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UPDATE

## KUWAIT TO AMERICA: DROP DEAD

(Updating *Backgrounder* No. 813, "Winning A Real Victory Over Iraq," February 26, 1991; *Backgrounder Update* No. 153, "Fighting to Win in the Persian Gulf," January 17, 1991; *Executive Memorandum* No. 279, "How to Defeat Iraq," August 23, 1990; *Executive Memorandum* No. 277, "How to Stop Iraq's Saddam Hussein," August 6, 1990).

How much does Kuwait owe Americans for liberating Kuwait from Iraqi aggression and occupation? Quite a bit, it should seem. But Kuwaitis apparently disagree. Last month, in one of the most startling acts of ingratitude in memory, Kuwait Airways snubbed American aircraft manufacturers by giving a \$2 billion order for commercial aircraft to Europe's Airbus Industrie. In effect, Kuwait Airways said that the American companies whose planes were good enough to rush American troops to save Kuwait now are not good enough to get Kuwaiti business.

The painful irony of the Kuwait Airways purchase decision is that Airbus is sponsored by governments that did little or nothing to help Kuwait in its hour of need: Belgium, France, Germany, the Netherlands and Spain. Only Airbus 20 percent-owner Britain came wholeheartedly to Kuwait's aid and thus probably merits some Kuwaiti business. Competing with Europeans as potential suppliers of planes, of course, is Boeing Commercial Airplanes and McDonnell Douglas Corporation. The Kuwait Airways decision to buy European planes understandably surprises and miffs the Americans.

There is, however, still time for Kuwait to demonstrate that it really is grateful to America for raising up a Desert Shield and unleashing a Desert Storm. Kuwait Airways' Airbus decision needs a Kuwaiti government OK. This should be denied and Kuwait Airways officials should be instructed to make a down payment on their country's deep debt to America by buying American.

**Forceful Message.** This is a message that should be sent forcefully to Kuwait by the Bush Administration and by the Congress. After all, when Secretary of State James Baker was asked last November 13 why the United States was rushing hundreds of thousands of GIs to Kuwait's defense, he said, among other things, "To bring it down to the level of the average American citizen, let me say that it means jobs." Baker did not mean jobs for the workers of Europe's subsidized Airbus consortium.

During the Persian Gulf war, Kuwait Airways lost 15 aircraft. Seven of these planes were destroyed during the military conflict; the other eight were taken by the Iraqis. Kuwait Airways thus must operate with only the eight planes that it still owns, which include Boeing 727, 747 and 767 models, plus an additional five planes it plans to lease from Polaris Aircraft Leasing Corporation. Under these circumstances, Kuwait Airways faces a considerable task in restoring its operations to the level that existed before Iraq's August 2 invasion.

Kuwait Airlines began its rebuilding effort in January, well before the end of the war against Iraq. While many companies bid for the Kuwaiti contract, the two companies best positioned to meet the carrier's requirements were Airbus Industrie and Boeing Commercial Airplanes of Seattle, Washington. These two companies are the top producers of the jumbo passenger jets of interest to the Kuwaitis; by contrast, the McDonnell Douglas planes are a bit smaller than those sought by the Kuwaitis.

**Wining and Dining.** During the negotiations, Boeing was led to believe by Kuwait Airways that the airline wanted to purchase only a few aircraft with delivery times as early as next year or 1993. These aircraft could be provided by Airbus since it can deliver new airplanes faster than can Boeing. Boeing thus reasoned that although Airbus might get an order for the first few aircraft, Boeing of course later would get the lion's share of a much larger order. Thus Boeing officials were surprised by the huge size of the order given to Airbus and by the early announcement by Kuwait Airways of the order. Airbus is to deliver 15 aircraft, including three A320s, three A310-300s, five A300-600Rs, and four A340-200s. The agreement between Airbus and Kuwait Airways also gives Kuwait Airways the option to purchase two A321s, three more A300-600Rs and four A340-200s. Airbus's A300 and A310 planes are roughly equivalent to Boeing's 747 jumbo jet, although somewhat smaller. Its A340, now in development, also will be roughly equivalent to the 747. Airbus's A320 model is roughly equivalent to Boeing's 757.

