



# Why Trade Rules Matter

## A Case Study on Washington State, Airplanes, Subsidies, and Trade Wars

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### EXECUTIVE SUMMARY

**This report is a case study of why global trade rules are vital to Washington State, one of America's most trade-reliant states**

Our report explains how Washington's economy, exporters, and workers prosper under rules-based trade, particularly the World Trade Organization (WTO) and its system for settling trade disputes. By contrast, unilateral approaches to trade—like current tariff wars—are causing significant economic harm to Washington. We recommend concrete steps that Washington's leaders can take to support the global trade system on which the State's prosperity depends.

Trade in airplanes—which accounts for an astounding 54 percent of Washington's goods exports and supports hundreds of thousands of Washington jobs—is a particular focus of this report.

We begin by highlighting trade's critical role in supporting Washington's economy, creating opportunities for Washington businesses, and providing good jobs for Washington workers. We then explain the importance of the WTO, its rules against unfair practices like trade-distorting subsidies, and its dispute system designed



to ensure that countries play by these rules. Unilateral U.S. tariffs and China's subsidy and tech practices depart significantly from WTO rules and norms.

Our report then explores the longstanding dispute between the United States and the European Union (EU) at the WTO over subsidies for large commercial airplanes.

We highlight how a final decision by the WTO in 2018—confirming that Europe's Airbus received more than \$9 billion in WTO-illegal subsidies from EU governments that must be remedied—provided a major boost to efforts by the United States to level the global playing field in aircraft trade, to the benefit of Boeing and Washington State. (The WTO originally found that Airbus had received over \$22 billion in unlawful subsidies, but later reduced that amount to \$9 billion because the passage of time caused the remaining subsidies to age out.)

We note, in particular, that an October 2019 WTO arbitration award authorized the United States to impose \$7.5 billion in countermeasures against the EU's WTO-illegal aircraft subsidies, and explain how the United States has employed this authorization to impose targeted tariffs on politically sensitive EU products—like aircraft, cheese, machinery, and wine—to pressure the EU to eliminate its illegal aircraft aid.

We also detail how a March 2019 final decision in a separate WTO case has found that Boeing received \$325 million in WTO-violating subsidies during the period reviewed as a result of Washington's 2003 reduction in its Business and Occupation tax rate for manufacturers of commercial airplanes. We explain why it's critical for Washington to revise relevant tax law to comply with the ruling in a way that maintains Washington's competitiveness in airplane manufacturing, while also avoiding creating a new WTO-violating subsidy by ensuring that any fix is broadly applicable.

Go-it-alone tariffs, in contrast to rules-based trade, are harming Washington's economy and the State's manufacturers, farmers, tech firms, and workers. We explain why these actions also sow longer-term business uncertainty and fail to set precedents against emerging trade threats, such as unfair competition from China's state-subsidized aircraft sector.

Finally, we recommend steps that Washington's leaders can take to bolster open, rules-based trade. Most immediately, they'll need to develop a positive, WTO-consistent fix to address the recent final ruling against Washington's tax treatment for the aerospace sector. Additionally, Washington's leaders should support other key trade initiatives, including reforming the WTO, reining-in abusive tariffs, expanding America's network of trade deals, and boosting trade enforcement support for products and services that Washington exports.

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### WASHINGTON'S STAKE IN TRADE RULES

On production lines near Seattle, an impressive array of Boeing aircraft is moving steadily toward first flight. Their tails are a kaleidoscope of airline logos—many that most Americans wouldn't recognize. That's because Boeing exports some 80 percent of its U.S. production, increasingly to new and expanding airlines in growing foreign markets.<sup>1</sup>

Boeing is America's largest exporter, and its exports play a crucial role in making aerospace and defense America's largest net exporting sector.<sup>2</sup> Boeing's exports—together with trade by world-class tech companies, productive farmers, and innovative small businesses—also makes Washington one of America's most trade-reliant states.<sup>3</sup>

The importance of aircraft trade to America and Washington State is reflected in a series of cases on large commercial aircraft (LCAs) filed at the World Trade Organization (WTO) well over a decade ago. Collectively, these cases are the largest trade dispute that the WTO has ever considered.<sup>4</sup> *Now in their final phases, they provide a historic opportunity to level the international*

*playing field for Boeing and its suppliers and workers—who have labored for years against European competition unfairly supported by extensive, trade-distorting government subsidies. At the same time, as we detail below, Washington State will need to change a tax provision to comply with a recent, final WTO ruling—and do this in a way that avoids creating a new WTO-violating subsidy by assuring that any fix is broadly applicable.*

The WTO aircraft cases also illustrate a bigger issue—the debate over how the world sets trade rules and settles trade disputes. Will the world continue to rely on rules-based paths like the WTO? Or, will it adopt go-it-alone, power-based approaches—like the Trump Administration's tariff wars or China's subsidies and forced tech transfers—that defy the letter and spirit of global rules? American workers, companies, and communities all have a major stake in the answer.

