the choice for Britain was much different one from ten years before” (105).

With the commitment of the British (and its attendant capital and political support) the consortium soon undertook new programs. Nevertheless, through the early 1980s, Airbus did not have that large of a share of the global market, and its commercial viability remained uncertain; many believed that it was only through subsidies that it survived, and that, even with these infusions of capital, Airbus was not likely to overtake American producers (Francis & Pevzner, 2006). Nevertheless, Airbus’ penetration (if not takeover) of the single-aisle segment of the market meant that they had arrived in terms of combining all of their most crucial assets in technology, industry and politics, not to mention marketing and product support (Thornton, 1995). Next they sought to challenge the still commanding positions of the two American air framers in the market for wide-bodied, twin-engine aircraft through the A300-B10, or A310 (McIntyre, 1992). Airbus carefully consulted with potential customers, including Lufthansa and Swissair when developing the product, and they served as its launch customers in 1979 (Ibid).

Even though the A310 was a derivative of the A300, with this product Airbus established its commitment to incorporating innovative technology into its products including the forward-facing cockpit crew (FFCC) flight-deck design, which allowed for much simpler instrumentation and eliminated the need for a flight engineer; this led to dramatic cost savings for the airlines as it reduced the number of necessary pilots from three to two (Thornton, 1995). Airbus was also the first manufacturer to incorporate fuel tank changes that significantly improved efficiency and would soon be emulated by industry leader Boeing (Ibid). Such changes meant that Airbus was approaching product development in a “commercially innovative” way in order to better differentiate itself from its competitors (Thornton, 1995:110). At the same time, since the A310 was derivative, its development marked a fundamentally conservative business approach, as it wasn’t necessary to create a new plane from scratch to achieve a greater share of the
market (Thornton, 1995). This allowed Airbus to take advantage of neglected markets while at the same time shaping the industry.

Airbus pressed on with the A310 even without the guarantee of British participation while Boeing resolved to challenge the Europeans with its 767. Both Airbus and Boeing spent the next years conducting a “no holds barred sales campaign” for these aircraft, and the late 1970s were very good years for orders on both sides (Thornton, 1995:111). With 130 orders in 1979, Airbus took over the second spot in industry competition from McDonnell Douglas; at the time it had achieved control of roughly 20% of the world market (Thornton, 1995).

The second oil crisis ended these prosperous times, however. Air transport regulation also meant changes in the market that had to be absorbed. Financial problems at the airlines fell upon the manufacturers, with orders falling dramatically and existing contracts heading for renegotiation. The deregulation hit Airbus especially hard, as it was only active in the wide-body sector of the market at this time and did not have the necessary product to participate in the new hub and spoke system of airline travel (Ibid). With its complete line of aircraft, including an established single-aisle product line, Boeing did better and Airbus also could not budge the 747 from its monopoly position in the long-range, high-capacity segment of the civil airliner market (Thornton, 1995).

The hard economic times forced both companies to look to other regions of the world for sales, particularly the Middle East. Each side “repeatedly accused the other of unfair tactics, including the linking of aircraft sales to other political and commercial concerns,” and of disinformation campaigns (Thornton, 1995:112-3). The competition was especially fierce due to the zero-sum nature of aircraft sales. As the upstart, Airbus was particularly interested in gaining more of a strategic foothold in the market. Each new contract was critical to its success as it meant more opportunities to build new aircraft; this in turn led to a higher position on the learning curve of technology and production (Thornton, 1995).

While the two manufacturers continued to struggle for the wide-body segment of the market, Airbus made plans to conquer Boeing in the single-aisle segment (Ibid). This would prove especially challenging to Airbus, as new investments were needed in design and production facilities and its resources were limited (Ibid). There was also significant
German and French disagreement over which model would most effectively challenge the Americans (Thornton, 1995). Nevertheless, despite the difficulties from extensive industrial and political lobbying activities on the part of both sides, the Europeans were able to agree upon plans for the formal launch of the A320 in 1984 (Ibid). By this point, the Airbus program was seen as “vital to the health of major industrial assets” in France, Britain and Germany (Thornton, 1995:118).

Airbus achieved another type of victory with the A320, as well, as Pan Am airlines agreed to be the launch customer, which inevitably led to many other American orders for Airbus products. In what was perceived to be a new low for Boeing, Northwest Airlines, the chief airline for its home market of Seattle, announced an order for one-hundred A320s (Bauer, 1991). The sales success of this airplane surpassed even the most optimistic European expectations, breaking records for pre-launch sales and becoming the fastest selling commercial airliner in history (Thornton, 1995). Similar to the advancements on the A310, Airbus further demonstrated its penchant for innovation on the A320 that had begun to define itself and its products; this reputation for innovation would become a vital part of its strategy to conquer the market (Ibid).

Airbus announced the launch of the A330/A340 models in June of 1987, culminating a long range strategy to have a ‘family’ of aircraft in order to directly compete with Boeing and its products (de Melo, 2000). Yet the A330/A340 program also solidified the opinion on the American side that Airbus had achieved its market position due to unfair support (Ibid). This post-launch period also highlighted political pressures in Europe for reform of the structure and operation of the consortium, as many felt it had grown unwieldy as it expanded its product line (Thornton, 1995). Partners began questioning the division of labor, with some asking for a greater share of the high value-added development work (Ibid). The calls for restructuring underlined the tensions of a system whose aim was to produce a unified project, yet had an elaborate division of labor, and was made up of significant divergent industrial and technological aims of the partners themselves (Ibid).

There was little doubt Airbus was achieving success, growing over 1,000 percent from the early 1980s to the late 1990s and steadily increasing both its market share and the number of planes it sold (Francis & Pevzner, 2006). There still remained concerns
that this growth in the market occurred at the expense of profits, however, particularly as Airbus aimed to secure markets first and to address profits later (Francis & Pevzner, 2006). Furthermore, growing calls of unfair competition from the Americans and the need for internal reform was seen as linked, as critics from both inside and outside had significant misgivings “about a lack of transparency and accountability” within the consortium (Thornton, 1995:126). Some believed that Airbus “prevented both competitors and participants alike from gaining a complete and accurate view of the actual costs and benefits of its programs,” and Airbus faced significant pressure to turn itself into a more ‘rational’ industrial and commercial entity (Thornton, 1995:126).

Airbus thus faced the dual challenge of following up on past accomplishments while also “retaining (and perhaps improving) the political and industrial system that had made these accomplishments possible, even as the very success of the system was generating these same challenges” (Thornton, 1995:127). Airbus’ success and its ability to continue to extend its product line was being jeopardized both from within and outside, particularly as its less than conventional structure gave critics ample opportunity to claim that its real financial picture, along with the links between member firms and national governments, were being obscured (Thornton, 1995). As such, in 1987 an internal investigation was launched to review the administration and to issue recommendations on a better structure (Ibid).

In a report issued roughly a year later, the consortium was congratulated on its success yet deep flaws in the administrative body and decision making apparatus of Airbus were also pointed out (McIntyre, 1992). The absence of a balance sheet alarmed many observers and they urged the appointment of a financial officer to create a more rational accounting system (Ibid). Finally, these ‘wise men’ suggested that the marketing and production functions of Airbus be more integrated to control costs, particularly as the partners were in the habit of imposing their prices on Airbus without making the actual cost of production public (Ibid).

The report also suggested creating a fully integrated civil aerospace company, but felt that obstacles to this were too great at the time (Thornton, 1995). Instead, they proposed – in the short term – that the GIE be strengthened, giving the partners more control over its operations. The supervisory board was instructed to become the main
instrument of policy and to define the strategic direction of the entity while an Executive board was to be created to exert effective control over programs (Thornton, 1995). More subcontracting with outside firms was also suggested (Ibid).

By the spring of 1989 much of this reorganization was approved and implemented. Nevertheless, critics still questioned whether the products were being sold at unrealistic prices because nobody knew the actual costs of producing the planes (Ibid). Immediately, the French worried that this new organization would become too small and weak to compete with Boeing. Many, especially the French, wanted to continue with the current system in which the members “acted essentially as major subcontractors to Airbus Industrie without revealing their costs to Airbus Industrie or to one another” and felt that giving access to their books would be giving too much power to the organization (Thornton, 1995:131). Subsequently the new Finance Director abruptly quit, reinforcing the belief that this change would undeniably alter the relationship between the partners and the GIE (Thornton, 1995). Changing the process of allocating work to the partners on the basis of competitive bidding, as opposed to national share as had been practiced, also proved difficult to implement (Ibid). In short, the Airbus consortium had become an economic force that was not only difficult to tame externally, but internally as well (Ibid). Skepticism abounded about the ability for Airbus to become a ‘single, publicly traded firm,’ especially since “the consortium’s intent to coalesce was regularly announced and regularly postponed” (Francis & Pevzner, 2006: 643).

Despite these changes and the ever intensifying conflict over subsides, sales for Airbus remained high, both in the United States and throughout the world. Airbus delivered over one hundred aircraft in 1989, producing revenues of $5 billion (Thornton, 1995). Yet another economic challenge loomed on the horizon for Airbus and Boeing, the first Gulf War. Although the military operation was brief, the political and commercial effects, including the resultant recession, lingered throughout the 1990s (Ibid). The war raised the price of fuel and caused a dramatic drop in passenger air traffic, with revenue passenger miles decreasing for the first time since the advent of jet travel (de Melo, 2000). Once again, the economic situation reverberated throughout the aircraft producers, causing cancellations, delays and renegotiations, including over the newest member of the Airbus family, the A319 (Thornton, 1995).
The 1992 Agreement

Internal reorganization difficulties, the expansion of the product line, and the collapse of aircraft demand after the Gulf War all served to bring the conflict between the United States and Europe over subsidies to a dramatic head (de Melo, 2000). Though Airbus was mostly ignored in its early days, as its sales success was cemented in the United States and it continued to penetrate new segments of the market, protests against the subsidization of Airbus grew. Both Boeing and McDonnell Douglas joined forces in the late 80s, complaining that the Airbus programs had not even begun to approach profitability, and that even the A330/A340 program would not be commercially viable (McGuire, 1997).

While political pressure led to preliminary negotiations little progress was reached on subsidies or high level political inducements to buy aircraft (Thornton, 1995). After several unsatisfactory missions to defuse the conflict, including one by the U.S. Trade Representative in 1987, the Americans commissioned a private research firm, Gellman Associates, to conduct a study of European support while also raising the public profile of the issue by requesting a special meeting of the G.A.T.T. aircraft committee (Carbaugh & Olienyk, 2001).

While both sides were supposed to reach agreement by July, the atmosphere was further strained by the launching of the A330/A340 in June (Thornton, 1995). When further support (on foreign exchange rate (forex) protection) was announced by the German government on behalf of partner Daimler Benz (during its takeover of MBB), those on the American side were incensed by this blatant form of governmental support, much more so than the repayable launch aid and loans that was thought to form the crux of the American complaints (de Melo, 2000). From the American perspective, the forex issue meant that Airbus didn’t merely receive support from member governments via repayable launch aid or loans, but that this was “an unambiguous example of government assuming commercial risk” (Thornton, 1995:137). Despite American protests, the

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7 The controversy began over the sale of German aerospace conglomerate MBB (which was 100% owner of Deutsche Airbus) to Daimler-Benz; the German government offered two types of inducements, one which required the government to absolve Daimler-Benz of its public indebtedness based on its participation in Airbus, the other which provided that the German government cover Daimler-Benz up to 2.6 million Deutschemarks for losses that it might experience through exchange rate movements on existing Airbus programs (Thornton, 1995). This also included foreign exchange (forex) protection for new programs.
European Community approved this arrangement, arguing that “the entire Community would benefit from having a stronger aerospace sector” (Thornton, 1995:137).

From the American perspective the forex issue served to ‘force their hand’ in bringing the dispute to the G.A.T.T., with the U.S.T.R. arguing that the guarantees violated the subsidies code from the Tokyo Round; a hearing on the issue before the Subsidies Committee was also requested (Thornton, 1995). The Europeans argued that a better forum was the Civil Aircraft Committee. Negotiations on both a possible agreement and the proper forum for the forex dispute continued throughout 1990.

Lacking a satisfactory result, the United States initiated formal proceedings with the Subsidies Committee in early 1991 on the forex issue; they also formally requested consultations with the European Community (McGuire, 1997). This action, bringing a bilateral issue to the G.A.T.T., clearly registered American displeasure with support to the Airbus consortium (Ibid).

Both parties utilized outside research firms to improve their bargaining positions, and the results of this research – though obviously undertaken with a clear agenda – enlightens key aspects of the first dispute over subsidies. On the American side, the Gellman report (released in autumn of 1990) sought to illuminate the relations between the participating companies and governments involved in Airbus (Carbaugh & Olienyk, 2001). Its stated purpose was “to deepen understanding of the complex web of relations between the participating companies, the governments and the Airbus Industrie consortium” (Thornton, 1995:138). Yet the report – utilizing a questionable definition for commercial viability – was mostly devoted to showing that the AI programs “have not been and will not become commercially viable in the foreseeable future” and that “a privately financed firm would not have invested in any of the Airbus Industrie programs because none of these programs would show sufficient profits” (Ibid).

The conclusions of this report gelled nicely with the long-standing argument on the American side that Airbus was not commercially competitive and that the generous public support keeping it afloat was only serving to the detriment of the worldwide aircraft market, or more realistically, to the American share of that market (Thornton, 1995). Furthermore, the report argued that Airbus would continue to negatively affect the American aircraft industry; it anticipated that American companies would end up with
shrinking profits and less market share, deterring them from launching new products and forcing them to seek outside sources of capital, perhaps even from other countries (Thornton, 1995). The report also argued that this impact on the American aerospace industry would ripple negatively across the economy. Furthermore, it was argued that, since Airbus had no real commercial viability it could only stay in business with its massive governmental support.

The American side went on to press the G.A.T.T. for a hearing in the Subsidies Committee on the forex issue. For their part, the Europeans maintained their position that the 1979 Civil Aircraft Agreement should be renegotiated. They also commissioned their own research to fight the charges asserted by the Americans (Carbaugh & Olienyk, 2001). They hired prominent law firm Arnold and Porter, whose own report focused on the three main sources of American government support for their aerospace firms: (1) the Department of Defense, (2) NASA and (3) the American tax code (Carbaugh & Olienyk, 2001). Timed to coincide with the 1992 Presidential campaign, the report estimated that – between 1977 and 1992 – American aerospace manufacturers received between $18 to 22 billion of government support through these avenues (Thornton, 1995). With this information the Europeans were clearly mounting a defensive campaign through the media to counter the charges that only Airbus benefited from considerable government support.

Despite the attacks from both sides of the Atlantic, a ‘behind the scenes’ dialogue persisted, and by the spring of 1992, both sides had achieved tentative agreement on limiting some government support and also establishing a mutually acceptable form of dispute resolution outside of the G.A.T.T. The viciousness of the Gellman and Arnold and Porter reports notwithstanding, both sides eventually settled on a process in which their ideas concerning the acceptable types and amounts of subsidies converged (McGuire, 1997). At first, the Europeans were unable to tolerate a limit on subsidies less than 75% of program costs, but eventually settled for a cap of one third due to American concessions. These included the admission that producers in the U.S. received indirect subsidization and that this should also be regulated (Thornton, 1995).

The core of the agreement is found in Articles 4 and 5, with Article 4 limiting direct government funding to 33% of the program’s total cost, subject to repayment
Section 4.2(a) states that direct governmental support for civil aircraft development could be funded only up to 25% of the program’s projected cost; reimbursement of full repayment of the loan should take place within 17 years but only at a 1% interest rate (Ibid). The repayment schedule of these loans will be based on the pace of aircraft deliveries – making repayment conditional only on the success of a particular aircraft (Ibid).

Indirect government support was handled through Article 5, with section 5.2(a) asserting that this support should not exceed 3 percent of the annual turnover of the commercial aircraft industry within that country, while Article 5.2(b) limited indirect aid to 4% of the annual turnover of any single firm engaged in commercial aeronautics in that country; anything over this amount would be ‘unacceptable’ (Ibid).

The possibility of legal action was dealt with in Article 10, which specified that “neither of the parties would initiate unilateral action under domestic trade laws as long as the agreement remained in force” (Thornton, 1995:146). Twice yearly consultations were provided for under Article 11, while Article 12 specified that the parties move towards incorporating this agreement within the existing G.A.T.T. agreement on Trade in Civil Aircraft (Ibid). Furthermore, this agreement was also addressed via Annex I, where the parties considered other potential barriers to trade in civil aircraft including government procurement and sub-contracting policies, along with the utility of political inducements to promote aircraft sales to third countries (Thornton, 1995).

The agreement also included some ‘escape clauses’ which had the potential to “greatly weaken the effectiveness and significance” of the agreement, including the restriction of equity infusions from the jurisdiction of the agreement (Thornton, 1995:147). Specifically, despite the fact that Article 8 provided for ‘transparency’ and the ‘regular exchange of information between the parties,’ the agreement further states that states shall not be bound by the agreement to furnish any information the disclosure of which it considers contrary to its essential security interests (Ibid). The agreement also includes a provision (Article 9) for ‘exceptional circumstances’ wherein either side could deem itself exempt from the agreed-upon rules (Ibid). Most importantly, Article 13 asserted that if the survival of a ‘significant proportion’ of the civil aircraft manufacturing activities in either country was jeopardized, or if the continued financial viability of the
company or the division responsible for such civil aircraft manufacture are put in jeopardy a country could legally pull out of the agreement after twelve months, as long as written notification was submitted.

In short, both the United States and the European Union admitted to receiving significant government subsidies and in turn had agreed to set a cap on subsidies to 1/3 of R&D costs. So that the Agreement would not impede products in development they further agreed that these new regulations applied only to programs that began after the July 1992 signing. While not a final agreement – it was seen as a serious step in beginning to defuse what had become a politically explosive issue for both sides.

The Post-Agreement Atmosphere

In the wake of the July agreement, direct attention was removed from the issue yet a feeling lingered that the situation had not been resolved. The American side felt that little of substance was conceded by the Europeans and that Airbus and its government backers would continue to behave the same as before (Thornton, 1995). Dissatisfaction continued throughout the 1992 presidential campaign and much debate was devoted to “threatened” American sectors of industry, including aerospace (Newhouse, 2007). As the world-wide economic situation had only slightly improved from recession, competition in the aircraft industry continued to be hostile, and newly elected President Clinton focused on continuing to confront Airbus on subsidies and sales (Newhouse, 2007). He raised the possibility that the 1992 Agreement might be renegotiated, or that Americans might take additional steps through the G.A.T.T. or through legislation (Ibid). One of the new president’s first public appearances was at a Boeing plant in February 1993, giving himself an opportunity to connect job losses in aerospace to competition from Airbus while announcing an industrial policy that would promote government support for advanced technology while also promoting export sales (Ibid).

As a further example of the continued competition, roughly a year after the 1992 Agreement was signed the American Ex-Im bank announced it would provide financing for a proposed sale of American aircraft to Saudi Airlines in order to match terms set by Airbus (Thornton, 1995). Furthermore, with that deal, the American side agreed to re-structure almost $10 billion dollars in Saudi debts from the purchase of military aircraft to enable the purchase for additional commercial aircraft purchases in the future (Ibid). In
short, the Clinton administration, unlike its predecessor, blatantly participated in aggressive sales tactics to assist Boeing, utilizing a combination of political and financial leverage (Newhouse, 2007). Nevertheless, while this ‘campaigning’ sat well with Americans, Boeing at this time “wanted no part of a trade war with Europe or any other part of the world,”; according to one Boeing Executive “our strategy was to get him (Clinton) back off the limb he was on” (Newhouse, 2007:49).

In the midst of this persistent sales competition both sides continued to work on their product lines. Both Boeing and Airbus had already identified an important niche in the market that had yet to be filled – a ‘super jumbo’ aircraft with intercontinental range and roughly 600 person capacity. Boeing created further controversy in late 1992 by approaching three of the main partners in Airbus - Aerospatiale, BAe and DASA – to jointly develop a super jumbo aircraft (Thornton, 1995). Airbus management rejected the proposal, believing it was mainly to prevent launching of their own super jumbo, and in the meantime began a dialogue with potential Japanese partners (Ibid).

Partners in Airbus also became more interested in military contracts, hoping to fulfill some of the needs of the RAF and other major forces in Europe (Ibid). Along with continued expansion of products and sales, Airbus also sought to change its image in the mid 1990s into more of a “normal business enterprise” (Thornton, 1995:151). In the spring of 1994, it appointed the former chairman of Daimler-Benz to head the Supervisory Board in order to become more responsive to the demands of both the American and – increasingly European – governments to become less reliant on public funds for operations; this move also represented an attempt to be more transparent and accountable in both the manufacturing and marketing of its products (Thornton, 1995).

At the same time, and in an effort to ease the pain of the very cyclical nature of aircraft production, Boeing began diversifying into separate commercial aircraft, space and communications and defense systems businesses (de Melo, 2000). This diversification was helped along by Boeing’s merger with McDonnell Douglas and Rockwell (along with the purchase of Hughes electronics). With this move Boeing signaled that its aircraft business would no longer be counted on to be the company’s main revenue generator. Indeed, by 1999, military business would account for approximately one-third of Boeing’s sales and half of its revenue (Ibid).
In an effort to match this movement, and to deal with Airbus’ own internal problems, two groups had emerged at Airbus, reformers and consolidators. Reformers at Airbus wanted to replace the consortium structure in order to become as cost-effective and lean as Boeing; their goal was to become a company that could stand almost entirely without government support and interference (de Melo, 2000). In particular, they attacked the GIE system as cumbersome, antiquated and inefficient, and one which engendered the partition of subcontracts based on the each shareholder’s stake in true pork-barrel fashion (Ibid).

