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## Successor to Boeing 737 likely to be built in state

**By Dominic Gates**

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Good news from Boeing Commercial Airplanes Chief Executive Alan Mulally: The company's next airplane after the 787 is likely to be assembled in Washington state. And an announcement on that program could come soon after the 787 enters service in 2008.

At least one Boeing critic thought the next plane up — the replacement for the narrow-body 737 — might be assembled in Japan. But it appears the state's \$3.2 billion tax-incentive package passed in 2004 has secured more than the 787.

Asked in a year-end interview if the 737 replacement would be built here, Mulally responded: "I don't see any reason why not.

"I couldn't be more pleased with the response we all have had [from Washington state]. We have so many people that understand the importance of improving our competitiveness," he added. "If we keep doing that, there's no reason we can't continue this fabulous business here."

Mulally spoke at the end of a year that has surpassed expectations for Boeing, with an internal analysis projecting more than 1,000 new firm orders for 2005. The 895 already announced are worth about \$100 billion at list prices.

Boeing has established particular dominance this year in the lucrative wide-body-jet category, with the new 787 and the 777 far outselling the rival Airbus A350 and the A340.

The 737 replacement will go up against the Airbus A320 replacement for the narrow-body-jet market, the next big battleground for the two manufacturers.

"Who gets that right is going to have a huge impact on the future fortunes of the two companies," said Philip Lawrence, director of the Aerospace Research Centre at the University of the West of England in Bristol.

Lawrence, who has worked as a consultant to Airbus and is the author of "Deep Stall," a highly critical history of Boeing commercial airplanes, had tagged Japan as the likely next assembly location.



MIKE SIEGEL / THE SEATTLE TIMES

In 2004, Boeing Commercial Airplanes CEO Alan Mulally applauds Everett workers after announcing the launch order for the 787 from All Nippon Airways. Mulally says he sees no reason why a replacement for the 737 won't be built here, too.

Mulally said Boeing may have a 737 replacement in service as early as 2012, which would imply a development-program launch in 2008 or 2009.

"It's a nice match with the 787 going into service," he said.

With such an early move, Boeing could press home its current advantage and push for dominance in the narrow-body market by launching the 737 replacement program while Airbus is still struggling to get the A350 ready to enter service in 2010.

Mulally said the new jet program must provide technological advances that will make the 737 obsolete. They will come from a new engine and from the next generation of Boeing composites technology, incorporating the lessons learned from initial 787 manufacture, he said.

The 737 is produced in Renton, and the future of that factory is uncertain. It's unclear whether the 737's replacement would be assembled in Renton or Everett.

## Strategy

Many observers have criticized Boeing in the years after its 1997 merger with McDonnell Douglas for its apparent paralysis against Airbus, especially after it killed the Sonic Cruiser super-fast jet concept in 2002.

"For a while, it looked like Boeing had caught the old McDonnell Douglas disease, hesitating about new-product strategy, floating ideas that never go anywhere," said Ray Jaworowski, an analyst with aviation-industry group Forecast International. "It didn't appear from the outside that they knew what direction they wanted to go in."

Yet Mulally used the occasion of this year's success to suggest Boeing has had a steady hand on the steering column.

"The biggest strategic decision ... is a point of view about travel going forward," he said. "We believed that the world was going to accelerate the movement in travel to point-to-point and nonstop."

Mulally said it's not only the 787 launch decision that now looks good. He pointed to the choice to develop the twin-engine 777 against the four-engine Airbus A340. The twin uses less fuel and has proved more reliable in service.

"That's 15 years ago. Now it's playing out," he said. "Clearly it looks like the twin going point-to-point is not only more responsive to the way the world is going but is helping shape world travel."

Mulally said the Sonic Cruiser was mothballed after the airlines made clear they preferred fuel efficiency over speed.

"We decided that together with the airlines," Mulally said. "We always carry along a number of alternatives, then debate, agonize about it, and out of that process comes picking the right thing."

So, with hindsight, is it Airbus that got the strategy wrong? And specifically, was the A380 superjumbo a mistake, sucking up Airbus resources and allowing Boeing an opening?

"I don't know whether it's a mistake or not," said Mulally. "But I know the way the world is going. ... Between the 737, the 787 and the 777 [size of airplanes], that's going to be 90 percent of the total marketplace dollars over the next 20 years."

He moved on from talking about his rival, however. "I never lean on Airbus," he said.

Mulally pointed to the strategic industrial decisions Boeing has made in parallel with product-line decisions.

It has divested itself of major parts plants in Wichita, Kan., and smaller ones in Spokane, Texas, Oklahoma and Canada. "We set them free," Mulally said, "to have more customers than just Boeing."

The company also has adopted a new lean-manufacturing production system based on Toyota's. The new assembly line in Everett for the 787 will be the ultimate application of lean principles, with suppliers sending in huge completed sections from around the globe for a three-day assembly process.

The whole point, Mulally said is "continuously improving the process" and — here he used a recurring slogan in Boeing manufacturing — "to reduce the cost year after year forever."

## **Executing**

While 2005 has been great for orders, that's only the beginning of a long process that must end with deliveries.

Mulally expressed confidence in Boeing's ability to handle the big task ahead: getting right the innovative new manufacturing for the 787 and delivering the airplane on schedule.

"Having done this six or seven times now, it's going very well for a new airplane," Mulally said. "We are on plan to deliver it in 2008."

"We'll have some surprises. And we'll deal with those and do it in a timely manner and out in the open," he said.

This was a clear reference to the criticism leveled at Airbus after it told customers late that it wouldn't be able to deliver the A380 on schedule. But again, Mulally didn't dwell on the competition, preferring to talk about the 787.

"We're creating something out of nothing," Mulally said, with evident pride. "It's an invention."

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