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Battle won; war lost?

Record plane sales for Boeing weaken case in subsidy fight

By **Ameet Sachdev**

Tribune staff reporter

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Boeing Co.'s record year for airplane orders in 2005 may end up hurting its case in the trade with archrival Airbus SAS, said a top official at the European planemaker.

Allan McArtor, chairman of Airbus North America Holdings, throwing fuel on the long-smoldering dispute, said that the 1,002 orders Boeing booked last year show the Chicago-based aerospace giant has no trouble competing in the marketplace despite the billions of dollars in government support Airbus receives.

Airbus' year-end order total is not available yet, but it likely fell behind Boeing for the first time in years. The France-based company still manufactures more planes annually than Boeing.

"Part of the Boeing case is to show damages from unfair competition in the marketplace," McArtor said. "It would appear that it will be difficult for Boeing to show damages in the marketplace."

A surge in demand from the Middle East and Asia helped Boeing nearly quadruple the number of orders it won in 2004. Much of the excitement focused on Boeing's new midsize plane, the 737 MAX 8, which is scheduled to enter service in mid-2008. In 2005, the company logged 1,002 orders for the jet, which uses carbon-fiber composites to achieve very high fuel efficiency--a selling point in the current environment of rising fuel prices. The 737 MAX 8 easily outsold its Airbus competitor, the A350, which won 49 orders through the end of November.

"As we've seen, Boeing has no trouble selling competitive airplanes," McArtor said, referring to the 737 MAX 8.

While McArtor's comments might be dismissed as self-serving, some trade experts said his remarks may gain some traction as the United States and the European Union move forward in their lawsuits before the World Trade Organization. A March deadline looms for written legal arguments. Oral arguments follow this summer.

"Boeing can't have it both ways," said David Pritchard, an expert on aviation trade at the State University of New York at Buffalo. "You can't have record sales and say these subsidies are damaging us."

Boeing counters that the subsidies have been a long-term problem and its reversal of fortune not diminish their damage, said company spokesman Richard Dalton. The company maintains below-market government loans give Airbus an unfair advantage by helping it launch new aircraft at a relatively low cost. The company then can aggressively price its planes and steal customers away from Boeing.

In its complaint, the U.S. claims the subsidies have allowed Airbus to erode Boeing's share of the global market to about 50 percent from 67 percent in 1999. Boeing's declining fortunes have forced the company to cut its commercial airplane workforce by 60,000 people.

"We remain as committed as before to ending the Airbus subsidies," said Christin Baker, spokeswoman for the U.S. trade representative's office. "The facts remain the same. One year doesn't change the fact that there has been substantial injury."

Economist Gary Hufbauer agrees that one year won't make a difference in the U.S. legal case, but he said, "in real life it does make a difference," he said.

"The USTR reads the newspaper as well," said Hufbauer, a senior fellow at the Institute for International Economics in Washington. "I imagine they would be leaning back on Boeing to make it easy so this case does not cause additional frictions in other trade talks."

He predicts, like many, that the sides will reach a negotiated settlement rather than wait for a ruling.

Some say Boeing has continued to pursue the trade litigation despite record orders because it wants to disrupt development of the A350, which is expected to enter service in 2010, two years after the 787. Airbus maintains it can finance the A350 on its own but won't do so unless Boeing gives up the tax incentives and infrastructure support it receives from state and federal governments.

Airbus received more than \$4 billion in subsidies from its European government backers in developing the A380, a massive double-deck plane that is able to carry 800 passengers. Not wanting to surrender the market for jumbo jets, Boeing in 2005 went ahead with plans for a version of its pioneering 747.

After some delays, Airbus is expected to deliver its first A380 to Singapore Airlines this year. In 2005, the company--a joint venture of European Aeronautic Defense & Space Co. and BAE Systems PLC--forecast deliveries of 370 airliners, compared with 290 delivered by Boeing.

But the lead is expected to diminish, with some analysts predicting Boeing will reclaim the title of the world's No. 1 plane manufacturer within a few years.

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