

# **Boeing Chairman James McNerney Supports Export-Import Bank, Sees Strong Company Future**

**W. James McNerney, Jr.**  
**Chairman**  
**The Boeing Company**

**July 29, 2015**

## **Excerpts from Mr. McNerney's Remarks**

**Gift of Boeing:** We at Boeing have supported the Kennedy Center, and we've been very proud to do it, David. And your leadership there has made a huge difference.<sup>1</sup> And I think beyond bringing Deborah Rutter here as the new executive director, the huge expansion plans you now have underway, what I'd like to do is just hijack this moment, and perhaps soften up the interview a little bit in so doing. [Laughter.] We'd like to announce a \$20 million gift from The Boeing Company to the Kennedy Center.

**Export-Import Bank:** It has been a wildly successful program....And this has supported tremendous growth in the developing world as well as growth at home. As a matter of fact, Boeing depends on this. While our competitor has set up shop in lots of different countries in the world, we have kept our jobs and our technology here, in part because of this arrangement here.

But right now, as the politicians have fun with this thing – If the vote was today, it would be a veto-proof vote in favor. But all the politics associated with the extremes of both parties, particularly the Republican Party, are preventing this thing from getting to a vote. So I'm beginning to question the strategy of making and designing everything in the United States, I mean, if there's not an Export-Import Bank. We're actively considering now moving key pieces of our company to other countries. And we never would have considered that before this craziness on Ex-Im.

**Moving jobs offshore:** We love making and designing airplanes in the United States. It's the best workforce. It has the best educational system to underpin a very highly qualified workforce, as you can imagine. It has, compared to many countries, a very business-friendly environment – it doesn't always appear that way. But we are now forced to think about doing it differently. And, you know, I'm a little bit sort of wrong-footed by this whole thing because my strategy has been a build in U.S., engage the American worker, export – that's why we're the country's largest exporter. And I'm beginning to think maybe I made the wrong decision.

**Who is Mr. Boeing?** Bill Boeing was based in Seattle. He was a timber man, went to Yale, came back, went to an air show – and there weren't very many air shows back in 1915 – came back all excited and had all this money because he came from a successful

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<sup>1</sup> President Rubenstein is chairman of the Board of Trustees of The Kennedy Center for the Performing Arts.

family. And he decided, let's get into this exciting thing. So he started delivering the mail for the U.S. Government, and it was off to the races.

**How do you read the current market?** We read the market differently. I think our competitor reads a little more of a hub and spoke world, where the A380 would go from hub to hub and other planes would complete the journey. We had a view that more frequency, avoiding hubs, point-to-point, St. Louis to Guangzhou as opposed to St. Louis to San Francisco, to Tokyo to Guangzhou. We had a view – and that was the creation of the Dreamliner. So it was a different read of the market.

**What about the Dreamliner?** Eight years of backorders, which is too long. But we got 300 Dreamliners flying. They've flown about 60 million miles total now. Everything is going great... We had a battery issue, lithium-ion battery, manufacturing control and a bit of a design issue that we had to get under control... One of the misperceptions was because there was smoke venting that it was a safety of flight issue, which it never was a safety of flight issue. But it was something that the flying public was very concerned about, that the FAA was very concerned about. We had to get it fixed. And it was a shame on us, but the good news is we got it fixed.

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DAVID M. RUBENSTEIN: Welcome everybody, members and guests of The Economic Club of Washington, welcome to our first event of our 29<sup>th</sup> season. We are on a July 1 fiscal year, so this is the beginning of our new season, our 29<sup>th</sup> season. I am David Rubenstein, president of The Economic Club of Washington. Welcome, everyone, to this luncheon event at The Ritz-Carlton in Washington, DC.

Today our special guest is Jim McNerney, chairman of The Boeing Company. He has an extraordinary background in business and philanthropy. He served for 10 years as the CEO and chairman of Boeing. He just stepped down on July 1 after 10 years as the chairman and CEO. During that 10-year period of time, the market capitalization of The Boeing Company, the earnings of The Boeing, and the revenue of The Boeing Company just about doubled. Today, Boeing is a company with about \$100 billion market capitalization, \$91 billion of revenue, and about \$6 billion of net income, and about 165,000 employees and is our Nation's largest exporter.

Jim came to that position in 2005 from a position where he previously served as the CEO of 3M. He was the CEO of 3M from 2001 to 2005. He came to the position as the CEO of 3M from his position at GE. He was at GE for 19 years, from 1982 to 1991, and served in a number of positions at GE, as the head of their electrical distributions business, as the head of their Asia-Pacific business, as the head of the GE lighting business, and as the head of their aircraft engines business. In that capacity, he had a reputation as a very, very strong business leader, and he showed that, obviously, at 3M and at Boeing.

Prior to joining GE, he was an employee of McKinsey and he worked before that at Procter & Gamble. He is a graduate of the Harvard Business School and a graduate of

Yale. At Yale, he was a player on the baseball team as well as on the hockey team. He is a graduate of New Trier High in Chicago. He has a very extensive career outside of his corporate CEO positions. In the corporate world he has served as the chairman of the Business Roundtable, as the chairman of the Business Council, and as the chairman of the President's Export Council. He's also a member of the IBM board and the Procter & Gamble board.

