**Data response 2**

**Subsidy wars: Airbus versus Boeing**

The market for large passenger aeroplanes is dominated by two companies. Competition between Airbus, a European consortium, and its American rival, Boeing, is intense. Innovation in this market is very important because technological advances can make products obsolete. During the last 20 years, both companies have tried to steal each other's market share by launching new hi-tech modern aircraft. The new products - the Airbus double-decker A380 and the Boeing 777 - are both more efficient because they burn far less fuel per passenger kilometre than older aircraft such as the Boeing 747.

Airbus and Boeing regularly accuse each other of competing unfairly by being in receipt of government subsidies. For example, in 2014, the European Union accused the American government of offering Boeing tax breaks worth $8.7 billion. These tax breaks allegedly helped Boeing to pay for the costs of developing the new Boeing 777. In 2015, Boeing hit back at Airbus by claiming that the European Union was preparing to make a loan to Airbus to finance a new and improved version of the A380. In the past both companies have taken their cases to the World Trade Organization. The WTO investigates and rules on trade disputes between countries. Its goal is to discourage protectionism and to promote international trade.

**Questions** (40 marks; 45 minutes)

1 What is a tax break? Explain how a tax break can act as a subsidy. (4)

2 A Boeing 777 costs $300 million to buy. Calculate the number of aircraft covered by the US government subsidy. (4)

3 Assess the case for and against the European Union paying subsidies to private companies such as Airbus. (12)

4 Evaluate the role played by subsidies in creating competitive advantage within the market for civil aeroplanes. (20)