Boeing Hopes Defense Cuts Would Spare Tanker

Joshua Freed, AP Business Writer

Boeing expects its new tanker for the U.S. Air Force to be untouched by cuts in defense spending next year, its top defense executive said Thursday.

Defense contractors have been getting ready for automatic defense cuts that are a part of the so-called fiscal cliff that starts in January if Washington lawmakers can't strike a budget deal. Those cuts total $55 billion for next year and about $500 billion over 10 years.

That would be on top of $500 billion in cuts to projected spending over 10 years that President Obama and congressional Republicans already agreed to last year.

Nearly half of Boeing's revenue comes from defense and space programs.

Boeing has tried to plan for a worst-case scenario of $1 trillion in cuts over 10 years, said Denis Muilenburg, who runs its defense business. However, the company expects the actual cuts to be more like $750 billion, he said.

"We've been taking aggressive actions on workforce reductions, facility reductions, and other affordability actions, to protect ourselves against that worst-case scenario," he said.

One of Boeing's major defense projects is a new aerial refueling tanker for the Air Force. Even if there are spending cuts, "I think actions will be taken to protect the schedule on the tanker, and to keep it at a full funding level," Muilenberg said.

To make up for declining Pentagon spending, Boeing has been trying to get more overseas business. For example, it's selling F-15 fighter jets to Saudi Arabia. This year, international customers will account for more than 25 percent of Boeing's defense business, Muilenberg said, up from 7 percent five years ago. He sees that running at 25 percent to 30 percent in future years.

The company is also looking for more overseas customers for its C-17 military cargo plane. India has ordered 10, with its first plane due this summer. Boeing has been delivering C-17s to the U.S. Air Force for 21 years, but has just five more to deliver on an order of 223.

Boeing has slowed production to 10 cargo planes per year, down from 15, Muilenberg said. At the slower rate it has enough orders to keep the Long Beach, Calif. assembly line running through the third quarter of 2014, he said. Boeing is aiming to get orders to keep it running longer than that, he said.

Boeing Co. shares rose a penny to $74.10 in afternoon trading.

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