By contrast, consolidators within Airbus did not feel that the organization was prepared for a radical restructuring, at least not before they possessed a jumbo which could compete with the 747 and round out its family of jets (Ibid). In working towards the jumbo (and moving into the spare parts business) such officials at Airbus aimed to catch Boeing ‘in a pincher movement,’ with the A340 competing from below and a super-jumbo from above (Ibid).

In the spring of 1997 the ‘reformers’ and ‘consolidators’ finally agreed upon another MoU which led to the formation of a single corporate entity – the newest version of Airbus (de Melo, 2000). This company would directly oversee design, production and procurement and would be listed on the stock market; member governments were instructed to avoid interference with its decision-making process (Ibid). A final hurdle to privatization was removed when the French partners agreed to merge the state-owned Aerospatiale with private defense group Matra, giving birth to EADS (European Aeronautic Defense and Space Company) in 2000. With privatization complete and in order to move forward with the jumbo A3XX (to become the A380) this new entity would have to come up with roughly $8 to 15 billion in development financing while still adhering to the 1992 Agreement (Ibid).

The competition heated up at the turn of the millennium. The European Commission 2020 Vision report, published in late January of 2001, instructed member states to pool their research resources in aeronautics “if European companies such as AI are going to build on their significant recent market gains and overtake [their] U.S. competitor, the Boeing company” (Francis & Pevzner, 2006:643). Airbus also began making more public commitments to play a much larger role in military aircraft
production, both in the United States and throughout the world (Francis & Pevzner, 2006). The company also remained more committed than ever to round out its family of aircraft with a direct competitor to Boeing’s 747.

Despite public pronouncements that the A380 would lead to trade war, Europeans seemed undeterred by American rhetoric and continued with their plans to develop the super-jumbo (Newhouse, 2007). In this environment it was almost immediately clear that the 1992 Agreement would not be sufficient to stave off future conflicts. While European officials were deeply concerned about exposing the financial details of Airbus to American scrutiny they also had big plans to build a new aircraft which would probably need government support to get off the ground. For its part, American military officials began expressing concerns over the 1992 Agreement’s cap on indirect subsidies (de Melo, 2000:23). A dispute seemed in the works.

**The Current W.T.O. Dispute**

In an effort to deal with such contentious topics as trade in commercial aircraft, and in order to develop a greater international trade consensus, the Uruguay Round of trade talks was commenced in 1986 and ended in 1994. Comprehensive agreement was prevented due to differences between the U.S. and E.U.; this failure occurred despite the fact that Europeans feared that without an additional civil aircraft agreement the G.A.T.T. subsidies code would be applied to any aspect of commercial aviation which wasn’t covered by the 1992 agreement (Fisher, 2002). Despite intense negotiations, it became increasingly obvious that “no agreement could be reached that would satisfy important political constituencies in both the European Union and the United States,” (Fisher, 2002:876). The American side rejected European proposals for a weak subsidies code, and the final treaty creating the W.T.O. was signed and ratified without further agreement on civil aircraft. As such, the 1992 Agreement remained in force, supplemented by the 1979 G.A.T.T. Agreement (Fisher, 2002).

Since the failed conclusion of Uruguay, conflict brewed (but was later subdued) over the European approval of the Boeing-McDonnell Douglas merger and the subsidization of Airbus’ proposed super-jumbo jet (Ibid). Furthermore, the issue of funding for Airbus’ most recent project, the A350 (seen as a direct competitor to the new
Boeing 787), also played a role in further fueling dissension between the two sides (Newhouse, 2007).

Airbus first began work on developing the super-jumbo in 1991. After signing the 1992 Agreement, however, Airbus abandoned its solitary effort. Instead it launched discussions with Boeing, particularly since joint production was seen as the only way to develop a plane without violating the agreement (Ibid). An initial feasibility study was conducted together, however, both companies quickly went separate ways, with Boeing dismissing the profitability of a joint, large capacity plane while Airbus proceeded (Ibid). Between 1997 to 2000, Airbus continued to talk to potential partners and customers about this product; it seemed the decision to continue “was not strictly a business decision but was also motivated, at least in part, by strategic considerations” (Fisher, 2002:879). Tentative plans for the A380 were developed by mid-2000, with Airbus making an official announcement of pending production at the end of that year (after receiving approximately 50 orders) (Fisher, 2002). The plane was originally supposed to start being delivered around 2006.

Boeing and the American government reacted quickly to news of this product development, claiming that the super-jumbo program was likely being unfairly and illegally subsidized, and that these actions could start another trade war (Pavcnik, 2002). Boeing complained that it had not proceeded with its own super-jumbo plans because of the prohibitive cost of developing the plane. It argued that development could not occur without illegal help and that government backing for this plane “would be a violation of world trade conventions” (Fisher, 2002:879). For its part, Airbus insisted that it continued to proceed within the confines of its legal obligations.

By mid-2004, and with U.S. presidential elections on the horizon, Boeing started firing barbs against Airbus for abusing launch aid. Airbus again responded that the aid it received was compliant both with the 1992 agreement and W.T.O. rules (Carbaugh & Olienyk, 2004). According to the American side, it moved to negotiate a new agreement, but was rebuffed by the Europeans. As a response, the United States exercised its option to pull out of the 1992 Agreement and proceeded to take their case to a W.T.O. dispute resolution panel (U.S.T.R., 2004). As of October 2004, the American side insisted they remained open to re-negotiating “an agreement that ends all new subsidies,” but
continued to move forward with their case (U.S.T.R., 2004:2). The American side asserted that Europeans “have justified subsidies to Airbus as necessary” to support its ‘infant industry,’ however “if that rationalization were ever valid, its time has long passed” (U.S.T.R., 2004:1). This was seen as particularly true since Airbus, at the time, was outselling Boeing, and the increase in Airbus’ orders over Boeing’s was a significant sore spot and impetus to the current conflict.

By mid-October of that year, Americans requested formal consultations with Europe in an effort to resolve the matter prior to filing a case with the W.T.O. (Carbaugh & Olienyk, 2004). In its case, the Americans asserted that the 1992 agreement had ‘outlived its usefulness’ and had instead “become an excuse for E.U. governments to continue subsidizing Airbus,” (U.S.T.R., 2004:4). In particular, the Americans asserted that the $3.2 billion in launch aid for the A380 is the largest amount of funds ever provided for a single project (Ibid). Additionally, the U.S. asserts that loans and infrastructure development has doubled the amount of total subsidies for that project to $6.5 billion (U.S.T.R., 2004:4). The Americans were also incensed that Airbus was “contemplating the launch of another competitor (A350) to the Boeing 7E7 (now known as the 787), and has indicated its intentions to request subsidies for that aircraft as well” (Ibid).

Americans complained about the dramatic increase in Airbus’ market share over the lifetime of the 1992 Agreement, reaching the 50% mark in 1999 (Carbaugh & Olienyk, 2004). The Americans allege that this dramatic increase in market share roughly corresponds to the ‘precipitous’ drop of McDonnell Douglas’ market share – which was seen as directly connected with Airbus’ rise – that ultimately lead to the firm’s buyout by Boeing in 19978 (U.S.T.R., 2004:5). The American case was further buoyed by the finding of a 1999 W.T.O. panel involving a small commercial aircraft dispute between Canada and Brazil; the panel found Canadian launch-aid-type financing a prohibited export subsidy, and another panel found interest rate subsidies also in violation (Ibid).

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8 Europeans only agreed to drop their case against this merger based on a commitment by Boeing “to license to Airbus any ‘government funded patent,’ that could be used in the manufacture or sale of large civil aircraft” (U.S.T.R., 2004:5). Airbus is not committed to share its research in a reciprocal fashion; the American side had hoped to include such a provision in a renegotiated bilateral agreement (U.S.T.R., 2004).
In its literature, the U.S.T.R. states that its first attempt to head off A380 funding via a W.T.O. case in 1999-2000 was prevented from going forward by Boeing’s own business interests; in this situation, the Clinton Administration backed down (U.S.T.R., 2004). Once it became apparent that Airbus was interested in obtaining aid for an additional plane, the A350, Boeing signaled its willingness to cooperate with a U.S.T.R. case. Furthermore, after bilateral talks proved unable to produce a consensus during the summer of 2004, by August of that year President Bush had “instructed U.S.T.R. Zoellick to pursue all options to end the subsidation of Airbus,” including filing a W.T.O. case (U.S.T.R., 2004). By fall, the United States maintained its commitment to resolving the situation bilaterally via W.T.O. guidelines that provide a two-month grace period to enable the two sides to reach an agreement. While these talks proved difficult, they did lead to a preliminary agreement to suspend subsidies for a further three month consultancy period in early 2005 while ostensibly continuing bilateral negations.

However, by May 31st it had become apparent that an agreement was not forthcoming, and the U.S. filed its W.T.O. case. Less than twenty-four hours after the filing of its case, the E.U. fired back with its own, specifically targeting the indirect subsidies received by Boeing via NASA and DoD research along with tax breaks given by the States of Washington and Kansas (European Commission, 2007). In its case, the European Union has asserted that Boeing received illegal tax benefits between 1989 and 2006 of up to $2.1 billion dollars in value (Ibid). It also mentions the “the benefits of federal research programs to Boeing,” including the transfer of patents and government developed technologies at around $15 billion (Ibid). Taking a page from past American actions, in its case the E.U. also asserts that ‘lavish subsidies benefiting Boeing have enabled the company to engage in ‘aggressive pricing’ which has led to lost sales and injury to Airbus (European Commission, 2007:2).

The E.U. maintained that it was still open to negotiating a solution as recently as 2007, yet argued that “the starting point for such negotiations should be realistic, balanced and pragmatic” (Ibid). The potential for negotiations has gone nowhere, however, and both cases have progressed through the W.T.O. Dispute Settlement process where they are currently being heard.
**Chapter Three: Review of the Literature and Description of Variables**

*International Political Economy and International Relations Perspectives: Informing the Variables*

Prior to an examination of how we should understand the aggressive re-eruption of this dispute and the absence of a negotiated solution (the opposite of cooperation) it is relevant to ask what factors might motivate states to cooperate on economic policy in the first place. The first section of this chapter will review the relevant literature which deals with the factors that motivate states to cooperate or instead compete on economic policy. Since both International Political Economy and International Relations theories (especially those involving cooperation) inform considerations of economic cooperation I’ve included a brief review of these with a particular focus on the ones that are most relevant to the subject matter.

Since this manuscript further seeks to understand how the close relationship between states and firms played a role in the dispute, this chapter will also explore the literature that describes some of the special characteristics of this sector that may prevent cooperation from occurring, including the continued advocacy of strategic trade policies in this sector and the peculiar finances of the aircraft industry. Finally, while very little research has directly addressed this long-standing dispute, there are two other relevant genres of theory that have skirted this topic and whose literature provides an important background. A first focuses on the factors that may lead to international collaboration (indeed another form of cooperation) in aircraft production. A second examines recent theories regarding protection in the aerospace industry, which in turn illuminates the persistence of support in this sector and which describes several plausible factors in this dispute. The chapter will then conclude with a brief review of the handful of scholars who have directly addressed the Boeing-Airbus rivalry.

*Traditional Theories of the International Political Economy*

*The Economic Nationalist Perspective*

The economic nationalist perspective (also termed mercantilist and neo-mercantilist perspective) focuses on the role of the state and the importance of power in shaping the international political economy (O’Brien and Williams, 2004). The interest of the nation or the state is the most important factor in this perspective; at the center of its
analyses is the protection of the national unit (O’Brien and Williams, 2004). For centuries, mercantilists have persisted in the belief that there is a limited amount of wealth in the world and that each state thus can secure its interests by blocking the economic interests of other states in the form of a zero-sum game (Ibid). Furthermore, at the heart of this perspective is the idea that states remain at the center of power in the global political economy and that there is strong connection between power and wealth (Ibid).

Since the state is the main actor and the inter-state system is considered to be marked by anarchy it is the duty of each state to protect its own interests (Ibid). Economic policy should thus be used to build a more powerful state. Furthermore, the power of firms remains limited and they are subject to the dictates of states. The I.R. theory of Realism – with its focus on the primacy of the state as the central actor in the international system, anarchy and the inevitability of conflict, provides the foundation for this perspective and economic nationalism is its equivalent in political economy (Ibid).

**Economic Liberal Perspective**

Like their counterparts in International Relations theory, Liberal theories of political economy do not see the state as a unitary actor, but recognize that it is influenced by numerous factors (O’Brien and Williams, 2004). Furthermore, they see the world system as one of interdependence rather than anarchy and they search out the conditions for cooperation. The idea of free trade, which forms the basis for the global trade regime, is governed by liberal principles, with a belief in the positive role of markets and the ability of the open market to enhance growth and wealth (Ibid). Liberals see the market as the center of economic life and firms as a source of economic wealth, with economic failure most often occurring as a result of government intervention. They view international relations and the international political economy as essentially cooperative and hew to the belief of comparative advantage. Liberal theories underpin arguments that international cooperation is both possible and desirable, and that international agreements or regimes can maintain international economic order, even if hegemonic states declined (Ibid).

**New Trade Theory (N.T.T.)**
International political economy scholars have recently acknowledged the advent of new theories that place technological innovation at the center of their analyses and give national governments and corporations a prominent role in the economy (Gilpin, 2001). New Trade Theory is based on the assumption of imperfect or oligopolistic competition in which a few large firms are capable of exercising control over market forces. This theory challenges the assumption of perfect competition and demonstrates that the state with oligopolistic firms could eventually dominate other states (Ibid).

Technological innovation is seen as the primary determinant of economic growth and the international competitiveness of states, and for this reason, states are obviously interested in both fostering and maintaining a leading edge in these industries (Gilpin, 2001).

This theory can provide a rationale for states to use protectionist measures, including subsidies, to provide domestic firms with considerable advantages, particularly in high-tech sectors with large economies of scale, steep learning curves and considerable R&D requirements such as aerospace; it is especially true in sectors that are identified by governments as key to both military and economic competitiveness (Ibid). According to N.T.T., two strategies that can be utilized to increase a firm’s long-term domination of an oligopolistic market are dumping (selling below price to drive out competition) and preemption (investing in productive capacity to deter others from entering a market) (Ibid).

Because of the possibility that positive externalities (technological spillovers and the possibility of shifting profits from foreign to domestic firms) can result from dominating the market in these sectors, it is likely that governments would want to assist domestic firms in this atmosphere (Ibid). Furthermore, since a minimum scale of production is necessary to achieve maximum efficiency, the ‘first-mover advantage’ available in these sectors encourages a strategy of preemptive investment (Ibid). N.T.T. significantly departs from conventional theories of I.P.E. because of its assumption that certain economic sectors are more important than others and therefore warrant government support.

As will be demonstrated throughout much of this literature review, those scholars who have closely observed both conflict and cooperation in this sector have come to the conclusion that, particularly given the specifics of this industry, the economic liberal
perspective is not that useful in understanding policy. By contrast, most scholars have identified New Trade Theory as the I.P.E. perspective most likely to provide a comprehensive understanding of policy in this sector (Tyson, 1993; McGuire, 1997). However, a few scholars, particularly Thornton (1995) and Lungu (2004), have identified neo-mercantilist (economic nationalist) rationales for policy in this sector. I’ve made sure to include variables that represent both perspectives including the political environment (which includes considerations of the importance of aircraft production for the economic goals of the state) and the impact of neo-mercantilist variables such as the strategic/national security value of the sector and the impact of transatlantic relations.

**I.R. Explanations for Foreign Economic Policy – Organizing the Variables**

Since Waltz’s influential *Man, the State, and War* (1959) International Relations theorists have struggled with the three ‘images’ of international politics: the individual, the state and the state system. The individual level examines the ambitions, personalities and beliefs of individual leaders as a source of causation in international politics. The state level focuses on characteristics of nation-states including culture, society and political institutions. Finally, the international system level focuses on the ever-changing balance of power and power structures in the state system.

In response, Singer’s “The Level of Analysis Problem in International Relations,” describes some potential explanatory problems of the system-oriented model, particularly when it comes to foreign policy, as “nations may differ widely in what they consider to be the national interest” (Singer, 1961:70). Singer was influential among many who instead thought it necessary to open the ‘black box’ of the state, particularly in analysis of foreign policy. In his opinion, the nation as actor approach insures that the processes “by which national goals are selected, the internal and external factors that impinge on those processes, and the institutional framework from which they emerge” are properly investigated (Singer, 1961:73).

Jervis’s *Perception and Misperception in International Politics* (1976) further refines these levels into the international environment, the nature of the state and the workings of domestic politics, the level of bureaucracy and the level of decision-making. His focus on the decision-making level in particular allowed for the consideration that reasons, beliefs and processes by which individuals make choices has a significant impact.
on foreign policy. This removed the assumption of the system and state level of analysis that it is merely the setting of policymakers that impacts policy.

In their work which focuses on explanations for foreign economic policy, Ikenberry, Lake and Mastanduno (1988) remove consideration of individual-level factors, but instead build in an approach which considers society-centered factors. After describing the other levels as focusing on policy as a function of the attributes or capabilities of one state in relation to others (system-centered) and one which focuses on policy as significantly constrained by domestic institutional relationships and the ability of state officials to realize objectives in the face of international and domestic constraints (state-centered) these authors introduce another level, society-centered.

As they describe it, the society-centered level examines policy as a reflective of a dominant group or as a result of a struggle for influence among various interest groups. Essentially, it describes foreign economic policy as deriving from domestic politics. Ikenberry et al. argue that both the system and society-centered approaches could be further refined by looking more directly at the role of both institutions and state officials in the making of policy. The articles in their volume further take up this idea that the state can serve as a dependent or intervening variable between social and international forces.

In a further attempt to straddle the two worlds of economics and politics as represented by research on the international political economy, Baldwin (1996) proposes a framework which builds on these others to examine specifically the political economy of trade policy. After describing problems with previous scholarly work that emphasized a singular focus on interest groups (‘society-centered’) (Schattschneider, 1935), the distribution of economic and political power and hegemonic stability theory (H.S.T.) (‘systemic-centered’) (Krasner, 1976; Kindleberger, 1981; Keohane, 1984; Gilpin, 1987; Lake, 1988), and a state’s institutional and ideological structure (‘state-centered’) (Ikenberry, Lake and Mastanduno, 1988), he argues instead that an integrative framework would work best to analyze trade policy, particularly since “no one approach seems sufficient for analyzing these policies across countries and over time” (156).

According to Baldwin, further progress in understanding trade and other international economic policies can be made by examining “how key decision-making agents interact under various institutional, ideological and structural conditions that are
taken as exogenously given” (Baldwin, 1996:156). As such, he has created a general framework which could be used for this process, which requires the identification of four major sets of actors whose interactions determine international economic policy (1) individual citizens (2) common interest groups (3) the domestic government (4) foreign governments and other foreign groups including international organizations (157). Baldwin argues that the key participant in this process is the domestic government, as it makes the final policy decisions and implements the policies; nevertheless, in his formulation the three other actors significantly influence the nature of these decisions by exerting various forms of political pressure (Baldwin, 1996).

In this formulation, Baldwin has come up with a comprehensive framework for examining trade policy specifically and international economic policy generally which encompasses the evolving research on I.R. levels of analysis along with the most recent perspectives of economists. It is thus this formulation which partially informs the seven different variables (divided into the three traditional I.R. levels of analysis for organizational purposes) that I have chosen to examine with this research. It is still necessary, however, to provide some more specific background on these variables and to establish the state of the literature that relates to central research question involving the aggressive re-eruption of this dispute. However, in order to uncover the most relevant factors which affected the decision to negotiate or instead proceed with the case it is important to include a short review of theories that relate to cooperation (or lack thereof).

In her excellent review article of cooperation, Milner (1992) defines this phenomenon as “when actors adjust their behavior to the actual or anticipated preferences of others, through a process of policy coordination” and points out that it is usually the opposite of competition or conflict (467). She provides an extensive review of the literature and comes up with six different hypotheses about the conditions under which cooperation might occur. These are (1) the realization of absolute gains, (2) the number of players (two being optimum), (3) expectations about the future (repeated play is thought to make cooperation more likely), (4) the existence of international regimes (thought to mitigate the uncooperative effects of anarchy), (5) epistemic communities, playing a role similar to regimes and (6) hegemonic stability theory (HST), which indicates that imbalances of power are conducive to cooperation (Milner, 1992:470–480).
While Milner continues her article with her own compelling critiques of these hypotheses\(^9\), it is useful to point out the flaws that each of these hypotheses has when it comes to explaining the (lack of) cooperation in this particular dispute. The first hypothesis, informed by the work of Axelrod, Keohane and others in Oye’s *Cooperation Under Anarchy* (1986), asserts that states will seek to maximize their utility and will therefore see cooperation as the best strategy in a prisoner’s dilemma situation. Several scholars have pointed out that Boeing and Airbus found themselves in a prisoner’s dilemma type of situation with this dispute, yet instead of cooperating they chose to ‘defect’ and instead file lawsuits against each other. Axelrod and Keohone also argue that states would be more likely to cooperate when they know they will be punished for defecting; however, again this wasn’t the case when it came to Boeing-Airbus. Despite mounting evidence that both sides would be punished by taking their cases to the W.T.O. they proceeded. This hypothesis is thus not useful in examining this particular dispute.

