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Boeing will cut production and jobs further, and may build 787 only in South Carolina

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1 of 4 | A new Boeing 787 Dreamliner emerges Friday from the 787 final assembly plant in Everett, where room to park undelivered 787s is running out. On Wednesday, Boeing said it is considering closing the 787 assembly line... (Mike Siegel / The Seattle Times) **More**

By Dominic Gates
Seattle Times aerospace reporter

Boeing said Wednesday that due to the collapse in demand for airliners, it will slow down the planned ramp-up of 737 MAX production in Renton, cut widebody jet production rates in Everett and study consolidating 787 Dreamliner assembly in a single location.

Boeing CEO Dave Calhoun insisted it's not certain such a consolidation would mean closing the Everett 787 assembly line in favor of the one in South Carolina. However, that would almost certainly be the outcome.

Everett would face a severe logistical barrier: For the largest 787 model, fuselage sections assembled on the East Coast are too large to fit in the giant cargo planes Boeing uses to transport them.

The rate reductions and possible shrinking of facilities will bring further job losses beyond those previously announced, Boeing said as it announced a $2.4 billion loss for the quarter ending in June. It did not specify how deep the cuts will go.

Rep. Rick Larsen, D-Everett, chair of the House Aviation Subcommittee, called the news from Boeing "yet another devastating blow to the workers and local communities" around the company's Snohomish County widebody plant, which employs about 30,000.

More job cuts

In April, after the COVID-19 pandemic first locked down air travel, Boeing said it would cut "more than 15%" of the jobs at its commercial jet business, principally in its Seattle-area operations, amounting to a 10% cut companywide overall this year in a combination of attrition, voluntary buyouts and layoffs.

The company in a financial filing Wednesday clarified that the 10% target — or about 16,000 jobs — will be achieved through some 19,000 employees leaving while some 3,000 are hired, mostly on the defense and space side.

Job losses already announced will see 10,500 Boeing jobs cut in Washington state this year. "More hard decisions are likely ahead of us," Calhoun said. Wednesday's announcement means further cuts are likely to be concentrated in Everett.

That's because air-travel demand is particularly low on long-haul international routes flown by the big widebody jets built in Everett, and this sector of the market will likely take much longer to return than domestic air travel.

In a conference call with analysts Wednesday, Calhoun said the COVID-19 pandemic has "dealt a heavy blow to commercial aerospace."

"Our industry and our company are weathering challenges like none we have ever experienced in our lifetimes," he said. "Airlines have cut back operations dramatically … grounding fleets, deferring airplane orders, postponing acceptance of completed orders and slowing down or stopping payments."

Calhoun said Boeing "had not anticipated a second spike," referring to the resurgence of COVID-19 cases in the U.S. that has hit air-travel demand again after a partial recovery.

He said Boeing now projects it will take about three years for travel to return to 2019 levels, and "a few years beyond that for the industry to return to long-term growth trends."

As a result, Boeing will cut production of its large 777 and new 777X jets to just two jets per month in 2021, one less than previously announced.

And he said Boeing will delay the new 777X jet's entry into service until 2022, rather than delivering it in the middle of next year as previously planned.

Earlier this month, Tim Clark, president of key 777X customer Emirates, told The Seattle Times that he didn't want the plane until 2022 and suggested that program delays would likely lead Boeing to want to delay it anyway.

Calhoun cited the drop in long-haul air-travel demand as the primary reason, but he said a secondary cause of the delay is the expectation that the FAA will take longer and "go deeper" when it comes to certifying the 777X as a result of the criticism of its oversight during certification of the 737 MAX.

He also said Boeing will finally end production of its historically most famous airplane, the 747 jumbo jet, in 2022. In the past month, the pandemic has forced airlines around the world to retire that aircraft early.

And most critically, Boeing will cut 787 Dreamliner production from 10 jets per month now to just six per month next year. Boeing had previously said it would go down to seven per month in 2022.

Washington state vs. South Carolina

At that slow rate, Calhoun told employees, Boeing will now study "the feasibility of consolidating production in one location." Logic dictates that the single location would almost certainly have to be South Carolina.

The 787 is built on separate assembly lines in Everett and in North Charleston, South Carolina. However, the largest model, the 787-10, is only built in the South Carolina plant, because its long mid-fuselage section — put together in an adjacent building in North Charleston — is too large to fit into the Dreamlifter cargo transport plane that ferries parts to Everett.

A 747 Dreamlifter, bringing Boeing 787 parts from Nagoya, Japan, lands at Paine Field in Everett on Friday. Several completed 787s can be seen parked just below the Dreamlifter. Airlines took just… (Mike Siegel / The Seattle Times) **More**

So if there is to be just one site for 787 production, Everett looks set to lose out.

Pressed on that point during a call with the media, Calhoun said, "I'm not going to jump to that conclusion. There are ways around these kinds of things."

He said that while Boeing sees the lower 787 production rate lasting up to 18 months, it will make the consolidation decision based on the assumption that production will eventually return to pre-pandemic levels.

That leaves open the possibility that Boeing's consolidation study could conclude that building 10 of the jets per month or more at a single site is not practical and decide to keep both sites active.