In the nonprofit area, he also has an extensive career. He is the chairman of a number of organizations, but let me just mention a few. He's a member of the Center for Strategic and International Studies. He's a member of the Northwestern University Board and a member of the Northwestern Memorial HealthCare Board. He's also, I'm glad to say, a member of the board of trustees of the Kennedy Center, which the president just recently appointed him to.

In all of his capacities as a philanthropist, as a business person, and as a leader of large companies, he's done an extraordinary job, widely recognized by his peers as one of the leading CEOs in the United States, and has received that title as leading CEO or CEO of the year from many different publications. In fact, this year, *CEO* magazine named him as CEO of the Year. So we're very pleased to have Jim McNerney here as our special guest today. Jim? [Applause.]

W. JAMES MCNERNEY, JR.: David, thank you for that very gracious introduction. And before you go anywhere, I want to have a little fun with David. I'd like to make a small or maybe not-so-small announcement. We'll see how it goes. But you all know David and his role as a pillar in our Nation's capital in many respects, as a business leader of the largest and most successful private equity capital company in the world, philanthropy, and leadership in many not-for-profits and other kinds of organizations.

But look, we at Boeing have supported the Kennedy Center, and we've been very proud to do it, David. And your leadership there has made a huge difference. And I think beyond bringing Deborah Rutter here as the new executive director, the huge expansion plans you now have underway, what I'd like to do is just hijack this moment, and perhaps soften up the interview a little bit in so doing. [Laughter.] We'd like to announce a \$20 million gift from The Boeing Company to the Kennedy Center. Deborah, would you please come up here and join us? [Cheers, applause.]

MR. RUBENSTEIN: Thank you very much, Jim. Thank you.

DEBORAH RUTTER [executive director, The John F. Kennedy Center for the Performing Arts]: Thank you, thank you, thank you! Woohoo!

MR. MCNERNEY: You're welcome, you're welcome. [Laughs.]

MR. RUBENSTEIN: Thank you. [Applause.]

MR. MCNERNEY: Do you want to say anything?

MR. RUBENSTEIN: Jim, Obviously I want to thank you for this extraordinary example of patriotic philanthropy – giving to the Kennedy Center.

MR. MCNERNEY: [Laughs.]

MR. RUBENSTEIN: We have a building program, as people know. We're going to make some additions to the Kennedy Center. This will be a great help in doing that. I want to thank you for agreeing to serve as a member of the board, and for your work in helping to underwrite our most well-known program, which is our Kennedy Center Honors program. So I had some very tough questions, but – [laughter] – for all the people whose names I mentioned who are going to be future guests, I hope this is a precedent. So thank you. [Laughter, applause.] Thank you.

MR. MCNERNEY: Thanks, Deborah.

MS. RUTTER: Thank you very much.

MR. RUBENSTEIN: OK, so I don't think I can top that. But thank you very much for that. I wish all of our board members were quite as generous. But thank you.

MR. MCNERNEY: [Laughs.]

MR. RUBENSTEIN: So let me ask you one question I've always wondered about Boeing at the beginning. When you have all these planes – there's 707, 737, 747 – why does everything have a seven in it? Where does that come from? [Laughter.]

MR. MCNERNEY: Well, you know, you have to understand the mind of an engineer, OK? And the mind of an engineer puts everything into categories. And they stay in categories forever. And back in the late '40s and early '50s when Boeing was diversifying into all kinds of different aerospace technology, there was 3s and 4s for prop airplanes, 5 and 6 category was for rockets and satellites, and 7 – which is lucky in some cultures and unlucky in others, which is why we used three digits, 7-something-7 – to sort of mitigate – capture but mitigate the jinx factor. [Laughter.] And so all jet airplanes were 7s. Now, you know, we're at the 787 now. So, you know, it's going to be a challenge, but those same engineers are going to come up with some other category, I guarantee you.

MR. RUBENSTEIN: All right. OK. Well, let me talk about something that I know you're interested in, because you spend a lot of time in Washington, I've seen you in Washington in recent months. The Export-Import Bank, Boeing is, I think, said to be the biggest beneficiary of the Export-Import Bank. First, why do you think we should reauthorize the Export-Import Bank?

MR. MCNERNEY: Well, this is a very important subject for this country to get right. I mean, just as background – and I hope I don't bore everybody to tears here – but it is a

very critical issue. You know, the Export-Import Bank really is part of a tree that's 80 years old between us and the developed world. I think there's about 60 other countries. And what we all agree to do is we agree to sort of have a level playing field for sovereign credit. So countries that don't have the same values that we do, who might otherwise subsidize and create an unlevel playing field, have agreed on how we're going to price credit and how we're going to play. And the philosophy there is it's backstop credit for the developing world to help create jobs and support jobs in the developed world.

It has been a wildly successful program, because what it does is it isolates the quality of the technology being sold and gets off the table all the shenanigans that people could do financially. And this has supported tremendous growth in the developing world as well as growth at home. As a matter of fact, Boeing depends on this. While our competitor has set up shop in lots of different countries in the world, we have kept our jobs and our technology here, in part because of this arrangement here.

