



Boeing stalled by strike as competitors strengthen their positions

Any settlement must balance rewarding valued employees with protecting our ability to compete and win

Many of you responded to my column last week on the crisis in the financial markets with questions and comments about the ongoing strike in the Pacific Northwest and Kansas, which has now entered its fifth week.

I understand and share the frustration so many of you feel when we don't have the whole team together working to meet the commitments we've made to our customers and competing to win the new business that will sustain and grow Boeing jobs for years to come.

There should be no doubting our intentions at this time; we want to resolve this strike. And we want to do it in a way that fairly rewards a vital group of employees while vigilantly protecting our ability to compete and win globally-- today and tomorrow.

The issue of competitiveness as it relates to this strike is a big deal, and that's the perspective I want to share with you today. As I look ahead, I see tremendous pressure coming from old competitors and new ones. And as competitive as we are today, we cannot rest on the assumption that our past success--and past ways of doing business--will ensure our future.

Here's some more detail behind my concerns:

New competitors are rising.

Just a few days ago, Airbus President and CEO Tom Enders reiterated a point you may have heard me make before. That is, the duopoly between Boeing and Airbus in supplying the world's large commercial jets will come to an end-- probably sooner rather than later--as other competitors enter our markets.

Case in point: China. China is accelerating rapidly in pursuit of its goal to become an aerospace leader. Late last month, China became only the third nation ever to conduct a spacewalk. It is also planning a space station and a moon landing. In commercial aviation, China expects to fly its first home-designed and -built regional jet--the 90-seat ARJ21--this year, and it has set up a company to build bigger jets that will directly compete with our products. China also has the resources and indigenous market to support its aspirations.

Other nations--including Russia, Japan, Canada and Brazil--either already produce or are developing the capability to produce airliners that approach the size of Boeing's smallest and best-selling 737.

Existing competitors are sharpening their edge.

EADS/Airbus is growing stronger, too. It is dramatically restructuring and cutting costs in response to the weak dollar, and it is quickly moving toward a lower-cost global production model that also reaches into key customer markets--including the United States. Just a week ago it opened an A320 final assembly line in China, and it has committed to buy \$1 billion a year of Chinese-made components. Its plan to assemble U.S. Air Force tankers in Alabama is a move both to grab a larger share of the U.S. defense market and to establish a beachhead for producing commercial airplanes in the United States--and in a very low-cost location, too. EADS/Airbus is also expanding its presence in Northern Africa, Mexico, India, and Russia. And when the dollar rebalances with the Euro--as it inevitably will--Airbus will gain a big cost advantage if we are unable to match them through our own productivity gains.

Labor disputes are affecting our customer relationships.

Throughout the years, Boeing has consistently provided some of the best labor contracts in the industry--and we're proud of that. As a result, our machinists' pay and benefits are tops in the industry. And yet, union leadership has recommended that its members reject contract offers and go on strike four of the last five negotiations going back to 1995.

While we've disappointed customers for other reasons in recent years, too, we believe this track record of repeated union work stoppages is earning us a reputation as an unreliable supplier to our customers--who ultimately provide job security by buying our airplanes.

We remain committed to changing this dynamic, and I am hopeful union leadership will see the benefit of doing so, too. If our collective Boeing team--with both non-union and union-represented employees--cannot reliably supply our customers, other competitors will do so--and their respective governments will provide support because the return on investment to their economies through the high-wage, high-skilled jobs of aerospace is so significant.

Preserving our competitiveness has never been more important--or urgent.

The ongoing turmoil in the financial markets provides a timely reminder of why it would be gravely unwise for Boeing to agree to terms in any contract that would fundamentally restrict our ability to manage our business. Markets and business conditions can change quickly and dramatically. And we need to be able to react just as fast.

U.S. auto companies, for one, all but fatally wounded themselves years ago by promising unsustainable wage and benefit levels and by agreeing to contract conditions (including job guarantees) that limited their flexibility to run their businesses in the face of intense global competition. Today, their market shares continue to fall, and their layoffs have grown by the thousands.

The unrelenting reality is this: Jobs in today's global economy are created and sustained only through increasing

productivity and customer-focused innovation. That's been our strategy, and it has worked for everyone's benefit. Since the 2005 negotiations, we've increased sales substantially and hired nearly 15,000 employees in the Puget Sound area alone, including more than 7,000 represented by the IAM and nearly 3,000 represented by SPEEA.

For their part, our IAM-represented employees have done a great job improving our productivity and helping make us more globally competitive. I value them and the role they have played--and will continue to play--in the success of our company. And I take very seriously our commitment to reward them fairly for their contributions. That's something I believe our contract offers have consistently reflected, and it's the mindset we brought to the start of these negotiations. I'll repeat again: We want this strike to end. It's difficult for all our employees, our customers, our suppliers, our investors and our communities. We are committed to working with union leaders and the federal mediator to reach a settlement, but we cannot sacrifice our long-term competitiveness for expedience in a short-term agreement to end the walkout. History, and every group with a stake in our future, would judge us poorly if we were to do so.

Thank you for everything you are doing for Boeing in these dynamic and challenging times. If there's one thing we can all agree on, it is this: Our company is strongest when all of us--union and non-union alike--are lined up together, working for our customers and against our competitors. I am hopeful those days will return again soon.

Thanks.

Jim