

## Microsoft Outlook

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**From:** Baniszewski, Joseph  
**Sent:** Tuesday, November 09, 2010 11:20 AM  
**To:** Ahearn, Richard L.  
**Subject:** FW: Slate Article: The Boeing Co.

FYI, "what can the United States government do to help Boeing?"

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**From:** joebaniszewski@verizon.net [mailto:joebaniszewski@verizon.net]  
**Sent:** Sunday, November 07, 2010 4:29 PM  
**To:** Baniszewski, Joseph  
**Subject:** Slate Article: The Boeing Co.



Joe has sent you an article from **Slate**.

From Slate



exports

An advertisement for VClean Air Duct Cleaning. The headline reads "Breathe Easier In Your Home! Air Duct Cleaning". The price is "\$69.95" with a "value" of "\$165". It includes "10 Vents, 1 Return and 1 Main!". There is a photo of a dirty air vent. The VClean logo is at the bottom left, and a BBB A+ Rating is at the bottom right. The text "see site for details" is in the middle right.

The Boeing Co.

How can America's biggest exporter get foreign airlines to buy more planes? And what can the U.S. government do to help?  
By Martha C. White

Posted Monday, Nov. 1, 2010, at 10:30 AM ET

There's no way to discuss American exports without also discussing Boeing. Calling the Chicago-based airplane manufacturer *big* is like calling Facebook *popular*: It's correct, but it doesn't indicate the magnitude of the thing. With

exports of just under \$29 billion in 2009, Boeing made up 1.8 percent of our country's exports all by itself. Unlike many manufacturers who sell to overseas markets by building factories in the destination countries, Boeing's roughly 160,000-strong labor force is almost entirely domestic. While plenty of American companies have had success building factories overseas and staffing them with locals, Boeing is an outlier—luckily for workers within U.S. borders. Planes are much more complicated to make than, say, cars, and with dozens instead of hundreds of units going to each country, it wouldn't make sense to build manufacturing facilities overseas. Boeing estimates that its \$32.7 billion supply chain is indirectly responsible for 1.2 million American jobs.

Boeing also buys components from foreign suppliers, usually in the hopes of winning orders for completed aircraft from the country the parts come from. It's a delicate balance, though; earlier this year, [Boeing conceded](#) that an overreliance on outsourcing critical parts like the wings and the fuselage of the forthcoming giant 787 generated delay-causing complications. Economists like Barry Bosworth of the Brookings Institution say this is a reflection of decisions faced by other U.S. manufacturers of machinery and heavy equipment. Outsourcing might be a cheaper route, but not if those savings are eaten up by timeline and cost overruns to fix mistakes made by overseas workers due to lower skill levels or miscommunication.

With such enormous investments at stake, Boeing constantly has to ask the question: How do you get foreign airlines to buy more planes? It takes a different strategy than selling jeans or even cars. The company also does a brisk business selling military planes, but those sales are almost entirely domestic. Warming relations with emerging markets like India may yield additional military sales for Boeing in the future, but for now, exports consist almost entirely of commercial passenger and cargo jets.

Part of Boeing's strategy for growing its export business is to be a cheerleader for American exports in general and small business exports in particular. (Boeing's CEO, James McNerney, heads up the [President's Export Council](#).) When small firms have to get their goods from Akron, Ohio, to Auckland, New Zealand, they're not using a huge, slow boat packed with shipping containers. Instead, they're probably going to send them by air, says Michael Warner, senior manager of market analysis at Boeing, who predicts that by next year, air cargo shipments will be back up to 2007 levels. Yes, shipping by air is pricier, but the wide embrace of just-in-time inventory management means recipients want their goods promptly. Besides, a small company getting paid on delivery could run out of operating capital in the time it takes a boat to make it halfway around the world.

Another boon for Boeing is that passenger traffic in emerging markets is growing. In 2010, air travel globally was up just under 8 percent; in China, though, it was up 22 percent, and up 20 percent in both the Middle East and India. Much of that growth is on domestic, intra-country flights, which has boosted demand for Boeing's workhorse, the 110- to 180-seat 737. The 737 is a great product for Boeing, both because it's a good size for domestic flights and because it's such a common model (the company cranks out 31 each month). The 737's ubiquity makes it comparatively easy to buy, fix, staff, lease, and—most important—finance, since a plane model in high demand with users all over the world is good collateral.

Boeing gets a lot of support from the Export-Import Bank (widely known as the Ex-Im Bank), which helps foreign buyers finance their purchases. When traditional sources of credit dried up in the recession, the Ex-Im Bank became the lender of last resort for many of Boeing's overseas clients, says Richard Aboulafia, vice president at the Teal Group, an aeronautics analysis company. Traditionally, Europe's counterparts to our Ex-Im Bank refused to finance U.S. airlines seeking to buy Airbus planes, and the Ex-Im Bank did the same for European carriers that wanted to purchase Boeing jets. When there were only two commercial airplane manufacturers, and when the major airlines were concentrated in the United States and Western Europe, this arrangement was fine, because none of the competing airlines had access to preferential financing.