A further argument related to this hypothesis is advanced by Grieco in his *Cooperation among Nations* (1990). He asserts that no states want to realize fewer absolute gains than others, and that the achievement of a balanced distribution of gains could promote cooperation. When it comes to this dispute, this hypothesis also isn’t relevant. Even though there were several opportunities in which both sides of this dispute could have achieved a balanced distribution of gains prior to filing their cases (for example, if both sides agreed to suspend their ‘extra-legal’ support programs) when this truce was attempted it instead failed. Again, the ‘balanced distribution of gains’ argument is not relevant with this case.

The second hypothesis asserts that the prospects for cooperation diminish as the number of players increase, suggesting that two is the ideal number of players (Oye, 1986). That assertion wasn’t borne out in this dispute. Instead, because the players went to a multilateral forum (with many players) such as the W.T.O. to file their cases, the evidence in this dispute seems to directly contradict this hypothesis.

A third hypothesis argues that willingness to cooperate is influenced by players’ expectations about the future and that therefore repeated play may make cooperation

\(^9\)Milner points out that these hypotheses seem to derive from a few basic assumptions (namely, anarchy) and focus too much on systemic or structural variables along with game theory. Furthermore, the literature is remarkably devoid of considerations of domestic politics.
more likely (Axelrod, 1984; Snidal, 1991). The evidence in this case also contradicts that assertion. Instead, this particular game has been played several times in the past, and repeated play has actually raised the stakes, making each dispute more aggressive.

International regimes\textsuperscript{10} (Keohane, 1984) and ‘epistemic communities’\textsuperscript{11} (Haas, 1990) are the subjects of two more hypotheses. Both are thought to behave in similar ways, serving to mitigate the effects of anarchy through improving information, and thus reducing uncertainty and incentives to violate the rules. It is difficult to assess completely whether the impact of the relevant regime (the G.A.T.T./W.T.O.) assisted or hampered cooperation in this particular dispute. It is well documented that the importance of this sector for governments necessitated a special bilateral agreement to cover trade in this industry, and both of the current cases are based upon the fact that even that agreement did not prevent both sides from ‘defecting’ from the rules it set forth. The fact that the regular W.T.O. rules on subsidies are judged to not be fit for this particular sector does point to the potential difficulty this regime has had in disciplining this sector.

As both sides of these cases have argued (at least for their own public relations purposes) the fact that they have taken this case to the W.T.O. does point to the ‘respect’ that they have for the liberal trading system. Nevertheless, it has also been observed that it is just as likely that both sides have chosen this very public forum for these cases in the hopes that the forum can be used to gain an advantage over their adversary, not because of a healthy respect for regime principles (Shaffer, 2003). Furthermore, the most influential epistemic community in this dispute was the firms themselves, who – as this literature review will set out – found themselves as the chief interest group preventing, not spurring on, cooperation.

The last hypothesis concerns hegemonic stability theory (H.S.T.), (Cronybeare, 1986) which suggests that imbalances of power may lead to ‘imposed’ cooperation. Given the remarkable similarities in the economic power and other metrics of economic influence between the United States and the European Union it is pretty clear that there is

\textsuperscript{10} Regimes are defined as “sets of norms, principles, rules or decision-making procedures around which actors’ expectations converge” (Keohane, 1984:57).

\textsuperscript{11} Epistemic communities are defined as “a professional group that believes in the same cause-and-effect relationships, truth tests to accept them, and shares common values; its members share a common understanding of a problem and a solution” (Haas, 1990:55).
not one ‘hegemon’ present in this relationship, which makes H.S.T. a difficult hypothesis to utilize in this particular case.

Given the particular details of this dispute and the fact that not one of these hypotheses provides an appropriate framework in which to examine the cases it seems particularly appropriate to consider other variables, those associated with domestic politics, in order to answer my research question. As evidenced by this brief review, several scholars including Jervis and Milner have argued that the perceptions of decision-makers, bureaucratic politics and vested interests are just as important, if not more important, than structural conditions in analyzing cooperation. Furthermore, unlike the previous hypotheses, domestic politics can show how preferences and national interests are aggregated and also explain the strategies of states and the willingness of domestic actors to ratify and abide by negotiated terms – all particularly important in understanding cooperation when it comes to trade agreements (Milner, 1992). As has been suggested, therefore, I’ve made sure to include the preferences of different interest groups and theories of elites into my own analysis of cooperation in this dispute.

The Importance of the Aviation Industry for Governments in Both the U.S. and Europe

It is challenging to find literature that is directly relevant to this dispute. There is very little written on this rivalry, and most work has been undertaken by economists who understandably look at this case from an economic perspective. The politics of the dispute remains virtually unaddressed. The vast majority of the literature in both the U.S. and E.U. that addresses the politics of this industry focuses on its ‘strategic’ importance. Furthermore, while the American literature is primarily written as a form of advocacy for strategic trade policies to support this industry, the literature written from the European side serves more to describe how and why Europeans have supported this industry over the years, and also describes how they have tried to replicate the ‘Airbus’ model with other projects.

It is my purpose with this section of the literature review to demonstrate that this is indeed a ‘strategic’ sector, different from others, in which a close relationship between industry and governments not only exists but is strongly advocated. It also serves to illuminate some of the special financial characteristics of the industry which is thought to exacerbate the rivalry between the two sides of this dispute.
The American Government and the Large Commercial Aircraft Industry

Only one American author in this category addresses the Boeing-Airbus rivalry directly (Tyson, 1993) though instead of offering an analysis of the dispute her work is mostly a demonstration of the need for greater government intervention in this sector due to its strategic importance. Other American authors focus on this conflict and the aircraft sector through discussions of economics, trade and national security (Moran, 1993; Moran & Mowery, 1994; Mussington, 1994; Neu & Wolf, 1994; Green, 1996).

This literature was primarily written by American economists during the early 1990s and focuses specifically on the economic contributions of an independent aircraft production capability and the challenges posed to this capability by rivals and globalization. These individuals focus on the Boeing-Airbus conflict and the necessity of maintaining a domestic aircraft production because of this sector’s economics and its ‘strategic’ importance arising from its military and technological ‘spillover’ benefits.

By the early 1990s, Airbus was indeed a looming threat for the future of the American aircraft production industry, particularly Boeing. In direct response to the distinct challenges presented by Airbus, these scholars and government officials spent a lot of time writing about the threat posed by Airbus and their work and conclusions are greatly demonstrative of the way Americans viewed their domestic aircraft capability. While not discounting what they feel are the obvious national security implications of this sector, these scholars came to the conclusion that the importance of maintaining a domestic aircraft production capability was first and foremost an issue of economics. Through their work they seek to demonstrate that the capacity to build civilian aircraft is important to the United States primarily through its impact on ‘economic security.’ Therefore, they advocate economic (not political or military) responses to what they saw as essentially a problem of economics, which was whether or not the American commercial aircraft production capability would survive the onslaught from its European challenger.

Writing at the end of the Cold War, these individuals assert that the likelihood of major military conflicts had lessened considerably, but that economic conflicts - including the one between the United States and the E.U. over Boeing and Airbus – will likely take their place in salience in the future (Moran, 1993; Tyson, 1993; Moran &
Mowery, 1994; Mussington, 1994; Neu & Wolf, 1994; Green, 1996). They feel that companies involved in advanced technology will become more crucial to economic growth, in both productivity and dual-use capacity (Ibid). The overwhelming work in this category would belong within a ‘neo-mercantilist’ framework as these authors situate discussions of this conflict within in-depth descriptions of how this sector is vital to the economy; they therefore overwhelmingly advocate for some form of government intervention to protect this industry from competition, particularly from Airbus, and use these articles to assert the necessity of a new industrial policy (Tyson, 1993) or strategic trade remedies (Moran, 1993; Moran and Mowery, 1994; Green, 1996) to remain competitive.

They acknowledge that Americans have traditionally questioned the merit of intervention to promote selected industries, but they feel that the further integration of the world economy has forced all states to lose some degree of economic sovereignty and that this loss reinforces the idea that economic declines can be seen as a threat to national security (Green, 1996). These authors frame the need for support for this industry due to its importance to economic security, defined by scholars as “the ability to protect or to advance U.S. economic interests in the face of events, developments, or actions that may threaten or block these interests” (Neu & Wolf, 1994:69). They feel that economic competitiveness is the key to America’s national security in the long-run and fear that mismanagement of the economy could dangerously threaten America’s position in the world (Ibid). Furthermore, this attendant loss of economic and technological capabilities could therefore lead to a growing dependence on other states for goods, services and technologies vital to national welfare (Moran, 1993; Moran & Mowery, 1994; Mussington, 1994; Neu & Wolf, 1994; Green, 1996).

Support for aircraft production is essential to these scholars as it is a ‘strategic industry’: a high-tech company that requires large research and development (R&D) investment and possesses certain characteristics including large fixed costs of entry, economies of scale\(^{12}\), steep learning curves, compressed obsolescence and the imperative

\(^{12}\) A firm or industry is said to exhibit economies of scale if, once some minimum level of operations is achieved, succeeding increments to output come at lower cost. They are most likely found in industries where large up-front investments in production facilities, R&D and the development of a distribution network are required before large-scale production is possible. Therefore, the longer the production run
to serve the widest range of markets to recover large front-end investments in research
and development (Moran, 1993; Tyson, 1993; Moran & Mowery, 1994; Neu & Wolf, 1994; Green, 1996). They see aircraft as a crucial sector of trade among advanced
industrial countries and it bestows national benefits such as high wages, productivity,
technology development and ‘spin-offs’ which benefit other industries (Tyson, 1993; Neu
& Wolf, 1994). It is also argued that this is a strategic industry in that it may be essential
to the successful conduct of war and the maintenance of national security (Green, 1996).

These scholars are unanimous in their assertion that aircraft production has a long
standing importance to governments, as it “is vital for civilian and military needs”
(Moran & Mowery, 1994:174). Their work details the history of government support for
this industry, writing that high technology sectors have always been important to the
Department of Defense (DoD) and that this industry has therefore long been protected
and promoted for reasons of national security (Tyson, 1993; Moran & Mowery, 1994;
Green, 1996). They also describe how this industry gained early success in defense
procurement as projects were developed for the military and then put into the commercial
market, thus fostering technological leadership in both the defense and civilian sectors
(Moran, 1993; Tyson, 1993; Moran & Mowery, 1994; Mussington, 1994; Neu & Wolf,
1994; Green, 1996).

They note, however, that spin-offs do not provide the advantage that they once
did. Therefore, Green (1996) has concluded that “the new technology development
trajectory suggests that the old system of military technology development cannot be
expected to relieve competitive challenges in high tech industries” and echoes other
scholars who assert that past reliance on military contracts “nourished industries that are
not accustomed to the cut-throat competition of the commercial world” (Green, 1996:41).

Globalization\textsuperscript{13}

\textsuperscript{13}One asserted definition of globalization is the “closer integration of the countries and peoples of the world
which has been brought about by the enormous reduction of costs of transportation and communication,
and the breaking down of artificial barriers to the flows of goods, services, capital, knowledge, and (to a lesser extent) people across borders” (Stiglitz, 2002:9)
Furthermore, these scholars feel that globalization provides even more impetus for the ‘special treatment’ of these ‘strategic’ industries. Globalization speeds up the process, making the threats from other countries potentially more real and urgent. Also, globalization provides another internal threat to these industries, as it makes it much easier for companies to move to other countries, and to arrange production agreements that involve other countries’ industries including off-sets and other increasingly used forms of production sharing (MacPherson & Pritchard, 2002; Pritchard & MacPherson, 2004). Many of these scholars are alarmed that the traditional sources of these products have been undermined by foreign competition and are keenly concerned about the continued availability of sourcing for vital parts (Moran, 1993; Moran & Mowery, 1994; Mussington, 1994; Neu & Wolf, 1994; Green, 1996). They wonder if globalization will undermine U.S. dominance in airplane production – particularly with the advent of multinational corporations, strategic alliances, and joint ventures – developments which make it more difficult to determine what the national origin of a product truly is14 (Ibid).

The E.U. and the Large Commercial Aircraft Industry

It is important to point out that it is not just Americans that have recognized the crucial importance of a successful domestic aircraft production capability. While language barriers prevent an extensive review of the European counterpart to this literature, there are some English-language articles which point to the similar importance that an aircraft capability has for Europeans. Several scholars situate the conflict between Boeing and Airbus within the deepening rivalry between Europe and the United States, and assert that the rivalry over commercial aircraft has important ramifications for the future sovereignty of Europe (Thornton, 1995; Scherpenberg, 1997; Lungu, 2004).

These scholars echo the work of Thornton (1995) in describing the promotion of Airbus as a ‘quest for strategic interdependence’ along with ‘fear of reduced influence in international affairs and declining international economic competitiveness’ and the desire to challenge directly the American’s “commercial and technological supremacy” (Lungu, 2004:369). They assert that Europeans have been preoccupied since WWII with the mindset that they were ‘lagging behind’ the United States, particularly in high-tech

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14 Green (1996) specifically mentions the decreasing American content of Boeing planes and describes Airbus planes as representing factor inputs that are as much American as European.
sectors; in response they describe the necessity for E.U. officials to shift focus to “sectors with relevance for the E.U.’s increasingly evident autonomous defense and security ambitions” particularly as these had important ramifications for military ‘spin offs’ (Scherpenberg, 1997; Lungu, 2004:370).

Through the utilization of E.U. Commission documents and interviews these authors provide detailed examples of how Airbus has contributed to European military-industrial survival and advanced technology competitiveness. Furthermore, they describe the American advocacy of trade policies to protect the United States (such as those previously described in this literature review) along with consolidation of American aircraft industries as major contributors to defensive perceptions among the Europeans regarding their own commercial production capability (Ibid). Furthermore, their work indicates the enthusiasm that European officials have for using the example of success wrought by Airbus as a template to further challenge American monopolies in high-technology sectors through programs such as Galileo (Lembke, 2003; Lungu, 2004; Guay, 2005).

They point out that several European governments ratcheted up their support of Airbus through greater subsidies and financial support for R&D, especially in the late 1980s and early 1990s (Lungu, 2004). They also describe how the European Commission, industry and government groupings worked together to define common positions on market orientation in order to consolidate the success of Airbus (Lungu, 2004). The fear of American dominance was so strong among European officials that these scholars assert it “colored European attitudes toward the international trade regime” (Lungu, 2004:374). Furthermore, they describe the success that Europeans had with Airbus directly contributed to greater appreciation for ‘dual use’ applications and the integration of the European Aerospace and Defense Company (EADS) (Ibid).

**Collaboration and Protection in the Aircraft Industry: Illuminating Other Factors That May Lead to Competition in this Sector**

While there has not been much scholarly attention directly related to the competition in this industry, one topic which has received some attention involves the factors that may induce collaboration, particularly international collaboration in civil aircraft production, which is another form of cooperation in this strategic industry. It is an
overall view of these scholars that both the state and firms are influential in the decision to collaborate in this sector, just as in the decision to cooperate or compete in the form of trade disputes.

Tucker (1991) comes up with a “Partners and Rivals (PAR) model” which integrates bargaining and neorealist theory to explain collaboration in this sector. He describes two factors leading to collaboration, both short-term welfare payoffs and longer-term positional payoffs. However, he notes that when it comes to ‘strategic’ industries that are sheltered from market forces and closely linked to ‘high politics’ such as aerospace, this model may not adequately explain the dynamics, however. Instead, his research points that these sectors are ones in which national governments organize, sponsor and finance projects and therefore have the power to promote or constrain collaboration “in order to promote state economic or political objectives” (Tucker, 1991:103). As such he believes that a realistic model of collaboration should “embed firm level bargaining in the broader political context of interstate relations” (Ibid).

Tucker’s research also shows that, while it is important to consider the goals of both the state and firms when considering collaboration, temporal differences might exist, as industry might be more preoccupied with short-term benefits to enhance their economic well-being while states might be more concerned with the long-term picture. For this reason he asserts that states will likely intervene to protect the competitiveness of an entire industry, despite the sacrifices it might entail for individual firms (Tucker, 1991). He also describes governments as having political motivations which may contribute to collaboration including foreign policy goals and domestic political factors (Ibid). Tucker thus asserts that the PAR model should appropriate some aspects of Putnam’s ‘two-level game’ approach in order to describe “the effects of government-industry relations on the stronger firm’s incentive to collaborate” (Tucker, 1991:104).

15Putnam (1988) described negotiators as simultaneously seated at two tables, an international level where they interact with foreign counterparts, and a domestic level where negotiators interact with domestic principles. He asserts that, on the national level, domestic groups pursue their interests by pressuring the government to adopt favorable policies while politicians seek power by constructing coalitions among these groups (Putnam, 1988). On the international level, governments seek to maximize their ability to satisfy domestic pressures while minimizing the negative consequences of foreign developments (Ibid). Since each of the actors have veto power over any agreement that would disrupt the status quo, Putnam’s model implies that an agreement must lie at the intersection of each of the actors’ ‘win sets’ – the set of alternatives that each actor prefers to a no agreement outcome. Importantly, the domestic negotiator (who is acting on behalf of a government) can be constrained by a domestic veto player only if the latter’s win set
Golich (1992) builds on Tucker and also alludes to this ‘two-level game’ approach in her understanding of the relationship between states and markets in the manufacturing of commercial-class aircraft. Her work – a ‘sectoral study’ of aircraft production – focuses on the “simultaneous reciprocity between corporate behavior and political choices and highlights how insecure elites, operating at the intersection of domestic and international systems, must respond to conflicting demands” in this industry (Golich, 1992:901).

She argues that the structural changes in the international system and industry dynamics “act as centripetal forces impelling states and corporations toward collaboration,” while the strategic value of the industry “acts as a centrifugal force impelling protectionist policies” designed to avoid perceived mutual dependency and thus vulnerability (Golich, 1992:902). She argues that this process has impacted the way both governments and industry have behaved in the United States and Europe with regards to collaboration efforts, but that the ‘very significant role of politics’ has too often been left out of analyses (Golich, 1992). She also asserts that current studies fail to address ‘difficult to operationalize’ factors that have a significant impact on collaboration including policymaker perceptions (Ibid).

Golich concludes that her analysis suggests that “state and corporate actors (in the decision to collaborate) make decisions in a dynamic environment influenced by simultaneous reciprocity” among several factors including ideology, interest group activity, consequences of prior politics, perceived position of the state and the firm with respect to political power and competitive position in the market and the international system, and knowledge and perceptions about internationalized production structures (Golich, 1992:932). She further asserts that “Europeans view civil aerospace as a public policy issue, whereas Americans continue to oppose direct state intervention even to support this strategic industry” (Ibid).

**Protectionism in the Aircraft Industry**

is smaller than the formers (Ibid). Clark et al. (2000) built on this work to argue that, particularly in trade discussions between the United States and the European Union, the institutional make-up of the E.U. potentially encompasses a large number of domestic veto players which sets it apart from other negotiating partners as their ‘win sets’ are presumed to be smaller and therefore U.S.-E.U. negotiations are more likely to result in agreements that favor the European side (Clark et al., 2000).
Another topic which has invited scholarly considerations of the commercial aircraft industry involves the decision to provide protection. Like attention to factors which induce collaboration, the factors which prompt intervention in this industry provide a significant amount of insight on the competitive nature of this industry and what may ultimately lead to cooperation or conflict in international trade in civil aircraft.

The early work of Helen Milner (1987) influenced many scholars who have examined the sources of protectionism in this industry. She was one of the first scholars to recognize that it may actually be the firms that play a key role in the provision of subsidies in this sector – the key issue in this dispute. The original argument that Milner made regarding protectionism rejected traditional Liberal, Realist and Institutionalist arguments, instead focusing on ‘domestic societal and international market variables,’ specifically their impact on the incentives for firms to demand protection (Ibid).

In her article on trade policy in France and the United States in the 1970s, she examined why – in light of a considerable world economic downturn – many major industrial sectors of both states remained supporters of free trade. Rather than focus on the importance of the G.A.T.T. regime, the structure of the international system or the character of domestic policymaking as other scholars have, Milner instead sought to describe why firms were rationally motivated to be forces against protection (1987).

Her central argument is that increased international interdependence similarly affected the interests in firms in both countries; those involved in the international economy more extensively (due to exports, multi-nationality and intra-firm trade) are less likely to request protectionism than firms without international ties, even in times of economic duress (Milner, 1987). This is due to the fact that such firms would find protection costly in several ways: they would be concerned about retaliation, the protection might hurt their exports to third markets, they may view protection as a costly undermining of the existing pattern of trade, and finally, those dependent on imports might have their costs increase significantly and intra-industry rivals might create resistance to support (Ibid). For these reasons firms will find that protection is actually very costly and will likely resist appeals for it at home. She concludes that, since the preferences of industry are an important part of trade (particularly since the structure of policymaking allows for their influence to be heard) both knowledge of the policymaking
structure along with these preferences are critical in order to understand policy outcomes (Milner, 1987).

Milner and Yoffie (1989) went on to refine this argument after finding that corporate trade demands were no longer fitting into the traditional free trade versus protectionism dichotomy. Instead, they sought to explain why the same multinational firms whose preferences were seen to favor free trade were now publicly advocating (and asking for) a strategic trade policy which included reciprocal trade barriers if foreign markets were already protected (Milner & Yoffie, 1989). They concluded that the willingness of firms to support free trade or protectionism may instead be contingent upon the behavior of their foreign rivals and their governments (Ibid).

