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ADVERTISING

# How Washington won the battle for the 7E7

By [David Bowermaster](#), [Dominic Gates](#) and [Luke Timmerman](#)*Times business reporters*

Mark Klender had been on the job just eight days when he walked into the governor's office and dropped the bombshell.

Klender, whose consulting firm had been hired to help the state convince Boeing to build the 7E7 here, hadn't met Gov. Gary Locke until then. But he got right to the point:

Washington had only a 1-in-5 chance of winning the 7E7 sweepstakes, Klender said.

Under the state's existing tax and regulatory structure, Klender and his team from Deloitte & Touche estimated Boeing's costs to build the 7E7 would be 25 percent higher in Washington than in business-friendly states such as Texas and Alabama that promised to aggressively pursue the 7E7.

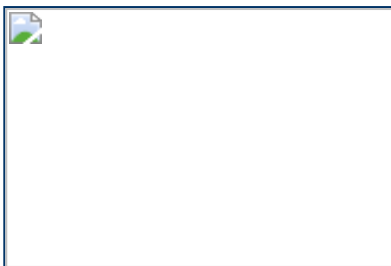
Washington would need to offer billions of dollars of incentives just to be in the ballpark.

It was May 28, and Boeing's deadline for proposals was less than a month away.

"I said, 'Gulp,' " Locke recalled.

Now that the competition to build Boeing's next-generation jet is over, Boeing remains mum on the details. But Locke and other officials in Washington and competing states spoke publicly last week about the eight-month battle for the 7E7.

Locke said he knew immediately the stakes were higher than the 800 to 1,200 jobs Boeing was promising for the plant.



[enlarge](#) CHRIS GOODENOW / AP  
Gov. Gary Locke gets a 7E7 model from Boeing official Mike Bair, seated far right, at the Boeing Assembly Plant in Everett last week. Behind them, from left, are John Quinlivan, general manager of the Everett plant; Herman Williams, chairman of the Tulalip Tribes; state Sen. Paul Shin (looking over Williams' shoulder); and state Rep. John McCoy.

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### 7E7 at a glance

**Three versions:** A baseline model with 200 seats and a range of 7,800 nautical miles, a lighter version with a 3,500 nautical-mile range, and a stretch version with 250 seats and a 8,300 nautical-mile range.

**First delivery:** 2008 for baseline and short-range models, 2010 for stretch.

**Speed:** Mach 0.85, about as fast as a 747.

**Construction:** Heavy use of carbon-fiber composites for tail, fuselage and wings.

**Assembly time:** three days

"I totally believed that if the 7E7 were built in another state, that would mark the end of Boeing commercial-airplane production in the state of Washington," Locke said. "For me, it was always that type of high stakes."

The state had no choice but to find the money, he concluded.

## **2 days before deadline**

Two weeks later, after an astounding flurry of number crunching, lobbying and hardball politics, the Legislature passed an unprecedented \$3.2 billion, 20-year tax break for the aerospace industry that would go into effect only if the 7E7 were built here. Locke signed it into law June 18 — two days before the deadline for 7E7 proposals.

The legislation went a long way toward securing the 7E7 for Washington. Had it not come together, Boeing's next new airplane would likely be on its way to another state by now.

Chief executive Harry Stonecipher announced Tuesday that Boeing's board of directors had authorized the commercial-airplanes unit to begin offering the 7E7 to customers. The board also accepted the 7E7 team's recommendation to build the plane in Everett, where all Boeing widebody jets are assembled today.

The decisions culminated an exhausting, eight-month campaign by the state to retain its largest private employer and most enduring corporate symbol.

Boeing took a schizophrenic approach to its corporate version of "Survivor."

It disclosed the competition in a newspaper story and posted its criteria and the identity of its site-selection consultants, McCallum Sweeney of Greenville, S.C., on its Web site, presumably to get the broadest possible response.

Boeing then refused to say a word about the search and sternly warned public officials to keep 7E7 information confidential or jeopardize their proposals.

When the competition was disclosed March 29, some in the state Legislature believed Boeing simply wanted out of Washington.

