

## **The case study: Boeing vs. Airbus**

The main topics of this part will be the story of Boeing and Airbus in terms of their competition and their effects on their home and host governments and foreign relations among them. Both of them are the leading aerospace multinationals of the United States and some of the European Union State's respectively. Boeing is one of the world's leading aerospace companies and the largest manufacturer of commercial jetliners and military aircraft. Boeing's reach extends to customers in 145 countries around the world, and it is the number one U.S. exporter in terms of sales. Headquartered in Chicago, Illinois, U.S.A., Boeing employs more than 153,000 people in more than 67 countries. On the other hand, Airbus began its life 35 years ago with the world's first wide-body twin-engine passenger jet, the A300. Today Airbus, headquartered in Toulouse, France, produces a comprehensive range of 14 aircraft and employs 55,000 people worldwide. Airbus, since 2001 a fully integrated single company, started life as a French-German consortium in 1970. Later it was joined by CASA of Spain and British Aerospace.

For over 30 years, Boeing and Airbus, supported by their respective governments, have argued over how various government policies affect and distort what is widely seen as a strategic industry for economic growth and national security. And in respect how these companies affect their home government policies towards each other. The long standing dispute between Airbus and Boeing has started with the European's attack on aerospace industry. For most of its history, Boeing enjoyed the monopoly and the power of its home government aside. With the emergence of Airbus, rules of the game have changed. The struggle between the two companies has created different kinds of disputes since the 1970s. Every time each side is ready to launch a new aircraft, the trade dispute comes back because both sides think that they can gain leverage. Launching a new aircraft contains high risk. That is why both of the companies would like to control other sides' activities and try everything to stop the correspondent's business, which creates trade dispute. Both sides claim the moral high ground in this dispute claiming that home governments should not help or subsidize the aerospace industry in any terms but in fact governments on both sides of the Atlantic heavily subsidize their jet makers. Washington first launched this dispute argument even though Boeing, as an American firm may be the largest beneficiary of corporate welfare in U.S. In fact, the actor behind the curtain in this trade dispute is mainly Boeing, forcing the U.S government to bring the dispute in front of the international organizations in order to defeat its competitor by blocking the economic subsidizations, although both companies are more or less in the same position. The World Trade Organization has handled 317 cases since its creation in 1995. But the latest is one of the most important: The case filed on October 6, 2004 charging that European Union subsidies, to aircraft producer Airbus Industry, violate the WTO's 1994 Agreement on Subsidies. Again with the respective influence of Airbus and Boeing on their governments it has been decided that the issue shall be analyzed among the governments on both sides of the Atlantic. A statement made by French Minister of Foreign Trade, Francois Loos in Paris on January 11, 2005 clarifies the issue. M. François Loos, deems positive the initiative of starting negotiations between the European Union and the United States on the subsidies to Boeing and Airbus. The United States has finally decided not to bring the trade dispute which pits Boeing against Airbus to the World

Trade Organization. It agreed to start negotiations with the European Union. The Minister stated: "The aim of the negotiations now starting will be to identify which forms of subsidies will be prohibited, which are disputable and which are authorized. We want these negotiations to define the conditions for fair competition. Subsidies are not banned under World Trade Organization rules, except for export subsidies which the Organization has again recently condemned.

Now if we have a look at the other side of the coin we should understand in what ways Boeing has influenced the U.S government foreign policy in order to create this dispute. First of all Boeing is one of the most important military contractor for the US army and government. Secondly Boeing is the most important producer of commercial airplanes in North America, which gives her an economic power as a monopoly in her home market, until the entrance of Airbus into the aviation industry. Boeing claims that the subsidies from the EU to Airbus forced American government to put sanctions on it's competitor via international organizations. In many international airplane procurement tenders, Boeing uses American military and economic power in order to bully 3world nations such as African countries. The main reason behind the scene is Boeing's close relations with the Pentagon and its position as one of the most favored contractor giant of American government. All of these reasons and more give Boeing the ability to manipulate US foreign policy and economic relations. As we can see from the trade disputes, Boeing, one of the biggest American multinationals has manipulated its home government in order to prevent her competitor to gain leverage in the aerospace industry race between them. In fact just like Airbus, Boeing is one of the companies that take advantage of many government subsidies. This is one of the most appealing examples of the influence of American multinationals on U.S foreign policy.

