

# Defense Implications of Challenges at Boeing

November 4, 2024

The Boeing Company (Boeing), a supplier of equipment and services to the U.S. Department of Defense (DOD), has since 2018 faced challenges including labor actions, production delays, quality control problems, and financial losses on government contracts. Given Boeing's importance to the defense industrial base, Congress may assess whether or not these developments have implications for U.S. national security.

Boeing is the United States' largest manufacturer of commercial airliners. Boeing's financial difficulties, therefore, affect both its defense and commercial aircraft businesses. In 2018 and 2019, Boeing's 737 Max airliner experienced fatal crashes. Since that time, Boeing has faced safety, legal, and financial problems. On September 13, 2024, Boeing machinists went on strike for eight weeks, which reportedly cost the company **\$1 billion** a month. On November 4, the union accepted a **contract offer** for a 38% pay increase. To shore up its finances, Boeing, on October 15, filed papers with the Securities and Exchange Commission saying that Boeing plans to raise up to **\$25 billion** through a stock and debt offering. Boeing **reportedly** plans to lay off 10% of its workforce, or about 17,000 employees. Some analysts have speculated that Boeing could declare bankruptcy or seek to sell elements of its **space** or defense business.

## Boeing's Role in DOD Programs

Boeing Defense, Space, and Security **business** is the fourth-largest **DOD contractor**, with \$20.1 billion or 3.3% of \$609.2 billion in total FY2023 U.S. defense contracts. Boeing manufactures several aircraft important to U.S. military capabilities, including the F-15EX fighter jets, AH-64 Apache attack helicopters, and CH-47 Chinook heavy-lift helicopters. Several Boeing defense aircraft including the KC-46 aerial refueling tanker, the VC-25B presidential transport aircraft, and the P-8 Poseidon maritime patrol aircraft, are military versions of commercial airliners. In addition, Boeing is in the process of acquiring Spirit AeroSystems, which plays a major role in the B-21 Raider bomber program. Boeing is a partner with Lockheed Martin in the United Launch Alliance (ULA), one of three suppliers with SpaceX and Blue Origin, competing to launch U.S. national security satellites to the most challenging orbits. Boeing also builds military and intelligence satellites. Boeing exports billions of dollars of **defense equipment** annually.

Boeing Defense, Space, and Security holds a set of **fixed-price contracts** with DOD. In a fixed-price contract, the federal government sets a price for a good or service and the vendor's profit varies depending on *performance costs*. The Federal Acquisition Regulation states that fixed-price contracts

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“provide maximum incentive for the contractor/vendor to control costs and perform effectively and imposes a minimum administrative burden upon the contracting parties.” Boeing won a fixed-price contract for the KC-46 tanker in 2011. Since 2018, Boeing has won fixed-price contracts for the VC-25B presidential aircraft, the T-7A trainer, and the MQ-25 carrier-based uncrewed aircraft. In the third quarter of 2024, Boeing Defense reported [\\$2 billion](#) in losses for these and other fixed-price defense and space contracts.

## Some Implications for Defense

Boeing’s Chief Financial Officer in September said that the company’s machinists’ [strike](#) would affect the KC-46 tanker, a military version of Boeing’s commercial 767 freighter. Boeing has said it plans to end production of [767](#) commercial freighters in 2027. After that date, the company has said it plans to continue production of the military variant only, the 767-2C.

Some analysts have speculated that Boeing could declare [bankruptcy](#), which could negatively affect the company’s performance on existing DOD contracts. Some analysts also have speculated that Boeing could shed selected assets, such as its space business. Boeing and Lockheed Martin have reportedly discussed selling [ULA](#). ULA is in the process of certifying a new rocket for launches to geostationary orbit. That rocket is competing to be an alternative to SpaceX rockets. A ULA sale would not necessarily end that project.

## Potential Options for Congress

Congress could opt not to intervene, to oversee Boeing’s defense programs, or to consider a variety of relief mechanisms. Congress could monitor the actions that Boeing takes to shore-up its finances, which could include the sale of Boeing defense elements or the closure of any commercial product lines that could impact defense programs.

According to [10 U.S.C. 2273](#), the United States should have at least two space launch vehicles capable of delivering national security space assets to space. Members could monitor any potential sale of ULA and assess any potential impact on the nation’s ability to launch satellites.

[Subpart 49.2](#) of the Federal Acquisition Regulation (FAR) outlines agency requirements in the event of a contractor bankruptcy. The FAR requires that contracting officers “take prompt action to determine the potential impact of a contractor bankruptcy on the Government in order to protect the interests of the government,” which include financial interests and government property.

Congress has authorized the President to provide defense companies loan guarantees and other extraordinary financial relief on certain defense procurement programs. Title [50 U.S.C. § 2091](#) allows the President to provide financial relief to prevent a contractor’s insolvency or bankruptcy upon [certifying](#) that “the insolvency or bankruptcy would have a direct and substantially adverse effect upon defense production.” Congress could consider reviewing any such assistance to Boeing or taking other action. For instance, in 1971, [Lockheed](#) (before its merger with Martin Marietta) accumulated \$1.8 billion in charges on a \$1.9 billion fixed-price contract award to develop the C-5 cargo aircraft. Congress passed P.L. 92-70, the Emergency Loan Guarantee Act, allowing Lockheed to receive \$250 million in loan guarantees from Congress.

Congress in 1958 passed P.L. 85-804 to authorize certain federal agencies to provide extraordinary relief to contractors that encounter difficulties in the performance of federal contracts related to national defense. This provision, as codified and [amended](#) at [50 U.S.C. 1431-1435](#), also allows for the President to authorize any department or agency of the government which exercises functions in connection with national defense to enter into contracts or modify certain defense contracts “whenever he deems that such

action would facilitate the national defense.” The code includes a temporary authority for the Secretary of Defense to modify contracts based on inflationary impacts. If Boeing encounters difficulty fulfilling any of its contracts, Congress could encourage DOD to seek extraordinary relief using 50 U.S.C. 1431-1435.

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