This study details why this debate is especially vital to Washington State, with a focus on the WTO aircraft cases.

We first note trade's importance to Washington, provide background on the WTO's trade

rules, and explain how rules-based trade benefits Washington. We then detail how Washington's aerospace sector is poised to benefit significantly from recent WTO's decisions, while highlighting steps that the State will need to take to bring a tax law provision into compliance with WTO rules. Next, we explain how go-it-alone trade actions are harming Washington's economy, businesses, and workers. Finally, we outline steps that leaders in Washington State and Washington, D.C. can take to support the global trade system that's vital to Washington's prosperity.

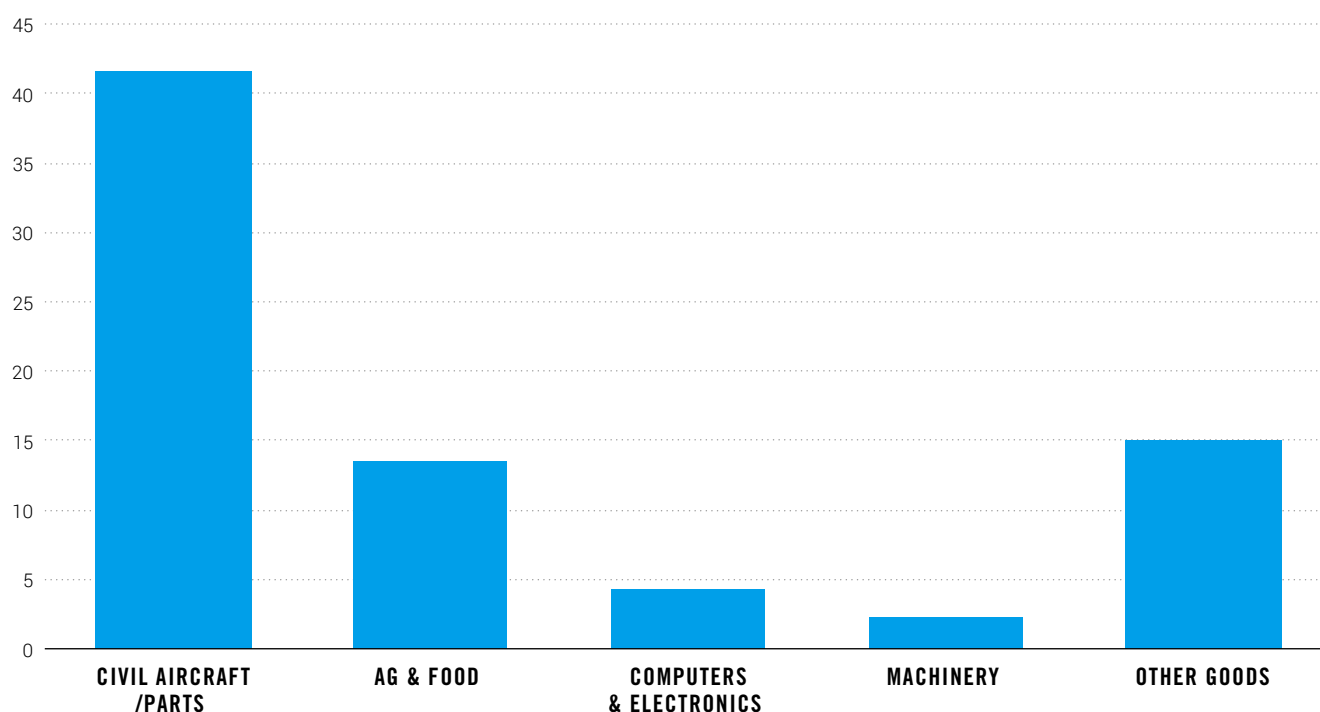
### TRADE'S IMPORTANCE TO WASHINGTON

Global trade rules are vital to Washington because Washington relies extensively on global trade.