"A lot of people threw their hands up and said there's nothing we can do," said state Rep. Fred Jarrett, R-Mercer Island, a 30-year Boeing employee who served on the bipartisan committee that pushed the 7E7 legislative package.

On April 23, Boeing's commercial-airplanes chief, Alan Mulally, visited Olympia to counter that impression.

Arriving at the end of the day, he met with Locke first to go over key business-climate issues, including not only Boeing's tax burden but also changes to unemployment insurance and workers' compensation rules.

Then he had four separate meetings, one with each of the House and Senate caucuses.

"The purpose of that meeting (with the legislators)," Jarrett recalls, "was to say that the deck is not stacked against Washington, that it's going to be a fair competition."

Unlike some of the lawmakers, Martha Choe, director of the state Department of Community, Trade and Economic Development, did not need persuading.

Two years earlier, after the move of Boeing's headquarters to Chicago shocked the region, Choe had been assigned the task of leading the state's response to Boeing. At that time, the company was still considering

the superfast Sonic Cruiser and was making no promises about where it would be built.

Choe's job was to keep it here. When the Sonic Cruiser was abandoned in favor of the 7E7 a year ago, Choe continued in that role. Immediately after the 7E7 competition was disclosed, she began screening site-selection consultants and settled on Deloitte.

Boeing announced its site criteria May 16. Deloitte was hired four days later and immediately began analyzing data and gathering intelligence.



Martha Choe,  
economic-  
development agency  
chief

On the same day Klender met Locke, Choe called a meeting of the bipartisan 7E7 legislative group, which consisted of eight state representatives plus officials from Locke's staff and the Department of Community, Trade and Economic Development.

With the Legislature out of session, the group gathered at the Machinists union headquarters in South Park, the first of several meetings there.

A Deloitte consultant explained the economic context of the 7E7 competition: in particular, Boeing's intense struggle with Airbus and its imperative to reduce costs for the new jet to fly.

"For the people who hadn't been following the aviation industry, it was really quite a shocker," Jarrett said. "That's where they started to understand why Boeing was going through the competition."

Just over a week later, the shock treatment continued.

A story in The Seattle Times on June 6 indicated Locke was considering options for a large tax-incentive package.

Later that day, Locke told legislators to brace for a big number. He suspected people were expecting a package of incentives in the neighborhood of \$100 million to \$200 million to bring Washington into line with other states. Locke already knew from the Deloitte consultants the number would be many times higher.



Gov. Gary Locke

On Monday, June 9, Deloitte disclosed Locke's staggering target to lawmakers, and Locke released it to the media: \$3.2 billion.

Legislators were also urged to pass changes to unemployment insurance and workers' compensation being debated in special session that day. The changes would save Boeing millions more, while cutting or freezing benefits for low-wage and seasonal workers.

Business-friendly Republicans had little problem with Locke's tax package.

"If you want to be a libertarian, you can make an ideological case that it was inappropriate for us to be involved," Jarrett said. "But we live in a real world."

### **Tough pill for Democrats**

For Democrats, the labor concessions were harder to swallow than the tax giveaway.

Two hours before the special legislative session was due to end at midnight June 10, Boeing lobbyist Bob Watt and Linda Lanham of the Machinists union marched into the office of House Speaker Frank Chopp, D-Seattle. Chopp, the only lawmaker with the power to derail the pro-business legislative package, had scheduled a 10 p.m. press conference to pitch an alternative unemployment-insurance plan.

But Machinists' support had delivered enough Democrats to pass the business-sponsored version. As the deadline loomed, Watt and Lanham asked Chopp to stay out of the way.

"They both said, 'We've got to get this done, and it has to be done now,' " Chopp said.

Chopp canceled his press conference.

Chopp said last week he recognized that if the package of Boeing incentives unraveled and it cost Washington the plane, "the recriminations would have been horrible, the morale of the state would have been shot, and the economic-development momentum of the state would have been seriously impaired."

Around 3 a.m. on June 10, after Locke had extended the session, the Legislature passed a law to limit workers' compensation for job-related hearing loss. That afternoon the Legislature passed the tax package and the unemployment-insurance overhaul designed to save state businesses more than \$100 million a year.

