



THE BOEING COMPANY: ENVIRONMENTAL MITIGATION COSTS

For more than a decade, WRI's Sustainable Enterprise Program (SEP) has harnessed the power of business to create profitable solutions to environment and development challenges. BELL, a project of SEP, is focused on working with managers and academics to make companies more competitive by approaching social and environmental challenges as unmet market needs that provide business growth opportunities through entrepreneurship, innovation, and organizational change.

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Boeing Company executives felt blindsided. After carefully analyzing where it should produce its new 777 jetliner, the company had decided to expand its existing aircraft production works at Everett, Washington. The decision brought immense relief to thousands of Boeing's production workers in the Puget Sound region, and it represented an investment of hundreds of millions of dollars in the local economy. Despite all the economic benefits to the city and region, the City of Everett responded by assessing Boeing well over \$50 million to mitigate the environmental and social impacts of the expansion. Now Boeing faced the additional puzzle of how to manage and account for the mitigation expenditures. Accounting standards offered little guidance because mitigation of this scope and magnitude had little precedent. Should the various outlays be accounted as assets or expenses? How should they be described in financial reports? What were the tax implications? Boeing's financial, tax, and cost accounting groups were in a quandary and could not reach a consensus.

The Boeing Company and the 777

In 1992, Boeing was one of the world's largest aerospace firms with two main industry segments: Commercial Aircraft and Defense and Space. The Commercial Aircraft group developed, produced, and marketed jets principally for commercial airlines. The Defense and Space group conducted most of its work -- research, development, production, and support of military aircraft, space systems, and missile systems -- for the U.S. Government.