Exports of goods and services account for over 20 percent of Washington's economy and, since 2006, they've grown 50 percent faster than the State's overall economy. Among America's metropolitan areas, the Seattle region was America's fourth largest goods exporter in 2017.<sup>5</sup>

In 2017, Washington's goods exports totaled some \$77 billion. An astounding 54 percent (\$41.6 billion) of these exports were civil aircraft and parts built by Boeing and many of the other 1400 aerospace producers and suppliers located in 35 of Washington's 39 counties. Farm products and processed foods—including wheat, potatoes, apples, and cherries—accounted for \$13.5 billion in exports. Washington also leads all states in exporting timber and seafood. Computers, electronic equipment, and machinery added over \$6 billion to the State's 2017 exports.<sup>6</sup>

### WASHINGTON STATE GOODS EXPORTS (2017) (BILLIONS OF DOLLARS)



Source: United States Census Bureau<sup>7</sup>

Washington is also a powerhouse in exporting services, exporting over \$26 billion in services in 2016. These included \$10 billion in computer software produced by tech giants like Microsoft, as well as many small app developers.<sup>8</sup>

Imports are also vital to Washington's economy. The State's \$50 billion in goods imports in 2017 included vital parts and components that enable Washington's aerospace and technology sectors—including tech startups—to build globally competitive products, as well as household goods that stretch buying power for Washington's lower- and middle-income families.<sup>9</sup>

Moving all this international trade—including trade to and from other states—also supports extensive business activity at Washington's ports and for the trucking, rail, logistics, and professional firms that carry and coordinate this trade.<sup>10</sup> The combined ports of Seattle and Tacoma are America's fifth largest by container volume.<sup>11</sup>

Most importantly, this vast trade supports good jobs. The U.S. Chamber of Commerce estimates that trade supports nearly a million jobs throughout Washington—at large and small businesses, in factories and ports, and on farms and highways. Other studies estimate that 40 percent of all jobs in Washington can be tied to trade.<sup>12</sup> Washington's trade-dependent aerospace sector alone supports an estimated 242,800 jobs in the Evergreen State.<sup>13</sup>

**Washington's trade-dependent aerospace sector alone supports an estimated 242,800 jobs in the Evergreen State.**

Since the early 1990s, Washington's trade-related jobs have grown almost four times faster than the State's overall employment.<sup>14</sup> Many trade-related jobs are good-paying union jobs—nearly half of Washington's trade-supported jobs in aerospace manufacturing are union, as are over a quarter of trade-supported jobs in the maritime support sector. Studies show that jobs in export-reliant industries pay some 16 percent more than jobs in industries that rely less on exports.<sup>15</sup>

### **RULES-BASED TRADE, THE WTO, AND TRADE WARS**

For seven decades, America, Washington, and the world have prospered under the rules-based trade system founded and championed by the United States.

Rules-based trade has raised global living standards—helping to reduce the proportion of the world living in extreme poverty by more than half since 1990—while also aiding America's global efforts to promote democracy and political reform.<sup>16</sup>

Ultimately, however, the United States supports rules-based trade not as a favor for others, but because such trade is good for America. Eliminating trade barriers opens new markets for our exports, supports good jobs for our workers, and makes goods more affordable for our consumers.

The establishment of the World Trade Organization in 1995 was a pivotal moment for trade under global rules. The WTO's member countries (now at 164) adopted a series of detailed agreements to promote open trade and limit the ability of governments to distort trade.<sup>17</sup> The WTO's agreement on subsidies, for example, limits the use of unfair trade-related subsidies and regulates the actions governments can take to counter subsidies and their harmful effects.<sup>18</sup>

The WTO's greatest innovation was the adoption of a dispute settlement process with real teeth. The dispute process initially seeks to resolve trade disputes through consultation. If consultations fail, WTO dispute panels can rule on whether a country's trade policy or action violates WTO rules. Notably, if a challenged government loses at the WTO and doesn't eliminate an illegal action—or remedy its harmful effects—the WTO can authorize retaliation. The WTO, for example, could authorize a complaining government to raise tariffs, within limits, against key imports from the offending country to pressure that country to comply with a WTO ruling.<sup>19</sup>

America benefits significantly from the WTO's dispute settlement process. Since the WTO's founding, the United States has won over 90 percent of the cases it's brought at the WTO.<sup>20</sup> But, as anyone who remembers the “Battle of Seattle” can also attest, the WTO has long been controversial—and its system is under increasing stress.<sup>21</sup>

**Since the WTO's founding, the United States has won over 90 percent of the cases it's brought at the WTO.**

Supporters and critics alike charge that the WTO has failed to keep pace with a changing global economy. WTO rules written before Amazon and Google, for example, don't directly address the explosive global growth of digital trade and e-commerce.<sup>22</sup> And the WTO's inability to update and clarify other key rules has put significant strain on its disputes process.<sup>23</sup>

