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Boeing looking beyond just Renton to assemble new 737 with new engine

By DEAN RADFORD
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In June Boeing and American Airlines announced that American would be the launch customer for the evolutionary ecoDemonstrator Program, designed to study ways to reduce fuel consumption, carbon emissions and community noise. A Boeing Next-Generation 737-800 aircraft will be used to flight test and accelerate the market readiness of emerging technologies. Boeing
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Boeing's CEO indicated Wednesday there's no guarantee the company's Renton assembly plant will build a revamped 737 with a new engine.

Last week American Airlines announced an order for 200 Next Generation 737s, including 100 equipped with a new fuel-efficient engine that Boeing's corporate board has yet to approve.

The new engine was good news for the busy Renton plant because it meant Boeing wouldn't build an entirely new replacement for the 737. The Renton plant would have to compete with other sites to build that new plane.

Re-engining the 737, it was assumed, would happen in Renton.

Now, according to CEO Jim McNerney, Boeing is looking at its options where it could build a new version of the 737 with a modified airframe for the new engine. No decision has been made, he said.

But McNerney, in briefing reporters and analysts about the company's second-quarter financial picture, made it clear the Renton plant is an "attractive" option.

"Listen. Renton is one of the great aerospace factories in the world, OK, so obviously the idea of putting a lot of work – a lot of narrow-bodies there is very attractive," McNerney said in answer to an analyst's question.

Another option is Charleston in South Carolina, where Boeing will assemble its newest airplane, the 787.

Boeing is on a building binge at its 737 plant and plans to ramp up to an historic 42 planes a month sometime in the first six months of 2014. And, there are indications the production rate could go up to 60 planes a month, because of the large backlog of orders and continuing strong sales for the best-selling airplane ever.

But a higher rate presents challenges, McNerney said.

After 42 planes, McNerney said, "we do run into some challenges if Renton were the choice, some capital expenditures there to increase it.

"But we have other options and we're going to study them all as we think it through, but demand could easily be that high in the timeframe we're talking about. The good news is we have options."

Boeing issued a statement later Wednesday after initial media reports quoting local Boeing media executives that seemed to ease the impact of McNerney's statements on Renton.

"While Renton, Wash., logically would be our first location considered, no decision has been made, nor would one be made at this point in the program," according to the statement. "The decision on where to build the airplane will be made in due course as we move through the process of launching the airplane and evaluating production requirements."

One limiting factor frequently mentioned is whether the Renton plant has enough room to accommodate production of the re-engined 737. Right now, the 737 is assembled on two production lines and a third line assembles the P-8A Poseidon, an anti-submarine and reconnaissance plane based on the 737.

Mayor Denis Law said Thursday the City of Renton stands ready to partner with Boeing on any expansion and other projects, something it did on the newly opened paint hangar at the 737 plant.

"We want these jobs to stay here in the Northwest and particularly in Renton," he said.

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Ultimately, he said, Boeing will decide where to build new airplanes "based on the best interest of the company." It's "naive," he said, to think Renton has any control over such decisions.

The city's role is to ensure development by any company complies with all land-use and zoning regulations. In those matters, Law said, Renton receives "a lot of kudos" from Boeing.

Renton officials, Law said, meet or communicate with Boeing "on a very regular basis."

Boeing provided a transcript of that part of the conference call related to the 737:

Ken Herbert - Wedbush Securities - Analyst

Good morning. Thank you. Just again a follow on question on the 737. You've talked about narrow-body rates now a few times getting up to the 50 to 60 range. As you think about the cost profile of this program, how should we think about understanding, considering some of the limitations up in Renton, how narrow-body production may evolve to potentially support obviously some of your -- maintain some of the margin while at the same time looking at the kind of rates you've thrown out there for the next five to ten years?

Jim McNerney - The Boeing Co. - Chairman, President, CEO

Yes. We haven't made the final decision where we're going to produce the re-engine airplane. Your question implies, though, that after the 42 a month, we do run into some challenges if Renton were the choice, some capital expenditures there to increase it. But we have other options and we're going to study them all as we think it through, but demand could easily be that high in the time frame we're talking about. The good news is we have options.

Ken Herbert - Wedbush Securities - Analyst

Great. So it's fair to say that you've got options, obviously. To what extent could potentially South Carolina step in and meet some of that -- meet some of the demand for you?

Jim McNerney - The Boeing Co. - Chairman, President, CEO

Well, it would depend as we studied it how competitive they could be as compared to a Renton or compared to another site.

Dominic Gates - The Seattle Times

Good morning. Hi. I have a question for Jim. I'm just a little surprised to hear you opening up this option. You need to produce 50 to 60, or you hope to produce 50 to 60 narrow-bodies by the end of the decade per month. And so you're now talking about possibly not doing the re-engine in Renton. That just seems such a surprising thing to bring up. You've got your most efficient line of all your aircraft programs. You've actually got a third line which does have the complication of that being an ITAR line, but it seems like, in Renton, you do have all the options you could possibly want to make that airplane there. So are you seriously considering doing the re-engine somewhere else, like Charleston doesn't even do metal airplanes, or are you just -- is this a matter of wanting to keep your options open? What's the effect on the morale on your Renton workforce when you raise this what I would have to call a specter of putting work elsewhere?

Jim McNerney - The Boeing Co. - Chairman, President, CEO

Listen. Renton is one of the great aerospace factories in the world, okay, so obviously the idea of putting a lot of work -- a lot of narrow-bodies there is very attractive.

I think the spirit in which I was answering the question was until we have sorted out the milestones associated with the ramp-up, the degree to which we have to modify the airplane, there would be major investments in Renton beyond the currently planned production rates. Until we sort that all out, we can't confirm where we're going to put it precisely. But would putting it in Renton be a good option? Yes.

Dominic Gates - The Seattle Times

Would you say it's -- all your supply-chain conversions in Renton, you've got complete fuselages coming into Renton. To put it somewhere else means having Wichita send it wherever. It seems like more investment to do it elsewhere. Would you think that Renton is the most likely place?

Jim McNerney - The Boeing Co. - Chairman, President, CEO

Well, listen. I think, until we study it all, obviously Renton is -- has a strong case. But again, Dominic, there is significant investment beyond the -- that we'd have to make someplace beyond the current rates that we're contemplating. Until we understand exactly what the plan will be and at what rate we have to build it, it's -- I think we have to study that and figure it out.

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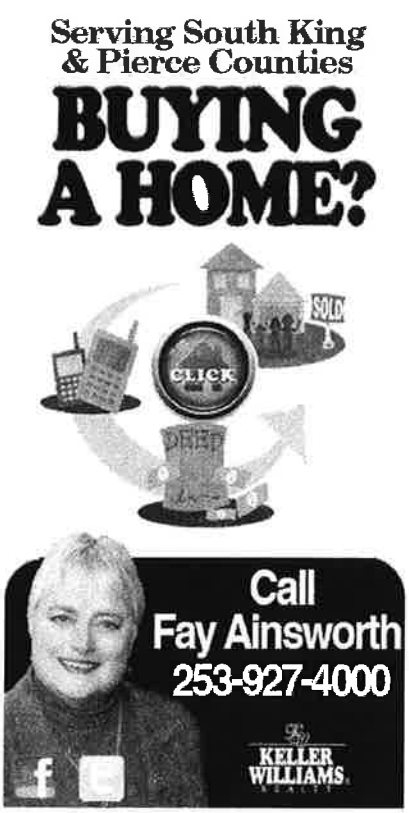

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