But right now, as the politicians have fun with this thing – and the facts are that two-thirds of both the House and the Senate, if the vote was today, it would be a veto-proof vote in favor. But all the politics associated with the extremes of both parties, particularly the Republican Party, are preventing this thing from getting to a vote. So I'm beginning to question the strategy of making and designing everything in the United States, I mean, if there's not an Export-Import Bank. We're actively considering now moving key pieces of our company to other countries. And we never would have considered that before this craziness on Ex-Im.

MR. RUBENSTEIN: So when you talk to Members of Congress and explain the benefits of it to our country, what do they say?

MR. MCNERNEY: Well, the conversations are always cordial. They always say they understand. But what this is, David, is a triumph of ideology over any description of pragmatism. I mean, this bank has been authorized by every Republican and every Democrat for the better part of the past century. And why? Because it levels the playing field on a global basis. It supports American jobs and technology. And people – one part of the political spectrum calls it, you know, cronyism for big companies only. Every time a 777 lands in Beijing, it takes 7,000 or 8,000 small businesses to Beijing that are part of this big system with 4 million parts that we put together, that otherwise would not be able to export their goods. It's crazy.

MR. RUBENSTEIN: Well, some of the opponents would say that Boeing is the biggest beneficiary. When you look at who gets the most benefits, you're number one. And they say Boeing's a big, wealthy company. So is that, in fact, true that you are the biggest beneficiary?

MR. MCNERNEY: I think by dollars, yes. But I think in terms of deals, there are more deals for small- and medium-sized companies than big companies, and not even making the point that 70 percent of the value added of our airplanes are made up by small

companies who are making things for us, giving them to us, and trusting us to integrate them, and then exporting. None of those would have a chance to export without us.

MR. RUBENSTEIN: So if the legislation doesn't pass, you are thinking of moving jobs offshore?

MR. MCNERNEY: Well, we love making and designing airplanes in the United States. It's the best workforce. It has the best educational system to underpin a very highly qualified workforce, as you can imagine. It has, compared to many countries, a very business-friendly environment – it doesn't always appear that way. But we are now forced to think about doing it differently. And, you know, I'm a little bit sort of wrong-footed by this whole thing because my strategy has been a build in U.S., engage the American worker, export – that's why we're the country's largest exporter. And I'm beginning to think maybe I made the wrong decision.

MR. RUBENSTEIN: So, OK. [Laughter.] What do you think will happen with this legislation?

MR. MCNERNEY: Listen, I am more worried about it today than I ever have been, David, to be frank with you. I have always had a view that sanity would prevail on an issue of pragmatism. It's a sign of the dysfunctionality in this town now, where a – literally a veto-proof majority in both sides of the Hill, clear – I mean, the Senate has voted twice on procedural votes that were essentially votes on Ex-Im 63 to 27, 67 to 22. We think there's at least 300 votes in the House. I mean, it's silliness.

And right now the leadership of both parties are walking around on eggshells. And it's harming the country. And not passing this legislation, not reauthorizing the Import-Export Bank, which should be a free throw – this should not be – this is not a three-point shot. This is a lay-up in terms of what's right for the country and what's right for the well-being of the workforce, keeping technology onshore, retaining our leadership in aerospace.

It's – and I'm speaking – and I think I can speak for my friend Jeff Immelt at GE. He's having the same business reviews that I'm having right now, which is, OK, prior plan, build everything in the U.S., and export. What's the new plan, guys? You got to think about this. I mean, maybe there's export credits somewhere else.

MR. RUBENSTEIN: OK. Let me ask you about Boeing specifically. Who is Mr. Boeing? Is there a Mr. Boeing and does his family still have an involvement, or?

MR. MCNERNEY: Well, you know, it's interesting. His son just recently died. And I spent some time with him. He was 93. We had a picture of Boeing's first airplane next to a Dreamliner with the two of us standing there. We both signed it. But Bill Boeing, his father founded the company in 1916. We're on our hundredth year right now. And the first engineer was a Chinese citizen, which is very interesting. I had Yang Jiechi, the

John Kerry of China, at my office the other day. And we were reminiscing about Hands Across the Sea. But it's –

MR. RUBENSTEIN: And he was based in Seattle? Is that where he was originally?

MR. MCNERNEY: Yes, he was, the chief engineer. Bill Boeing was based in Seattle. He was a timber man, went to Yale, came back, went to an air show – and there weren't very many air shows back in 1915 – came back all excited and had all this money because he came from a successful family. And he decided, let's get into this exciting thing. So he started delivering the mail for the U.S. Government, and it was off to the races.

MR. RUBENSTEIN: So let's go back to how you came to Boeing. You were famously at GE. And Jack Welch, who was then the CE, set up a system that maybe others haven't emulated, which is to have three people publicly identified as the potential next CEO. You have picked a new CEO yourself recently. Did you consider a method like that? And what do you think of that method of picking a CEO?