In addition to the actions of Boeing and Airbus, other European MNCs are also influencing the E.U governments at the same time. The following action of European NGOs is a striking example of the level of MNC manipulation of state politics both in U.S and in Europe. In year 2004, 50 European NGOs wrote an open letter to the European Commission warning of "the excessive influence of corporate lobby groups and multinationals over EU policy making" that they say is approaching levels seen in the United States. This action and the letter of the European NGOs is an indirect example of the influence of American multinationals on American foreign or domestic policy.

Another case regarding Boeing's international interference in U.S foreign policy and in other states politics is from Middle East. This story has diverse roots from commercial markets to national security matters and inter-state relations. One of the main actors of this case apart from U.S government and Boeing is Kamal Adham, who was one of the true inside power players of the Middle East, a smart man who had for decades straddled the worlds of Middle Eastern business and politics. He was the half brother of Iffat, the favorite wife of King Faisal, who ruled Saudi Arabia from 1964 until his death in 1975. Like so many other enterprising Arabs in the 1960s and 1970s, when oil revenues were booming and foreign companies were lining up to sell their products, Adham had used his connection to commercial advantage. In order to sell a product or service in Saudi Arabia, you had to know someone in the royal family,

which authorized all expenditures. If you did not know a prince or a royal cousin, then you hired an “agent” who provided you access for a “commission.” Though this commission often looks very much like a “bribe” it was nonetheless the way business was done, and few were better at it than Kamal Adham. The list of his agency deals was long and illustrious. He also came to be the principal broker for weapons purchased by Saudi Arabia on behalf of Egypt. But perhaps his richest contract was with Boeing Company, which paid him millions of dollars in commissions to help it sell passenger jetliners to the fledgling Saudi airlines. That and other similar transactions had led to a three-year investigation of Boeing’s commission payments by the U.S. Securities and Exchange Commission, whose goal in part was to figure out exactly who Boeing was using to accomplish these sleights of hand. Boeing’s efforts to suppress those names, particularly Adham’s has been accomplished with significant help from the State Department, which entered a court fight between the U.S. Securities and Exchange Commission and Boeing to argue that disclosure of Boeing’s ‘highly placed’ consultants abroad could harm U.S. foreign policy interests. How could the mere disclosure of Adham’s name affect U.S. foreign policy? In two ways. Firstly, Adham was the head of the Saudi internal security service – arguably the most important agency of the government, since it protected the royal family – and the General Intelligence Directorate of Saudi Arabia. But the second and more important foreign policy concern was that Adham was the U.S.’s key link to Egyptian President Anwar Sadat in the years leading to the Camp David accords in 1979 – the years following the 1973 war, when the Saudi-Egypt axis acquired key strategic importance. We can come to a conclusion from this case that an American multinational can even have a legal dispute with governmental organizations regarding the interest clash between the corporation’s and the national security ones. Not just on economic issues, but on political issues like national security or foreign policy interests, U.S multinationals can take a risk of facing government oppositions. Firms like Enron, Boeing or Ford would not hesitate to oppose the American government if they had an interest clash in any respect. These multinationals would always take advantage of manipulating the US foreign policy if they could benefit from it.

Despite the confrontations between American MNCs and the U.S government, there is a wide network of American multinationals trying to influence the U.S Congress. In order to influence the government and to protect their interests these giants spend millions of dollars and do lobbying in every possible way.

Questions:

1. What problem of the MNCs is indicated in the text?
2. How both companies behave?
3. What differences and similarities can you find in the decision undertaken by both companies?
4. Make conclusions regarding role of MNCs in the local economies.