

International business – airbus case study

Business



Introduction

Airbus is an aircraft industrializing subsidiary of European Air Space Company. It is situated in France with considerable action across Europe. It is one of the companies that manufacture approximately half of the total production of the world's jet airliners. It started as association of aerospace producers. Over the years, the EU has been dedicated to subsidies and offers a soft loan to the airbus of which the United states WTO has been against it for so long.

The paper will look at the theoretical and practical aspect of the subsidies and the loans given to the airbus company, it will give how unfair or fair the offer is, how the World Trade Organization subsidiaries agreement basing on the united states military contract with Boeing amount to subsidies, where the systems provided by the state of Washington to Boeing is fair to the company and how the company management will react when the WTO stop providing subsidies and soft loans. The doing this, the paper will try to analyze the situation as it is on the ground. On doing this, we have to consider that the Airbus company is in stiff contest with the Boeing for the aircraft orders in the countries.

EU Subsidies and Soft Loans to Airbus

Basing on the support being offered to the Airbus Company by European Union through the financial assistance and the soft loans, the paper do support or encourage the practice. This has been to the consideration of the other benefits that the competitors are getting of which the Airbus are not subjected to them (Bureau of National Affairs Washington, D. C 2007, pp

882). For instance, the Boeing company do get the competitors have been awarded the pork barrel military contracts of which is known to be the 2nd biggest united states defense contractors in the country, this gives them the chance to operate better without any financial constraints at their workplace. Other than that, the competitors are subjected to the support from the NASA which is one of the technologies development of which the Airbus do not get.

None the less, the Boeing Company gets the large tax break thus making them to make more profits as compared to the Airbus Company. This has been a threat to the Airbus leading them to search for some of the financial supports else where. This is when the European Union came in to assist them in giving them some of the support together with soft loans to establish themselves to give them a better chance to compete with the Boeing Company in the market.

The supports have been of more advantageous to the company, it has enabled the company to be able to compete adequately with the competitors in the market; this has to the introduction of the A350 in the company through the use of the soft loans given to them by the EU. Other than that, it has enabled the increase in the market share for the company.

WTO Subsidies Agreement on US Military Contracts with Boeing

Under the WTO subsidies agreement, United State military contract with Boeing; it tends to amounts to subsidies in one way or another. This is because the type of the payments that the company is offered with tends to give them a very unfair advantage over their counter parts the Airbus Company. This is because, the contract being a government offer, they were

subjected to more offers that even allowed them be tax free and even to be subjected to financial assistances such as the NASA that is one of the technologies development firm in the country. This allowed them to be able to come up with better aircrafts that gave them a better chance in the market than the competitor.

This support by the NASA and the Defense department offers the company with the more facilities such as the use of the testing equipments and facilities at no cost whereas the competitors are subjected to pay for the services that they get for them (Zahariadis, 2008, pp 79). This tends to be unfair as Boeing is subjected to get more interest and thus allowing them to upgrade in standard faster than the Airbus.

Infrastructure Development and Investment Incentives Provided By the State Of Washington to Boeing

In conjunction with the financial supports that Boeing Company has been getting, they have also been entitled to more infrastructure development and investment incentives. This has been unfair to the competitors as it gives them totally unfair competitive advantage. This is top the fact that, with the incentives of free services by the government to the Boeing, the company has lowered the market of the competitors, and its reduction on the number of sales that they get (Zahariadis, 2008, pp 78).

This is because, the Boeing government after getting the free services and facilities, they tend to reduce the cost price of their goods and services thus luring more customers to them, whereas the competitors have to cost for all

the expenditures that they incur in their company thus leaving them with high priced goods and services that the customers tend to avoid.

The European Union's Vested Interests in Continuing to Support Airbus

Regardless of the fact that the Airbus can or cannot compete in the market with or without the subsidies and loans, the EU has no intention to discontinue their support to Airbus company. Their vested interest in continuous support has been to provide fair competition in the aircraft market in the country (Bureau of National Affairs Washington, D. C 2007, pp 882). And they can only achieve this by trying the best that they can to ensure that all of the competitors in the market get all that it takes to make them competitive with the colleagues in the market.

This is as per their vision to avoid monopoly in the market of manufacturers of aircrafts in the world. Thus, regardless of the time that Airbus will take to establish them to be able to compete in the market, EU is ready to offer them with the subsidies and loans to establish them.

Airbus Management Respond to WTO Rules against Subsidies and Soft Loans

In the event when the World Trade Organization rules that the EU have to stop their support of subsidies and soft loans to the Airbus, the management will be forced to come up with a better strategy that will enable them to sustain their position in the aircraft manufacturers in the market. With this, they will have to demand for fairness in the government support in the companies involved in the manufacture of aircrafts. This will give them the same opportunity with Boeing and thus able to compete.

Other than this they will be forced to reduce the cost of the expenditure of which will give them a better chance to increase their input in the company.

References

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