MR. MCNERNEY: Well, every situation is different. And you have to adapt. I think the case of the way Jack did it, highly decentralized company. None of us were ever in the same room because we were running out – all the places you named I ran were in Hartford, Connecticut, Cincinnati, Ohio, you know, Hong Kong. And so he had a very Darwinian approach to this thing, which is, hey guys, let's see how good you are. Go for it. You know, and that's one way. And with a management-rich company like GE you can do that. And he said, two of you guys aren't going to be here soon. And so we all bumped into each other interviewing for jobs because it was all uncertain, you know? [Laughter.] It was hysterical.

And so I took a very different approach. And I think – and as you pointed out, I just appointed – the board has just appointed a new CEO. I remain chairman for a period a time. We had a different approach. We had an early identification and then a work with me, side-by-side with me for a year and a half – not under me, more of a deputy, because I think the difficult thing about being the CEO of a big company like Boeing is not all the stuff you read about in business school – you know, no picking people and allocating resources and the like, segmenting markets. It's sort of the emotional dimension of working the gray area, working outside/inside, sort of trying to figure out this town, which clearly I haven't yet, based on my earlier discussion. And so, you know, so he lived with me for a year and a half. And quite frankly, that worked for us, very different kind of place.

MR. RUBENSTEIN: So when Jeff Immelt was selected, all the headhunters called you up and you had a lot of different jobs, I know. You took the 3M job. How come you took that job, as opposed to some of the others I know you were considering?

MR. MCNERNEY: I like the Midwest. I'm a Midwesterner. But I think what I liked most about 3M was it was highly diversified – even more diversified than GE, even

though it was a smaller company – 35 different divisions, each one with a different set of customers and technologies and factories and global position. And so I liked the intellectual challenge of managing all these things. And of course, you had to find centralizing principles and decentralizing –

MR. RUBENSTEIN: So when you were announced as the new CEO, the stock went up 16 percent just on the announcement. So it's hard to live up to that.

MR. MCNERNEY: Yeah. I mean, you always get more credit than you deserve, and that's a perfect case, and you always get more blame than you deserve. So just accept that.

MR. RUBENSTEIN: So you join the Boeing board while you were at 3M. And then one day Boeing needed a CEO, and you're running 3M. So was it awkward to leave 3M and go to Boeing?

MR. MCNERNEY: Yeah. I mean, I think – listen, I think – I don't think it's a secret that Boeing approached me a couple of times. I felt that I had an obligation at 3M for at least five years. And so I got to the end of that obligation, and at the same time it was very clear that if I didn't say yes this time to Boeing that it wasn't going to come around again. And so it was balancing an obligation to a company and 70,000 people that I committed to, and getting that company going, and –

MR. RUBENSTEIN: So when you joined Boeing everything was working smoothly. There were no problems. Is that right? [Laughter.]

MR. MCNERNEY: No, it was very interesting. No, we'd hit a rough spot, both on a business basis and we had some ethical challenges that we were dealing with. So we really had to create a new culture. And I would say that was the biggest challenge and the most fun of Boeing, which was – it was complicated by the fact it was Boeing, McDonnell Douglas, Rockwell, Hughes. And we were trying to put this all together. And we made a lot of acquisitions. So the choice was one of those cultures or a new one. I chose new one. So let's all define a new place, and all the things attended to that.

MR. RUBENSTEIN: So the decision to move from Seattle, was that before you came or –

MR. MCNERNEY: Just before. Just before, yeah.

MR. RUBENSTEIN: So why did they decide Seattle wasn't good enough for Boeing at that time?

MR. MCNERNEY: Well, it's kind of like why is Canberra the capital of Australia? Because it can't be Sydney or Melbourne, OK? So it was kind of the same deal. It couldn't be St. Louis, McDonnell Douglas. It couldn't be Southern California, Hughes



and Rockwell. It couldn't be Seattle because we weren't being ecumenical. So we had to find a neutral site.

MR. RUBENSTEIN: And what were the other cities that were considered?

MR. MCNERNEY: I think Denver. And I think D.C. was thought about, and Atlanta.

MR. RUBENSTEIN: Dallas? Oh, OK.

MR. MCNERNEY: And Dallas, you're right. You have a better memory than I do. And that's because we had two major – that was sort of customer-driven.

MR. RUBENSTEIN: So you wanted a place that began with a D – Dallas, Denver, D.C. – but you picked Chicago.

MR. MCNERNEY: Chose the C, yeah; C came before D. [Laughter.]

MR. RUBENSTEIN: So speaking of Ds, somebody named a plane the Dreamliner. So I don't know who came up with that name. Was that somebody in your organization?

MR. MCNERNEY: Yes. It was – it was the team out in Seattle. It's actually – it as a great – it was a great name. And we had never done that. We had never sort of branded with a name of our airplanes, and it was a great move.

MR. RUBENSTEIN: Before we get to that part, the 707, that was the first in the seven series. And there's no more 707s that are being made, but they're still –

MR. MCNERNEY: Oh, they're still flying, but we stopped making them a couple decades ago.

MR. RUBENSTEIN: And the 727?

MR. MCNERNEY: Yes.

MR. RUBENSTEIN: And they are not being made anymore?

MR. MCNERNEY: Nope.

MR. RUBENSTEIN: All right. And the 737s, you still make those?