America and other market economies have long complained that China is gaming the WTO and violating the letter and spirit of its rules. China relies on WTO rules to open markets for

its exports. At the same time, China is using its system of state-directed capitalism to distort global markets through extensive—and often undisclosed—subsidies, preferences for state-owned companies, and formal and informal pressures to force the transfer of foreign technology.<sup>24</sup>

Under the Trump Administration, the United States—once the leading supporter of open trade—is now often its biggest skeptic.<sup>25</sup> While America has continued to file cases<sup>26</sup> and engage at the WTO, President Trump claims that “[t]he WTO is unfair to the U.S.,” and has repeatedly threatened to withdraw. The United States has also blocked nominees to the WTO's Appellate Body, slowing and potentially paralyzing its disputes process.<sup>27</sup>

Of greatest concern is increasing reliance by the United States on a go-it-alone approach to trade, often outside the WTO's rules and norms.

The Administration has, for example, imposed tariffs on steel and aluminum from most exporting countries, including U.S. allies. It claims that these “national security” actions are exempt from WTO review, a dangerous precedent that could potentially gut the WTO system.<sup>28</sup> The Administration has also brought “Section 301” proceedings against China's unfair technology practices—which have led to escalating U.S. trade taxes on some \$250 billion in imports from China.<sup>29</sup> These actions have, in turn, led to swift unilateral retaliation against American exports by U.S. trade partners, moves that also fall outside normal WTO practices.<sup>30</sup>

These tit-for-tat trade wars pose a severe threat to modern rules-based trade. They're leading to urgent calls by government, business, and political leaders in the United States and worldwide to support the WTO and to bring



needed reform to the global trade system.<sup>31</sup> As detailed below, Washington State has compelling reasons to add its voice to this effort.

## HOW RULES-BASED TRADE SUPPORTS WASHINGTON STATE

### The Overall Benefits of Trade Rules to Washington

Trade rules under the WTO—and under America’s 20 free trade agreements (FTAs)—play a vital role in supporting trade by Washington’s manufacturers, farmers, and service providers. By eliminating countless tariff and nontariff barriers, these agreements significantly boost Washington’s exports.<sup>32</sup> In 2017, for example, a quarter of Washington’s goods exports were to America’s FTA partners. These FTA countries are big buyers—per capita, they buy over four-and-a-half times more goods from Washington than non-FTA countries buy.<sup>33</sup>

When effectively enforced, trade rules can also provide important tools to eliminate remaining hurdles to Washington’s trade, such as unfair Chinese practices that limit Washington’s IT trade and foreign barriers to Washington’s exports of apples and other farm products.<sup>34</sup>

### Fair and Open Trade in Aircraft

Because nearly 60 percent of Washington’s goods exports are aircraft and aircraft parts, Washington has an especially compelling interest in a level global playing field for aircraft trade. Fair and open aircraft trade is crucial to Washington’s economy, to its extensive network of aerospace producers and suppliers, and to the nearly quarter million Washingtonians whose jobs are supported by the aerospace sector.<sup>35</sup>

**Washington has an especially compelling interest in a level global playing field for aircraft trade.**

As PPI has highlighted in the past, global airplane trade has been seriously distorted for decades by European government subsidies.<sup>36</sup> Fortunately, a big win for the United States at the WTO in 2018 should provide U.S. officials with critical leverage to restore fairness to the global aircraft trade that’s so vital to Washington.

*As detailed below, in a May 2018 final ruling, the WTO found that Europe has provided Airbus with more than \$9 billion in WTO-violating subsidies that it must bring into compliance with global rules. In October 2019, a WTO arbitrator ruled that the United States was entitled to impose \$7.5 billion in countermeasures against the EU’s WTO-illegal aircraft subsidies. In response, the United States imposed WTO-approved tariffs on a range of key EU exports, including new aircraft and a variety of politically sensitive goods. The goal of these sanctions is to press Europe to eliminate its illegal aircraft subsidies and help level the international playing field for Boeing.*

*In a separate case, the WTO found in a March 2019 final ruling that Boeing has received far smaller WTO-violating subsidies, valued at \$325 million for the years reviewed. As explained below, these subsidies relate to Washington State’s 2003 reduction in its Business and Occupation (B&O) tax for manufacturers of commercial airplanes and components. It will be crucial for Washington State to change this tax provision to comply with the recent ruling—and do so in a way that maintains Washington’s competitiveness in airplane manufacturing, while avoiding creating a new WTO-violating subsidy by assuring that any fix is broadly applicable by, for example, extending the lower B&O tax rate to all manufacturing.*