They specifically argued that the advent of strategic trade demand from industries was contingent on three variables: changes in industry economics, policy intervention by foreign governments and variations in industry structure (Ibid). If the firm’s access to world markets was being impeded by foreign government protection or subsidies, they would realize that their preferred policies were dependent on the choices of their rivals (Ibid). Furthermore, Milner and Yoffie argued that how much an industry is segmented will affect the speed, intensity and substance of an industry’s trade response.

Milner and Yoffie demonstrated this argument by utilizing case studies of four industries (commercial aircraft being one) that have been subject to such a combination of competition and protectionism and that have traditionally been supportive of free trade. They conclude that the evolution of trade preferences by the commercial aircraft industry follows their expectations – as competitive pressures mounted from Airbus and government protection continued in Europe, American producers such as Boeing became increasingly involved in advocating intervention in their sector, reversing previous efforts to resist protectionism or trade conflict on the grounds that it would damage their business prospects overseas. The authors further conclude that their argument implies that “continued Airbus success across the board should push the industry toward more unified, tougher strategic trade policy demands” (Milner & Yoffie, 1989:261).

Ray (1995) carries this argument forward, but argues that a focus only on industry demands for protection or government reasons for providing it misses an important interaction effect between the two sides. He doesn’t agree with the findings of two
generally accepted explanations of how trade policy is determined, a micro view (trade policy is the aggregate outcome of industry battles over protection) and a macro view (trade policy is the aggregate outcome of national objectives) (Ray, 1995). He asserts instead that “trade policy actually results from the interaction of self-promoting economic interest groups with national economic and political policies” (355). Therefore, in his opinion, both the political objectives of the state and economic interest groups play a significant role in defining trade policy. His findings are important in refining the work of Milner and Yoffie, particularly as he argues against taking a deterministic view of domestic interest groups’ impact on trade policy. When it comes to trade policy, he argues that government is an explicitly important agent unto itself, an “active player with a long-term agenda of its own” (357).

Continuing the work of Milner and Yoffie, yet also emphasizing the independent role of the state as suggested by Ray, Busch (1999) sets out to analyze why states might risk trade wars by fighting for their ‘national champions’ in some high tech industries but not in others. He also seeks to understand why cooperation might occur along the same lines. Fittingly, he includes an analysis of the commercial aircraft industry, arguing that it is one which exhibits externalities\(^{16}\) that both the U.S. and European government can consume and internalize\(^{17}\), which he argues gives both sides a significant incentive to practice full intervention on behalf of their domestic manufacturers (Busch, 1999). Furthermore, despite the fact that in his formulation commercial aircraft remains a textbook example of an industry which states are most likely to fight for, fear of a trade war has been enough to motivate both sides to instead negotiate caps on support such as the 1992 Agreement in Civil Aircraft (Ibid). While his argument suggests that full intervention is the dominant strategy likely pursued by governments in this industry it also risks a “collectively suboptimal trade war” (Busch, 1999:48). Ultimately, in making this argument he concludes that the heated tone of the commercial rivalry “owes to the fact that the states involved, rather than the firms, have been calling the shots” and that

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\(^{16}\) Externalities include the ability to leverage economic growth and competitiveness both upstream and downstream into other sectors of the national economy

\(^{17}\) According to Busch, for these externalities (expected benefits from intervention) to outweigh the potential costs of initiating a trade war a state must be both able to consume and internalize them (for the benefits to stay within a states’ borders/be nation-specific)
“externalities (for the national economy) have been the currency” of protection, not votes (Busch, 1999:49).

By contrast to the ‘unitary actor’ focus of Busch, Lembke (2003) provides the most recent research on strategic demands for protection in high-technology sectors such as aerospace. Focusing more on the ‘interaction effect’ between firms and states, Lembke argues that one condition that influences the amount of support received in high-technology sectors includes “the lobbying strength of those economic interests (firms) on whom bureaucratic agencies and political institutions rely for political support functions” (255). In turn he asserts that that lobbying strength is derived from a firms’ relative position in the structure of international competition, which itself is determined by two components: (1) international competitiveness (the potential to generate significant commercial and tax revenues and to expand the global footprint of a preferred technologies), and (2) import competition (whether the sector is subjected to and may be outpaced by overseas competition in the home market, and that import competition could jeopardize the success of industrial sectors) (Lembke, 2003:256).

According to his formulation, when both major domestic firms and political institutions perceive risks of being outpaced by their overseas competitors it is highly likely that the industry will articulate strong demands for support and that political institutions will grant them preferential treatment (Ibid). Lembke’s contribution to this research is his argument that it is the lobbying strength of economic actors, derived from their international competitiveness and their amount of import competition, that provides a plausible explanation for variation in industry support to high technology sectors, including aerospace (260). As such, he argues that any theory of corporate trade policy demands (and provision) must consider the “relative competitiveness of the import-competition situation” as an important factor in determining the lobbying strength, and thus influence, of economic actors (Lembke, 2003:271).

**The Boeing-Airbus Dispute as Directly Addressed by Scholars**

As the only piece of scholarly work that examined the run-up to the earlier dispute between the U.S. and E.U. over commercial aircraft subsidies in the early 1990s, McGuire (1997) set out to understand a ‘non-event,’ specifically why a trade war didn’t occur between these two sides and how they ended up negotiating the 1992 Agreement.
He examines the negotiations in terms of three variables he argues may have shaped policy: the trade preferences of firms, the role of international regimes (the G.A.T.T.) and the role of the transatlantic alliance. McGuire specifically questions, with his research, why states would cooperate in a sector that is so critical to their national interest, especially since there are both significant economic and political incentives to preserve and promote domestic commercial aircraft firms.

He found that the key non-government actors in the decision to cooperate were actually the firms themselves, both Airbus and McDonnell Douglas (MDC) (which was still in business at the time) and in particular, Boeing. In his research he also found a significant amount of support for Milner’s original contention that export-dependent firms were less likely to support protectionist policies, as both companies were restrained in their desire to punish Europe for fear that an aggressive action would hurt their markets abroad (McGuire, 1997).

Though both companies felt that the Europeans were receiving unfair advantages it was actually MDC that supported filing a 301 case against Airbus in the late 1980s, while Boeing instead hung back. MDC quickly toned down its rhetoric due to concerns over its markets in Europe, however, and Boeing instead took the lead role in railing against European subsidies once it became clear that future Airbus programs would likely move into Boeing’s lucrative 747 market (Ibid). Nevertheless, while it was the threat to its most profitable product that finally got Boeing’s attention, McGuire argues that both companies were still not willing to back strong trade action because they feared retaliation.

According to McGuire, it was this persistent caution that convinced government officials that the firms did not desire unilateral American action against Airbus, and which ultimately contributed to a cooperative solution. The European firms that comprised Airbus also wanted to avoid the negative fallout of having a trade dispute dragged into the G.A.T.T., and McGuire notes that Airbus’ continued commercial success convinced its partners that its survival was no longer at stake and they could therefore accept some limits on government support.

Though he doesn’t emphasize the point – instead arguing more generally that it was the trade preferences in the firms that ultimately convinced government officials it
was better to negotiate than fight – McGuire’s findings on the importance of firms also lead to a curious conclusion, that the attitudes of the American firms towards Airbus shifted according to Airbus’ sales success and the potential threat that specific aircraft models posed to their own production lines. He points out that there were at least two instances in which American firms became more involved due to a threat to a specific product, including competition over the MD-11 and Boeing’s willingness to negotiate the 1992 Agreement in order to protect its position in the long-range market. In his formulation, Boeing wanted to achieve an agreement that would prevent government support for a product that would be a direct competitor to one of its own (McGuire, 1997).

Concerning his second variable, the alliance relationship, his findings were significantly less illuminating. He notes that this relationship was not particularly important to the specific negotiation but seemed to set a parameter that limited the willingness to escalate the dispute on either side (Ibid). Furthermore, he notes that the common national security concerns present in this alliance relationship may have played a role in the unwillingness to escalate the dispute into consideration of military programs (Ibid).

Finally, on the third variable – the influence of trading regimes – McGuire examined whether or not actors were reluctant to ignore the G.A.T.T. or flout its decisions regarding aircraft issues. He also thought that both actors should have been cognizant that the dispute was damaging the trading regime and that this knowledge should have curbed their behavior, as the durability of the regime should have been seen as more important than a specific outcome on the issue of aircraft subsidies. He found that the G.A.T.T. was central to the conclusion of the agreement, particularly since the preliminary G.A.T.T. decision against the German government’s foreign exchange rate scheme was an early success for the U.S. as it ruled that the main Subsidies Code and not the more general 1979 Aircraft Agreement could be used to hear aircraft cases (McGuire, 1997). This was seen as a blow to the Europeans, who seemingly wanted to take advantage of the unclear language of the 1979 Agreement on Aircraft. McGuire notes that the Europeans, fearful that the U.S. might press for a further case on European
support utilizing the Subsides Code, thus risking a ruling that their support was illegal, had a significant incentive to cooperate bilaterally instead.

Overall, McGuire concludes that the firms themselves played a key role in getting the states to cooperate to prevent a dispute. Furthermore, his work suggests that, in order to understand the position of firms, it is a good idea to pay attention to their own corporate strategy. He notes that firms may possess a range of more or less cooperative trade preferences depending on their particular interests (McGuire, 1997).

He concludes in particular that Boeing’s interest in the negotiations could not be completely understood without reference to its desire to protect its singular position in the 747 market (Ibid). Furthermore, the corporate strategy of Airbus was also a key factor as well; once they hit their psychological ‘sticking point’ of 30% market share, they felt more comfortable in negotiating some compromise on subsidy levels (Ibid). Finally, he notes that, at the time of publication roughly five years after the 1992 Agreement was negotiated, both sides had lodged sporadic complaints against each other on the continuing issue of government support. Nevertheless, he asserts that the Agreement appears to be seemingly successful in “acting as a restraint for both sides” (McGuire, 1997:176). As such, his analysis concludes that “it is the major aerospace firms and not the governments that see to the durability of the regime” (Ibid).

The rest of the scholarly attention specific to the Boeing-Airbus competition has come from economists who have mainly paid attention to the implications that the continuing frictions over subsidies had for the performance of both companies in the commercial aircraft industry. Nevertheless, their work calls into question McGuire’s argument that it was the firms that are seeing to the durability of the regime. In fact, their analysis suggests that the firms have been unhappy with the agreement all along, particularly given the continued success that Airbus had throughout the rest of the 1990s and into the early part of the millennium.

Carbaugh and Olienyk (2001) delve into further analysis of the 1992 Agreement. In tackling the question of why the American side did not press the issue of subsidies more forcefully in negotiating that agreement, they come up with five potential reasons. First, they argue that the American side may have not realized how instrumental the subsidies would make Airbus in the long term and that additionally, some sectors of the
U.S. aircraft industry – including engine manufacturers that provide products for both Boeing and Airbus – actually had a vested interest in Airbus’ success (Carbaugh & Olienyk, 2001). Airlines, too, benefited indirectly from the subsidies, as it allowed them more flexibility on the price they paid for aircraft – particularly with two equally competitive suppliers (Ibid). They also argue that the negotiators on the U.S. side lacked clear focus and direction when it came to which bureaucracy – the Commerce Department or the U.S.T.R. – should take the lead in negotiations (Ibid). Finally, the success that both American manufacturers still had at that time served to weaken the negotiating position (Ibid).

Carbaugh and Olienyk are the first observers to notice a potential breakdown in the agreement on the horizon, particularly given the decision that Airbus made in 2000 to produce the A380 super-jumbo, a plane that was likely to need a level of launch aid subsidy that violated the 1992 Agreement (2001). Furthermore, they described Boeing Executives as increasingly alarmed about the fairness of European government lending to Airbus, particularly for the development of the massive A380 and that plane’s likely challenge to Boeing’s most famous cash cow, the 747 (Carbaugh & Olienyk, 2001).

Another economist, Pavcnik (2002) describes the launch of the A380 as potentially provoking another trade conflict between the U.S. and E.U. He argues that, unlike in past, since this product will pose more of a direct threat to Boeing’s 747, the U.S. will be more insistent on pursuing a dispute and may potentially retaliate. Pavcnik notes that, while it has received little empirical attention, this industry serves as a textbook example of one in which “governments use trade policy to alter the strategic interaction between the domestic firm and its foreign rival with the goal of shifting market share and profits” to the former (Pavcnik, 2002:738). She points out that, in the past U.S. authorities and producers refrained from retaliating against their rival for fear that they would jeopardize their access to European markets, and that they have instead favored resolving their disputes in negotiations (Pavcnik, 2002).

Like Carbaugh & Olienyk, she argues that the most recent dispute surrounds the development of the A380 and the potential that it will significantly erode Boeing’s market share, thus enabling Airbus to emerge as the dominant aircraft producer (Ibid). Another source of conflict is the question of commercial viability of the A380 project and
whether or not the funding Airbus is receiving from member governments means that they are absorbing the true commercial risk of producing the mammoth airplane; she concludes that the commercial viability of the A380 plays a central role in the tensions between both sides (Pavcnik, 2002).

Pavcnik is ultimately optimistic in the potential outcome of these rising tensions, however. She asserts that, since the cost of an escalated trade conflict would be substantial as both producers rely heavily on other markets for customers, she argues that the reliance on foreign markets might end up deterring a trade conflict in the same way it prevented U.S. producers from filing countervailing-duty petitions in the past (Pavcnik, 2002).

Furthermore, she asserts that the retaliatory costs of a dispute in this industry are even bigger when the consideration that both sides rely on subcontractors for parts and components is taken into account, especially since the two producers are responsible for approximately 100,000 jobs in their rival’s territory and spend about $5 billion a year in buying parts and components from one another (Ibid). She asserts that “trade officials are aware of these costs and are hesitant to make the first move” (Pavcnik, 2002:749).

Irwin and Pavcnik (2004) re-visit some of these arguments and set out to examine whether the 1992 Agreement had a significant impact on the pricing of aircraft and what impact the introduction of the A380 might have on prices and market-share, particularly that of the Boeing 747. On the former, their analysis finds that observed price increases after the 1992 Agreement were consistent with the increases in firms’ marginal costs by roughly 5% (Irwin & Pavcnik, 2004). On the latter issue, they find that the introduction of the A380 could reduce the market-share of the 747 by up to 15%; however, they also find that it would reduce the market for the existing wide-body Airbus models by an even greater margin (Ibid).

They conclude that the previous negotiated agreement did result in a modest price increase; however, a far more important conclusion involves the potential challenge of new products to firms’ profit maximization over time (Irwin & Pavcnik, 2004). They argue that, as both of these rival firms continue to expand their product line, maximizing profits becomes more complicated “as demand for their existing models become more sensitive to the price and characteristics of new models” (Irwin & Pavcnik, 2004:225).
Finally, challenging the idea that the A380 will pose the most critical challenge for Boeing’s bottom line, their research suggests that the introduction of the A380 “will substitute most strongly for existing Airbus aircraft” instead of the 747, and that this extent depends on the price discounts that it offers on the new product (Irwin & Pavcnik, 2004:244).

Finally, as the rivalry between Boeing and Airbus appeared to be reaching a boiling point once more, Carbaugh and Olienyk (2004) extended their previous analysis, arguing that the main point of contention in the recent conflict is whether Airbus has been achieving market share on parity with (and even surpassing) Boeing since the turn of the millennium because it makes good products, or, as the U.S. side contends, because it has received significant government subsidies and other assistance that has given it an unfair advantage (2).

With regards to the American case, Carbaugh and Olienyk argue that it is not only the development aid (‘launch aid’) at the center of this dispute, but the fact that the U.S.-side perceives the conditions of these loans as being overly generous, including below market interest rates and better-than-commercial repayment terms (2004). According to the U.S., these practices violate the principles of the competitive market where commercial risk (and the possibility of failure) is accepted as part of the game; instead, they argue that Airbus is provided risk-free money (in an incredibly risky industry) that is not provided for Boeing (Carbaugh & Olienyk, 2004).

The Americans further argue that Airbus is thus capable of taking a huge gamble (the subtext being that this is precisely what they are doing with the A380) and if they fail, they will be bailed out by European governments. It is claimed that this advantage has enabled Airbus to develop a larger family of aircraft in a shorter period of time than if Airbus had been required to finance its program on ordinary commercial terms (Carbaugh & Olienyk, 2004). All of these scholars argue that there is a significant chance that both sides will be ruled against in the W.T.O. This would be a Pyrrhic victory at best, since they would both ultimately face higher costs of production as the advantages they acquired in the 1992 Agreement would disappear. They also argue that the case would send the wrong message to the rest of the world “at a time when industrialized countries should be leaders in the drive toward trade liberalization” (7). They conclude, however,
that this trade conflict “illustrates the struggle of firms that compete in a duopoly market structure,” particularly since the “market success of each firm is highly dependent on the price and output decisions of its competitor” (Carbaugh & Olienyk, 2004:7). They argue that the stakes of the outcome of this dispute are extremely high, however, not just for the economic and technology benefits but for the geopolitical issues that exist in this sector, especially since “the national security argument for nurturing and protecting aerospace companies has a long tradition in both regions” (8).

**Using Theories to Inform Variables Key to Understanding the Recent Dispute**

As demonstrated by this review the existing theoretical literature on the commercial aircraft industry does not sufficiently explain the aggressive re-eruption of this dispute and the lack of negotiation (cooperation) in this recent conflict. While there is very little literature that directly addresses this competition, several of the theoretical analyses that skirt this issue have provided some insight into the proper variables (and a way to organize them) that have informed the consideration of this manuscript. I will close this chapter with a more precise explanation of how the literature I’ve just reviewed informs the variables I’ve chosen to conduct this research.

**System-Level Variables**

These variables include a focus on the strategic/national security value of commercial aircraft production (informed by the economic perspectives that are most influential in considerations of this sector, including both Neo-Mercantilist and New Trade Theory) which in turn has informed the work of those who have advocated protection and have questioned the value of collaboration in this sector (Green, 1996), not to mention the repeated mentions (in virtually all of the literature) of the ‘national security’ importance of commercial aircraft production. Another systemic variable, Transatlantic Relations, is advanced in the work of Tucker (1991) and McGuire (1997). McGuire in particular has pointed to the importance of this ‘alliance’ relationship in his analysis of the previous dispute.

**State-Level Variables**

State-level variables include the commercial interest of firms, the importance of which has been advanced by virtually all of the scholars reviewed, particularly in works published in the last two decades; in particular, Milner and Yoffie (1989), McGuire
Another variable, the political environment (including the interests of policymakers and those in the trade establishment), has been mentioned as a significant factor in almost all of these works as well, particularly in Golich (1992), Ray (1995), Busch (1999) and Lembke (2003). Finally, I’ve included a consideration of culture and ideology, which stems from the differences I’ve observed from a comparison of literature advocating the support of American versus European commercial aircraft industry including Tyson (1993), Scherpenberg (1997) and Lungu (2004) and the observations of those who have studied international collaboration in this industry, particularly Golich (1992).

**Individual-Level Variables**

Finally, while it has not received that much attention in the literature I’ve reviewed, I’ve also included a consideration of elite behavior. It is my opinion that this variable has to often been subsumed under the ‘political interest’ heading, and its influence, particularly when it comes to considerations of trade, is often down-played. Baldwin (1996) in particular has argued that an understanding of how key decision-makers interact among various conditions calls for the inclusion of individual citizens as a key actor in their own right when it comes to making trade policy.

It is thus with the combinations of these variables that I have set out to uncover the questions posed by this manuscript: How should we understand the aggressive re-eruption of this dispute and the absence of a negotiated solution such as the 1992 Agreement? Did the much-documented ‘special relationship’ between states and firms in this sector play a major role in the re-eruption (and escalation) of this recent dispute? How?
Chapter Four: Description of Findings

The purpose of this chapter is to examine the responses from a series of interviews I conducted with key officials in American and European government agencies – along with representatives of the companies themselves – that are central to the dispute over commercial aircraft subsidies. The discussion in this chapter is divided into four sections. The first describes the key agencies that deal with this dispute. The second section details the job titles of those I interviewed. A third section describes both the broad categories of questions that I asked and the specific questions within each of these categories. Finally, the last section reports my interview results.

Key Agencies Involved in the Dispute

The central agencies in this dispute are, on the American side, the Office of the United States Trade Representative (U.S.T.R.) and, on the European side, the European Commission’s Directorate-General for Trade (D.G. Trade). In order to shed further light on the factors in this dispute I also conducted interviews with individuals at several other government agencies that are also involved and/or very invested in the outcome of this dispute. At least one of these individuals was previously employed at one of the agencies that are handling the dispute; their current positions allow them to speak more freely on the topic. Furthermore, I was also able to speak with several individuals who either work directly for the firms or are a representative of the firm in this case.

The Office of the United States Trade Representative

The Office of the United States Trade Representative (U.S.T.R.) was created by Congress in 1962, after the successful lobbying efforts of private firms that felt that the Department of State (which conducted trade policy through the 1950s) was not responsive enough to their needs (Shaffer, 2003). The post was raised to cabinet-level in 1974, and eight years later, authority over Super 301 decisions was transferred from the President to U.S.T.R. (Ibid). These developments reflected the influence of firms and their congressional allies who wished to shift power from agencies focused on non-export goals (such as the Departments of State, Treasury, Defense) to an organization that would be more ‘accountable’ to both firms and Congress (Ibid).