MR. MCNERNEY: Still being made, the most prolific airplane of all time.

MR. RUBENSTEIN: And then the 747. And as I understand it, that plane was so big that it was designed by engineers, when it went down the runway for the first time for test flights, they weren't sure if it was actually going to take off.

MR. MCNERNEY: Well, let's put it this way, the – when they lined up all the test pilots and asked for volunteers, they'd already figured out that 10 guys were going to step back, and that two weren't going to know about it. [Laughter.]

MR. RUBENSTEIN: But that plane became the most profitable plane up until the Dreamliner of all time, because you sold, I don't know, thousands of them?

MR. MCNERNEY: We sold about 1,500.

MR. RUBENSTEIN: 1,500.

MR. MCNERNEY: One thousand five hundred 747s at this stage.

MR. RUBENSTEIN: And how many people buy them for just their own personal use. Are there a lot of those? [Laughter.]

MR. MCNERNEY: David, we can help you. [Laughter, applause.] No, we've got – I'd say – I'd say there's probably 30 747s that are what we call VIP, concentrated in the Middle East. And probably as many Dreamliners.

MR. RUBENSTEIN: Really?

MR. MCNERNEY: Yeah.

MR. RUBENSTEIN: And then the 757 and the 767. That's –

MR. MCNERNEY: And then we backfilled when we bought McDonnell Douglas. There was something called the MD-95 that we rebranded the 717. We felt horrible we'd left the 717 category behind.

MR. RUBENSTEIN: Right. So when people go on a plane that's a Boeing plane and they say the seats might not be wide enough, that's not your fault because you don't design the seats, necessarily, it's the airline that decides how big people's rear ends are? [Laughter.]

MR. MCNERNEY: Yes. Yes, and it's a combination of our customers deciding how big their rear ends are, and the – [laughs] – and the airlines deciding how many people –

MR. RUBENSTEIN: But the rear ends have gotten wider over the –

MR. MCNERNEY: Slightly.

MR. RUBENSTEIN: So, back to 787. So what was so novel about it that it required you to do all the kind of things you did, that you had never done before?

MR. MCNERNEY: Well, I think the story of the 787, the Dreamliner, is, you know, over the past two decades, I'd say, you could sell a new airplane with a 5, 6, or 7 percent improvement in economics. It would pay out over a long period of time, but that was enough. The Dreamliner made a huge jump to 20 percent fuel efficiency and 30 percent maintenance costs, which are the two biggest costs that an airliner has.

So it was a huge jump and it was driven by a composite fuselage which is stronger, but much lighter. You can carry a bigger pressure differential between the inside of the cabin and the outside. So you're flying at an effective lower altitude. The dings that you get on aluminum you don't get on composite. That relates to the maintenance costs. It's an all-electric kind of control surface. You're using electricity to move the control surfaces around so you don't have heavy pneumatics, and the redundancy is cheaper and so on. But the basic driver is composite – the choice of composites itself.

MR. RUBENSTEIN: But it took longer to build than you thought.

MR. MCNERNEY: Yes.

MR. RUBENSTEIN: And so you were under some pressure, I guess, to get it built, and –

MR. MCNERNEY: Yeah, it was – we spent twice as much as we'd originally thought we would. Fortunately, it was a wildly successful airplane from a marketing standpoint. If this had not been a popular airplane – we sold three times as many as we'd budgeted, even though the budget went up two times. That's the story.

MR. RUBENSTEIN: So your backorder now is – you have eight years of backorders for that?

MR. MCNERNEY: Eight years of backorders, which is too long. But we got 300 Dreamliners flying. They've flown about 60 million miles total now. Everything is going great.

MR. RUBENSTEIN: Well, there was a problem, I think, for a while. You had some electrical –

MR. MCNERNEY: I don't remember anything like that. [Laughter.]

MR. RUBENSTEIN: I have some issues I don't like to remember either.

MR. MCNERNEY: We had – we had – [laughter] – no, it's true. We had – we had a battery issue, lithium-ion battery, manufacturing control and a bit of a design issue that we had to get under control. And it was – you know, one of the misperceptions was because there was smoke venting that it was a safety of flight issue, which it never was a safety of flight issue. But it was something that the flying public was very concerned

about, that the FAA was very concerned about. We had to get it fixed. And it was a shame on us, but the good news is we got it fixed.

MR. RUBENSTEIN: OK, so today you are not just in the commercial aircraft business. You make defense aircraft as well. And what is your principle activity now in the defense area?

MR. MCNERNEY: Well, I would say it's pretty easily distributed, but fighters, transports, helicopters – for example, the Chinook and the Apache helicopters – satellites – I think we're selling more satellites than anybody right now – launch vehicles to get the satellites into orbit. We're working on the rocket that will go to Mars and beyond now. We'll be testing in 2018. And then a lot of what you would call cybersecurity, autonomous vehicle, and then black programs to support our government.

MR. RUBENSTEIN: So you didn't mention your competitor. You mentioned you had a competitor, but I don't know if you want to mention their name, but it's basically two companies that produce commercial aircraft. Why do you think there's only two in the world? Will there likely be a Chinese one at some point, or?

