



Boeing's Winning Hand

(Published in *The Washington Post*, January 18, 2007)

George F. Will

Colaboraciones n° 1473

February 2, 2007

After an excellent year, Boeing is counting its blessings, which include its competitor. They also include an anticipated doubling of the commercial aviation market in the next 20 years, which will require 27,000 new planes, costing \$2.6 trillion.

Americans ambivalent about globalization should note how Boeing, under chief executive James McNerney, is prospering. The Sept. 11 attacks devastated commercial airlines, causing Boeing -- which cut its jetliner production in half -- to rapidly shed more than 40,000 of its 93,000 workers who designed and built the planes. But the revival has added back some 13,000 jobs and raised Boeing's stock price from \$25 to \$88 a share.

Even without terrorism, the commercial aircraft industry is not for the fainthearted. Companies must wager billions developing products that anticipate travelers' preferences and airline strategies a decade later. Boeing reportedly wagered \$8 billion in developing the midsize wide-body (seating up to 290 passengers) 787 Dreamliner, the first of which will be delivered in 2008. Boeing's bet is that the market favors point-to-point flights rather than a hub-and-spoke system with huge planes delivering passengers to a few large cities, from which they are dispersed to their destinations in smaller planes. With 471 orders and commitments for 787s, at up to \$180 million apiece, the plane -- made largely of a light (fuel-saving) carbon composite material --

already is a huge success. Boeing's competition no longer is.

The average jetliner is struck by lightning twice a year. Boeing's competitor in the commercial aircraft duopoly, Airbus, has recently struck itself twice. The government-created European consortium decided to build the wrong aircraft, then built it badly.

The market quickly judged Airbus's A350 inferior to the 787, and costly redesigns have begun. Worse, Airbus, assuming that the world was wedded to a hub-and-spoke system, made a bad \$16 billion bet on huge demand for its A380, a double-deck superjumbo (typically seating 555). Created in 1970, Airbus prospered. From 2001 to 2005, its annual orders exceeded Boeing's, and it will deliver more planes than Boeing this year. But now Airbus has problems inherent in its role as Europe's iconic public-private collaboration. Such collaboration, called "industrial policy," involves the irrationalities of economic nationalism as each of the nine countries involved in subsidizing the A380 fights for "its" jobs.

And there have been gross management blunders. Wiring (the A380 has 312 miles of it) made in Germany was mismatched with airframes made in France. To truck huge components to a French assembly line, more than 100 miles of highway had to be widened and straightened.

The A380 has received \$3.8 billion in cheap loans and other ongoing government subsidies misleadingly

called "launch aid." This amounts to seminationalization, giving the governments involved an incentive to regard one another as rivals. Boeing wants the World Trade Organization to compel European governments to stop their subsidies. McNerney, however, acknowledges that some people think Boeing should allow Airbus to break WTO rules -- and continue to be plagued by political decisions trumping economic rationality. Airbus is illustrating what happens when governments treat commercial enterprises as jobs programs and instruments of national glory.

McNerney says that what ocean shipping did for Hong Kong, jet aircraft can do for, say, Dubai, which is becoming a world trading center. He believes that over the next 30 years the growth rate for cargo aircraft could be significantly larger than for passenger aircraft. Fred Smith, founder and chief executive of FedEx, says that 98 percent of the weight of international commerce is shipped by sea, but the 2 percent moved by air constitutes 40 percent of the economic value.

Boeing exported \$14 billion worth of commercial aircraft in 2005 and expects to prosper as China and India do. Boeing projects that over the next 20 years, in addition to the 367 orders yet to be delivered to the two countries, China will need 2,900 new passenger and freight aircraft costing \$280 billion, and India will need 856, worth \$72 billion. For the past four years, close to 20 percent of Boeing's orders have been from

China, which since 1972 has bought 678 Boeing planes worth \$37 billion.

Assuming that Boeing manages the supply chain -- with 10 subcontractors on four continents -- for a plane with 4 million parts, the 787 might solidify Boeing's supremacy. An Airbus chief executive recently said

he hoped his company could catch up "in 15 years." Then he resigned. Boeing's successes -- 600,000 people fly in its planes daily -- have so filled its manufacturing capacity that it has limited Boeing's ability to further exploit Airbus's problems. For McNerney, such a problem is a blessing.

© 2007 The Washington Post Company