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Jet Order by American Is a Coup for Boeing's Rival

By NICOLA CLARK

PARIS — American Airlines announced on Wednesday a record order for 460 single-aisle planes from Airbus and Boeing in a deal worth more than $38 billion. The order breaks the longstanding monopoly that Boeing has had with the airline and forced a significant shift in the company's strategy.

American, based in Fort Worth, Tex., said that it planned to acquire 260 of the Airbus A320 aircraft and 200 Boeing 737s — half of which will be equipped with a new, more fuel-efficient engine. The move is a clear commitment by Boeing to revamp its best-selling 737 with new engines rather than develop an all-new version of the plane — a strategy that until now it had said most of its customers preferred.

The deal, which American described as the largest commercial aircraft deal in history, also includes options and purchase rights for as many as 465 additional planes through 2025.

The airline said Airbus and Boeing had provided a combined $13 billion in financing through lease transactions, which it said would fully cover the cost of the first 230 deliveries, set to begin in 2013. American said it expected to begin receiving its first Airbus and Boeing aircraft equipped with the more advanced engines starting in 2017.

"Today's announcement paves the way for us to achieve important milestones in our company's future, giving us the ability to replace our narrow-body fleet and finance it responsibly," said Gerard Arpey, the chairman and chief executive of American and its parent company, AMR. "With today's news, we expect to have the youngest and most fuel-efficient fleet among our peers in the U.S. industry within five years."

The order represents a coup for Boeing's European rival, Airbus, which has not sold new planes to American in more than two decades. American retired its last Airbus jets — a handful of A300 widebodies — in 2009.

"Not only have they sold jets to American, but they have forced Boeing's hand into pushing for a

re-engined 737," said Saj Ahmad, an analyst at FBE Aerospace in London.

Of the 260 Airbus jets on order, 130 will be for the A320neo, an upgraded version of its A320, which Airbus expects to bring to market beginning in 2016. Airbus has been promising fuel savings with the A320neo of as much as 15 percent over current engines. The new plane is also expected to run more quietly, cost less to operate and be able to fly farther or carry heavier loads while emitting less greenhouse gases.

"This is significant for Airbus, but even more significant for Boeing," said Howard Wheeldon, senior strategist at BGC Partners, a London brokerage. Boeing, he said, had been "chastened" by the market response to the A320neo, "which is making better headway than anyone had expected."

Mr. Ahmad of FBE Aerospace agreed. "Boeing has said for months it wouldn't rush to a decision. But now that they have had to react to this deal, they, too, will capture new swathes of orders."

Airbus has said it expects to spend around $1.5 billion on the enhancements, and Boeing has placed the costs of fitting a new engine to the 737 within that range. Analysts had estimated that developing an all-new replacement for the 737 would probably have cost Boeing as much as $12 billion.

The 737s and A320s, each of which typically seats 150 to 180 passengers, have formed the backbone of the air travel system for decades. More than 10,000 of them shuttle passengers between large airports.

Boeing predicted last month that North American carriers would purchase more than 7,500 new airplanes between now and 2030, valued at $760 billion. Nearly three-quarters of those are expected to be single-aisle jets. Boeing currently holds a 51 percent share of the North American market, according to Ascend, an aviation consultancy based in London.

As recently as last month, Boeing had appeared reluctant to commit to a significant redesign of the 737 as it faced delays with the 787 Dreamliner. The company, based in Chicago, indicated at the Paris Air Show in June that it did not expect to make a decision until the end of this year on whether to revamp the 737 with new engines or to develop an entirely new single-aisle jet for delivery around the beginning of the next decade.

American trails Delta, United and Southwest among United States carriers in terms of number of passengers.

The new orders will help American update a fleet of more than 600 planes which, with an average age of 15 years, is one of the oldest among the six top United States airlines. Its stable

of single-aisle workhorses includes more than 200 McDonnell-Douglas MD-80s, which average more than 20 years of age and went out of production in 1999.

Analysts noted that American's move also places its competitors under pressure to update their fleets. Delta is also in talks with Boeing and Airbus and has said it aims to place an order by the end of the year. Southwest Airlines and United are also considering orders, according to industry executives.

"If fuel stays high, and AMR can start pricing fares based on operating aircraft with new-generation engines, everyone might need to respond," Richard Aboulafia, an aviation analyst for the Teal Group, wrote in a note to clients.

Thomas Horton, AMR's president, told analysts in a conference call that he expected the new aircraft would eventually reduce American's overall fuel bill by 15 percent.

The effect of fuel on AMR's bottom line was clear in the company's second-quarter results, which were also announced on Wednesday. American paid an average of $3.12 a gallon for jet fuel in the quarter, up 32 percent from an average of $2.37 a gallon in the period a year earlier — an increase of $524 million. That fuel bill increase more than offset a $440 million gain in revenue, to $6.1 billion.

AMR reported a net loss of $286 million, compared with an $11 million loss a year earlier.