### Europe’s Subsidies to Airbus

In competing for sales of large commercial aircraft in global markets, Boeing must go



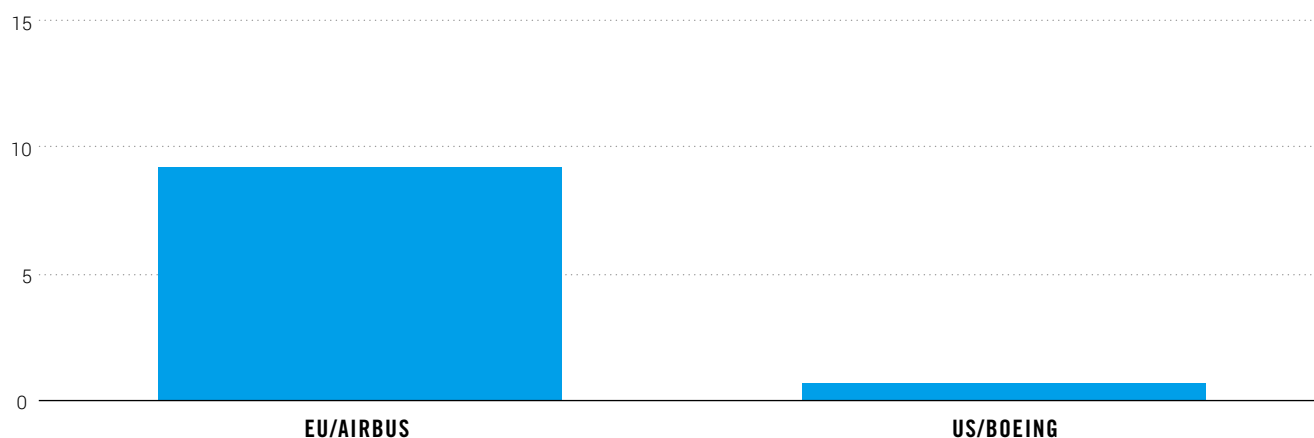
toe-to-toe with Airbus, a competitor that's been propped up for decades by tens of billions of dollars of subsidies from the European Union and some of its member countries. The most extensive and damaging of these subsidies is a series of highly subsidized, unusually structured "loans" for new aircraft development known as "launch aid."

These "loans" are unlike anything on the open market. For example, they are at significantly lower interest rates than Airbus could receive from commercial lenders. These "loans" also contain highly unusual repayment terms. Airbus, for example, isn't required to repay the "loan" unless the newly developed airplane becomes a commercial success and, even then, Airbus is only required to repay the loan in small

increments from the proceeds of each actual aircraft sale.<sup>37</sup> These combined terms provide Airbus with near-free money and shield it from substantial risk in launching a new airplane model. Instead, the risk is borne by the EU, its member countries, and European taxpayers—something that would be unheard of in the United States.

Launch aid subsidies provide Airbus with significant competitive advantages—it can price aircraft lower and develop new models sooner, and more easily recover from product development mistakes, all while facing significant less risk.<sup>38</sup> For Boeing and Washington State, these and other European subsidies cost sales, revenues, and good jobs.

## UNREMEDIED ILLEGAL AIRCRAFT SUBSIDIES – WTO FINAL DETERMINATIONS (BILLIONS OF DOLLARS)



Sources: World Trade Organization, Boeing<sup>39</sup>

### ***The U.S. Case Against Europe's Subsidies to Airbus***

In 2005, after extensive efforts to negotiate a framework with the EU to end distorting airplane subsidies, the U.S. Government (USG) brought

a WTO case against the EU, France, Germany, Spain, and the United Kingdom. The USG charged that billions of dollars in government launch aid and other subsidies to Airbus (in the form of loans, grants, equity infusions, and

other funding) violated the WTO Agreement on Agreement on Subsidies and Countervailing Measures (SCM Agreement).<sup>40</sup>

Under the SCM Agreement, a “subsidy” is defined as (i) a “financial contribution,” (ii) by a government or public body, (iii) which confers a benefit. In order to be WTO-inconsistent, a subsidy must also be (iv) specific, and (v) cause adverse trade effects to other WTO members (except for a narrow category of “prohibited” subsidies to which (iv) and (v) don’t apply). The requirement that a subsidy be “specific” is designed to separate focused subsidies that can distort an economy and trade from legitimate, widely available public benefits that do not.<sup>41</sup>