MR. MCNERNEY: Well, yes. I mean, I think there are two in the world, that I think relates to the scale of the infrastructure needed to design and build these things, and then support them. You know, when we sell someone an airplane, 20 percent of the lifecycle cost is the initial \$150 million they spent on the airplane. The remaining 80 percent is support we provide over the next 20 – so it's a big scale.

But I think Airbus and we will face competition. And if I had to bet, it would be China. They're a little farther ahead on building a 737, A320 competitor. The first one may not be perfect, but the second one will be there. And so I think it'll be at least a three-man game.

MR. RUBENSTEIN: In the 1960s, a plane was developed called the Concorde, a supersonic. And people thought it was nice. They only made about 13 of them or so. But now we have no supersonic planes. Why is Boeing not developing one – or maybe you are?

MR. MCNERNEY: Well, we are, but it's mostly for defense and space. But for commercial application, which is your question, the business equation just never worked. I mean, we could. The Concorde carried, what was it, 105 passengers or something? It cost 3 times a first class ticket. And, yeah, you got there in three and a half hours, as opposed to seven, that equation just didn't work. I mean, not enough people were willing to spend that amount of money to save that amount of time.

And so, just an interesting aside, if I could jump in – just before 9/11 happened we were on our way to develop a sonic cruiser as sort of the next airplane. And think about it as taking the same technologies I mentioned on the Dreamliner, but deploying

them toward performance, speed, and less concern about fuel, less concern about range, less concern about economics for the airlines, just pure – a racecar, OK?

When 9/11 happened, we had to completely change our view, because people didn't want to go through security lines anymore, and the security lines were getting tough. So you needed a long-range aircraft that flew slower, but flew over security lines point to point, not point to hub to another hub to point. Fuel tripled in price, so fuel efficiency was more important, so using the lightness of the airplane not for performance but for fuel efficiency.

So we, in the course of 18 months, completely – we were headed toward a supersonic airplane, and we changed overnight in 2002. And in 2004, we introduced a completely different airplane. So we're always asking that question, I guess is the point.

MR. RUBENSTEIN: After 9/11 you had to change, I guess, the doors for the cockpits. So now you have, like, steel-plated doors, or something, that's pretty difficult to get in there if you're not a pilot?

MR. MCNERNEY: Yes, and, of course, which became the source of the issue in Germany. So I mean, it's hard for human beings to plan every exigency, but I think there's some workaround there – requiring two people in the cockpit at all times. I think the combination of the hardened door and two people will get us to where we need to be.

MR. RUBENSTEIN: So the planes today, they're supposed to be fairly automatic. And like, obviously, you have trained pilots, but if you're not trained – like me, I'm not trained – if I went into the cockpit and tried to fly something, what would happen?

MR. MCNERNEY: Well, I think – yeah. [Laughter.] It was nice knowing you, David. Yeah. [Laughter.] No, I think – I think if there was – if there was a pilot sitting next to you, even without – with his or her hands off the control, you could fly the airplane. It would be more difficult if you were up there all by yourself listening to someone telling you how to fly the airplane.

But flying a plane now is such an integrated system that relatively simple movements of hands and feet, and even your eyes now with heads-up displays, can fly the airplane. Takeoff and particularly landing is still tough, though.

MR. RUBENSTEIN: So for Boeing going forward, what do you see as the biggest challenge for the company?

MR. MCNERNEY: Well, I think the immediate challenge over the next decade, because we have this huge backlog, is successfully and profitably building it out. And that centers on the 787. I think the other challenge is whatever the redefinition of the defense and space business will be, because – for whatever reason, the U.S. government is not – and it's well-chronicled and well-described – but it has traded off other things against defense – spending less, sequestration. I don't think the threat environment has changed

at all out there, so I think at some point that is going to true up. And what that all looks like – and so we’re trying to keep balance, getting our costs down in defense and space, with still investing enough to be ready for the next upturn. So that’s a big challenge.

MR. RUBENSTEIN: In the two commercial aircraft areas, I just want to ask about, you don’t really have corporate – you have a Boeing Business Jet, but you don’t have a – like a Gulf Stream kind of thing.

MR. MCNERNEY: No, no.

MR. RUBENSTEIN: The reason you chose not to get in that business is?

MR. MCNERNEY: I think competitive dynamics. I mean, our two choices were business jets and regional jets. Regional jets have – there’s a number of government entities that subsidize people. And we just don’t want to be in that game. The business jet, it’s a pretty competitive world right now, over-capacity. And so we have very attractive core markets. What we’re in right now grows at 5 ½ percent a year for the next 30 years. Why would I want – and I’m the number one guy. I think I want everybody in my team focused on winning there.

MR. RUBENSTEIN: So, one of the other areas you haven’t be in, I guess, is there is – your competitor has an A380, which has, I don’t know, 600 people on it or something.

MR. MCNERNEY: Big, yes.

MR. RUBENSTEIN: You haven’t built a competitor to that. The reason is?

MR. MCNERNEY: Well, I think we read the market differently. I think our competitor reads a little more of a hub and spoke world, where the A380 would go from hub to hub and other planes would complete the journey. We had a view that more frequency, avoiding hubs, point-to-point, St. Louis to Guangzhou as opposed to St. Louis to San Francisco, to Tokyo to Guangzhou. We had a view – and that was the creation of the Dreamliner. So it was a different read of the market.

