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BAUCUS CONCERNED OVER DEFENSE DEPARTMENT TANKER DEAL

Finance Chairman questions subsidies granted to Airbus

Washington, DC – Senate Finance Committee Chairman Max Baucus (D-Mont.) expressed concern today in a statement on the Senate floor about the Defense Department’s decision to award a \$40 billion tanker contract to the European Aeronautic Defense and Space Company (EADS), the parent company of Airbus. Baucus, whose committee oversees U.S. trade policy, questioned the “common sense” of awarding the lucrative contract at a time when the United States Trade Representative (USTR) continues to pursue a WTO dispute settlement case over illegal government subsidies to Airbus.

His full floor statement follows here:

Floor Statement of Senator Max Baucus (D-Mont.) Concerning the Tanker Procurement

Mr. President, Americans have important expectations for their public servants. They expect us to act in the common good. They expect us to advance our common values. But first and foremost, they expect us to have common sense.

Mr. President, last week’s Department of Defense tanker procurement decision raises serious questions of common sense. As some of my colleagues have already discussed, the Defense Department last week awarded a \$40 billion contract for a new generation of Air Force tanker aircraft to the European Aeronautic Defense and Space Company, or EADS, the parent company of Airbus.

Receiving this major contract is an enormous victory for the European company. It is a victory for the thousands of French, German, and Spanish Airbus workers this contract will employ. It is also a victory for U.S. contractors who will work on this project. Yet I have serious questions about whether this is a victory for good American policy, or American common sense.

My concern for this deal is not over the Defense Department’s procurements. I will leave that to my colleagues on the Appropriations Committee. I do not question the merits of one tanker plane over another. I’ll leave that to my colleagues on the Armed Services Committee.

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But I certainly am concerned and have serious questions about this deal from the perspective of international trade. This responsibility falls to me as Chairman of the Senate Finance Committee.

The United States values competition and acknowledges the right of foreign companies – like EADS’s subsidiary Airbus – to pursue American markets and customers. American consumers, including the federal government, should have the right to buy the product that best suits their needs. That’s only fair.

But Airbus is not just another company competing in open markets on the merits of its products. It is not just a commercial venture. Rather, Airbus is the product of four decades of explicit government industrial policies to create a European aircraft industry. An industry designed not just to compete with American companies, but to defeat them with massive government funding.

Don’t take my word for it. Former French Prime Minister Lionel Jospin himself publicly pledged “We will give Airbus the means to win the battle against Boeing.”

True to Mr. Jospin’s promise, decade after decade, project after project, European governments injected massive amounts of subsidies into Airbus – including \$15 billion in launch aid. These subsidies underwrote between 100 percent and 60 percent of Airbus’s commercial aircraft development costs, including the A330 aircraft on which this tanker aircraft is based.

These subsidies allowed Airbus to develop aircraft under terms unavailable to unsubsidized market participants. Or as a former British Trade and Industry Secretary boasted: “We are not standing to one side and leaving everything to the market...”

In fact, European subsidization of Airbus was so extreme, and so anti-competitive, that three years ago the United States Trade Representative initiated a dispute settlement case in the World Trade Organization.

USTR does not file these cases frivolously. They do so when the damage is real, the case is solid, and all other means of resolution have failed.

This case is still ongoing. A WTO panel is currently weighing the facts of the case, the effect of these subsidies on our aerospace industry, and the compatibility of these subsidies with international trade laws.

What defies common sense to me is that one arm of the Administration – the U.S. Trade Representative – argues that subsidies to Airbus hurt our companies, skew global markets and violate the rules of the game. Yet another arm of the Administration – the Defense Department – rewards a subsidized company with a \$40 billion contract to purchase illegally subsidized aircraft.

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That's the kind of government decision making that just doesn't add up. It's not common sense, and it raises serious and fundamental questions about how this Administration goes about its business.

Does the right hand of the government know what the left hand is doing? Does one agency respect international rules and their effect, while another one does not? What was USTR's role in this procurement decision and why did the Defense Department appear to have disregarded it?

These and other questions need answers. I look forward to pursuing these answers with my colleagues.

Until we hear a full accounting of this issue, I'm left with an uneasy feeling that last week's decision by the Defense Department does little for the common good or common sense.

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