U.S. airlines [objected](#) to the Ex-Im Bank's intervention in the wake of the financial crisis, saying it put them at a competitive disadvantage, because at least some of the rapidly growing foreign airlines whose appetite for planes was keeping aircraft makers in the black (Emirates Airlines is a prime example) are targeting a customer base that includes American travelers. Some people object more broadly to the Ex-Im's raison d'être, calling export financing a backdoor subsidy with U.S. tax dollars. In the case of aircraft, though, there's not a huge risk; buyers do pay interest, and planes are pretty solid collateral.

the event of a default.

While the current status quo is good for Boeing (cheaper financing means it can sell more planes), there are longer-term implications here that make the company receptive to changes in financing agreements: Canada's Bombardier will have a 130-seat jet on the market in just three years; Brazilian and Chinese competitors are less than a decade behind; and Boeing doesn't want to see U.S. airlines getting cut-rate interest to finance foreign-made jets. Earlier this year, Boeing and competitor Airbus [argued](#) that Bombardier's forthcoming model should be classified in a way that wouldn't allow purchase to obtain financing from Ex-Im Bank.

While a commercial jet costs anywhere between \$40 million and \$200 million, the cost of fuel is, in fact, a bigger issue for airlines. It's risen to become airlines' highest fixed cost, eating up 30 percent to 40 percent of their operating budgets, even with hedging. It's Boeing's job to come up with jets that burn less fuel, which it's aiming to do with its forthcoming 787 series through extensive use of composite materials instead of aluminum. Rollout of the 290-seat 787 has been delayed several times, and it is currently scheduled to take to the air sometime in the first quarter of next year. (All Nippon Airways is the first customer.) Boeing's Warner says the 787 will consume 20 percent less fuel than the planes it replaces, but that ambitious goal is part of what's causing the delay; engineers have gone through rounds of tweaking and retesting to make the 787 lighter and use lighter-weight materials in construction. Howard Rubel, an analyst with investment company Jeffries, suggests that the government could step in with tax credits or other incentives to further R&D efforts, for Boeing as well as the network of smaller companies that manufacture aircraft components.

Boeing is also pursuing the use of alternative energy, such as biofuels. There are hurdles: Manufacturers have to make sure the fuel won't freeze solid when it's 40,000 feet up in the air; making sure eco-petrol doesn't come from or compete with food crops is another concern. A weedy-looking flowering plant called camelina currently looks like the best shot at success. The U.S. Navy and Air Force have both run [test flights](#) using oil extracted from the plant. At issue is the production cost of the fuel, currently nonexistent demand. Boeing wants the military to generate demand and essentially start a market for the fuel by contracting to use it in their planes.

In other words, there are a number of things the U.S. government could do that could help Boeing sell more planes overseas—actions that wouldn't draw the accusations of subsidies that Boeing and Airbus regularly level at each other. Airbus is the Joker to Boeing's Batman. The two hold a duopoly on the world's large-jet market, and each engages in clever maneuvering to eke out an edge. Boeing has lost ground to Airbus in recent years, a situation that has intensified their rivalry, although [analysts predict](#) this balance will shift in favor of Boeing once the 787 arrives. Neither company is shy about arm-twisting their respective government officials for tax breaks, R&D grants, low-interest loans, and the like, the other blowing the whistle on their rival when it receives the same.

Five years ago, the United States accused Airbus of benefiting unfairly from cut-rate loans used to fund the launch of Airbus's 525-seat A380 double-decker jet. A day later, the European Union retaliated by charging that Washington gave Boeing a leg up by lavishing it with tax breaks, defense contracts, and research money through ties with NASA. The World Trade Organization, recognizing the unique nature of aeronautics and the huge amount of capital required, would probably prefer to ignore most of the government support Boeing and Airbus receive.\* In both of these recent cases, the accusing governments forced the WTO's hand. In separate rulings earlier this year, the WTO found both aircraft manufacturers had received what amounted to [illegal subsidies](#).

It's not that the subsidies don't help. They certainly do. Industry analysts like Hans Weber, president of aviation consulting firm TECOP International, attribute Airbus' current lead in the superjumbo category to the [largesse of European governments](#). The problem is that fighting about subsidies weakens both parties. Analysts expect both sides to eventually come to some kind of settlement, the result of which could be an opening of the market for emerging rivals. The 21<sup>st</sup> century's growing globalization creates challenges as well as opportunity for the U.S.'s largest exporter.

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**Correction, Nov. 1, 2010:** This article originally misused the term avionics in place of aeronautics. ([Return](#) to the correct sentence.)

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