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American Airlines to update fleet with Dreamliner

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Bloomberg News

American Airlines said Wednesday it intends to buy up to 100 Boeing 787-9 Dreamliners in a plan that will extend and secure the close relationship between the world's largest carrier and Boeing.

The order reinvigorates the sales campaign of Boeing's much-delayed 787 and will reshape American's wide-body fleet.

An initial order for 42 of the 787-9s, with deliveries from September 2012 through 2018, is worth \$8.17 billion at list prices. The estimated actual price, based on data from aircraft-valuation firm Avitas, is about \$5.3 billion.

American also said it has purchase rights for a further 58 Dreamliners with flexible delivery dates.

For most customers, Boeing asserts the Dreamliner is sold out beyond 2016. American was able to secure deliveries as soon as 2012 because of a long-term agreement with Boeing that provides preferential delivery slots.

That agreement, signed in 1996, initially was exclusive. American identified Boeing as its "preferred provider" and signed up for purchase rights of more than 600 jets over two decades.

The exclusivity was formally dropped in 1997 as a condition of the European Union approving Boeing's merger with McDonnell Douglas. But the agreement otherwise remains in force and American has not ordered an Airbus jet since then.

Under the agreement with Boeing, "we have the ability to get [early] access to the planes," said American Airlines spokesman Andy Backover.

He said the airline did consider ordering the Airbus A350. But that jet is not due to enter service until 2015, and the early availability of the 787 "was one factor" in the choice, Backover said.

American, which has a \$5 billion balance sheet, has still to arrange financing for the Dreamliners.

Solid record

But in a conference call, Chief Executive Gerard Arpey said he expected it to come through, in part because American is one of the few carriers that has not gone through bankruptcy.

"It should matter to the capital markets who pays you back and who doesn't," Arpey said. "We have paid folks who have lent us money. Over many, many years, we've paid them back."

If made firm, the initial purchase of 42 jets will be the biggest Dreamliner order since June 2007. While the 787 had racked up 895 previous orders in the most successful sales campaign ever for a jet that hasn't yet flown, this year's tally is a scant 78.

The plane is already more than 15 months behind schedule because of production delays, and the ongoing Machinists strike means that first flight almost certainly cannot happen until 2009.

Boeing's plan to start deliveries in next year's third quarter looks doubtful.

Douglas Runte, an analyst with Piper Jaffray, said the Dreamliner offers "better economics and more range than American's existing fleet of aging 767s."

The 787-9 is a larger variant of the initial Dreamliner model due to enter service in 2012. American said the jets will carry as many as 290 passengers and be able to fly on all of its routes.

The airline's fleet is 95 percent Boeing. Its wide-bodies include 72 Boeing 767s that average more than 14 years old and 47 larger 777s that average 7.5 years, according to Ascend Online Fleets.

Lagging behind

American and other U.S. carriers have lagged behind overseas rivals in renewing fleets as they struggled with a bigger surge in fuel costs and as international airlines benefited from a weaker dollar, the currency for aircraft sales.

Just 10 percent of Boeing's \$275 billion order backlog now comes from the U.S.

As it announced the order, American's parent AMR posted a quarterly operating loss of \$360 million, due largely to soaring fuel costs.

Yet American needs to replace its aging wide-body jets over the next 10 to 15 years. It also has international growth prospects if a proposed alliance with British Airways and Spain's Iberia receives antitrust immunity, expected next year.

"You've got to plan for the business for the long term," said Henry Joyner, senior vice president for planning at the Fort Worth, Texas-based carrier. "While you have to be cognizant of what the business cycle is doing around you, you have to take the long view."

The Dreamliner purchase is conditional on the airline's reaching agreement with its pilots to operate the new model. The current contract doesn't include a pay scale or work rules for a 787.

American also is gradually replacing about 270 older, gas-guzzling narrow-body MD-80s still in its fleet. By the end of 2010, it will take delivery of 76 Boeing 737-800s, which are about 25 percent more fuel efficient than the MD-80s.

American has secured financing for almost all of those 737 purchases.

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