MR. RUBENSTEIN: So you have a lot of test pilots, I presume. And what do they tell you about the best way to avoid jet lag? [Laughter.]

MR. MCNERNEY: I haven’t asked the test pilots, because they actually have a pretty good life. You know, they can – you know. It’s the crazy people like you and me. And the only thing I’ve learned is just ignore it. [Laughter.]

MR. RUBENSTEIN: OK. So you’ve run a lot of companies. What have you learned as a CEO, a president of a company? What do you do differently today to be a leader of people? And how do you lead 165,000 people?

MR. MCNERNEY: Look, I think someone asked me this question the other day. And I think when I was younger, running divisions at GE, you know, I thought intellect, decision making – it was clear to me, so everyone else would get it. Today, I realize that's about 20 percent of leading an organization, that it's more about what culture you have and how it's defined and how it's clarified that really guide people to what they do in the dark – and alignment, how people see their role in an enterprise.

I mean, we build these big things. And the missions are exciting. And the technology's exciting. But there's always a challenge when you have a program with 20,000 people working on it. You want every Jack and Cathy and Susan to feel really important. And so how that kind of alignment is communicated, and the comp programs that align people. And so it's more about alignment and culture. I'm much more that way now. And the old guy tends to end up there.

MR. RUBENSTEIN: When you say old, I'm actually – you are –

MR. MCNERNEY: [Laughs.] Eleven days.

MR. RUBENSTEIN: Eleven days –

MR. MCNERNEY: Younger than you.

MR. RUBENSTEIN: Younger than me.

MR. MCNERNEY: Yeah.

MR. RUBENSTEIN: And so – [laughter] – why at the, what I regard as the teenage years – [laughter] – did you decide to retire? You're a relatively young person. You could have gone on, like Warren Buffett, another 20 years. Why did you decide to retire, first?

MR. MCNERNEY: Two reasons. One, look, we have a very long-cycle business. Decisions that people make today will have long-tail risk for another 10 or 15 years. So I think it's very important that the person that's running the place have a long view of major decisions. The person who'll replace me, Dennis Muilenburg, just turned 51. All right, so I think he will make slightly different decisions knowing he'll be around to catch his punt, OK? So there's that philosophy.

The other is that I've been doing this for 16 years. And I think there's other things I'd like to do. Don't ask me exactly what those are, because I don't know. I'm trying to figure that out.

MR. RUBENSTEIN: Would one of them be going into government, if the President said I'd like you to be a Cabinet officer, or?

MR. MCNERNEY: I have served as the president of the Export Council and some other things. And I am very gratified with that experience.

MR. RUBENSTEIN: That's enough. [Laughter, applause.] OK, so you probably are not a candidate –

MR. MCNERNEY: I haven't – no one's called me. [Laughter.]

MR. RUBENSTEIN: OK. Well, I'm sure they might – given your number, I'm sure they will call. [Laughter.]

MR. MCNERNEY: [Laughs.] Yeah.

MR. RUBENSTEIN: So let me ask you, you grew up in Chicago. And you went to New Trier High School. And I guess Sharon Rockefeller went to New Trier, she's here. And so you were a great athlete, I guess, in high school, recruited to play sports in college?

MR. MCNERNEY: Well, I wouldn't say a great athlete. I was a good enough athlete to go then play in college. That's the way I describe it.

MR. RUBENSTEIN: And you played baseball on the same team as George W. Bush.

MR. MCNERNEY: Yes.

MR. RUBENSTEIN: Did you think he was a better baseball player or did you think he was more likely to be President of the United States?

MR. MCNERNEY: Well, it was a hard call to make back then, but he obviously had potential for both. But he obviously went further with politics than he did in baseball. I mean, if I could be pitching for the Yankees back then, I'd be pitching for the Yankees. No, it was fun. He was a fun guy to have on the team.

MR. RUBENSTEIN: And you still play ice hockey.

MR. MCNERNEY: Yeah.

MR. RUBENSTEIN: And is that a safe sport?

MR. MCNERNEY: Yeah, well, risk management is important. [Laughter.] And what I've learned is that I play in a couple old men leagues –

MR. RUBENSTEIN: Young men, young men.

MR. MCNERNEY: Yeah, young men – is to play with guys that played a lot when they were younger, so they don't have anything to prove anymore, that's the key, yeah. [Laughter.]



MR. RUBENSTEIN: So you have five children. And they're doing various things. But what advice do you give them about whether to go into business or go into nonprofit or government, or?

MR. MCNERNEY: Well, the advice I give them, particularly as they're starting out in their career, is to find someplace that has bright young people on the run, OK, where people are hustling, where there's high standards of bright people. I don't care where it is. A couple of them come to this town to get into the – they're staffers and they're working in the Administration. Others found businesses. But I think that first 10 years to find rat races with good people is the important thing. Then the standards are set for life. Then you go off and pursue your interests. That's sort of my view.

