



# THE 767 IS NOT QUITE READY TO FLY INTO THE SUNSET

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**While the near-term future of the current-generation Airbus A330 and Boeing 777 programs is tinted with concern over how much to cut production rates, the widebody program that those two aircraft were supposed to all but finish off is expanding.**

Bolstered by a huge order from FedEx and its selection as the new U.S. Air Force tanker platform, the Boeing 767 is in rare air: a 34-year-old widebody airliner program gearing up for a production-rate increase. The boost to 2.5 aircraft per month in late 2017 will follow closely in the contrails of the announced boost from 1.5 per month to two per month starting in the first quarter of 2016.

"During the third quarter we made the decision to increase the 767 production rate to 2.5 per month starting in 2017, driven by ongoing strong demand for the 767 freighter on top of the existing planned tanker production base," Boeing President and CEO Dennis Muilenburg said in October.

Tanker demand is the less surprising part of the equation. The Air Force has signed on for 179 KC-46As, and there are another 400-500 tankers in the world's fleet that could be replaced by the Boeing twin or its main competitor, the Airbus A330 Multi-Role Tanker Transport (MRTT).

The bigger surprise is the model's civil-sector resurgence. Through Nov. 10, Boeing's 48 767 orders -- all from FedEx -- placed it just five behind the 787 and eight behind the 777 in 2015.

FedEx, which knows a good deal on late-life aircraft when it sees one, has placed the last seven 767 orders, dating back to June 2012. While some may cite low fuel prices for the net 46-aircraft commitment announced in July that is the largest single order in the program's civil sales history, the fuel-price drop actually works against FedEx's rationale for buying the aircraft - but not enough to change its plans.

FedEx ordered its first 767s in December 2011, eyeing them primarily as MD-10 replacements. It projected a 30% gain in fuel efficiency and at least a 20% drop in unit operating costs. Oil was hovering around US\$100 per barrel at the time but has fallen by more than 50%, cutting into the projected cost savings.

"We've looked at" altering the delivery schedule, "and we're still very pleased," FedEx Express President and CEO David Bronczek said this year, before the July order. "The reliability is outstanding for these airplanes. And there is fuel savings as well. It's just not as much when the fuel price is US\$42 a barrel," he said.

While FedEx has dominated the 767 order book in recent years -- the company accounts for 100 of the last 105 commitments -- Boeing believes that lower fuel prices and the model's attractiveness may lure more buyers.

"There's certainly a pipeline of opportunities there, and we'll see how many of those we are able to capture," Boeing CFO Greg Smith says. "It's a very capable, proven, efficient product. It performs a very good mission, and I think the order from FedEx reinforces that."

As oil continues to hover around US\$50/barrel, the 767 also gains strength as an option for used-aircraft lift. United Airlines is among the long-time 767 operators that has opted to put a few dollars into some of its aging widebody twins to cost-effectively meet solid demand. Canadian low-cost carrier WestJet picked up four former Qantas 767s to launch its international widebody fleet. But that effort has not served as the poster child for turning to the used-aircraft market.

A host of challenges, notably delays at AAR's Lake Charles, Louisiana, widebody overhaul facility, which is reconfiguring the four 767s for aircraft supplier Boeing Capital, has WestJet scrambling to meet its December target for putting the first aircraft into service.

WestJet's challenges -- exacerbated by transferring aircraft between countries (and civil aviation agency standards) and an MRO facility struggling with its first full 767 refurbishments -- are the exception. United, which is upgrading 21 767s with new, two-class cabins and inflight entertainment, is closer to the rule.

"If you took a look at that fleet, you could [think] that we will be retiring those aircraft relatively

soon," said United Senior Vice President-Finance Gerry Laderman at a recent investor conference. "We said, 'No, we can actually refresh the interior. We can put in new business-first beds, we can enhance the economy product and spend a lot in those aircraft.' So we're doing that, and we expect to fly those aircraft for a good number of years."

Despite the recent positive signs, Aviation Week forecasters prefer a conservative outlook for the 767's fleet and MRO projections. New deliveries are projected to total 75 through 2025 (with all of them taking place by 2024), while retirements will total 398 during the same period, or about 40 per year.

Aftermarket demand is pegged at US\$3.5 billion in 2016, falling steadily throughout the decade to US\$2.1 billion in 2025. One aspect to watch: the used parts market. As 767s are kept in service or brought back from storage, used parts demand for the models will see a bump. Any prolonged rebound should eventually boost new-parts suppliers, however, as demand for parts exceeds the used-market supply.

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