

## Analysts view Charleston as central to 787's future as CEO urges patience

By Jon Hemmerdinger | 29 July 2020

Boeing's chief executive has cautioned against speculation that the company's 787 production review will culminate in an eventual shift of all 787 work to South Carolina.

But analysts view Boeing as heading in that direction, saying the company may have little choice but to transfer some or all 787 production out of Everett, leaving South Carolina as its prime, possibly only, 787 producer.

"I'm not going to be as fast... to jump to the conclusion" that Boeing will close its Everett 787 line, Boeing chief executive David Calhoun tells reporters on 29 July. "There are ways around these kinds of things."



Source: Boeing

Boeing's 787 production facility in North Charleston, South Carolina

"We are at the front end of that evaluation," Calhoun adds. "I'm sure there will be meaningful outcomes."

The comments came the day Boeing announced it lost \$2.4 billion in the second quarter. In response to the aerospace downturn, the company said it will cut production to two 777s monthly and six 787s monthly in 2021. Before the pandemic, Boeing was making 14 787s and five 777s monthly.

The company has also delayed the first 777X delivery until 2022 and will end 747 production in 2022.

In light of the 787 rate cut, Boeing says it has embarked on a review of its 787 production footprint.

Boeing produces all its widebodies at its Everett site in Washington's Puget Sound region. It also makes 787s at its North Charleston, South Carolina site, called Boeing South Carolina.

"Given the lower rate profile, we will prudently evaluate the most-efficient way to produce the 787 to include studying the feasibility of consolidating our 787 production into one location," Calhoun says.

He insists the company has made no decisions.

Analysts see South Carolina as the future of the 787 partly because only that site produces the largest 787 variant – the 787-10.

Though engineers developed the 787-10 in Everett, the jet's mid-body fuselage is too large to be transported from South Carolina, where it is made, to Everett, for final assembly, Boeing has said.

Teal Group aerospace analyst Richard Aboulafia thinks good reasons exist for Boeing to maintain a 787 footprint in Everett. If the company decides to develop an updated variant, "having both the people who design it and the people who make it in the same place makes sense," he says.

Still, Aboulafia thinks the 787's Everett days are numbered.

"I don't think they will take the long view," Aboulafia says. "And that means the Puget Sound line goes away."

Source: Boeing

Boeing's 787 production facility in North Charleston, South Carolina

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Michel Merluzeau, analyst with consultancy AIR, suspects that "eventually most, if not all, of the 787 goes to Charleston". However, he can also envision Boeing keeping some 787 work in Everett.

"Charleston is the de facto location of the -10, which is going to represent a good chunk of demand," he says.

Boeing holds orders for 535 787s, including 48 787-8s, 334 787-9s and 153 787-10s, its data shows.

Merluzeau also notes that Washington state this year rescinded a tax break that benefited aerospace manufactures like Boeing.

That change “might accelerate the transition to Charleston”, he says.

Merluzeau doubts Boeing will take the dramatic step of shifting all 787 production to North Charleston any time soon, noting jets produced at that site have suffered recent quality issues.

And, Boeing could possibly settle on a hybrid structure, perhaps dedicating the Everett site to producing the remaining 48 787-8s. Boeing could also decide to convert the Everett site to a finishing site for jets produced in North Charleston, Merluzeau says.

Boeing does not specify how many 787 staff it has each in Everett and North Charleston, and does not disclose each site's 787 production capacity.

But the company delivered 82 787s produced in Charleston in 2019, equating to a rate of almost seven monthly, Cirium fleets data shows.

Boeing created Boeing South Carolina in 2009 by purchasing the operation from Vought Aircraft Industries and Alenia North America. The site had been responsible for fabricating and integrating the 787's aft fuselage, and centre fuselage work.

In October 2009 Boeing selected the site as a 787 final assembly and delivery centre. The announcement came a day after reports that negotiations between Boeing and the union representing its Puget Sound machinists had collapsed.

The decision to open the North Charleston site, still largely non-unionised, was a product of the “union-stomping days” of former CEO James McNerney, says Aboulafia.

Consideration of whether demand fully supported two production sites took a back seat to the company's desire for union leverage, he adds.

An Air India 787 at Boeing South Carolina.

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Boeing delivered the first 787 produced at the South Carolina site in October 2012, and continually ramped 787 production until hitting 14 jets monthly between both sites in 2019.

Aboulafia calls that rate “madness” and “glutting the market”, even considering the strength of pre-pandemic aircraft demand.

Little time passed before Boeing pulled back.

In January it announced it would cut 787 production to 10 jets monthly in 2021, then in May it said the rate would go to seven jets monthly by 2022.

Boeing's latest shift brings the figure to six jets monthly by 2022.

Now the company faces pressure to keep deliveries flowing as it ramps down production – no easy task considering the current lack of demand, Aboulafia says.

In recent months, as deliveries slowed, Boeing accumulated more than 30 finished-but-not delivered 787s, Cirium data shows.

Boeing badly needs to maintain deliveries to keep money flowing in the door, Merluzeau notes. Customers pay the majority of a jet's cost upon delivery.

He calls the 787's six-monthly rate the minimum at which Boeing can avoid hurting the supply chain and the maximum at which Boeing can hope to deliver the jets.

Aboulafia calls rate-six "more in line with reality".

"But, it's still going to be a question of inventory management," he adds, noting Boeing might still struggle to get 787s out the door.