

**Statement of James H. Zrust,
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The Boeing Company
Before the Committee on Finance
United States Senate
Hearing on
The Role of the Extraterritorial Income Exclusion Act in the International
Competitiveness of U.S. Companies
July 30, 2002**

Mr. Chairman, on behalf of the more than 170,000 employees of The Boeing Company as well as the nearly 26,000 supplier companies and their employees in all 50 states, I want to thank you for the opportunity to present our views on the potential impact on U.S. aerospace workers and suppliers if the Extraterritorial Income Exclusion Act of 2000 (“ETI”) is repealed without an equivalent replacement. We applaud your tireless efforts to address, on behalf of U.S. exporters, the World Trade Organization’s decision on ETI.

This Committee has long worked to ensure that our tax system does not unfairly penalize U.S. businesses, especially vis-à-vis foreign competitors. Consistent with that position, we do not believe that an appropriate response to the WTO’s decision would be to simply repeal ETI. The effect of such an act would be a tax increase on American exporters. More importantly for Boeing, this could result in the potential loss or relocation of 9,600 high-paying, high tech jobs. For our suppliers, this could mean the loss of 23,000 jobs. Repealing ETI without a suitable replacement would have an adverse impact on the international competitiveness of domestic exporters, threatening thousands of American jobs.

It would be especially devastating to the U.S. aerospace industry, an industry that employs nearly 800,000 highly skilled workers. It would likely cause companies to lose substantial portions of their export business activities and result in the elimination or transfer of these U.S.-based jobs overseas.

Today ETI helps level the playing field for U.S. companies competing against foreign firms, which are often heavily subsidized by their governments and enjoy tax rebates on their exports. For example, Boeing competes against a heavily subsidized European aerospace industry. According to a 1990 Commerce Department study, if Airbus had to pay commercial rates for its net government financial support—which it does not—the total funds committed would have been valued at \$26 billion. Today that number is more than \$30 billion. Most of these funding advances have never been repaid, nor is it expected that they ever will be repaid. Moreover the entire European aerospace industry is the recipient of billions of dollars in “indirect” subsidies in the form of government R&D contracts where the work performed is often merely for commercial applications, not for “breakthrough” technologies.

Boeing seeks a three-pronged approach as a way of remaining competitive. First, the Congress, the Administration, and U.S. industry should work together to develop an alternative to the ETI regime that provides comparable benefits. Moreover, the revenues associated with ETI should not be diverted to other industries or priorities.

Second, the Congress and the Administration should make one of their top trade priorities the negotiation of a delay in the imposition of sanctions by the European Union and a process for resolving this dispute. Included in those negotiations should be an agreement by the Europeans that any legislative proposal will not be challenged again and that the inequity in the current WTO rules regarding direct and indirect tax systems will be eliminated. We thank the committee for its leadership in addressing this inequity in the recently passed Trade Promotion Authority bill.

Third, in crafting an alternative, it is critical to avoid incentives for companies to move abroad. Companies that have chosen to stay in the United States and produce jobs here at home should not be penalized if and when ETI is repealed. The National Foreign Trade Council has developed alternatives that would assist U.S. manufacturers, which our trade experts believe are WTO-consistent.

Mr. Chairman, the United States government has spent thousands of hours through years of negotiations to resolve disputes with Europe over bananas and beef—cases that pale in comparison to the value of ETI. The ETI dispute is the largest trade dispute ever to come before the WTO. We believe the U.S. government should be equally—if not more—vigilant in seeking to negotiate an acceptable approach to resolve this issue.

Members of this committee are acutely aware that the airline and aerospace industries have been hit particularly hard by the events of September 11 of last year. These events have had a chilling effect on the average citizen of this country and, in particular, the

traveling public. My purpose today is to make clear to this committee and to the Congress the potential for further setbacks to this high-technology industry if the circumstances of exporters of U.S. produced aerospace products are not taken into full consideration.

In addition, I want to highlight the potential negative impact on this country's trade balance if ETI is not replaced with legislation that provides comparable benefits. Mr. Chairman, in 2001, the aerospace industry was the largest positive *net* contributor to the U.S. trade balance, producing an industry trade surplus of almost \$27 billion. This positive contribution is a testament to the creativity, ingenuity, and efficiencies developed over time by the dedicated men and women who go to work every day to try to maintain our competitive edge.

A recent U.S. government report indicates a one-month trade deficit of some \$37 billion. This number will increase substantially if U.S. aerospace exporters lose ETI benefits. Without tax benefits similar to those under ETI available to the U.S. industry—benefits born out of a necessity to help “level the playing field” with European VAT rebates which provide a large price advantage for EU exporters—our balance of trade will suffer even more dramatically.

I believe that my comments on the extent to which U.S. aerospace workers would be adversely affected if an equivalent tax provision were not enacted into law are reflective of most aerospace companies in the United States. For Boeing, some seventy percent of all our commercial aircraft are exported to foreign airlines. We rely heavily on a “rules-

based” trading system in order to ensure that an effective global trading system is maintained and economies around the world continue to grow. The maintenance of an effective rules-based trading system is one reason why Boeing takes very seriously the need for the U.S. government to ultimately comply with the WTO’s decision. The question now before this body is *how* to shape compliance.

The Boeing Company, our suppliers and workers who assemble the aircraft take great pride in the fact that we are a “pure exporter.” Rather than establish foreign subsidiaries to produce and distribute our aircraft for us, we have relied on ETI and its predecessors in making investment decisions. Those decisions have allowed us to strengthen our production capabilities and employment in the U.S. since Boeing was founded more than eighty-five years ago. Our approach has maximized the creation of high technology and higher-paying jobs *within* the United States. We are convinced that this approach is responsible for strengthening the industrial base of our country. We should hardly be punished for taking this approach.

Boeing has major operations in 26 states and employees working in every state of the U.S. Our supply chain stretches throughout all 50 states of the union. We are the largest employer in the states of Washington and Kansas. We are also the largest *manufacturing* employers in California and Missouri. For decades, Boeing has made substantial investments in the training and educating of people, the development of technology, and creation of highly advanced manufacturing facilities. Using a conservative multiplier effect of 2.4, the work of Boeing today generates nearly one-half million jobs in this

country, many of which are with small and medium size businesses. In short, the Boeing Team has been and, hopefully, will continue to be an important engine of economic growth and technology in the United States.

However, any repeal of the ETI Act—without an equivalent replacement for the aerospace industry and other pure exporters who are not interested in exporting jobs abroad—will be particularly detrimental to the industry’s ability in the future to provide these benefits to the industry and to the country. The loss of a tax provision that allows U.S. exporters to compete fairly with European exporters may well translate into a reduction in R&D investments, higher capital costs, and lost market share over time. And, the effect of that will be a reduction in our workforce and supplier base. I submit to you that this is a scenario that neither Boeing, nor our suppliers, nor the Congress wants to see unfold.

Mr. Chairman, we look forward to working with you to resolve these very difficult issues facing Boeing and other exporters who choose to retain jobs at home in the United States.

Thank you.