In June 2010, a WTO dispute panel ruled in favor of the United States on some 80 percent of the amount of the challenged European government subsidies to Airbus. Notably, the panel found that, without subsidies, Airbus likely would never have produced *any* of its commercial airplanes because, according to the panel, Airbus owes its very existence to launch aid subsidies. The panel further found that the specific subsidies provided to Airbus by Europe displaced Boeing’s exports and caused it to lose significant sales in key global markets.<sup>42</sup>

In May 2011, a WTO appellate panel upheld the central findings of the earlier panel, including its findings on the essential role that launch aid subsidies played in propping up Airbus and supporting the creation of every one of its commercial airplanes. In total, the appellate panel found that Airbus received \$18 billion in WTO-illegal subsidies, including \$15 billion in launch aid. The WTO ordered the subsidy-granting European countries to promptly withdraw all WTO-illegal subsidies or remove their adverse effects.<sup>43</sup>

In December 2011, the EU filed a notification in which it claimed to have fully complied with the WTO’s rulings and recommendations. The United States disagreed, leading to WTO compliance proceedings before a compliance panel and to a subsequent—and final—appeal. In rulings in 2016 and May of 2018, the WTO rejected virtually all of the EU’s claims, finding that the European governments failed to remedy billions in past subsidies to Airbus. Moreover, the WTO found that Europe was, in fact, doubling down on Airbus launch aid by supplying \$5 billion in new WTO-illegal subsidies for the Airbus A350—for a total of more than \$9 billion in WTO-illegal subsidies that Europe must bring into compliance.<sup>44</sup>

### ***WTO-authorized Retaliation Against Europe***

In October 2019, a WTO arbitrator determined that the United States was entitled to impose \$7.5 billion in countermeasures in response to Europe’s WTO-inconsistent launch aid subsidies. Based on this award—by far the largest in the WTO’s history—the United States imposed WTO-consistent retaliatory sanctions on key exports from EU member countries. These sanctions included 10 percent tariffs on new EU-origin aircraft and 25 percent tariffs on a range of politically sensitive goods, including British woolens, French wines, German machinery, Spanish olives, and dairy products from throughout the EU. The United States also reserved the right to modify or increase these tariffs consistent with the WTO’s authorization.<sup>45</sup>

The ultimate goal of these sanctions isn’t punishment. Rather, they’re intended to provide strong leverage to the United States to press Europe to finally eliminate the damaging effects of its illegal airplane subsidies. Making Airbus assume market risks and pay market-based costs for capital, aircraft development, and

marketing would significantly level the playing field for global aircraft trade. Under fairer conditions of competition, especially on price, Boeing could sell more aircraft—benefitting its workers and Washington’s economy.<sup>46</sup>

### ***The EU’s Cases Against Alleged U.S. Airplane Subsidies***

Airbus and European governments have long charged that Boeing also benefits from WTO-illegal government subsidies, and the EU has litigated two WTO cases to pursue these claims. In final WTO decisions, however, the EU has won on only a small portion of its subsidy claims.

The United States prevailed completely in a case brought by the EU in 2015. In that case, the EU claimed that eight Washington State tax incentives for the aerospace industry violated the SCM Agreement. The WTO dismissed seven of the eight claims and, on appeal, found that the eighth alleged subsidy (a Washington Business and Occupation tax reduction requiring that the 777X be produced in Washington) was not a “prohibited subsidy” under WTO rules.<sup>47</sup>

In a separate 2006 case, the EU claimed that various U.S. federal, state, and local measures—including NASA and DOD programs and various tax measures—provided Boeing with \$23 billion in indirect, WTO-illegal subsidies. After a 2011 panel decision and subsequent 2012 decision on appeal, the WTO dismissed the bulk of the EU’s claims, finding only \$3.25 billion in WTO-illegal subsidies to Boeing. After the USG and Boeing took prompt action to address the WTO’s findings—including revising NASA and DOD contracts and other steps—a WTO compliance panel found in 2017 that the United States and Boeing were in compliance with virtually all of its rulings, a determination that was confirmed in the WTO’s final determination in March 2019.<sup>48</sup>

The WTO did find that Washington’s 2003 reduction to its B&O tax—to provide a reduced rate for manufacturers of commercial airplanes and components—was a subsidy to Boeing that violated the SCM Agreement. (House Bill 2294 reduced the rate for such manufacturers in stages from 0.484 percent to 0.2904 percent.) In making this finding, the WTO ruled that the tax reduction was a “financial contribution,” and that it was a “specific” subsidy because the language and operation of the law limited benefits to the aerospace industry or certain aerospace enterprises. The WTO further found that this subsidy was worth on average \$100 to \$110 annually during the period reviewed (or about \$325 million in total) and that it caused adverse effects to Airbus.<sup>49</sup>