“I’m not even sure we can pull it off, but we are going to evaluate it,” Calhoun said of the single assembly location, declining to say more.

The 787 is the Boeing widebody jet most likely to be in demand when international air travel does return. The prospect of losing that work in Everett — combined with meager 767 and 777 rates along with the end of the 747 —raises the specter of the largest building in the world by volume left largely empty of production.

Scott Hamilton, Bainbridge Island-based founder of aviation consulting firm Leeham.net, said that if Boeing does consolidate to a single 787 site, “Charleston is gonna be the location.”

“There is no way that Boeing is going to shutter that facility,” Hamilton said. “And of course it is the only place that the 787-10 is built.”

Addison Schonland of consulting firm AirInsight concurred, citing lower labor costs as another driver of the choice.

Adam Pilarski, a senior vice president with consultancy Avitas, disagreed, saying it’s not a foregone conclusion that Everett would lose out in the consolidation study. He argued that political considerations, including the outcome of the November election, will have a big impact on Boeing’s decision.

Pilarski said the blowback from labor for abandoning Washington state would be strong, and whether the coming election leaves the unions and their political allies in a better position than now will be important.

As for how to cope with the logistics of transporting the 787-10 fuselages to Everett, Pilarski said that if the will is there, “with the right amount of money, you can do anything.”

The 787 was launched in 2003 after Washington state provided massive tax breaks to convince Boeing to build it here. The state now faces the prospect of perhaps losing that work.

However, if Boeing does consolidate the work in South Carolina, there will be no impact on the company’s tax liability in Washington state because those tax incentives are already gone.

In early March, just as the COVID-19 crisis began to emerge, the state Legislature — at Boeing’s request — ended the aerospace tax breaks to comply with World Trade Organization rules barring subsidies.

MAX recovery will slow

Boeing’s Renton plant, where it assembles the 737 MAX, will not escape the impact of the pandemic slowdown.

Calhoun said that once the Federal Aviation Administration (FAA) clears that jet to return to service in the U.S., expected sometime this fall, Boeing will ramp up production more slowly than previously planned.

The target now is to slowly increase the rate to build 31 MAX planes per month by early 2022. Previously, Boeing had hoped to reach that rate next year.

Calhoun, in a conference call with Wall Street analysts, cited the “geopolitical environment” as a factor in slowing the MAX ramp-up. This appears to be a reference to the tensions between the U.S. and China. Chinese airlines are key MAX customers.

Airlines around the world have 385 MAXs sitting on the ground in long-term storage. Boeing has another 450 MAXs built and undelivered, parked around the region.

Smith said that assuming FAA clearance to resume deliveries by year-end, helping airlines get their MAX planes back in service will be a priority, followed by delivering all those finished-but-undelivered jets. He said the majority of the parked MAXs should be delivered within a year of FAA approval to re-enter service.

“We’ll move the finished goods first,” said Calhoun, though he added that because some airlines no longer want the MAXs built for them, some of the jets will have to be remarketed and reconfigured for a new buyer.

The massive cost of the MAX crisis

The $2.4 billion loss in the second quarter included more than $1.3 billion in write-downs for production slowdowns, severance payments and temporary closures because of virus outbreaks in Boeing factories.

That compared with a loss of $2.9 billion in the same quarter last year, when Boeing took a $5.6 billion charge to cover compensation it owes airlines for the grounding of their MAX jets.

During the conference call with analysts, Chief Financial Officer Greg Smith detailed the latest projections of the cost to Boeing of the 737 MAX crisis.

He said abnormal production charges due to the grounding of the jet are projected to reach $5 billion, of which $1.5 billion has already been incurred.

And he said compensation to airlines for late deliveries is projected to total $9.6 billion in cash or other forms of compensation. Of that amount, Boeing has already paid out $2.6 billion and has reached settlements with customers on a further $3 billion of the remainder.

The company reported a loss per share for the quarter of $4.20. The average forecast of 20 analysts in a FactSet survey was a loss of $2.57 per share.

Revenue fell to $11.8 billion, down from $15.8 billion a year earlier. Analysts had expected $12.9 billion, according to FactSet.

After raising $25 billion in new debt in May, Boeing ended the quarter with just over $34 billion in ready cash and with an unused revolving credit facility of a further $9.6 billion.

Boeing’s debt has swelled to a massive $61.4 billion.

In a note to investors, Rob Stallard, an analyst with Vertical Research, said all aspects of Boeing’s financial results were worse than expected.

“We would like to think that this is as bad as it gets for Boeing, but the … rate cuts that have been announced today put further downward pressure on expectations for the out year cashflows,” he wrote. “We continue to think that the plethora of downside risks are not fully reflected in Boeing’s current share price.”

Stallard said that the current lack of demand for airplanes, and 737 MAX customers’ ability to cancel orders because of the delivery delays, means ramping up to build 31 of the jets per month in early 2022 is unrealistic.

Boeing shares closed at $166, down $4.84 or 2.8% for the day.

Information on the financial results from The Associated Press is included in this report.

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