

# House Foreign Affairs Full Committee Hearing - Modernizing U.S. Arms Exports and a Stronger AUKUS

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Video recording of full committee hearing is available here:

<https://foreignaffairs.house.gov/hearing/modernizing-u-s-arms-exports-and-a-stronger-a-ukus/>

The following documents are included below:

- Testimony (as prepared) by The Honorable Jessica Lewis, Assistant Secretary, Bureau of Political-Military Affairs, US Department of State
- Testimony (as prepared) by The Honorable Mara Karlin, Assistant Secretary of Defense for Strategies, Plans, and Capabilities, US Department of Defense
- Opening remarks (as delivered) by Representative Michael McCaul, House Foreign Affairs Committee Chairman

**May 24 House Committee on Foreign Affairs Hearing:  
Modernizing U.S. Arms Exports and a Stronger AUKUS  
A/S Jessica Lewis**

Chairman McCaul, Ranking Member Meeks, Honorable Members of the Committee,

Thank you for the opportunity to speak with you all today. I'm excited to talk to you about the role of the State Department in realizing AUKUS, one of the Biden-Harris Administration's key national security and foreign policy initiatives. Today, I will discuss the steps we are taking to promote information and technology sharing and foster deeper integration of security and defense-related science, technology, industrial bases and supply chains.

**AUKUS Overview**

AUKUS, as you all know, involves two pillars: Pillar I – providing Australia with conventionally armed, nuclear-powered submarine capability at the earliest possible date, and Pillar II – trilaterally developing and providing joint advanced military capabilities. Announced in September 2021, this historic partnership will modernize and strengthen our longstanding alliances to advance security, stability, and prosperity in the Indo-Pacific and beyond. On March 13, President Biden, along with Prime Ministers Albanese and Sunak, announced our plans for implementing Pillar I, a phased approach that we expect will deliver the first sovereign Australian conventionally armed, nuclear-powered submarine capability in less than a decade. Pillar II already offers opportunities to cooperate with our closest allies on advancing key technologies of the future and fostering deeper integration of security and defense-related science, technology, industrial bases, and supply chains in these areas.

AUKUS Pillar II promises, at its heart, an exciting opportunity for collaboration in emerging technologies and advanced military capabilities that are key for bolstering security and stability in the future. Ranging from artificial intelligence to hypersonics to quantum technology to cyber, trilateral cooperation in these technology areas will enhance our joint capabilities, improve interoperability, and uphold regional peace and stability. Put another way, this is a generational opportunity for deeper collaboration with two of our closest allies.

Connecting advanced defense research and development communities within three technologically advanced nations – the UK, Australia, and the United States – poses real opportunities for global security. We are proposing bold interim measures and simultaneously seeking legislative change to achieve the goal of a dramatic increase in technology sharing between the AUKUS partners. Our top priority is to create new and open ways to share information and technology between the United States, Australia, and the United Kingdom.

Just as we seek to pool technical expertise and complementary industrial capacity with AUKUS partners, we are also enhancing our collective capacity to withstand attempts to degrade our shared technology advantages. Make no mistake – the success of AUKUS is not predetermined – it must be built. For AUKUS to succeed, we need to both innovate boldly and protect our technology from those who wish to take advantage of any vulnerability in our systems.

### **Our Roadmap for Realizing AUKUS**

As Australian Deputy Prime Minister Richard Marles said last week, “this is a big task – the barriers in both systems are vast and complex. There is no silver bullet.” To implement AUKUS, we are innovating within our existing regulatory system, while simultaneously pursuing broader changes through legislation and international agreements. This roadmap consists of three pieces:

- 1) the State AUKUS Trade Authorization Mechanism;
- 2) legislative changes; and,
- 3) international consultations.

First, the Department of State will implement a novel use of existing authorities. This, the State Department’s AUKUS Trade Authorization Mechanism, will provide an interim solution, expediting and optimizing technology sharing and defense trade among the AUKUS partners. We have begun our engagement with the Committee on this interim mechanism and will continue to consult closely with Congress as we finalize our approach.

Second, and simultaneously, the Administration plans to consult closely with Congress and propose legislative changes to meet the ambitions of AUKUS. To that end, we will seek legislative change that would clear a path to new exemptions to licensing requirements for much of our defense trade with the UK and Australia. Under this legislative proposal, AUKUS partners will have many transfers pre-approved and not subject to case-by-case reviews. This approach is critical to ensuring the AUKUS partnership continues to innovate and progress to meet the challenges of the global security environment.