### ***WTO Compliance for Washington State and Boeing***

With the final WTO decision that Washington’s B&O aerospace tax adjustment provides WTO-illegal subsidies, it’s crucial for Washington, the USG, Boeing and other interests to work together to bring Washington law into compliance with WTO rules. As noted, Boeing and U.S. government entities have complied with earlier WTO rulings on U.S. subsidies found to violate WTO rules. Compliance is essential to uphold the legitimacy of the WTO process and to underscore the WTO’s authority in setting long-term global precedents that limit trade-distorting government subsidies for new commercial airplanes.

Moreover, if Washington doesn’t comply, the WTO could authorize the EU to retaliate against U.S. trade—including retaliation in the form significant EU tariffs against a range of Washington’s manufacturing, tech, and farm exports. Indeed, the EU has already proposed a list of goods for possible tariff retaliation



in its case that includes such products as seafood, fruits, vegetables, wine, aircraft, and videogame consoles.<sup>50</sup>

The specifics of any WTO compliance solution for Washington State on the B&O tax issue are beyond the scope of this study. But any solution should, at a minimum:

- Honor the State's original, vital goal of encouraging high-value, job-supporting aerospace manufacturing and related business operations in Washington;
- Ensure that Washington is a nationally competitive place to conduct such activities; and
- Avoid creating a new WTO-violating subsidy by ensuring that any fix is broadly applicable by, for example, extending the lower B&O tax rate to all manufacturing

### HOW A GO-IT-ALONE APPROACH TO TRADE HURTS WASHINGTON STATE

Unlike the WTO's airplane cases, the Administration's go-it-alone tariffs on metals and imports from China—and the foreign trade retaliation they've generated—are largely outside of WTO rules and norms. As PPI has explained elsewhere, these unilateral actions haven't convinced China and others to stop unfair trade practices. They are, however, damaging U.S. businesses and exporters, costing jobs for U.S. workers, and increasing prices for American consumers.<sup>51</sup>

#### Washington Impacts

The U.S. Chamber of Commerce estimates that the Trump Administration's unilateral tariffs could hit Washington harder than any other state.<sup>52</sup> There are also compelling stories of how tariffs and retaliation are impacting business and workers throughout the Evergreen State:

- Aluminum tariffs have raised costs for Puget Sound boat builders, making it harder to compete with foreign builders, and raising costs for public agencies, like Kitsap Transit.<sup>53</sup>
- Dockworkers at Washington ports are facing reduced shifts as ports see falling steel imports and plummeting exports of soybeans, wheat, and copper. The Port of Vancouver shipped \$27 million in soybeans to China in August 2017. In August 2018, it shipped \$0.<sup>54</sup>
- Mexico, the largest market for Washington apples, has slapped a 20 percent retaliatory tariff on U.S. apples, taking a big bite out of profits for Washington growers.<sup>55</sup>
- Washington exported 270,000 metric tons of wheat to China through July 2017. During the same period in 2018, it exported none.<sup>56</sup>
- Higher and uncertain costs from steel tariffs have made it harder for Montesano-based Vaughn Company to sell its specialty pumps in world markets and to plan long term.<sup>57</sup>
- Tariffs on Chinese parts will raise costs for Amazon and other internet businesses, and for small firms like Seattle-based Rad Power Bikes, which designs and sells electric bikes.<sup>58</sup>
- Like consumers nationwide, Washingtonians are paying more for everything from beer and refrigerators and washers and dryers to couches, ball caps, Christmas lights, and car insurance.<sup>59</sup> "Beat-the-tariff" sales are now a popular marketing pitch for U.S. retailers.<sup>60</sup>

**The Trump Administration's unilateral tariffs could hit Washington harder than any other state.**

### Go-It-Alone Actions vs. Trade Rules

In addition to the growing economic harm caused to Washington by trade war tariffs, approaches that ignore trade rules are bad for the United States—and Washington—for other key reasons.