In its current form U.S.T.R. is the government agency charged with negotiating directly with foreign governments on trade agreements and disputes (U.S.T.R., 2008). It
further serves as a forum for public input on trade issues and a voice to explain the trade policy positions of the President (Ibid). As a part of the Executive Office of the President, U.S.T.R. is responsible for the development and coordination of American policy on international trade, commodities and direct investment (Ibid). Furthermore, U.S.T.R. is responsible for the oversight of trade negotiations with other countries (Ibid). The current head of U.S.T.R. is United States Trade Representative Susan C. Schwab, a Member of the President’s Cabinet and his chief advisor on trade, chief negotiator of trade agreements and main spokesperson on trade issues (Ibid).

U.S.T.R. serves an intra-agency role as the focal point of the American trade bureaucracy where various interests from a myriad other agencies coalesce. These agencies include the Departments of Commerce, State, Labor, Agriculture, Treasury, Justice, Health and Human Services and Transportation - even the Environmental Protection Agency. As described by U.S.T.R., through this interagency structure, the office “coordinates trade policy, resolves disagreements and frames issues for presidential decision” (Ibid).

The specific responsibilities of U.S.T.R. include bilateral, regional and multilateral trade and investment, the expansion of markets for American goods and services, agreements on commodities, negotiations over the price of imports, along with oversight of the Generalized System of Preferences (GSP) and Section 301 complaints against unfair trade practices (Ibid). Other responsibilities include trade and investment issues involving international institutions, trade-related intellectual property protection and finally, issues involving the World Trade Organization (Ibid). As it was described in more detail in the historical overview chapter, it is in this final role that U.S.T.R. became an important focal point for my research.

**European Commission-Directorate General for Trade**

U.S.T.R.’s European counterpart is the European Commission’s Directorate General for Trade (D.G. Trade). Like the U.S.T.R., it also relies on information provided to it by affected firms and industries to promote the European trade agenda (Shaffer, 2003). Nevertheless, because of the different ways that public-private partnerships operate in the European Union versus the United States, D.G. Trade does not operate exactly like its closest American counterpart. The influence of the E.U.’s member states,
which must approve its trade policy initiatives, is one important difference; a different type and number of contacts with interested firms – with D.G. Trade at times having to lobby firms to lobby it – is yet another (Shaffer, 2003).

Overall, D.G. Trade is responsible for the trade-related aspects of the E.U.’s external relations; it is in charge of implementing the common trade policy of the European Union. Its described agenda is to “secure prosperity, solidarity and security in Europe and around the globe,” and to shape a trade environment “that is good for people and for business” (D.G. Trade, 2008). Their stated responsibilities include negotiation of bilateral and multilateral trade agreements, “ensuring that the rules we agree to are actually applied,” along with working with the W.T.O. and other multilateral institutions (Ibid).

The Directorate-General for Trade covers a wide variety of activity including manufactured goods, services, intellectual property and investment in order to ensure “that our businesses can operate fairly in the E.U. and across the world” (Ibid). As such they resolve “to make full use of our powers to tackle unfair competition and dumping,” and work along with other areas of the Commission to deliver “coherent policies that strengthen Europe’s voice in the world” while providing an example from their experience of integration (Ibid).

As defined in its mission statement, D.G. Trade’s main roles include the definition and reappraisal of trade interests “in both defensive and offensive terms” of the European community, the negotiation of bilateral, regional and multilateral agreements on the basis of directives proposed by the Commission and adopted by the Council and the monitoring and implementation of international agreements “by using the W.T.O. dispute settlement system and the instruments for trade promotion or defense adopted by the Community” (Ibid).

D.G. Trade also is responsible for devising and monitoring internal or external policies which impact trade and external investments – including those involving the single market, consumers, health, environment, technology, competition, agricultural, energy, transport and other sectors (Ibid). It is also tasked to “ensure consistency” within the Commission’s larger External Relations group between commercial policy and general external relations policy, and is poised to allow the E.U. to contribute to global
economic governance (D.G. Trade, 2008). Finally, D.G. Trade is responsible for the provision of information to the public, industry, civil society and professional groups, along with the solicitation of their opinions “in compliance with the rules set down in the Commission’s code of conduct” (Ibid).

**Other Involved Agencies and Parties**

Because this case has already progressed considerably through the World Trade Organization’s Dispute Settlement system I interviewed several individuals who have been more directly involved in the legal process of the case, including the Boeing Company’s President for United States-European Union relations and a partner in the law firm which is currently representing Airbus in the legal proceedings.

I also spoke with both European and American officials who have a more indirect, yet still very relevant, interest in the outcome of the case, including those involved in the trade and aviation bureaucracies of both sides of the dispute. On the American side this included an official from the Aerospace Team at the International Trade Administration (Department of Commerce), the Economic Counselor at the U.S. Embassy in Belgium and the U.S. Foreign and Commercial Service and Federal Aviation Administration (F.A.A) Representatives at the U.S. Mission to the European Union. On the European side this included an official and Fellow at the European Parliament with previous experience in U.S.-E.U. relations and at D.G. Trade.

Finally, I spoke with an Editor for Bloomberg News who specializes in economic relations between the United States and the European Union and who has covered this dispute extensively.

**Interview Participant List**

Interviews were conducted between the months of September 2007 and February 2008 both in-person and over the phone. Each interview was conducted in English (all respondents were fluent), lasted approximately an hour and consisted of several questions with ample time for the respondent to expound on their answers and to bring up related issues. When it was possible and permission was granted interviewees were recorded. This research was approved by the Institutional Review Board for Human Subjects Research at Miami University in Oxford, Ohio.

**Interview Participants**
Interview Questions

While Neo-Mercantilist\textsuperscript{18} thought has often dominated theories regarding competition and conflict in this sector, New Trade Theory, with its emphasis on sectors with specific economic characteristics (and governments with more specific economic agendas) has more recently informed studies involving the aerospace industry. With respect to behaviors on the part of states there are many theories that have been suggested regarding why or why not cooperation on the long-standing issue of aircraft subsides might occur. One fact that has been firmly established is that this sector is important for both political reasons and the economic bottom line (not just firms themselves but also entire countries).

\textsuperscript{18} As defined in my literature review
The most recent research on this particular puzzle in the international political economy suggests several areas in which to focus attention in order to better understand the underpinnings and strategies on both sides of this dispute. These areas include the commercial interest of firms involved in the dispute, the behavior of interest groups (defined as the firms, Members of Congress and U.S.T.R./D.G. Trade themselves), elites involved in the dispute (the heads of D.G. Trade and U.S.T.R.), cultural and ideological differences, the strategic/national security value of the sector and finally, the trans-Atlantic relationship. Drawing from these disparate possibilities (and the fact that they appear to come from multiple levels of analysis) I came up with a list of interview questions that encompassed both traditional Neo-Mercantilist thinking in this sector and ‘New Trade Theory’ explanations. Prior to the beginning of each meeting I also asked a few questions on the background and potential outcome of the dispute. The following is a list of my interview questions, within specific categories of possible explanations.

General Background Questions

- In your opinion, what are the main issues behind this dispute?
- In mid-2007 I was told that there have been some ongoing negotiations on the dispute among the firms. Are these still going on? What are the prospects that an agreement could be reached this way?
- What has been the role of media in the dispute?
- What is the likely result of the dispute?

System Level Explanations

Trans-Atlantic Relations

- Has the transatlantic relationship played a role in the run-up to the dispute?
- Has this dispute had any long-term impact on transatlantic or NATO relations?

Strategic/National Security Value of the Sector

- Does the national security/military contracting side of this industry affect considerations in this dispute?
- Does the development of a European-wide army or the role of Airbus in European technological advance and military integration play a role in the dispute?
- It has been suggested by the aviation press that the tanker competition plays a role in this dispute – does this have any credence?
Role of W.T.O.

- Why go forward with W.T.O. case when its focus is on the past (and therefore will not provide that much in the form of discipline on subsidies in the future compared to a negotiated agreement)?

State-Level Explanations

Commercial Interests of Firms

- It has been mentioned by scholars that Boeing was reluctant to go forward with this case in the past. Why is it different now? What has changed?
- Do the new product launches (new round of development risk) of the A380 and A350XWB, along with the 787 play a role in this dispute?
- Do you think there is a connection between Boeing being less worried about alienating European customers now and Airbus’ growing market share?
- Is it possible that the dispute over subsidies is in itself a marketing tool? (Does it raise American airline doubts regarding Airbus products?)

Electoral/Political Considerations of Elected officials and Bureaucrats

- Was there something about the current political climate that made pursuing a case more palatable or urgent?
- Why is the E.U. defending launch aid when Airbus has now attained such a high percentage (over 50%) of market?
- Scholars have described that in the past, ‘fear of American dominance’ in this sector was so strong ‘it colored European attitudes towards the international trade regime?’ Does this have any credence?
- Does Airbus have a symbolic importance for Europeans aside from its contribution to the economy?
- Airbus has been described as ‘a symbol of E.U. integration.’ Is this a factor in the dispute?
- In your opinion who behind the promotion of this case - governments or firms?
- What role, if any, do political considerations such as the upcoming elections play in this dispute?
- What about the prospects of future third-country competition in this dispute. Does this play a role in the decision to negotiate?
Cultural/Ideological Differences

- It has been suggested that there is a difference in ideology between the U.S. and Europe on aerospace. What is your opinion?

Individual-Level Explanations

Personality of Elites

- Does the relationship among the top trade representatives play a role in the dispute?

Findings In Detail

I. COMMERCIAL GAINS

One thing that both the American and European officials I spoke with could agree upon was that launch aid was a critical factor in the decision to pursue this case. Another thing they seemed to agree upon is that the European case – while pursued with an equal amount of zeal, financial and political considerations – is far more reflexive in nature. It has thus been suggested by many individuals that I spoke with that commercial gains – specifically a better financial position for Boeing since they are behind the first case – is perhaps *the* key factor in both cases. The entire dispute seems therefore to hinge on the desire for Boeing to get ahead – in both the short and long-term. This dual strategy seems to consist of slowing down Airbus gains in market share and its ability to introduce new products while at the same time changing the rules in the long term by prompting a re-negotiation of the 1992 Agreement.

The latter was confirmed by a high level Boeing official, who admitted that Boeing was tired of the continued unfair advantage that Airbus received (legally, after the 1992 Agreement) of 33% of R&D support in the form of launch aid. Since this amounts to 1/3rd of the research and development costs of new products – roughly five billion dollars – this has been acknowledged by Boeing as key to their case. A Boeing official I spoke with indicated, since its competitor achieved over 50% market share by the late 1990s, it could no longer be claimed that Airbus was in need of ‘infant industry’ support, and that this therefore amounted to an unfair advantage that, while legal under the 1992 Agreement, could no longer be tolerated by the United States nor, as he indicated, by Boeing.
Furthermore, the R&D support Airbus received meant that, for the Europeans, the development of airplanes is a (financial) “risk-free endeavor,” which is a crucial element in the American case. In the opinion of this official, the one-third of development costs borne by Airbus’ European backers meant that “they can produce new aircraft far easier than us,” and, coupled with infrastructure support, amounted to a situation that could no longer be tolerated by the company. Furthermore, given the success that Airbus had achieved (marked by surpassing Boeing in market share and the early enthusiasm, and orders, for the A380) they were now a “formidable competitor,” and Boeing couldn’t abide by them receiving support.

The key role that commercial gains played in this case was further confirmed by those on the European side. Several officials I spoke with mentioned that Boeing seemed to be having a bit of difficulty around the time that the case was filed, including the unraveling of the fraudulent replacement tanker contract and significant loss of market share to Airbus. Furthermore, an official associated with Airbus asserted that Boeing’s self perception of having ‘invented civil aircraft’ and feeling that ‘this belongs to us - we would have owned it all (market share) if they would not have stolen it’ also contributed to the case. In his opinion, this case is about Boeing’s perception of themselves and their role in the world; he believes that the “reflexive opposition to launch aid” on the American side is “purely emotional” and based on an incorrect perception of what this aid really is.

Furthermore, he asserted that the filing of this case wasn’t necessarily traditional protectionism, as that implies Boeing owning its own markets; instead he persisted that the Boeing-Airbus fight is not about selling planes in the U.S. anymore but about the rest of the world. He pointed to the significant amount of production of the Boeing 787 farmed out to Japan as evidence of the company being ‘in bed with Japan’ and as a conscious attempt to expand their Japanese market share. Therefore, this wasn’t just about achieving short-term economic gain, but about this case prompting delays on the European side that lead to longer-term ramifications including making inroads in third markets such as Japan that Airbus traditionally dominated. Therefore, in his opinion the case was about both short-term and long-term competitive gains. Echoing this sentiment was a lawyer for the European Commission, who agreed that there “must have been
compelling commercial considerations,” for the Americans to pursue this case and walk away from the usual business of working together, “especially with a partner with which you have such a good relationship.”

An independent observer concurred that the American side could no longer live with its only competitor receiving 1/3rd of their research and development costs without going to the market. Furthermore, she indicated that there has been significant speculation that the case primarily came out of Boeing’s troubles in the late 1990s, and that pursuit of the case may have been an attempt to point attention elsewhere. She agrees that the timing of the case “is a curious thing,” and there are probably several factors that have led to the dispute, including problems at Boeing and the competition between new products on both sides.

Subsidies and Price Competition

Both sides allege that subsidies, be they direct or indirect, make a big difference in this duopoly sector. This is especially true as the R&D support (‘launch aid’ by the Europeans and indirect support in the form of military contracts and NASA aid by the Americans) given by governments can be passed along to customers in the form of price breaks (a practice that both sides have long accused each other of) which can have a profound impact on sales numbers. It is a long-accepted truth that aircraft do not have real prices – the price charged is often a result of tense negotiations with the addition of none too subtle geopolitics. Undercutting the competition on price is often one of the key ways that one side tries to attain a leg up on the other. One of the most acrimonious fault lines in the Boeing-Airbus relationship is the long-held perception on the American side that Airbus’ government support has allowed it to undercut Boeing on the price charged for aircraft. With its case, the Europeans have responded with their assertion that Boeing receives the same sort of support, though indirectly, with the same consequences. Since this competition is perceived as a zero-sum game (i.e. an Airbus product sold automatically translates into an unsold Boeing product) and airlines often will buy multiple products from the same producer in order to attain familiarity for their pilots, price is a critical negotiating tool.

The importance of price as a negotiating tool was confirmed by an American trade official with an expertise in aircraft. In his interview he indicated that airlines need
to have competition to be able to afford airplanes and – to the extent that a competitor has been subsidized – this puts significant pressure on Boeing to lower its prices. In his opinion, Boeing officials made the decision to launch the case because they felt that the support given by other countries was really hurting them and that therefore pursuing this case was in their interest. Despite the assertion that Boeing’s commercial interests were behind the case this American official went on to emphasize (predictably) that this litigation was really about the best interests for the United States against unfair competition from the European Union, not for any one company.

According to a Boeing official I spoke with, Europeans continue to (unfairly) depend on and defend launch aid because it is something they have enjoyed – their “favorite toy” – and something which has helped them “enormously.” As such, he asserts that they just aren’t willing to give it up. In his opinion, the Europeans cannot force themselves to get rid of this support, as it would be akin to having your rent suddenly tripled. He observed, “you will fight to the death to prevent that from happening.”

For their part, several European officials I spoke with challenged this conventional view of launch aid, and even balked at the term, insisting instead it was ‘repayable launch investment.’ Furthermore, several insisted that Boeing (and by extension, their government backers) have an incorrect view of launch aid, with one official noting that “things have changed in the relations between member states and Airbus.” They note that this support is not a product of “a cozy relationship” between national governments and the company, but instead something which Airbus only receives if it can demonstrate it is a necessity. Furthermore, in keeping with their case, several European officials were quick to point out the ‘indirect’ support received by Boeing from the U.S. government.

**Loss of Market Share and Financial Problems at Both Companies**

Directly related to the issue of price, the results of the interviews suggest that market share (particularly Boeing losing its edge for the first time in company history) likely played a key role in the decision to file a case. The realization that Boeing was facing a unprecedented loss in market share seemed to set off a lot of alarms in Washington as well, giving Boeing the political muscle it needed to pursue the case. It is useful to note, however, that while it may have initially seemed prudent for Boeing to file
its case because at the time it was losing the market share battle against Airbus, such concerns might actually have been mitigated now, at least temporarily, as both sides have full order books. Therefore, it might be more difficult now for Boeing to make the argument that they lost major market share and therefore were injured by European subsidies. Nevertheless, an American trade official I spoke with dismissed this prospect, asserting that they wouldn’t have taken on the case if they couldn’t win and that this case is about more than just proving injury to its market share.

In the European view this case came about because of the intersection of two crucial factors - a weak or more sensitive Administration, and a second factor, “someone panicking in Seattle.” The response of the Administration to the panic at Boeing in turn lead to a situation “where both parties are ready to attack the other,” and are “paying lots of money to lawyers to collect information” and pursue a negative strategy to discredit each other and come out ahead. He also suggested that the bad performance of Boeing in late 1990s/beginning of 2000 (when Airbus overtook Boeing for the first time in number of orders) provided an economic rationale. This strong economic rationale also coincided with the spoiling of relations between the United States and Europe in the run-up to the Iraq war, which led to greater political support for taking on the fight. Furthermore, in his opinion, the head of the respective trade bureaucracies did not have the kind of relationship which may have kept the dispute contained.

An official at D.G. Trade, while playing down political factors, concurred that concern for Boeing’s loss of market share in the late 1990s was probably a salient factor in the dispute. He pointed out that many factors have changed since then, including the chairmanship of Boeing and the overall economic health of the sector. He also pointed out that Boeing now has “a lot of products in the pipeline” and instead might be more motivated to ensure their market position. In his opinion, the decision to pursue this case seemed to be primarily motivated by the need to ensure “no direct competitor to Boeing.”

In the opinion of one American trade official, financial concerns were also squarely behind the European case. He points out that, after spending 13 billion dollars developing the A380, “I think even many Europeans would agree it has not been as successful as they wanted it to be” and therefore the European case against the U.S. might also have been a desperate attempt to gain a financial edge. He went on to offer
additional evidence of this financial bind, quoting Airbus Executive Tom Enders as saying recently that the company was in a financial crisis, especially because of currency problems and difficulties with the ‘Power 8’ restructuring plan. He suggested in his interview that Airbus strongly needed government support to stay afloat.

**Competing Products**

While reports in the press seem to indicate that a key part of Boeing’s strategy in filing the case was stopping the A380, many officials I spoke with on the American side, including one high level official at Boeing, asserted that the case was actually much more about the A350XWB, a product seemingly designed to challenge Boeing’s new 787 directly. A lawyer for Airbus asserted that this was a foolish position for Boeing’s lawyers to take as preventing a potential competitor is “outside the panel’s point of reference” and “is the wrong venue” because the W.T.O. looks at past injury, not into the future. Nevertheless, the entire case seems heavily informed by the competition that the A350 posed for Boeing’s heavily-touted comeback vehicle, the 787.

During several interviews it was acknowledged by officials on both sides that the fierce competition between the different products itself stems from a clash which began in the early 1990s over the future of air travel. The question revolved around whether or not airlines would continue to pursue the traditional hub and spoke system (thus necessitating ever larger planes to compete for a dwindling number of airport slots), which would favor the larger Airbus product. If growth in the sector instead come from airlines pursuing more of a point-to-point commercial strategy, this would favor the Boeing 787. The way in which the Europeans rushed to develop (and insisted on requesting launch aid for) the A350XWB (a direct competitor to the 787, which was perhaps the proverbial straw leading to the entire dispute) seemed to indicate that the point to point strategy might have won. Nevertheless, when the case was filed several years ago it was the Europeans, their order books full of A380s, who seemed to have grasped the future of air travel, and the Americans who seemed preoccupied with being left behind. Both sides have thus had their share of financial setbacks, and the competition between these three products, first the A380, then the 787 and finally the A350XWB, seems to have greatly informed the cases of both sides.
The aforementioned early enthusiasm for the new A380 likely contributed to the development of an offensive posture on the part of Boeing, yet according to a Boeing official, the opening of launch aid spigots for the A350XWB, particularly given its early research and development problems, hammered home the necessity for a case. In his opinion, the delays that Airbus encountered over design problems meant that a lot of time (and market share) was lost, to the benefit of the 787. In his opinion, it was this situation which led to the request for launch aid for the A350, and which could not be tolerated by Boeing or its backers.

**Improving Boeing’s Negotiation Stance**

Finally, it has been suggested that the American case might have been filed, at least partially, to both force the issue and improve the position of negotiators in a new ‘1992 Agreement.’ This seems plausible particularly since the American side remains optimistic that the Dispute Settlement panel will rule against European launch aid in some fashion, and that therefore launching a case might be an important tactical maneuver to force the issue (and gain the upper hand). This possibility has been suggested by an independent observer to the case, and reiterated by several officials on both sides.

Viewed in this light, the refusal (attested to by several officials) on the part of the United States to negotiate unless the Europeans dropped all launch aid (to be discussed more in detail later in this chapter) might be viewed as a further maneuver, rather than (or perhaps in addition to) a strong-arm tactic. The view expressed by an official at U.S.T.R. that launch aid is too much of a political hot button and necessity, particularly given Airbus’ importance in creating European employment, might give further credence to this theory, providing evidence that the American side believes that only a W.T.O. ruling would create the necessary political space for a dialogue on ending the support.