Kuwait Airways officials, after concluding the negotiations with Airbus, have gone out of their way to compliment the Boeing sales representative and his boss. Still, say the Kuwaitis, Kuwait Airways did not get enough attention from Boeing's senior management. As a result, Boeing was given little opportunity after its sales representative's meeting with Kuwait Airways to present a better deal. With no further talks between Boeing and Kuwait Airways, Airbus jumped into the fray and clinched the lucrative deal.

That Boeing did not send its most senior officials to Kuwait is understandable. Boeing, after all, believed that what was at stake at the moment was only a relatively small purchase and that the final purchase decision by Kuwait Airways would come at a later date. In any event, there should have been absolutely no need for Boeing to dispatch top management to Kuwait to wine and dine Kuwait Airways executives. America had already sent close to a half-million troops to liberate Kuwait. This should have been sufficient demonstration of America's serious interest in Kuwait.

**Political Firestorm.** Given the unexpected size of the purchase, the shock has not been limited to American aircraft manufacturers. U.S. government officials are also concerned. An Administration official acknowledges that the federal government has become involved in the matter and says that the Kuwait Airways decision to buy from Airbus has "generated a political firestorm." In an effort to put out or contain the firestorm, Kuwaiti Embassy spokesman Raed al-Rifai on July 1 assured The Heritage Foundation: "Negotiations [over the matter] are ongoing and nothing has been finalized."

To ensure that when the deal is "finalized" the Kuwait Airways' decision to buy from Airbus is reversed, Washington now must adopt a very determined policy toward the Kuwaiti government and Airbus. Only the Kuwaiti government has the power to reverse the decision of Kuwait Airways. The Bush Administration should:

- ◆ **Talk directly to representatives of the Kuwaiti government and urge them to veto the purchase decision by Kuwait Airways.**

The Kuwaiti government must hear anew from senior U.S. officials, preferably Secretary of Commerce Robert Mosbacher and Secretary of State James Baker. They should remind their counterparts, Minister of Foreign Affairs Shaikh Salem Sabah A. al-Sabah and Minister of Commerce and

Industry Abdulla Hassan al-Jarallah, that the bonanza for Airbus will erode American goodwill toward the people of Kuwait that was generated by the war. Mosbacher and Baker also should tell the Kuwaitis that they are very distressed by Kuwait Airways' decision and feel that American producers were not given ample opportunity to present their best offer. As such, the purchase agreement with Airbus should be cancelled and the competitive process restarted.

◆ **Threaten to investigate whether Airbus engaged in unfair trading practices.**

As a consortium supported by six European governments, Airbus is widely believed to have received \$13 billion in government subsidies since 1970. This probably violates international standards governing trade. The U.S., in fact, long has been concerned about whether Airbus has violated such standards. The U.S. government, in cooperation with U.S. firms, thus should consider filing a complaint against Airbus through the General Agreement on Tariffs and Trade (GATT), which governs the conduct of international trade. The threat of such a filing and the delays and bureaucratic wrangling that would follow a filing should prompt Airbus not to challenge a decision by the government of Kuwait to reject the existing purchase agreement.

◆ **Urge Congress to adopt a resolution expressing its disapproval of Kuwait Airways' sale agreement with Airbus.**

Some experts speculate that the decision by Kuwait Airways to buy from Airbus in part was to punish Seattle-based Boeing for the votes against the U.S. military effort to help Kuwait cast by prominent members of Washington State's congressional delegation, namely House Speaker Thomas Foley, and Senator Brock Adams. Whether this is or is not the case, Congress should express its disapproval of Kuwait's ingratitude to America. Washington State's other senator, Slade Gorton, who voted for the use of force against Iraq, could introduce a sense of the Congress resolution disapproving of the Kuwaiti deal. By urging Congress to adopt such a resolution, the Bush Administration can bring additional support to its own efforts to force the Kuwaitis to reopen the bidding.



**Giving Americans a Fair Chance.** Kuwait owes its very existence as a nation to the strength and dedication of America and its armed forces. So does Kuwait Airways. Kuwait at least must give American aircraft manufacturers a fair chance to compete with firms from countries that sacrificed almost nothing to liberate Kuwait. More appropriate, however, would be for Kuwait to admit its mistake and declare that, in thanks for American help, American firms will get the business from Kuwait Airways. The Bush Administration should ask that the Kuwaitis show the same kind of understanding and generosity to Americans that America demonstrated in committing American lives and money to freeing Kuwait.

Baker Spring  
Policy Analyst