How much did the incentives matter?

Ten days before the outcome of the 7E7 competition, a source inside Boeing told The Seattle Times that Everett would be recommended even though it was the most expensive of four finalists.

According to a Boeing formula used to make the decision, the source said, the tax package had closed the gap between Everett and Kinston, N.C., the lowest-cost site competing for the 7E7, to less than \$300 million in net present value (a commonly used economic measure that expresses value as if it were given today in a lump sum instead of in a stream over many years).

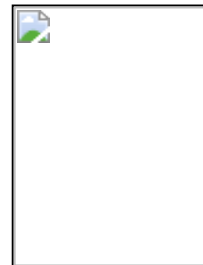
Boeing's 7E7 team decided the potential savings were not enough to make up for the negative impact on Boeing's current work force and jet programs if the 7E7 left Washington.

Without the incentives, the source said, Everett would have lagged Kinston by almost \$900 million in net present value — a gap that would likely have killed Washington's chances.

"When the site selection (process) began, Everett and Washington were not in a good position for the business case," Walt Gillette, Boeing's vice president of 7E7 engineering, told business leaders in Everett last week. "You all made the business case neutral."

Kinston was not alone in wooing Boeing.

Mike Bair, Boeing's 7E7 program manager, revealed Tuesday that McCallum Sweeney received 7E7 proposals from more than 80 sites, 12 in Texas alone.



Walt Gillette

Many never had much chance. Duluth, Minn., was eliminated because its port freezes over for long stretches each winter.

But several drew serious interest. Boeing expressly asked for proposals from locations such as Harlingen, Texas; Tulsa, Okla.; Mobile, Ala.; and Savannah, Ga.

Despite speculation that the search was a Boeing ruse designed to squeeze as many dollars as possible from Washington, Neal Wade, Alabama's economic-development director, said Boeing's interest in Mobile was sincere.

Bair personally visited Alabama twice to tour a site adjacent to Mobile's airport and to meet with Gov. Bob Riley and other state officials.

"We felt we could win the project, that we had as good a chance to win the project as anybody else," Wade said.

Wade's optimism did not fade until last month, when ethical lapses forced Boeing to fire Chief Financial Officer Mike Sears, and Chairman Phil Condit resigned a week later.

"With everything changing within Boeing, it became apparent it was going to be tougher" for the company not to keep all its airplane production in Washington, Wade said.

### **Raising the stakes**

In late summer, Boeing had raised the stakes unexpectedly.

The company informed contending sites about a plan to build giant transport jets based on a Boeing 747 with bulging modified fuselages to ferry huge 7E7 sections to the final assembly site.

"It came up in the middle of a meeting," recalled Eric Winger, president of the Economic Development Authority in Savannah, one of Everett's competitors. "The question of what can your community do to help with this particular logistics question was, I daresay, one with which nobody had any relevant experience. (The reaction was) 'Are they serious?' "

Georgia offered to have aerospace engineers from Georgia Tech help design the converted 747s.

Washington offered Boeing an extra \$5 million to help work out the air-freighter concept.

In the final months of horse trading, Washington added \$24 million in sweeteners. The state will pay \$10 million to build a training center for 7E7 workers and \$14 million to run the program. The Legislature will have to approve the money next year.

For fear of divulging useful intelligence to competing states, these details were not disclosed even to members of the key 7E7 legislative committee until last Tuesday, when Boeing announced Everett had won.

"The entire proposal was confidential," said Choe, director of the Department of Community, Trade and Economic Development, "and would be for any company in any state."

Looking back over the process between sips of hot water to calm a nasty cold, Locke lauded the work of his aides and expressed a relieved satisfaction at the outcome.

"Now that 7E7 is coming here, people say, 'Well, it wasn't that important anyway.' To us it was always very important," he said.

"(Boeing) is part and parcel of the history of the state of Washington. ... It's a source of tens of thousands of jobs," Locke said. "You can't just ignore that."

*Seattle Times reporter Jane Hodges contributed to this report.*

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