One independent observer believes that this theory might have had more credence had negotiations begun in earnest and then failed, instead of the United States putting unreachable conditions on the negotiations from the outset. This echoes the admission of a Boeing official that to refer to these as negotiations would overstate the reality which involved only contacts that went nowhere. Nevertheless, as I noted, the unreachable conditions might themselves be a tactic to force action on the part of the Europeans.
Based on my interviews it is certain that American trade officials and officials at Boeing are unanimous in their belief that, by the time the case was filed, they could no longer abide by the 1992 Agreement, and that, given the enormous financial benefits that they believe it gave to the Europeans, a renegotiation was long overdue. It thus seems well within the boundaries of logic that by forcing a case they were forcing the issue, and at the same time addressing the financial concerns that appear to be at the very heart of this dispute.

II. ROLE OF POLITICS

As I indicated in the overview, financial interests were the lead factor in this dispute, yet the political considerations served as the vehicle for the case to move forward. The reality is that the only way that two opposing cases could end up in Geneva was if there was political support for moving forward, and in this particular instance, both sides found pretty fertile political ground for pursuing cases against each other. This meant that, while not behind the dispute per se, the politics surrounding it greatly enabled the dispute to occur.

American officials repeatedly downplayed the possibility that a political agenda against Airbus was behind the case, asserting again and again that filing the case was merely a way to ‘level the playing field,’ and that there was no interest in distorting the market to Boeing’s favor. One official maintained that his role was to “create an investment climate” that allows American companies to compete. Time and again American officials I spoke with maintained that the government position was that “competition is good.” Furthermore, they asserted that they do not have a problem with Airbus per se, yet they maintained that Airbus “should operate like a private sector company” and not receive government subsidies and that they were willing to litigate to force this if necessary.

Perhaps not surprisingly, this is in stark contrast with the way American officials were portrayed by a lawyer for Airbus. He asserted that those involved in the American case have all ‘drunk the Kool-aid’ in their blind support for Boeing and riled themselves up to the point where, against logic, they couldn’t make themselves stop going forward with the case. In his opinion, “these guys are religious fanatics,” in their support for Boeing and their belief that Airbus didn’t operate according to the market rules; he
further asserted that, in filing this case, they “started something they couldn’t back out of, just like in the war in Iraq.”

Nevertheless, other American officials I spoke with maintained that politics “came second in this issue” and that any connection to the lull in U.S.-E.U. relations in the run-up to the filing of this case (informed much by the refusal of the U.S. to take advantage of multilateral venues to solve foreign policy problems) were moot because the American government did indeed act multilaterally by taking their problems with Europe over subsidies to the World Trade Organization. However, according to Europeans I spoke with, the unilateral action of pulling out of the 1992 Agreement and going forward with a case against the E.U. was not at all demonstrative of the type of diplomatic solution that they would have favored, regardless of the fact that the W.T.O. is ostensibly a multilateral venue. As I’ll discuss more in-depth later, it was in fact this move that was deeply insulting, and which triggered a strong European response in its own right.

It was acknowledged by several American officials I spoke with, however, that it was entirely possible that Boeing found particularly fertile ground in the U.S. trade bureaucracy for several reasons. Among these reasons were shaky transatlantic relations, the run-up to the 2004 election and a general feeling of uneasiness with the U.S. economy. He went on to point out that, even though politics may have been invoked, “this began as a business competition issue, and both sides brought politics in later.”

Political support for going forward with the case also was informed by the longstanding clash in ideology over the proper role of government in setting industrial policy. The United States vocally maintained (or at least gave lip service to) a more ‘hands-off’ approach, whereas Europeans openly supported the industrial policy that turned the ‘national champions’ that comprised Airbus into a European champion. Furthermore, the Europeans continue to maintain that Airbus should be used as an example for future endeavors in other high-tech sectors of their economy. An American official pointed out that their view was that the creation of Airbus was a political decision with little economic justification at the beginning, and that it was a political decision to subsidize Airbus, along with continuing to offer it support to this day. As mentioned earlier, the fact that these (thought to be) politically-motivated subsidies allowed Airbus to undercut Boeing on prices meant that it wasn’t difficult to attain the political support necessary to
go forward with the case. In his opinion, it wasn’t the trade bureaucracy that went out looking for a fight, yet Boeing “found fertile soil within the administration” and that, “probably, from a political perspective, it was the best time to file a case in years.”

Raising questions that the particular ideology of the current Administration might have also been a contributing factor, this official openly questioned whether the case would have gone forward under a previous Administration or in the absence of a battered political relationship between the U.S. and E.U. He did indicate, however, that in timing the case when it did, Boeing must have had it in its calculations that it would have found a trade bureaucracy that was willing to ‘take up arms’ in its defense. Like other officials, he indicated that the trade bureaucracy took a backseat to Boeing’s interests, maintaining that it was the firm that was behind the case, not the bureaucracy. He concluded that if Boeing didn’t have a complaint or if it instructed U.S.T.R. to back down there wouldn’t have been a ‘full court press’ behind the case, even if it clearly violated trade laws.

Nevertheless, several American officials maintained that political concerns were not the main calculations to go forward with the case. They did acknowledge, however, that the political conditions meant that there were far fewer extraneous issues that might have slowed down the process of Boeing pursuing legal action with the Administration at their side. Certainly the economic situation of Boeing at the time – and with Airbus looking as though it was going to strike it big with both the massive A380 and the direct competitor A350XWB – created a situation in which action seemed necessary on the part of Boeing’s political patrons.

Echoing my discussion of financial considerations, this official indicated that the political decision was easy once Airbus announced it would request launch aid for the A350. He characterized this decision as a “strike at the heart” as it seemed to indicate that the 1992 Agreement was “open-ended” and that “subsidies weren’t really ever going to go away.” Political officials and Boeing agreed that Airbus was no longer an infant industry but rather was a mature competitor that was still receiving a extensive amount of very cheap financing, something that Boeing could no longer accept. As such, he indicated that this was a very good time for Boeing to go to Washington, and officials there – on both sides of the aisle – were very receptive.
It is entirely possible that Boeing may not have needed an especially receptive audience, however. One U.S.T.R. official I interviewed openly acknowledged that each one of their cases “has a private interest behind it” and that they aren’t going to file a case “unless there is a domestic company that wants this.” He maintained that the relationship is reciprocal, however, because U.S.T.R. needs the information and expertise of the firms involved in order to make a successful case, particularly since “sometimes they see problems that we don’t.” He maintained however, that U.S.T.R. does “choose (its) battles,” and that they aren’t going to throw their resources at every problem, but will instead chose to focus on the ones most worth fighting for.

For their part European officials I spoke with insisted that the decision by the American side to go forward with the case “broke the balance” and thus prompted their own response. They maintained that they would have never filed a case had the United States not done so first. In the opinion of one European trade official, the U.S. case against them indicated a “sign of weakness” on the part of the Administration. He viewed this behavior as another example of bowing to political pressure by a specific industry, not unlike the steel safeguards a few years earlier. Furthermore, he maintained that the outrage on the part of the Americans was particularly irksome as it was pretty clear that the American commercial aircraft sector received its own brand of support and he averred that “it is a myth that everyone but the United States provides subsidies.”

He also pointed out that it is close to a universally accepted truth that subsidies are very common in the aerospace industry. As further illustration he pointed out that the W.T.O. ruling on small aircraft involving Canada and Brazil did not successfully stop their subsidization, and asserted that this meant that “big companies never follow the rules completely.” One thing he did agree with the American officials on was that it was entirely possible that the political atmosphere in both the United States and Europe removed many of the constraints that kept the U.S. and E.U. hewing to the 1992 Agreement up until the American pullout, at least in letter if not in spirit.

It is a bit of a challenge to compare directly the European political process in the run-up to this case with that of the United States due to the difference in political structures and administrative cultures. A European official I spoke with acknowledged that they were also in close contact with individuals at Airbus throughout this case. In
particular, officials relied upon their expertise to inform the European case against Boeing. In other words, he describes a situation akin to the relationship between U.S.T.R. and Boeing. He went out of his way, however, to make the distinction that the legal service of the European Commission does not see itself as the legislative (or litigation) arm of Airbus, “as U.S.T.R. might be for Boeing.”

Furthermore, in contrast to the bold support for Boeing offered by American officials that I spoke to, European officials made it a point to indicate that Airbus “is an independent company” with “other stakeholders besides the national governments.” They further indicated that, in direct contrast to the conventional wisdom in the United States not to mention the kind of blanket support that they feel the American government gives Boeing, the European Commission is fully capable of deciding whether or not to support Airbus on the basis of compelling economic interests without allowing national interests to cloud their judgment.

The Political Role of Launch Aid

Several American officials I spoke with expressed doubt that the E.U. Commission could eliminate something as politically important as launch aid, despite its central role in the dispute. An official at U.S.T.R. openly wondered what it would finally take for the Europeans to rid themselves of this vital support that has also been a significant thorn in the American side. European officials that I spoke with resented this type of assumption on the part of the Americans, particularly that ‘launch aid’ was a given in the European relationship to Airbus. Several officials maintained that support for Airbus was not automatic and that it was a mistake to think that, as the company must justify all requests for support, which are in turn judged on their merit. Another official concurred with that sentiment and insisted that this support be considered an investment on the part of European governments and not a bald giveaway.

Nevertheless, an independent observer of the case points out that the support is likely to persist as getting rid of it requires lots of “different hoops to jump through” for the Europeans. Despite this, several European officials I spoke with indicated that main issues surrounding the dispute weren’t that complicated and could actually be solved “in a few days,” given the necessary political will. In stating this, however, they strongly alluded to the need for the American side to stop insisting that all launch aid be
eliminated before even sitting down at the table. In the meantime, however, officials agree that the case remains an important “political football” for both sides.

**New Chapter in Political Relations?**

It is perhaps interesting to note that several European officials I spoke with seemed optimistic that a political opening in the case was imminent. One official indicated that he found the second Bush Administration (notably, after the 2004 elections) to be more open to dealing with problems in a more multilateral manner. Nevertheless, as indicated by several officials on both sides, there has been hardly any movement towards the type of negotiations that led to the 1992 Agreement and which ended the march to the W.T.O. at that time. Instead it seems that, as both cases gradually filtered through the W.T.O. dispute settlement system, the political will to talk (what little that may have existed at the beginning) continued to dwindle.

As the inevitably that some aspects of both sides’ programs will be ruled illegal set in, several officials I spoke with indicated that the next round of discussion will probably not take place until the first panel ruling, and only after the dust from the political fallout settles. One European official acknowledged that “it is likely that whatever the final decision is of the W.T.O., it will require legislative changes – and changes to the way that governments support is structured” for both sides. He conceded that these changes will likely have negative economic and political ramifications for both sides. By contrast American officials that I spoke with seemed far more optimistic that a ruling will be in their favor, perhaps indicating that filing the case constituted a political move on their part intended to gain the upper hand.

One interesting finding that came from my interviews was the belief – coming only from Europeans – that the results of the upcoming U.S. presidential election might create an important political opening that hasn’t existed in the past. Several American officials and one impartial observer also told me that Europeans involved in the dispute had indicated this to them in different situations. They were puzzled about how to interpret this expectation, but a probable explanation involves their sincere belief that a change in administration could produce a change in the defiantly pro-Boeing political atmosphere. Since the 2004 presidential race seemed to be one of the many political factors to play a peripheral role in going forward with this dispute, it is quite possible that
this idea stems from the European expectation that a Democratic administration will take over in 2009. This in turn might have led to their conclusion that the ‘dogs might be called off,’ or at least might back down, and that a political change might lead to an opening for negotiations in earnest.

Despite the differences between the political and bureaucratic structures, not to mention ideologies, between these two sides, it remains pretty evident from the interviews that the relevant government authorities had their own interests behind these cases. Furthermore, even if they might have had differing levels of enthusiasm, they didn’t falter in their vital role in moving these cases forward.

III. CULTURAL AND ADMINISTRATIVE DIFFERENCES

While financial considerations may have been the primary catalyst for filing the case, and politics provided the forward momentum, the contributions of cultural differences served an important role in shaping the nature of this competition. As I mentioned in the overview, cultural and administrative differences between the two sides of this dispute seemed to play a key role in both igniting the competition and keeping the fires stoked. Chief among these differences was the more traditionally litigious nature of the American side and the closer relationship between the trade bureaucracy and industry in the United States as compared to their counterparts in Europe.

‘Overbearing’ Americans and Preconditions on Negotiations

It was indicated to me in several interviews (both with European officials and independent experts on the case) that the Europeans were genuinely insulted by the way that the American side pursued this case. An American official I spoke with also admitted to me that he was aware that pulling out of the 1992 Agreement did indeed ruffle many European feathers. European officials I spoke with felt that they, like the Americans, wanted a ‘level playing field’ in this industry. Unlike the Americans who felt that the 1992 Agreement had long served its purpose and was in desperate need of renegotiation (because of the ostensible benefits it conferred on the Europeans) they instead emphasized that the bilateral agreement did provide the needed discipline on government support. Furthermore, since only such an agreement, in their opinion, could provide that discipline, the way to ensure a ‘level playing field’ was to file a case of their
own. Nevertheless, even a lawyer for the Commission’s legal service pointed out that “there were other ways besides litigation” to have accomplished this end.

In addition to their disgust at the way that the U.S. side prompted the case by unceremoniously pulling out of the Agreement, they also were insulted by the “unacceptable demands” (namely, getting rid of all launch aid) on the American side that were made a precondition of negotiations. In their opinion, it made it look as if the U.S. was not interested in negotiations at all and was instead more focused on blaming the European side rather than working towards a new agreement. A non-partial expert observer of the dispute concurs with this assessment, asserting that the American side has been far more ‘bullying’ in this case, and has been extremely rough and ‘in your face’ in dealing with the Europeans, while their counterparts have behaved more professionally.

Furthermore, the fact that the U.S. put “unrealistic” preconditions on negotiations made efforts to come together on a solution “unproductive and unnecessarily adversarial.” In her opinion, any statement by officials on the American side which seemed to indicate they were ‘open to negotiation’ was a far contrast from reality and from the European stance. It should be noted, however, that it is not that the Europeans haven’t engaged in behavior to try to attain the upper hand, including scathing criticism of the American side; instead the way they have represented their interests throughout the process has been far “more subtle and more conservative,” in contrast to the U.S. side, which has instead “gone for the throat.”

The aggressive nature of this case from the very beginning was reiterated by a Boeing official, who admitted to me that there weren’t any serious negotiations prior to the run-up to the dispute. As he explained it, “there were some feelers, discussions, contacts” but no serious conversations, “only talks about talks, not negotiations.” He further indicated that both sides couldn’t agree on an agenda because of the American precondition that launch aid has to go. The Europeans concur with this account, stating that the preconditions on beginning negotiations were inappropriate because the objectionable forms of aid were “explicitly allowed under 1992 Agreement.”

The callous way that the Americans approached the possibility of negotiations underscores the suggestion that filing the case was an explicit attempt to force re-negotiation of the agreement, preferably after the W.T.O. dispute settlement panel issued
a strong ruling against launch aid. The way in which a Boeing official dismissed the importance of the 1992 Agreement was further evidence of this, casually stating that “this type of agreement usually last for only about ten years anyhow – so it’s time for it to be renegotiated anyway.” Based on multiple conversations, it quickly became evident that both sides held extremely different views of their obligations under – not to mention respect for – this agreement.

**Ideological Differences**

There also remains a deep ideological division on the role of the government in the economy. One European official I spoke with emphasized programs such as the 7th Framework Programme, a European law that allows funding for basic research and whose usefulness is in its employment-creation potential. In doing so he emphasized the great difference in ideological bents that still exist on both sides. Europeans remain unabashedly supportive of programs that create jobs and which exist to sustain and create opportunities in the best sectors of the economy (particularly high-technology). At the same time, as evidenced by the dismissive views of American officials, such a desire to be involved in the economy does not exist in the United States; on the contrary, there seems to be (or at least lots of lip service was paid to) a strong ideological aversion to such involvement in the economy – at least in the very public, trumpeted way of the Europeans. It is curious, however, that several European officials I spoke with also pointed out that they felt that a Republican president would herald more promotion of ‘free trade’ policies – but have been deeply dismayed by the results. One European I spoke with told me that the “Bush presidency has not been as moderate as it could be,” and wonders what will happen in further talks with the Americans on the Doha round of trade talks.

The American side was quick to emphasize their view that this is an issue between the world’s two biggest economies and two competing models of ideology, one of national champions in Europe and a strong pro-market inclination among the Americans. One American official emphatically made the point that in Europe they “like to have national champions,” and even wondered aloud whether this might increase given the rhetoric of the new French president and his desire to reach back to its dirigiste past. In the words of a Boeing official, the problem with these different ideologies is that they
lead to a wildly different view of a ‘level playing field.’ True to this observation, based on my conversations, the Europeans seem to want to renegotiate an agreement that allows for some support, and in doing so, argue that they more realistically acknowledge the true costs of doing business in this sector. This assertion was echoed by several officials in Europe, particularly because of the extreme economic stakes of the sector, the importance it has for politicians and the way Airbus itself was created.

For example, a lawyer for Airbus went out of his way to point to the practical need for subsidies, asserting that they “exist in high-tech industries” and that they are “required because barriers to entry are so high.” In his opinion, rather than fighting about them, both sides should be using them in positive ways, particularly to keep out the competition. Furthermore, he asserted that - while they busy themselves pursuing this case – Boeing and U.S. officials are “blind to the upstart competitors” in this market, including those such as Embraer who already produce small airplanes.

By contrast, one American official I spoke with openly expressed disdain for the European way of supporting industry. He began by emphasizing the “much stronger role” that Europe allows for in specific sectors such as state-run insurance companies, banks, post offices, airlines, telephone companies and even aircraft manufacturers in the past. He went on to question why these ostensibly private sector activities are being supported by governments. Turning to Airbus, he pointed out that European governments have a financial stake in its success; as he described it, if they don’t do well, they lose money. By contrast he expressed relief that the U.S. government does not have such interests in its own aircraft companies, stating, “We don’t tell Boeing how or when to build aircraft,” – they don’t come to us and ask if it is ok to build the 787 – “like Airbus ministers do.”

He went on to describe conversations with officials from Airbus member states in which they have attempted to make a case for launch aid and portrayed this support as a great deal for governments because it is going to be repaid eventually. He dismissed this idea, posing the rhetorical question, “when did governments get into the business of making money?” and noting that “this isn’t the purpose of government.” He further questioned the validity of claims that Airbus gets this support on commercial terms, wondering if this is the case, “why not get them from a bank – like Boeing does?” When
coupled with the European stance which sees support in this sector as ‘natural,’ this conversation did much to underscore the great difference of the two ideological positions.

**Culture and Administrative Differences**

Besides the issue of personality and ideology, important cultural differences seem to play a specific role in this dispute. Specifically, it is the view of those on the E.U. side that Europe would not have initiated this dispute. Given their defense of subsidies, particularly launch aid, this seems quite a coherent view – they weren’t likely to put such programs in jeopardy seemingly to get a legalistic edge over their counterpart. By contrast, in filing its case (and expecting the Europeans to file one in response) the United States was seemingly willing to risk criticism for its own forms of extra support from the W.T.O. panels.

One conclusion, on which there is remarkable agreement on all sides is the idea that the W.T.O. is likely to find some fault on the part of both sides in these cases. It is perhaps important to note that the Americans see this possibility as in indication that the W.T.O. does not like to hand out ‘one sided’ rulings. They suggest that only in the interest of balance (not necessarily because its programs are ‘illegal’) the W.T.O. might find fault with certain elements of support to Boeing. The very real possibility that both sides will have to change dramatically their support is acknowledged and accepted – but the prospect of this obviously has not served as a deterrent for the American case at all. This idea is supported by the overwhelming enthusiasm that the American officials I spoke with have for this case; they are very confident that they will win, and win big.

Putting aside the merits of both cases (and the overconfidence in the American case against Europe in particular) it is worth noting that while European officials I spoke with were exceedingly polite in indicating this to me, they nonetheless gave the impression that that they felt this case was yet another example of the overbearing, litigious and bossy American culture. One official indicated to me that Europeans would have much preferred to seek a compromise rather than initiating this dispute and that they are far more reluctant to use legalistic avenues to solve problems.

Perhaps one of the reasons for this aversion to litigation is that the more complicated administrative and political culture of the European Union, and in particular, the European Commission finds it difficult to act against the majority of big states,
including the two pillars of Airbus, France and Germany. As described in Shaffer (2003), under such conditions, the process of starting a trade war in Europe is far more complicated. While this issue wasn’t really touched on in my interviews, the fact remains that the Europeans I spoke to, in direct contrast to the Americans, were far more averse to litigation – this was true even with their lawyers!

**Which Rules to Follow?**

When asked why they felt that efforts to negotiate this most recent dispute have failed (especially when compared to the efforts leading up to the 1992 agreement) a representative on the U.S. side unequivocally stated that the Commission “has not been willing to meet the central condition that we have asked, which is to stop launch aid.” In fact, this official went on to remind me that negotiations made prior to the 1992 agreement were only begun after the United States initiated two cases in the G.A.T.T., in one of which a panel decision was made for the U.S. (and blocked by the E.C.). In his opinion, it was only when the U.S. went ahead to initiate a second case (which they felt strongly they would also win) did the Commission make the decision to negotiate – essentially when their feet were to the fire.

As he described it, since the 1992 Agreement was signed, a better discipline on subsidies has been established in the W.T.O. – one which indicates that launch aid should stop. This view was echoed by another official, who noted that filing this case under the subsidies code provided the Americans with a stronger case than using the bilateral agreement. Based on these conversations another key aspect of the dispute is disagreement on which rules to follow. Europeans are happy with the 1992 Agreement, presumably because it allowed them to subsidize to the tune of 33%; by contrast the U.S. wanted to negotiate a new, more stringent agreement, prefaced by the stronger subsidies code that has come into existence since then.