*Uncertainty.* Trade rules under the WTO and other agreements provide certainty. They aren't perfect and need reform. But they do give vital assurances to global businesses on how trade is conducted and how disputes are settled.<sup>61</sup> Unilateral actions, by contrast, sow uncertainty—often by design. For Washington, the uncertainty and higher costs of tit-for-tat tariffs make it harder for manufacturers and tech firms to grow, plan, and invest, and undercut Washington's hard-won reputation as a reliable exporter of products like wheat and apples.<sup>62</sup>

*No Firewalls.* Global rules can also wall off trade disputes from the broader economy. The airplane subsidy cases between the United States and the EU have been hard-fought and often bitter. But, by providing a neutral forum, the WTO process has helped insulate the airplane cases from the wider U.S.-EU trade relationship. Trade outside of rules, by contrast, has thinner firewalls. The Administration's unilateral tariffs against China initially covered \$50 billion per year in imports—the amount of harm it claimed China's tech practices caused to America. Since then, however, tariffs have been escalated to cover \$250 billion in annual trade, and could potentially cover *all \$500 billion* in annual U.S. imports from China,<sup>63</sup> leading to higher prices for Washington businesses and consumers and further retaliation against Washington's exports.

*No Objective Decisions.* The Administration claims that its unilateral tariffs are prelude to

deals that will solve trade disputes. But one-off, transactional deals are often bad trade policy. Europe, for example, has long suggested that there's an equivalence between its airplane subsidies and those it claims are provided by the United States—essentially, that “everybody does it.”<sup>64</sup> But, as noted above, Europe has far greater fault—the WTO concluded that the EU was obligated to remedy more than \$9 billion in illegal subsidies to Airbus, while finding only \$325 million in such subsidies for Boeing during the period reviewed. Had the United States adopted a “split-the-difference” deal-making approach to the aircraft dispute, much of the leverage that Boeing and Washington have gained from WTO-authorized sanctions might never have materialized.

*No Precedent.* Unlike one-off deals, rules-based trade sets precedents. The WTO's precedents on commercial airplane subsidies are vital to Boeing and Washington's aerospace sector as they eye emerging competitors from China. COMAC, China's state-owned enterprise, has already produced a 737 competitor. China's “Made in China 2025” plan identifies large aircraft and aerospace equipment as key national priorities, and China has a long history of lavish subsidies for favored sectors.<sup>65</sup> And, as noted, U.S. compliance with WTO decisions is essential to promote global respect for WTO precedents.

### HOW LEADERS IN WASHINGTON STATE — AND WASHINGTON, DC— CAN BOLSTER RULES-BASED TRADE

In developing a comprehensive international competitiveness strategy for Washington, the Washington Council on International Trade and the Trade Development Alliance of Greater Seattle noted that:

**Washington goods and services are some of the world's best, but they are only competitive on a relatively level international playing field. . . . As one of the most trade-supported economies in the country, Washington has a unique interest in ensuring that our country both creates and enforces trade regulations that give our businesses the opportunity to fairly compete.**<sup>66</sup>

We agree. As we've detailed, rules-based trade is vital to Washington. Accordingly, it's crucial for Washington's leaders to speak and act on its behalf.

In particular, Washington's leaders should work to strengthen the WTO as an effective precedent-setting trade body that's critical to Washington's global commerce, especially for its aircraft industry. Most immediately, now that a final WTO decision has found that Washington must eliminate the adverse trade effects of its B&O tax treatment for the aerospace sector, the State should promptly comply by working with U.S. trade officials, Boeing, and other interests on a responsible, broadly applicable WTO-legal solution that maintains Washington's national competitiveness in airplane manufacturing, while avoiding creating new WTO-violating subsidies.

Washington's leaders should also advocate for—and encourage leaders in Washington, D.C. to support—other steps to bolster open, rules-based trade. These steps include

- Reforming the WTO's rules to cover modern issues like digital trade; address China's unfair practices on subsidies, state enterprises, and technology transfer; and resolve the current dispute that threatens the future of the WTO dispute settlement process;<sup>67</sup>
- Eliminating current go-it-alone tariffs and adopting responsible legislation to prevent abuse of the president's delegated powers to impose tariffs and other trade restrictions;<sup>68</sup>
- Supporting continuing efforts to stop to European launch aid and other illegal subsidies for Airbus, including through WTO-authorized trade retaliation, if necessary;
- Providing greater federal resources for effective enforcement of global trade rights, particularly for products and services that Washington exports;<sup>69</sup> and
- Expanding America's current network of rules-based FTAs by advancing negotiations with Pacific Rim and European partners, including possibly rejoining the Trans Pacific Partnership agreement.

**Washington's leaders should also advocate for—and encourage leaders in Washington, D.C. to support—other steps to bolster open, rules-based trade.**

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## ABOUT THE AUTHOR

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