Third, in conjunction with proposed legislative changes, the Administration will also be seeking commitments from our AUKUS partners on shared standards for the protection of defense information and materials consistent with the steps the United States takes to protect such information and materials. By increasing confidence in our trilateral security frameworks, we seek to facilitate unprecedented integration and responsible streamlining of our export control laws, regulations, processes, and policies.

### **The State Department's AUKUS Trade Authorization Concept**

AUKUS is too important to wait – we need to act now, and we are. I'd like to take this opportunity to elaborate on the first piece of this vision – the State AUKUS Trade Authorization Mechanism, which we will begin to implement even as we work with Congress on broader legislative efforts and take international action. To start, we are innovating within our system so that we maintain security while expediting transfers to facilitate the goals of AUKUS. But different rules are necessary to govern different types of trade, so we are in the process of creating efficiencies within our processes to support AUKUS.

We conduct defense trade through two major processes: Foreign Military Sales, or FMS, which are based on agreements between governments, and Direct Commercial Sales, or DCS, which occur between American commercial companies and foreign buyers. These have separate rules and processes.

FMS is authorized under the Arms Export Control Act of 1976, and FMS transactions are not subject to the ITAR. The vast majority of U.S.-Australia defense trade occurs via FMS. To help ensure the most effective implementation of AUKUS, the State Department is moving ahead with a new AUKUS

Authorization concept, where most items that would typically be transferred under FMS authorities could be transferred under DCS authorities. This will help streamline defense trade.

Under the AUKUS authorization proposal, the governments of the United States, the United Kingdom, and Australia will work together to create seamless, secure, and speedy defense trade between and among AUKUS partners while also safeguarding our national security. We will define the AUKUS authorization by three overlapping criteria, which are:

- A list of the project areas that fall within the scope of AUKUS;
- A list of the technologies that are ineligible to receive this preferred treatment; and,
- A list of the approved communities or entities within each country to receive or access these technologies.

Every transfer between AUKUS partners will not be subject to case-by-case review, but will be pre-approved—if the transfer is eligible under these three criteria lists we are developing. Many exemptions to the ITAR – including the one implemented for Canada – define which items and technologies can be transferred under the exemption, and to whom and for what uses.

Exporters can check transfers against these three basic and transparent lists to ensure the transfer could proceed within the AUKUS authorization, without any further need for authorization or a license. However, they must keep records of what they transfer so that we can conduct appropriate compliance checks and follow up on any reports of third-party exploitation, and otherwise abide by the standard requirements for operating under any ITAR exemption.

This step, using existing authorities granted by Congress, will enable the trilateral partners to work together to chart the path forward even as we pursue broader legislative change to advance AUKUS.

### **Continuing to Realize AUKUS Through Legislative Action**

Let me be clear – while State is clearing a path to new exemptions, we are simultaneously moving forward with broader legislative and international action

to develop a collective approach that streamlines defense trade with Australia and the UK while also protecting our technology, including further streamlining of our export control laws, regulations, processes, and policies. We all have a stake in the success of AUKUS, and we look forward to seeing this through – together. Australia and the United Kingdom are two of our closest allies, and we are proud to stand shoulder-to-shoulder as we strengthen our longstanding alliances and implement this historic partnership. And I look forward to working with this Committee on legislative changes that will promote agile and secure defense trade and cooperation between, and among, the AUKUS partners.

### **Export Controls in the Era of Strategic Competition**

As we follow through on the vision President Biden set out – a dramatic opening in sharing technology with Australia and the United Kingdom that will facilitate the defense trade relationships necessary to implement the National Security Strategy – it will also be crucial to maintain strong protections to ensure that the technological momentum our three nations achieve remains secure. Even as the Administration makes the changes outlined above, we will also therefore work with our AUKUS partners on shared standards for secure defense trade. There is no daylight separating us on this issue – all AUKUS partners have agreed that a part of this strategy is ensuring we secure the gains that AUKUS makes so we and our allies may reap the maximum benefits within it. Of course, U.S. export controls protect U.S. defense technological advantages, but in this case, as we create an AUKUS authorization, our export control standards will serve as a shield for our trilateral defense technological advantage—which is the whole point of Pillar II. We must protect our gains from adversaries who wish to steal our technology and use this information to degrade our military power. Developing consistent standards across our three nations is central to this strategy. The United States maintains defense export controls, under the Arms Export Control Act, or AECA, and International Traffic and Arms Regulations, or ITAR, to secure technologies that provide a critical military or intelligence advantage—in this case, within the AUKUS authorization.