**The Role of Elites**

In contrast to the disparaging tone I often encountered from American officials, some E.U. government officials I spoke with expressed the belief that the conflict didn’t have to become as personal as it has, and were of the opinion that the tone of the dispute stems from cultural clashes, including the personalities at the top of the trade bureaucracies. One official, who spent many years working on trade issues at the
Commission, asserted that the strong relationship that existed between former head of D.G. Trade Lamy and U.S.T.R. Zoellick were such that, had they stayed at the helms, this dispute “could have been avoided.” This sentiment was echoed by others who pointed out their relationship as one which was based on mutual respect, unlike current head Mandelson and the individuals who have served as U.S.T.R. since the departure of Mr. Zoellick. This personality difference is likely to have been exacerbated by the ‘revolving door’ that exists at U.S.T.R. where top posts are often not served very long by the same individuals.

The importance in the change of leadership was echoed on the American side, with an official at Boeing asserting that the Zoellick/Lamy combination could likely have negotiated an agreement without the intervention of the W.T.O. Several officials noted that Mandelson, portrayed as having a difficult personality, did not develop the relationship with his American counterpart that Lamy had, and that any conversations that may have been going on prior to his departure ground to a halt. One European noted that, had Lamy stayed on, he would have been “more capable at keeping the peace,” presumably since he wouldn’t have reacted with as much vitriol to the initial American actions as his counterpart did. Nevertheless, one observer suggested caution in putting too much stock into the “elite theory,” particularly since it is mostly lower-level personalities that are more directly involved in the day-to-day work on the dispute. Yet it is worth noting that the problems in this relationship were mentioned by many individuals I spoke with on both sides.

Potential Competitors Not Enough to Bridge the Gap

Despite their cultural differences, both sides are in remarkable agreement as to the need of finding a compromise in order to face future competition, particularly quickly developing and industrializing countries such as China. I heard frequently, and in conversations with both American and European officials, that there are “very established” economic links between these two sides and that they both face similar problems including moving forward in a post-industrial economy and facing competition in the form of fast growing economies in Asia and South America. It was agreed that there is therefore little light between the economic interests of the two sides and that in particular they are “more similar than we think” and that we “should not be hung up on
symbolic issues.” Several officials reminded me of initiatives designed to promote
greater economic cooperation between the United States and Europe including bilateral
bodies between the European Parliament and the U.S. Congress. Nevertheless, it is useful
to note that, despite the realization of potential competitors and no shortage of initiatives
designed to make both sides work together, efforts to prevent the dispute seem to have
never been seriously considered due to the intransigence of both sides.

IV. NATIONAL SECURITY CONCERNS

As mentioned earlier, even though scholars have repeatedly made the claim that
governments will frequently position themselves to protect domestic producers in this
sector due to its national security implications, my results indicate that this was not a
factor at all in the present flare-up of the dispute over commercial aircraft subsidies. In
fact, as mentioned earlier, this particular competition was primarily fueled by short and
long-term financial interests of the firms involved. The results challenge the idea that
governments stood behind this sector in the filing of these cases due to continuation of
the Cold War era concern for aviation production.

Several European officials I spoke with emphasized that this dispute involves
commercial airplanes and that issues of national defense played no part in it whatsoever;
they did acknowledge, however that there is a long tradition of hiding behind the
‘national defense’ excuse for support in this sector. This analysis was reiterated by
American officials that I spoke with, who repeatedly emphasized that this particular
competition was not at all informed by national security concerns, but was instead about
jobs and defending a company that was an important part of the American economy.

An interesting shadow case regarding the national security implications of the
commercial aircraft dispute was the competition over the contract for U.S. Air Force
replacement tankers. This competition was conducted simultaneously with the
commercial subsidies dispute and involved bids by Boeing and Airbus parent company
EADS teamed up with Northrop Grumman. Even though the aviation press contained
many reports that suggested that the two competitions were somehow tied together (and
European officials quietly alleged that Boeing conducted a behind-the-scenes campaign
to discredit EADS among procurement decision-makers and members of Congress,
presumably motivated not just by the tanker competition but also the subsidies dispute)
the respondents on both sides vehemently denied any connection between the tanker competition and the W.T.O. cases. Not long after finishing my interviews this competition came to close with the EADS-Northrop team winning the contract. It thus bears noting that had American national security implications been the primary reason behind the decision to defend Boeing in the commercial aircraft subsidies dispute one would presume that the American government would not at the same time be finalizing a roughly $100 billion dollar defense procurement deal, one of the largest ever, with a European-partnered team.

An American trade official indicated that the only reason to pay greater attention to the intersection of defense procurement and civilian disputes in the future is money. He noted that, while this particular dispute had nothing to do with Pentagon procurement policy, the switch to more cost-saving defense procurement (with a focus on commercially-derived products, to the tune of four or five times the savings over a military-dedicated product) could make commercial aircraft disputes more relevant in the future. Yet he maintained that these concerns had no part in this particular dispute whatsoever, and the decision to acquire the EADS tankers is a resounding demonstration of that point.

European respondents similarly played down any connection that this particular dispute may have had with the Continent’s national security. While a lawyer for Airbus did emphasize that the company represented the “paradigm for cross-border industrial policy” in Europe and that Airbus did allow the aircraft capabilities of several European countries together to “punch their weight,” he emphasized that it represented a ‘crown jewel’ of industrial policy, not security policy. A Boeing official I spoke with noted that, while national pride might play a role in the dispute, as Airbus has allowed Europeans to remain more “relevant in the world,” Airbus’ economic implications are far more important to the Europeans than any long-term defense ambitions.

V. RAMIFICATIONS FOR TRANSATLANTIC RELATIONS AND W.T.O. DISPUTE SETTLEMENT SYSTEM

Officials on both sides have repeatedly admitted that it is likely that elements of both U.S. and E.U. government support will be ruled illegal by the W.T.O. dispute settlement body and that some changes (likely to be painful) will be the result. Both
sides, as they have with the entire case, will be very public in their announcements that emphasize the ways they ‘won’ in the case, and downplay areas that they ‘lost,’ presenting the results in ways that make them look good. The wish to represent the outcome in a positive light will likely be easier given the technical specialization of such a large case. Both high-level European and American officials directly involved in the case have indicated their opinion that once the first ruling is out of the way it will be easier to get both sides back to the negotiating table. It was noted, however, that the problem with such a result is that the options left open to negotiators might be more limited after the decision. In particular, there will likely be significant pressure to take some ‘illegal’ practices off the table altogether.

According to one independent observer a revised agreement on aircraft subsidies is inevitable, a sentiment reiterated by several officials on both sides. In her opinion, this case was actually a big waste of time and money, as it will essentially force both sides back to the beginning. However, as I indicated earlier, the possibility remains that this was a key tactic throughout, at least on the part of the American initiators of the dispute. Instead of being a ‘waste of time,’ the results of the case might be precisely what the American side desires, an improved negotiating stance. Such a stance is seen as a likely result given the fact that a W.T.O. ruling against European ‘launch aid’ (even if the W.T.O. also rules against some forms of American aid) is likely to place the United States into a strategically advanced position compared to the Europeans when it comes to renewing negotiations.

Implications for Trans-Atlantic Relations

One sentiment that can be agreed upon by both sides is that they never intended for this dispute to negatively impact relations between the United States and Europe in the long term, and many officials emphasized that they have been very careful not to let this occur. An American trade official I spoke with was quick to point out that procurement decisions made since the filing of the case, such as the decision to replace Marine 1 with an European-made helicopter, is further evidence that this dispute hasn’t adversely affected other areas, and certainly the decision on the EADS-Northrop tanker is yet another. Officials at D.G. Trade concurred with this idea, flatly stating that disputes such as these “do not dominate discussions of other issues between the United States and
the European Union,” particularly as they try very hard to prevent these conflicts from bleeding into each other.

An official at the F.A.A. emphasized that, while the press may have tried to link this case with other issues in the relationship – particularly aviation issues – the association simply does not exist. As evidence he pointed to several aviation agreements that have been negotiated that ignored the on-going issue over aircraft subsidies. The refusal to escalate this battle has been maintained despite the efforts of protectionist members of Congress who have attempted to introduce legislation that would connect the commercial aircraft dispute with other aviation issues. In his opinion, these efforts are more ‘publicity stunts’ than substantive areas of policy. This particular official emphasized that the government was concerned about the results of the dispute, but that it made great pains to keep the case separate from other issues in the “busy relationship.”

An official who is responsible for relations between Boeing and both the E.U. and NATO emphasized that while “everything that happens in transatlantic relations – good and bad – does have an affect on relations in NATO,” he has not seen any example of a direct negative impact of this dispute. It is his opinion that both parties have a strong interest in keeping issues insulated from the broader trading relationship and in NATO in particular. He down-played the importance of the case as one issue among many, akin to “a big fight in a good marriage,” and described the foundation of the transatlantic relationship as “very strong.”

Both European and American officials have been quick to note that relations between the two sides have improved significantly in recent years compared to their status at the beginning of the dispute. A pair of officials at D.G. Trade emphasized that President Bush’s visit to Europe after his reelection seemed to signal that he embraced a spirit that was more open to cooperation, in direct contrast with his earlier behavior. Yet these officials, more vehemently than most, were quick to question the idea that the contentious political relationship between the United States and the European Union not long after 9/11 – particularly the massive transatlantic row that erupted in the run up to the Iraq war – played a role in the dispute. One official cautioned against over-emphasizing political influences in economic disputes, maintaining that the defining factor in these cases was economic. Yet he also admitted that it is useful to consider how
these economic issues fit in with the overall political climate, a sentiment confirmed by a colleague at the European Parliament.

**Media Sensationalism**

One of the main reasons that there remains a question of how this dispute will impact transatlantic relations in the long term is the amount of media attention and sensationalism it has received. One impartial observer close to the dispute has expressed astonishment with how much the cases were tried in the media and how both sides remain willing to speak to journalists and call press conferences on the tiniest developments. Both sides seem to have turned to the media to achieve leverage over the other, with the media essentially ‘taking the ball and running.’ This phenomenon ultimately lead to many exaggerations and distortions that in turn greatly contributed to the aura of inevitability surrounding the dispute. The media also created an impression that all other aviation issues between the United States and the European Union, however peripheral, were somehow connected. Perhaps the most damaging by-product of the extreme media attention was the impression that these cases were ruining relations between the two largest trading partners in the world. The press favored a policy of emphasizing the ‘strained ties’ between both sides in every account relating to the dispute – when this just wasn’t true.

**Implications for the W.T.O. Dispute Settlement System**

Despite assurances that this dispute wouldn’t have a long term impact on transatlantic relations, some officials I spoke with were concerned with the impact it might have on the W.T.O. dispute settlement system. An official at D.G. Trade openly questioned whether or not the W.T.O. will be able to manage the dispute, particularly since it has repeatedly experienced delays during several steps in the process. The various delays and mountains of paperwork relating to the highly technical nature of the case – not to mention the billions of dollars involved, marking this as the largest and most important case ever heard by the W.T.O. – contributes greatly to the doubt that the institution will be able to withstand the pressure.

The impact that this case could have on the dispute settlement system is particularly important for the long term success of these companies. Every single official I spoke with expressed the expectation that the industry will not remain a duopoly and
indicated that further discipline on aircraft subsidies might be necessary for both sides to maintain their market positions against upstarts. Further discipline in the form of a new trade agreement is deemed particularly necessary because potential competitors will probably come from states which will unabashedly (and extra-legally) support this sector. These potential up-starts include the small aircraft producing states of Brazil and Canada, potentially along with Russia, India and in particular, China. A Boeing official I spoke with mentioned that Canada’s Bombardier has already had (and scrapped) plans for a civilian aircraft. This official and others agree that, as the industry is not going to remain a duopoly, it is in the great interest of both sides to lay out the rules for future players. What is interesting, however, is that despite near universal recognition of this fact it has not played any role in getting both sides to the negotiating table.

**Summary of Findings**

Based on these results, of all the possible explanations for the acceleration of the current dispute over aircraft subsidies and the march toward the W.T.O. Dispute Settlement body in Geneva the most salient factor seems to be the desire to get ahead of (and slow down) the competition. Specifically, Boeing, as it filed the first case (and Airbus, in its case on the defense) seems to have put financial considerations – especially the company’s market share and the future of the company’s recent products – at the forefront of their decision to file their cases. The results seem to indicate that, as launching an airplane requires such massive financial inputs (particularly in R&D) companies will do whatever it takes to achieve a competitive edge – and aren’t above filing cases in the W.T.O. to slow down their rivals or force a renegotiation of an agreement that may have allowed them to get ahead.

Based on the results from my interviews it appears that, at the core, the Boeing case was primarily motivated by the dramatic loss of market share to Airbus in the late 1990s. The case targeted the massive R&D achieved through what Boeing calls ‘illegal’ launch aid for the Airbus A380. Furthermore, the effort seems also to have been designed to slow or halt another round of R&D subsidies for the A350 XWB, a plane which seemed wholly designed to be Airbus’ own answer to the new Boeing product, the 787 ‘Dreamliner.’ The case filed by Airbus, by contrast, while certainly not without its own economic implications and considerations, instead is a far more reflexive, defensive
maneuver. By contrast it is much informed by a great distaste for ‘strong arm’ American tactics to support Boeing at all costs, particularly the American insistence that the Europeans give up all ‘launch aid’ before negotiations could even begin and the abrupt manner in which the Americans pulled out of the 1992 Agreement.

While the dispute seems first and foremost about achieving a competitive edge it is crucial to note that – while companies may be almost wholly behind filing a case – it is the states that must take the case to the World Trade Organization. Therefore firms must find sympathetic ears in their respective trade bureaucracies, something that seemed deliciously simple on the American side. As noted by Shaffer (2003), trade litigation occurs when ‘diverse interests’ (in both firms and government) coincide, and this certainly seems to be the case with the current dispute, particularly in Washington. As noted by many individuals I spoke with, the Boeing Company succeeded in attaining great interest in pursuing a case against the Europeans within the American trade establishment.

Many individuals I interviewed with believe this may have been a result of several factors coinciding to produce a significant cross-government and bi-partisan consensus on attacking Airbus, including electoral considerations around the 2004 election and a low-point in relations between the United States in Europe leftover from the run-up to the Iraq war. Furthermore, problems experienced by Airbus and its much touted but long-delayed ‘super-jumbo’ aircraft and its difficulties in its own internal reorganization made it a weak target. For these reasons Boeing found exceptionally fertile ground when it came to U.S.T.R. with its case.

The results of my interviews also suggest that animosity remained regarding the final decision of the 1992 Agreement and that, by the time these cases were filed, both sides were basically looking for a fight. That the European Union responded with a case against the United States merely one day after the American filing indicates their readiness. Interview respondents indicated that there were no real attempts to negotiate between the sides, providing further evidence that, by the time the cases were filed, both sides were confident that only the Dispute Settlement body could provide the necessary discipline (or at least, a new starting point for negotiations) on subsidies in this sector.
Both must also have been (as they remain) optimistic that their respective case remains stronger than that of their opponents.

It is also useful to note that both cultural and administrative differences between the sides played a role in the dispute. Virtually everyone on the European side (and an independent observer) noted that the way in which the American side pursued this case did much to create controversy and animosity on the part of the Europeans. The different make-up of the American versus the European trade bureaucracies also seemed to make a difference in the manner and voraciousness in the way in which the cases were pursued.

Another notable result from the interviews concerns the oft-repeated notion that one of the main reasons that governments position themselves to protect their domestic aerospace capabilities is the ‘national security’ implications of the sector. The results seem to indicate that this competition is far more about the economic benefits of the sector, however, particularly jobs and other spillover benefits for the national economies. Even such seemingly related competitions as the one over the American tanker contract did not play a significant role in this dispute. The firms and the governments acknowledge that this sector is still important in terms of national prestige. Yet they also note the very real trends towards world-wide sourcing and production (which are only likely to increase) and that make the national security argument increasingly null, as even military production has moved to other countries. The notion that protection is still being offered because of a Cold War era type concern for aviation production is thus seriously undermined by my interview results.

Finally, the results of my interviews seem to indicate that fears that this case may have a negative impact on transatlantic relations seem to be highly exaggerated by the media, which has had a peculiarly visible role in the dispute. Several respondents mentioned that both sides of the case have attempted to use the media to its own advantage and that this case is exceptional in the world of trade litigation for the amount of media attention it has received. Nevertheless, fears that this dispute will color relations between the United States and the European Union seem to be primarily nurtured by media sensationalism and do not exist in the day-to-day interaction among bureaucrats on both sides. Furthermore, some individuals I spoke with noted that this is the largest and most important (at least in financial terms) case that the W.T.O. Dispute Settlement body
has presided over, and have openly questioned its ability to handle the case, particularly since the volume and specificity of the matter has already led to several delays. Both sides agree that it is unclear what the long-term ramifications of this case might have on the W.T.O.

As this preceding overview indicates, the main factors involved in this dispute are financial and political. The financial considerations are the primary motivation behind the cases, and the political considerations provide the vehicle by which the cases are pursued. Yet while the financial concerns may have been behind the filing, the reality is that there had to be a political opening for a case to be pursued. My primary finding, above all others, is that the timing had to be just right for the American case to get the traction it did – and in this case, it certainly was. After the U.S. filed its case it was virtually automatic for the Europeans to file their own, especially since their case seems to be motivated by the same factors, a desire to get a competitive edge and a ripe political moment for a strong response. The European case added a dose of cultural outrage, however, in keeping with their tradition of favoring more reserved (if every bit as competitive) tactics when a problem arises.
Chapter Five: Conclusion

This research has attempted to understand whether the interaction of political and corporate interests in the commercial aircraft sector has affected the current dispute over subsidies, to explain how this may have occurred and finally, what ramifications this phenomenon may have on the world trading system. In doing so I have moved forward from the understanding that states and firms have a unique relationship in this sector in order to examine exactly how this relationship (along with other factors) may explain the aggressive re-eruption of this dispute and the lack of a negotiated agreement as in previous circumstances.

In conducting this research I have examined several genres of relevant theoretical work, including traditional theories of the international political economy, international relations, theories on cooperation and work specific to the long-standing Boeing-Airbus dispute. Chief of all conclusions, my results seem to indicate that using just one theoretical framework to understand the way this relationship affected this dispute is not sufficient. Instead, several theories that cover both the state and individual levels of analysis proved to be necessary to understand this phenomenon completely.

As I mentioned in my findings section, while Neo-Mercantilist thought has often dominated thinking about this sector, New Trade Theory, which emphasizes differences in the way states support sectors with special economic characteristics (such as civil aviation) seems to better inform study on this topic. With respect to behaviors on the part of states there are many theories that have been suggested regarding why cooperation on the long-standing issue of aircraft subsides might occur (or not occur, leading to a dispute). The most relevant research concurs that domestic political factors must be examined in order to understand cooperation. One thing that has been firmly established throughout the literature is that this is a sector that is important for both political reasons and the economic bottom line (of not just firms but entire countries).

In order to consider all of these factors, I aimed my research on several foci of attention, including the commercial interest of firms involved in the dispute, the behavior of interest groups (defined as the firms, Members of Congress and U.S.T.R./D.G. Trade themselves), elites involved in the dispute (the personalities of the heads of D.G. Trade and U.S.T.R.), cultural and ideological differences, the strategic/national security value of
the sector and, finally, the trans-Atlantic relationship. Table 1 describes how these explanations are placed into levels of analysis.

**Table 1:**

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<th>System Level Explanations</th>
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<td>Strategic/National Security Value of the Sector</td>
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Though it wasn’t a part of my original variables, after conducting this research I also observed another state-level variable that proved to be influential, bureaucratic/administrative differences between the two sides. A revised table (Table 2) including this variable follows.

**Table 2:**

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*Traditional Theories of I.P.E./I.R. and their Role in Shaping my Research Question*
The Economic Liberal perspective, which purports that there are no ‘strategic’ sectors and which instead puts complete faith in the market to decide economic ‘winners’ and ‘losers,’ was clearly not a relevant framework for understanding the results of this analysis. Prior to conducting my own research the consensus on the commercial aircraft sector was clear – this is indeed a very special, ‘strategic’ sector whose health was far too important to be left to the market. This fact serves as the very premise of my research – that there is indeed a very special relationship between states and firms in this sector. It was chief among my aims in conducting this research to examine better the affect that this relationship has had on this particular dispute.

Neo-Mercantilism, which instead provides a framework which acknowledges the ‘strategic’ value of this sector – in particular its value to a state’s national security, might have instead been more relevant. However, despite my acknowledgement that this sector is indeed a ‘strategic’ one, and differs significantly from other industries, the results overwhelmingly indicate that this is not due to national security goals, but instead the vital role that this industry plays in the overall economic health of a state (or group of states, in the case of Europe).

New Trade Theory, with its focus on imperfectly competitive, oligopolistic markets in specific, ‘strategic’ (for economic reasons) sectors thus seems to provide the most relevant framework for understanding the complicated relationship between states and firms in commercial aircraft production. It is thus New Trade Theory which underpinned one of my central assumptions in this research, that commercial aircraft production is indeed a ‘special’ sector for which it is acknowledged that there will always remain a very close relationship between states and firms. It is thus this unique relationship, and its affect on cooperation and conflict with its competitors, that I have aimed to examine with this research: has the interaction of state and corporate interests in this sector affected the aggressive re-eruption of this current dispute? How?

