

# Boeing plans to carry on with 787 production

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Boeing plans to keep building its flagship jetliner while engineers try to solve battery problems that have [grounded most of the 787 fleet](#).

It's not clear how long the investigation—or the fix—will take. But it won't be cheap for Boeing or for the airlines that had sought the prestige of flying the world's most sophisticated passenger plane—a marvel of aviation technology that right now can't even leave the tarmac, let alone cross continents and oceans.

Boeing's newest jet was grounded worldwide Thursday after one suffered a battery fire and another had to make an emergency landing because pilots smelled something burning. Airlines and regulators canceled all Dreamliner flights.

The groundings were a sign of how seriously regulators take any threat of an in-flight fire. [National Transportation Safety Board](#) photos of the battery container from a Jan. 7 fire on a [Japan Airlines](#) plane showed a blue box with black smudges and blackened wiring and batteries inside.

LOT Polish Airlines suffered the highest-profile embarrassment of any of Boeing's customers late Wednesday, just as it was showing off new service between Warsaw and Chicago.

The plane's captain learned of the FAA grounding order while making the inaugural flight from Warsaw to Chicago. The airline canceled the return trip—and a ceremony at O'Hare Airport that was to include airline officials and Mayor Rahm Emanuel. Passengers who were eager

to ride the airline's first flight back to Warsaw had to look for a hotel room instead.

Bartek Pshyborvski was supposed to be on the canceled flight to Warsaw. Quoting from the sign behind the LOT ticket counter, he said: "It's funny to read 'First European airline to fly Boeing 787 Dreamliner.' Oops. Big oops."

The airline said Thursday that it may seek compensation from Boeing for the grounding of its two 787s.

Boeing currently builds five 787s per month. It hasn't delivered any since Jan. 3, before the plane started experiencing a spate of problems that also included fuel and oil leaks, a cracked cockpit window and a computer glitch that erroneously indicated a brake problem.

Boeing spokeswoman Lori Gunter said no deliveries had been scheduled during that time. She declined to discuss planned deliveries.

Regardless of delivery schedules, it's cheaper for Boeing to build the planes and then go back and fix them than it is to shut down production.

All Nippon Airways said its 18th 787 is due at the end of this month, but it won't take delivery until 787 flights resume.

The FAA grounding was a stunning setback for Boeing. The plane has been in the works since 2003, a time when modern jetliners were built of aluminum and powered many of their internal systems with incoming air from outside the plane. Boeing engineers figured they could get better fuel efficiency by making the plane out of carbon composites, a sort of lightweight, high-tech plastic. And they used electricity rather than air because it saved space and weight.

The 787 was tested extensively both before and after its first test flight in 2009. The FAA said its technical experts logged 200,000 hours testing and reviewing the plane's design before it was certified in August 2011.

Six test planes ran up some 4,645 flight hours. About a quarter of those hours were flown by FAA flight test crews, the agency said in 2011.

New 787s sell for more than \$200 million at list prices. For that kind of money, airline customers get warranties and in some cases a promise from Boeing to cover costs if the plane is grounded.

Those agreements vary from customer to customer, so it wasn't known how much the grounding would cost Boeing. Analysts pointed out that there are few airplanes in the size range of the 787 that are available to be leased to replace 787s.

Even analysts who are most critical of Boeing believe that the company will eventually resolve the problems and the 787 will deliver on its promise.

Still, Jefferies analyst Howard A. Rubel estimated that re-working the jet to fix electrical problems could cost anywhere from \$250 million to \$625 million. He emphasized Thursday in a note to investors that little is known about what it will take to fix the problem. He also noted that some of Boeing's suppliers may bear some of that cost.

Fitch Ratings said the grounding will hurt Boeing's profits and cash flow, "but the company has the financial strength to withstand negative developments in the program."

Barclays analyst Carter Copeland predicted "relatively limited" impact on Boeing's finances or production. That might change if the groundings last for weeks or months, "but this isn't yet what we expect," he wrote

Thursday in a note.

Payments to airlines for lost revenue are possible but not likely to be big enough to hurt the company, he added.

The grounding will force airlines to swap in a different plane—often, a Boeing 767 or 777. Even though all of those planes are built to carry a large number of passengers on long-haul flights, their seating layouts are different, and last-minute plane switches are a headache for airlines and passengers. As long as they don't have to cancel a flight, though, airlines will still collect their money from the ticket.

For most airlines, the 787 is a minor part of their fleet. United has six of them, versus 151 other large planes that it uses for international flights. ANA's 17 787s are a bigger portion of its fleet of roughly 120 big planes.

Even if Boeing doesn't have to pay airlines cash because of the problems, it may have to offer services to mollify airlines, such as discounted or free pilot training or discounted spare parts, said Carter Leake, an analyst at BB&T who downgraded Boeing quickly after the plane began having trouble.

Those services are worth something to the airline but don't show up as a cash expense for Boeing.

Despite the setbacks, he predicted that future orders would not be hurt. The 787 is the best plane in the 200- to 225-passenger range, he said.

Boeing has said it's 20 percent more fuel efficient than planes of a similar size. The competing Airbus A350 isn't scheduled to make its first test flight until later this year.

"The airlines don't have a choice. That's the truth," Leake said. "The airplane is unique."

The latest problems come just as Boeing is in contract talks with its unionized engineers. On Wednesday, the Society of Professional Engineering Employees in Aerospace proposed to extend their current contract for four years by including matters that the two sides have agreed on.

Doing so would let Boeing and workers "focus on reaffirming confidence and proving the 787 is the reliable and safe product employees know it to be," the union said.

The company said it is reviewing the proposal. Talks were set to resume Thursday.

Because the 787 problems have arisen this late in the process, they could lead authorities to conclude that even tougher testing is needed.

"If the authorities get more stringent and take more time to certify planes, the first to be affected is going to be Airbus, which happens to be the next major company launching a plane," said Sandy Morris, an aerospace analyst with Jefferies in London.

Boeing Co. shares rose 92 cents Thursday to close at \$75.26. Before the first battery problem arose, they closed Jan. 4 at \$77.69.

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