These export controls have only grown more important during this era of strategic competition. I think it's clear to all of us that new technologies will define this century, with emerging technologies such as AI being just as revolutionary in the 21st century as the semiconductor was in the 20th. We are in an intense global

contest to develop the technologies of the future, and whoever comes out ahead will be best positioned to strengthen their national security, their economy, and their vision of the world. We need to continue to do everything we can to ensure the United States, our allies and partners, and the free and open rules-based international system come out on top. At the same time, we must ensure that this system is protecting critical technologies, but is also sufficiently agile and flexible that it does not inhibit, and indeed enables, technological cooperation and capability development with our closest allies. By facilitating secure defense trade, we will enable scientific collaboration in a safe environment and ensure that we are at the forefront of these innovations.

Let's not lose sight of what is at stake here. For years, we have seen widespread evidence that our strategic competitors, including the People's Republic of China (PRC), Russia, the Democratic People's Republic of Korea (DPRK), and Iran, are seeking to obtain and exploit our advanced military – and civilian – technologies. We have seen PRC companies take over elements of critical global supply chains, buy out key technology companies in allied nations, force technology transfers, and engage in extensive intellectual property theft. We have also seen increasing cyber espionage from actors linked with the DPRK and Iran. We have seen global efforts by Russia to subvert sanctions through the exploitation of weak or vulnerable links in global export controls. Recent media coverage of training provided to PRC pilots only underscores the need to carefully regulate military know-how. The theft of this technology increases the likelihood that our adversaries will develop effective countermeasures to our systems, as well as advance their own ability to field this technology against the U.S. and our allies. Even here at home, the Departments of State and Justice have fined and brought criminal charges against American citizens and companies for sharing controlled technologies – knowingly or unwittingly – with firms linked to the PLA. In this era of strategic competition, we need to do all we can to run faster, and a calibrated approach to export controls is vital to ensure we stay ahead.

As we integrate elements of our defense industrial bases under AUKUS, our top priority remains enabling broader information and technology sharing that is protected from adversaries. We have not only a generational opportunity, but also a historic responsibility to protect these technologies. The Department of State has developed novel ways to protect technology as well as share it—as we move toward systemic changes.

## **AUKUS Defense Trade Challenges—and Opportunities**

In addition to our work on AUKUS, U.S. government stakeholders, including the Departments of State, Defense, and the National Security Council are all identifying efficiencies in FMS to optimize defense trade. The State Department has identified 10 areas for improvement to the FMS process, which will deliver efficiencies both in the context of AUKUS, and in the context of our global work to build the capability and interoperability of our defense partners and allies. State would be happy to brief you further on our recommendations.

State continues to make changes to the ITAR and the implementation of our export controls in order to facilitate a more modern and agile export control system – whether it be enacting the new Open General License concept or making changes to the regulations to clarify the controls and make them more user-friendly.

Our alliances and partnerships have played a key role in contributing to peace and prosperity in the Indo-Pacific for the past 70 years, and they will continue to do so in the years ahead. AUKUS represents a historic modernization of these longstanding relationships, allowing our three countries to collaborate in unprecedented ways. While this partnership will involve seamless and secure defense trade, our cooperation will go deeper than that to include integrating elements of our defense industrial bases as we research the technologies of the future and build cutting-edge military tools to keep our people safe. This co-production and co-development represents our unyielding commitment to these relationships, and will require concerted work from us and our allies to ensure that our systems enable it to move quickly, while also sustaining security guardrails and protections to safeguard these critical systems and the benefits yielded by this agreement.

In closing, I'd like to reiterate that for AUKUS to succeed, we need to facilitate the flow of defense technologies and know-how between our three nations, while safeguarding against hostile actors who would damage this collaboration, our competitiveness, and our national security. And we are confident that we will succeed. As President Biden said just over 18 months ago, "The United States,



Australia, and the United Kingdom have long been faithful and capable partners, and we're even closer today."