**Theories on Cooperation**

My results also seemed to underscore the problems of theories that do not consider the very important role of domestic politics. In my literature review I described how traditional, systemic-focused theories were not relevant to a discussion of this dispute and also described problems which can result from ignoring domestic politics in
considerations of trade policy; these problems became further evident after conducting this research. My results indicate that theories that focus on domestic politics such as pluralist theories (those which consider interest groups), theories on the behavior of elites and theories which consider domestic politics far better explain how the relationship between states and firms ultimately affected this dispute.

Results – System Level Explanations

The two main variables that I chose to focus on in order to examine the affect of system level factors in this dispute were the strategic/national security value of the sector - a factor informed by neo-mercantilist belief that cooperation in this sector will not occur because of this important characteristic of this industry - and the affect of transatlantic relations, essentially an examination of alliance politics. My results indicate that neither of these factors played a significant role in the dispute.

Strategic/National Security Value of the Commercial Aircraft Sector

With regard to the strategic/national security value of the sector, I was unable to find any example in my interviews where this played a significant role in the dispute. This finding directly contradicted many scholars who have argued that this sector is prone to support from governments primarily because of its ‘national security’ value. Instead respondents vehemently denied any connection that their support for this sector – and by connection, the dispute itself – might have had to the ‘national security value’ of commercial aircraft production. Instead, respondents emphasized that the primary importance this sector has - and the reason they vehemently supported the industry - was its role in the national economy.

Furthermore, a development during the interview process seemed to echo this sentiment, the competition over an Air Force refueling tanker bid between Airbus parent company EADS and the Boeing company. This competition was repeatedly portrayed as the largest defense contract in United States history, and it ultimately went to the EADS Company. The fact that the Department of Defense chose EADS to replace a product that is integral to the mission of the United States Air Force and the entire American military seems to put much of the ‘national security’ rhetoric at rest for not just military aircraft but surely for commercial aircraft.

Transatlantic Relations
Another Neo-Mercantilist explanation for cooperation (or competition) in this sector involves transatlantic relations. Specifically it is assumed that, for reasons of national security, disputes would be avoided at all costs between alliance partners (such as the United States and the European Union in NATO). While it has been acknowledged by Thornton that this may have been a relevant factor in avoiding a dispute in the past (the Cold War did seem to order the priorities on both sides) my results indicate that this is no longer a factor in relations in this sector. The mere existence of this dispute between such important military partners serves as the first indication that an alliance relationship had no affect on this dispute. Individuals that I spoke with emphasized that they have been extremely careful in keeping this dispute well within boundaries that wouldn’t negatively affect transatlantic relations, while at the same time indicating to me that transatlantic relations, while very important to them, had no direct affect on the decision to file their respective cases. Furthermore, it has played no role in getting both sides to the negotiating table.

A final point could be made that relates to the importance of regimes given the central role of the W.T.O. in the current dispute. While both sides seem to congratulate themselves for taking a ‘multilateral’ approach to this dispute in going to the W.T.O. with their cases, my results indicate that this was less out of a genuine respect for the institution and the ideals of free trade that it stands for and more because of their apparent belief that the W.T.O. would ultimately rule in their favor. Based on my interviews it seems that the willingness of the firms involved, and by extension, their state supporters to call upon the resources of the W.T.O. seems to be directly proportional to the strength of their belief that the rulings of the W.T.O. will essentially give them a ‘leg-up’ on their competition. Rather than going to the W.T.O. to achieve the ‘level playing field’ they are looking instead for their competitors to lose, and for themselves (by proxy), to win. This seems particularly true on the American side, which has demonstrated its willingness to cherry-pick which international trade rules to follow and uphold. Such results seem to echo the central premise of Shaffer (2003), who cautions that firms can end up ‘using’ the W.T.O. to their advantage.

**Results – State Level Explanations**
The three main variables that I chose to focus on in order to examine the affect of domestic political factors included the commercial interests of firms (as a separate interest group), the electoral/political considerations of elected officials and bureaucrats (also as a separate interest group), cultural/ideological differences between the two sides and administrative/bureaucratic differences of both parties (relating to institutional theories). It is within these factors that I found the most compelling answers to my central research question.

*Commercial Interests of Firms*

Overall my results strongly indicated that the filing of these cases was greatly motivated by the desire to get a leg-up on the competition, particularly since both firms involved were simultaneously in the process of rolling out three different new products – products whose success could end up positioning the firms in the market for decades to come. Many individuals I spoke with indicated pretty plainly that commercial gains – specifically a better financial position for Boeing in the wake of seemingly insurmountable competition from Airbus’ two newest products – were the main factor in the filing of the first case and, by way of response, the second case by the Europeans.

As I indicated in my findings chapter, both short and long-term gains seemed to follow the filing of this case on the American side. These aims seem to have included slowing down the gains of Airbus (by possibility delaying or preventing government support for the development of new competitive products) and forcing a re-write of the rules in the long term by prompting a re-negotiation of the U.S.-abrogated 1992 Agreement. These actions would also give Boeing products, such as the ‘new generation’ 787 – so important for the financial ‘comeback’ of Boeing’s commercial aircraft division – and any future new commercial planes, a much better competitive environment. Re-negotiating the agreement would presumably mean that the type of government support (‘launch aid’) that Airbus received for the development of both the A380 and the A350XWB would no longer be allowed, and would no longer give Boeing’s competitor what they saw as a tremendous advantage, both in terms of developing new products and the cut-throat competition on price.

With regards to the European case, many respondents also suggested that it was not merely a knee-jerk response to the American filing but it also represented – at the
very least – an attempt to defend as much as possible the ‘launch aid’ that Airbus had been legally receiving (up to 33% of development costs) under the 1992 Agreement. It was noted by several that this support had an important role in shoring up the finances of Airbus, particularly in the wake of troubles with the much-touted A380 and delays in its 787 competitor, the A350XWB. Furthermore, the European case was not merely a defensive response to an aggressive maneuver by the American side but also represented its own desire to have a role in re-shaping future debate over subsidies in this sector, specifically by forcing a re-evaluation of the ‘indirect’ subsidies that form the crux of its case against the United States.

The results of my research seem to indicate, quite plainly, that the commercial interests of the firms played the key role in both cases in this current dispute. Quite plainly, the somewhat-shaky economic situations of both firms, along with the strong desire to achieve an advantage over their competition – at the same time as the roll-out of two path-breaking new aircraft products, the A380 and the 787 – were the most influential catalysts for this dispute. Additionally, despite the fact that the European case seems to have been slightly more of a defensive ‘response,’ it still was very much informed by the economic realities of Airbus.

Furthermore, due to the economic and political importance of this sector, if it was deemed necessary to maintain the overall health of the firm, political support for the pursuit of a W.T.O. case was virtually guaranteed, particularly in the case of Boeing. As I’ll describe in the next section, the commercial interests of the firms and the motivations of politicians to act when firms felt threatened went virtually hand in hand. These results therefore provide a resounding yes to one of the central questions of this research, whether the interaction of political and corporate interests in this sector affected this dispute.

The Role of the Political Environment

As hypothesized, the results from my research seem to indicate that the extremely close relationship between firms and their political backers seemed to have had a crucial affect on this dispute. The heart of the dispute seems to have been the desire of firms to act on behalf of their economic interest, but they wouldn’t have gotten very far at all had it not been for the willingness, enthusiasm even, for the pursuit of these cases on the part
of elected officials and government bureaucrats. As I mentioned in my findings, the only way that these cases could end up in Geneva was if they had strong political support and, to that end, both firms found pretty fertile political ground to move their cases forward.

My findings also indicated that some political issues on the periphery may have made the pretty predictable politics of supporting the only remaining commercial aircraft manufacturer a more expedient decision, particularly on the U.S. side. It was suggested by several of my respondents that the shaky transatlantic relationship, electoral considerations in the 2004 election and a general feeling of uneasiness about the American economy among policymakers all may have further contributed to a strong bi-partisan consensus to file a case against the Europeans. At the same time, European alarm over the uncouth American action of unilaterally pulling out of the 1992 Agreement seemed to galvanize political support for its own case. In total, several political factors on both sides of the Atlantic combined to produce a ripe environment for those intent on pursuing W.T.O. cases.

These findings have thus led me to the conclusion that, while commercial interests were at the heart of the decision to file these cases, it was a permissive political environment that truly allowed this dispute to flourish. This result gives further strength to my central argument that it was actually the interaction of corporate and state interests that was the most relevant factor in the run-up to this recent dispute. While I maintain that the economic interests of the firms are still the most telling indicator of a dispute, the results of this research gives more credence to the critical relationship that it is the interaction of these interests with political factors that provide the proper combustion to fuel a dispute.

**Cultural/Ideological Factors**

As I noted in my findings chapter, while financial considerations may have been the primary catalyst for filing these cases, and politics served as the forward momentum, the contribution of cultural differences and the behavior of elites served an important role in shaping the nature of this dispute.

The results of my interviews indicate that the ‘in your face’ litigious culture, thought by the Europeans to be pervasive in the United States, was widely considered to contribute significantly to the ratcheting up of this dispute. According to my interviews,
the Europeans were genuinely insulted by the way the American side pursued this case from the very beginning, particularly the unceremonious abrogation of the 1992 Agreement. Additionally, the Europeans were disgusted by the way that the American side placed ‘unacceptable demands’ (getting rid of all launch aid, which was legal under the 1992 Agreement up to 33% of the development costs) prior to even sitting down for negotiations – effectively ending any possibility of a negotiated solution to the dispute even before it was attempted.

As I noted, a non-partial expert observer asserted that the American side was ‘bullying,’ and that U.S. officials pursued this case with an extremely rough manner that was anathema to the delicate nature of the Europeans who preferred to work behind the scenes. While the Europeans themselves had no problem standing up to the demands of the Americans, the way they pursued their case (and their behavior during the entire course of this dispute) was far more subtle and more conservative; by contrast, the U.S. went ‘for the throat.’

Another aspect of these cultural clashes that further enabled the dispute included the significant long-standing differences in ideology between the Americans and Europeans over the proper role of the state in the economy. Europeans were unabashed in their belief that supporting Airbus was a significant across-the-boards investment in Europe’s future competitiveness (not to mention the well-being of its citizens), and had no difficulty publicly extolling the virtues of state involvement in the economy. Conversely, and somewhat paradoxically, even though it has been established that American officials have essentially served to do the bidding of Boeing (at least in this particular case) the officials I spoke with loudly condemned a strong role for the state in the economy, even going so far to express relief that this wasn’t the way business was done in the United States.

By contrast, the research points to the fact that the saying ‘thou dost protest too much’ may actually be more relevant in this instance. Instead, in this case it seemed that, while officially endorsing the free market ideology that has been the long-standing American dogma (and which has perhaps become even more ‘official dogma’ under the current Administration) officials at U.S.T.R. and the Department of Commerce had no problem at the same time doing everything in their power to ensure not just Boeing’s
survival but its competitive position in the world market. Nevertheless, the clashes of at least official ideology seemed greatly to exacerbate the already well-established cultural differences that served to further contribute to this dispute.

Administrative/Bureaucratic Differences

While economic interest was the main factor in the dispute, and a permissive political environment enabled (and emboldened) the firms’ pursuit of a case, my research also suggests that a few additional factors were also relevant. The results of my research suggest that administrative/bureaucratic factors played a peripheral yet important role in this dispute. This finding reinforces the importance of considering several aspects of domestic politics in order to understand the way the relationship between state and corporate interests affected this dispute.

It has been suggested by several scholars that specific bureaucratic/administrative differences between the United States and Europe may play a role – providing the grease, so to speak – in trade disputes between these partners. One specific aspect of this phenomenon is the marked difference in administrative cultures between the two main trade bureaucracies. Those at D.G. Trade seem happy to dedicate their lives to a civil servant role while individuals at U.S.T.R. are more likely to stay there for a few years at most, on their way to a more prestigious post somewhere else.

In particular, the ‘revolving door’ at U.S.T.R. – with its employees potentially off to more lucrative opportunities in a few years – is thought to orient it more directly toward the interests of firms. It is possible that this phenomenon made it much more difficult for those in the American trade bureaucracy to establish the relationships that are thought to be crucial in achieving successful negotiations with the Europeans. Furthermore, it is a distinct possibility that the focus the current Administration has placed on more adversarial undertakings (for example, the war in Iraq) rather than properly funding other administrative departments in the U.S. government may have contributed to a more ‘sped up’ version of the ‘revolving door’ on the American side. Despite the reasoning behind it, however, my results seem to indicate that the differences in Administration - coupled with cultural factors - may do much to explain the particular voraciousness with which the American side pursued its case and its refusal to start negotiations on this dispute in earnest.
The difference in political structure (one state versus twenty-seven member states in Europe) in the U.S. versus Europe also seems to provide a built-in advantage for firms to get their concerns heard more readily in America. The pressure that Congress can exert on U.S.T.R. (not merely from its oversight since inception but also the fact that U.S.T.R. needs Congress to support other items on its full trade agenda) and the ease with which firms can pressure Congress also leads to a peculiar situation which seems ready-built for firms to get wide backing from U.S.T.R.. While Airbus certainly has its share of member-state backers (who remain, at least right now, some of the most influential members of the European Union) the way its interests are translated to the trade bureaucracy is wholly different. D.G. Trade must also answer to all E.U. member states, the vast majority of which have no particular interest in Airbus. By contrast, in the United States it is much easier to argue that what is good for the firms is ultimately good for the entire country. These differences, directly addressed in several of my interviews were thought to also play a role in this dispute.

These results seem to concur with my original hypothesis that it is domestic political factors, with the commercial interests of the firms playing the main role, and a particularly permissive political environment providing the process by which these interests were translated, that are most relevant in explaining the current dispute. This process was further enabled by cultural/ideological and administrative differences which caused further friction between the disputants regarding the role industry has in shaping policy. Additionally, my results seem to indicate that an individual level explanation may have also played a supporting role in the inception and continuation of this dispute – the behavior of elites.

**Results – Individual Level Explanations**

Finally, the variable that examined the individual level included a consideration of the personality of the elites involved in the case. I also found a potentially compelling explanation with this factor, though it did not operate in the central role that commercial and political interests did.

**Elites**

A final significant factor included the behavior and beliefs of elites involved in this dispute. In my interviews it was roundly acknowledged that, while certainly not the
main factor leading to this dispute, the behavior and personality quirks of the elites involved at the very highest levels did play at least a small contributing role in perpetuating this dispute. Several officials expressed the view that this particular combination of individuals made the situation more highly combustible than if others had been at the helm. As I noted, personality differences were likely to have been exacerbated by the ‘revolving door’ that particularly exists on the American side.

While officials cautioned against attributing the entire dispute to personality differences, and this research has certainly not come to that conclusion, the problems that existed between those at the top were mentioned by respondents (as ‘another factor’) too many times to be ignored. This was but one of several ‘supporting’ factors that did not contribute to the dispute in their own right, yet interacted with the main variables of economic interest and politics.

**Conclusion**

My results provide a compelling argument that the interaction of corporate and state interests in this sector greatly affected the current dispute – with the corporate interests (in the form of commercial interests of the firms) providing the main catalyst and the politics (the interests of state policymakers) providing the process. Furthermore, my results also show that individual level factors including culture/ideology and the behavior of elites were also important in contributing to this dispute. Broken down into very basic terms, in this dispute, the commercial interests (of the firms) was the key interest, a permissive political environment was the vehicle and administrative and cultural differences along with elite personalities were the grease that kept things going – all the way to Geneva. Taken together these factors should provide a pretty concise explanation of both the ‘why’ and ‘how’ for the aggressive re-eruption of this dispute and the absence of a negotiated solution.

The results also show that – in order to provide a fully complete description of what occurred in this situation – domestic political factors must be considered with individual level factors to provide a thorough explanation for what occurred in this case; while some may have been more influential than others, all of these factors interacted to produce this particular situation. My results indicate that it is impossible to provide a full narrative of what occurred in this situation without considering factors on both levels of
analysis. These results not only provide a powerful explanation for the way this dispute unfolded but also a compelling rationale for the necessity to consider the interaction of factors on multiple levels of analysis in order to truly understand developments in the modern international political economy.

As hypothesized, the interaction of political environment and corporate interests in the commercial aircraft sector seemed to affect directly the decision to go forward with cases on both sides (i.e. for this dispute to occur). However, it is important to make the distinction that my results indicate that it was the corporate economic interests that seemed to triumph over all of the other factors examined; put into ranked terms these interests would be the ‘number one’ (and over-arching) factor in the aggressive re-eruption of this dispute. However, politics had a supporting (‘number two’ role). Specifically, the political interests (and in particular, the political environment at the time) surrounding this sector made it easier for financially beleaguered firms to obtain full government backing for a case. With this analysis I found a few other factors that also played minor roles in the aggressive re-eruption of this dispute. Put in descending order of importance these factors were differences in administration/bureaucracy and culture/ideology on both sides. Finally, although I would rank its importance as last, the behavior of elites played a very small yet contributing role in this process. The larger ramifications of this analysis are crucial, because it provides further evidence not just of this very special relationship between firms and states in the commercial aircraft sector but points to the fact that analysis of any trade dispute must consider the economic position/commercial interests of the firms involved as potentially the key factor which led to conflict. It cements the role of firms in the making of trade policy in this sector, which further raises the question of whether there are other sectors in the economy in which the firms have essentially taken the reins with regards to the policy which was originally intended to provide discipline for them.

This research first and foremost attempted to understand the aggressive re-eruption of this dispute, and to determine if the interaction of political and corporate interests – long known to exist in this sector – affected the current dispute. The answer to that question is a resounding yes. Yet I also set out to understand just how this occurred, which led to further analysis of the other important factors in this process. As such, this
manuscript provides a compelling argument that these ‘new’ factors need to be considered in future analysis. Finally, this research aimed to extrapolate some of the lessons learned from an in-depth analysis of this particular dispute to the wider political economy.

**Ramifications of Research Results and Suggestions for Future Research**

As I mentioned earlier, this research cements the role of firms in the making of trade policy in this sector and therefore leads one to ask whether or not there are similar sectors (and if so, which ones) in which firms primarily ‘hold the strings,’ in order to uncover wider evidence of this phenomenon. It also points to the need to conduct research on the potential strain that this phenomenon might be placing on the world trading system and the W.T.O. in particular. Recent research has pointed out that an overwhelming number of W.T.O. dispute settlement cases are either filed by the United States or the European Union and has suggested that the abuse and overuse of the system by large, rich countries has made it much more difficult for smaller countries to pursue their interests in this forum (Shaffer, 2003).

Situations such as my research focus, in which firm interests have clearly been the primary factor in the filing of a case, also may reinforce the suspicion that the U.S. and E.U. have a clear advantage in pursuing their interests (actually the interests of their key firms) in the W.T.O. and that, unlike other states, have successfully used this forum – originally intended to ‘level’ the playing field of trade – to their advantage (and to the detriment of poorer states and their home firms who lack these resources). My results point to the necessity for more work to address this suspicion.

Furthermore, it has been suggested in the literature and in my own results that the sheer magnitude of this case, given the amount of money involved and its highly technical nature, may have in and of itself placed an immense strain on the resources of the W.T.O. Again, this fact does not bode well for those who maintain that the W.T.O. needs to be reformed in order to be a forum that more equally serves the needs of the entire world, not just those of the firms in the richest states. This further indicates the need for more research into whether direct corporate interest is fueling most of the work of the W.T.O., rather than the interest of the world trading system as a whole.
Even though observers may have concluded that this case is a ‘waste of time’ in that it will likely serve only to force both sides to the negotiating table they previously vacated, it has the potential to have enormous ramifications for the W.T.O. system. This is due to both the aforementioned reasons and the pressure being exerted on a fairly new body to referee one of the world’s most contentious trade problems. As is mentioned in the literature review, the case serves as further example of the unwillingness of the two largest trading partners in the world to provide a better example of the benefits that a more liberalized trading order can provide for countries that may be weary of free trade. Rather than being a ‘waste,’ it thus may end up hurting both parties in unintended ways, particularly if this dispute ends up eroding the authority of this new institution.

This research also seems to demonstrate that firms are very influential – pivotal perhaps, at least in some sectors – in state decisions regarding trade agreements. Therefore, there is also a necessity for more analysis on the role of firms with regard to trade agreements and negotiations. Since the economic interests of firms played such a crucial role in the decision to launch this dispute – and since this dispute itself could quite possibly be merely an expensive ruse to force both sides to the negotiating table – it naturally follows that their role in negotiations deserves further analysis.

Finally, and on a much larger scale, I believe this research points to the need for a re-evaluation of the role that firms play in the wider political economy. This is particularly true since there have been some very important changes in geopolitics and economics in the past several decades since the possibility that firms could play a large role (on their own) in the economic system was first acknowledged. This includes the removal of factors previously thought to be instrumental in ordering international economic priorities such as Cold War alliances and security concerns, not to mention the addition of a new factor, the alarmingly fast-growing trend of the privatization of many activities that the state was traditionally responsible for. How might these developments remove previous roadblocks that served to mitigate the influence of individual firms in the global economic system, or in turn serve to solidify the influence that firms may have in reordering the world trading order to the narrow preferences determined by their interests? These are just but a few worthy questions that this research has begat – and
which would serve to enhance our understanding of the role of firms not just in trade disputes or negotiations, but also in the global political economy as a whole.
Bibliography