MR. RUBENSTEIN: So you've seen a lot of great business leaders in your career. Were there a couple that you would say, this is a person I really see as a role model as a business leader or as an investor or as a motivator of people?

MR. MCNERNEY: I think Welch is the best. I mean, you know, he's –

MR. RUBENSTEIN: Even though he didn't pick you to succeed him?

MR. MCNERNEY: He didn't pick me. I said he was the best, I didn't say he was perfect. [Laughter, applause.]

MR. RUBENSTEIN: OK.

MR. MCNERNEY: Jack will be turning, I believe, 80 this November. He was an extraordinary guy, he truly was. I mean, he was a people guy who would grab your heart and grab your mind, and yet he was tough and things got done. And you wanted to be – you wanted to be around him. And I've never seen anyone quite like that.

MR. RUBENSTEIN: So let me go back to the initial thing you talked about, which is the Export-Import Bank. Are you going to see Members while you're in town, or do you think it's not productive at this point?

MR. MCNERNEY: Well, no – no, no. I will see Members while I'm in town. I've been talking to them on the phone routinely for the last 24 hours. I think – look, the state of play is that the – that an overwhelmingly approved amendment – I think 67 to 26 roughly – onto the highway bill in the Senate, sent over to the House. I don't think the House is going to act on it, which was our hope. We thought we had the mechanisms in place for that to happen. And evidently, we don't right now. And so, if nothing happens over the next week, we're still going to push. We're going to – then we're going to be dealing with it in September and October.

During that period of time, I'm going to make very clear to anyone who wants to listen, whether it's Member or whether it's a friend like you, exactly what it means for

my company and other companies. I mean, if you had Jeff Immelt up here, he'd tell you exactly the same thing I'm telling you. And there are consequences to this decision that I think people just playing politics – they don't – they're not connected to the real world anymore. All the money's on the extremes in politics and all the debate is in many cases – in more cases than I'd like to admit -- is focused more on the money than it is on what's good for the country.

You know, when the Constitution was framed – and you're the only guy I know who's probably got a copy of it – [laughter] – all the States were together. And about 67 percent of the States agreed on the Constitution. Another third didn't. So a pragmatic decision was made, let's have a Constitution. That kind of thinking doesn't happen anymore. You know, the way our country was founded led to pragmatic decision making. The way it was stitched together by Madison and Alexander Hamilton tended to guard individual freedoms and perspectives, and yet bring them together to move the country forward. We don't have that anymore, and it's very, very frustrating.

MR. RUBENSTEIN: So, as you look back on your very distinguished career, what would you say has given you the greatest pleasure?

MR. MCNERNEY: The people. I think the people involved with whatever I've been doing. I tend to be a people person. And so my kicks in leading organizations is having the team around me trying to figure it out together. And so it's the dinners afterwards that are probably the most fun in my life.

MR. RUBENSTEIN: So on behalf of The Economic Club of Washington, I want to thank you. And on behalf of the Kennedy Center, I particularly want to thank you. [Laughter.] And I hope you have set a precedent for future speakers, as I mentioned. [Laughter.] But thank you very much for everything you've done. Thank you.

MR. MCNERNEY: David, thank you.

MR. RUBENSTEIN: Thank you. [Applause.] And now, on behalf of the members of The Economic Club of Washington, I want to give you his replica of the original map of the District of Columbia.

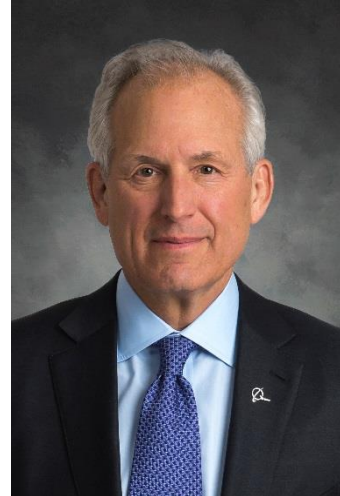
MR. MCNERNEY: Thank you very much. [Applause.]

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**W. JAMES MCNERNEY, JR.**

**Chairman**

**The Boeing Company**



W. James (Jim) McNerney, Jr., is chairman of the board of The Boeing Company. He joined Boeing as chairman, president, and CEO on July 1, 2005, and served as president until December 2013 and CEO until July 2015.

Before that, he was chairman of the board and CEO of 3M, then a \$20 billion global technology company. He joined 3M in 2000 after 19 years at the General Electric Company.

Mr. McNerney joined General Electric in 1982. There, he held top executive positions including president and CEO of GE Aircraft Engines and GE Lighting; president of GE Asia-Pacific; president and CEO of GE Electrical Distribution and Control; executive vice president of GE Capital; and president, GE Information Services. Prior to joining GE, McNerney worked at Procter & Gamble and McKinsey & Co., Inc.

By appointment of President Barack Obama, Mr. McNerney serves on the Kennedy Center Board of Trustees. He previously chaired the President's Export Council.

Mr. McNerney has served as a member of the Boeing board since 2001. He is a director of Procter & Gamble, a director of IBM, a member of The Field Museum Board of Trustees in Chicago, a trustee of Northwestern University, and a member of the Northwestern Memorial HealthCare Board.