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## U.S. and Europe Avert Showdown on Boeing-Airbus Dispute

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**W**ASHINGTON, Jan. 11 - The United States and Europe backed away today from suing each other over subsidies worth billions of dollars that each accuses the other of giving to its biggest civilian aircraft maker.

The Bush administration and the European Union had been poised to file formal complaints against each other at the World Trade Organization over support given to [Boeing](#) and Airbus. It would have been the biggest case ever heard by the group's dispute settlement arm.

Instead, with the profitability of an important industry at stake, they agreed to try to negotiate a new agreement between themselves over the next three months.

The deal was completed during a three-hour trans-Atlantic phone conference on Monday between the top trade negotiators of the two sides ahead of a Thursday deadline for final action at the W.T.O.

The aim of the negotiations would be to end government subsidies to the aircraft industries and to agree to "fair market competition" for the development and production of large civilian aircraft in the European Union and the United States.

"There is much work to be done if we are to be successful in negotiating an ultimate agreement, but today does mark an important step in trying to end subsidies for large commercial aircraft," the United States trade representative, Robert B. Zoellick, said.

The European Union's top trade commissioner, Peter Mandelson, said at a news conference in Brussels that the agreement would "strengthen the economic partnership between the E.U. and the U.S., which is vital to both of us."

The agreement was also timely. President Bush is planning to visit Europe next month as part of his campaign to reach out to his European allies, so a trade dispute would have been unwelcome.

"This improves the atmosphere," said Ambassador John Bruton, the head of the European Union's delegation in the United States. "There was a risk that if this had gone ahead both the U.S. and the E.U. would have had egg on their faces."

The United States filed the initial suit against Europe at the W.T.O. in October after Mr. Bush promised to protect the United States aircraft industry from what he called unfair competition from Airbus.

The administration was worried that if the talks drifted without any resolution, Airbus would be able to develop

a new airplane and receive new loans worth billions of dollars that would be protected under any new agreement.

The United States wants European countries to end direct loans to Airbus, which it contends has benefited from up to \$40 billion in government aid through low-interest loans called launch loans.

In their counterclaim, European trade officials said the United States paid Boeing "massive illegal subsidies that damage Airbus" including tax benefits and subsidized research and development. The European Union filed a countersuit with the W.T.O. on the same day that the Bush administration filed its suit.

The dispute stems from a 1992 agreement between the two trading partners that outlined how governments could support their airline industries.

Talks to review that agreement broke down this year over how to define government subsidies and whether the goal was complete elimination of those subsidies.

Since the original agreement was reached, Airbus has surpassed Boeing as the world's leading supplier of commercial aircraft and the two companies are now poised to compete over a new generation of aircraft.

Boeing, the nation's largest civil aircraft exporter, expressed relief about the deal announced today. Boeing's president and chief executive, Harry Stonecipher, said in a statement that he hoped the two sides would reach an agreement to end subsidies and "establish much-needed balance in the commercial aircraft market."

The two owners of Airbus - the European Aeronautics, Defense and Space Company, which owns 80 percent, and [BAE Systems P.L.C.](#) - said in a joint statement that they were "delighted at this apparent breakthrough in the trans-Atlantic discussions."

They added, "Today's decision is a very positive step forward, but much work remains to be done in order to ensure a level playing field in the commercial aircraft market."

The agreement announced today calls for three months to reach an agreement to end subsidies to large civilian aircraft producers. During this period, the two trading partners agreed to refrain from pursuing the case at the W.T.O. or paying new subsidies to their airline industries.

The agreement to back off from litigation was seen as a relief for the airline industry, which is already reeling from price wars and was not looking forward to paying higher prices for equipment as the case wound its way through the W.T.O.

It also made sense for the companies themselves.

"This case should never have gone this far since both sides receive government subsidies but differently," said John Newhouse, who is writing a sequel to his book on the airline industry, "The Sporty Game" ( [Alfred A. Knopf](#), 1982).

"It's not in their interests at all to carry the dispute to where it would languish for years and eventually lead to the loss of all their government support," he said.

Even today, there remained differences of emphasis. Bush administration officials said they were pleased that Europe had finally agreed that elimination of all subsidies was the ultimate goal.

Mr. Bruton of the European Union said that while this was the goal, subsidies might be allowed in the final agreement so long as they were fair and transparent.

Lawyers note that scrapping all subsidies could also make it easier for new competitors to enter the market. The Canadian aircraft maker Bombardier, for example, is lobbying the Canadian government to help finance the development of a new range of large civilian aircraft to compete with those made by Boeing and Airbus.

The deal announced today does not affect current aid programs for Boeing, which is based in Chicago, or Airbus, based in Toulouse, France. Billions of euros lent for the development and debut of Airbus's A380 555-seat super jumbo will not be renegotiated.

But the temporary aid suspension rules out any loans or subsidies for Boeing's 7E7 Dreamliner, as well as the A350 that Airbus is considering building to challenge it, because these projects have yet to receive firm commitments of public support.

The 7E7 and the A350 jets are both long-distance aircraft designed to fly to large and midsize airports, whereas the giant A380 is intended to replace Boeing's 747 jumbo airliner and will fly only to big airports.

Both sides said they hoped the negotiations would lead to a new agreement but that if it did not, the case could still be brought before the W.T.O.

*Elizabeth Becker reported from Washington for this article, and Paul Meller from Brussels.*

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