

Boeing's Flight from Union Labor

Wages will be lower at its plant in South Carolina. But the company may risk further delays of the Dreamliner

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To outsiders, Boeing's ([BA](#)) recent announcement that it will build a second assembly line for the 787 Dreamliner in North Charleston, S.C., is the latest twist in the much delayed project. To Boeing's heavily unionized workforce in Seattle, though, the decision is tantamount to war—and could provoke a backlash that makes production more fractious.

By locating some production and an estimated 3,800 jobs across the country, CEO W. James McNerney Jr. is signaling the lengths he's willing to go to loosen the union's chokehold on the company. The last thing he wants, insiders say, is for Boeing to become yet another U.S. manufacturer hamstrung by costly labor and recalcitrant unions when competition from China and India looms. His efforts to extract concessions last year triggered a 57-day walkout by machinists that cost the company \$2 billion and prompted some airlines to shift orders to Airbus. In Boeing's Oct. 21 earnings call, McNerney noted the benefits of "diversifying our labor pool and labor relationship."

For Boeing, the payoff from the line in South Carolina is significant. Workers at an existing plant Boeing operates there average \$15 an hour, vs. the \$26 or so earned by unionized workers at Boeing's assembly lines in Everett and Renton, Wash. Says a Boeing vice-president, Doug Kight: "We are at the top of the market in wages, pension, and health care."

But the move to the South injects even more risk into a project that's already two years behind schedule. The \$750 million plant represents the first final assembly line Boeing has built from scratch since the late 1960s and the first ever outside the state of Washington. Operations in Charleston haven't always run smoothly: Boeing was forced to assume control of a subcontractor's operations in July because of delays and quality issues.

While adding the South Carolina line could help Boeing catch up on its backlog of roughly 840 orders for the Dreamliner, in the short run the plant may eat into the company's cash flow, which stands at \$6.6 billion. Some analysts believe it could take

Boeing up to four years from the expected July 2011 opening to bring the new line up to full speed. And while the company still expects the 787 to be a moneymaker, analysts think trying to start up a plant could push out the break-even point for the 787, which Boeing has hailed as a game-changer for its fuel-saving design.

At the same time, Boeing's decision to make the move has angered members of the International Association of Machinists. Scott Hamilton, an industry consultant in Issaquah, Wash., says the unions could protest the move by engaging in "work by the rules" actions that slow production or by tagging work that comes from South Carolina to Everett as being not up to specifications.

What's more, the Washington workers say they're already fixing 787 mistakes that were made elsewhere by the larger-than-normal pool of subcontractors Boeing uses—and they expect more as it disperses assembly. "If they continually offload and go into areas of nonskilled workers, they're just not going to have that quality product," says Tom Wroblewski, president of IAM District 751 in Seattle, which represents Boeing machinists.

Boeing remains confident of its ability to launch the line successfully. Even so, the company's efforts to break its dependence on unions comes at a critical time.