AUKUS will provide an opportunity for our greatest minds to collaborate in a secure environment, through a clear and transparent process that provides both near-term payoffs and long-term security. Our approach will help us act swiftly and decisively – by expediting defense trade in the short-term under existing authorities while simultaneously seeking farther reaching reforms in legislation to streamline our processes. We look forward to working with Congress to achieve this.

Thank you, and I look forward to your questions.

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STATEMENT BY  
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BEFORE THE 118<sup>th</sup> CONGRESS  
HOUSE FOREIGN AFFAIRS COMMITTEE  
MAY 10, 2023

Chairman McCaul, Ranking Member Meeks, and distinguished Members of the Committee – thank you for the opportunity to speak with you today on the AUKUS partnership. The United States, Australia, and the United Kingdom took a monumental step forward in March when we announced the optimal pathway for Australia to acquire a conventionally-armed, nuclear-powered submarine capability that will set the highest nonproliferation standard. The impact of our three nations seizing this opportunity is already being felt, and it will enhance our security in the years to come. Submarine technology is only one part of the AUKUS trilateral partnership, and, in line with the President’s vision, we are actively pursuing cooperation under AUKUS on a range of advanced capabilities, sending a strong message to the world in favor of a free and open Indo-Pacific region.

Today, I hope to reinforce three main topics as they relate to AUKUS: (1) how AUKUS fits into the 2022 National Defense Strategy; (2) how we are seizing the generational opportunity AUKUS presents; *and* (3) why we need to expand defense cooperation with our closest allies and partners.

**AUKUS and the National Defense Strategy of the United States**

In framing the security environment, the 2022 National Defense Strategy (NDS) describes the People’s Republic of China (PRC) as our most consequential strategic competitor for the coming decades and underscores how new and fast-evolving technologies are complicating escalation dynamics.

The NDS describes integrated deterrence as a holistic response to the strategies that our competitors are pursuing and directs the use of campaigning – the conduct and sequencing of logically-linked activities to achieve strategy-aligned objectives over time – to gain military advantage. It calls on the Department to build enduring advantages across the Defense ecosystem to shore up our foundations for integrated deterrence and campaigning – and describes allies and partners as a center of gravity for the strategy.

What is needed now, more than ever before, is an approach that enhances our AUKUS partners’ conventional military capabilities, opens support to a more integrated defense industrial base, increases information sharing, and implements cooperative policies that reflect the concepts laid out in the National Security Strategy. What cannot be overstated enough is this: we cannot do this alone, and our AUKUS partners stand shoulder to shoulder with the United States – as they have for many decades.

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AUKUS is a mutually beneficial partnership that has been designed to address and implement the goals laid out in the 2022 National Security Strategy, the 2022 National Defense Strategy, and the related strategies of our British and Australian partners.

### **Generational Opportunity**

As President Biden and Secretary Austin have said, AUKUS is a generational opportunity, and I want to thank this Committee for its broad bipartisan support. Your work and support is vital to make AUKUS a success. Conventionally armed, nuclear-powered submarines are just one key part of the opportunity that AUKUS is enabling.

Together with our AUKUS partners, we have identified several advanced capability opportunities in areas that range from artificial intelligence and quantum to hypersonics. Over time, the work we do will advance our own capabilities, as well as our partners, and will enable us to address the challenges that we will collectively face. We have reached a point in the global security environment and technology landscape where there is not only a benefit, but also an imperative to expand our defense technology sharing practices. The national security costs of failing to expand defense collaboration with our closest allies and partners is too high. AUKUS is the beginning of a path that will lead to a more integrated and open defense ecosystem that balances the threats of strategic competition by harnessing the strengths of our collective capabilities.

We must embrace defense cooperation across myriad of advanced technologies as a tool to enhance integrated deterrence and to implement strategic and systemic changes to that end. Secretary Austin stated we will “use existing capabilities...build new ones...and use all of these in networked ways – hand in hand with our allies and partners.” AUKUS is one example of this promise in action.

### **Expanding Defense Cooperation with Allies and Partners**

Before the Senate Foreign Relations Committee (SFRC) last March, I stated that the U.S. network of alliances and partnerships is a strategic advantage that competitors cannot match – and that maintaining these requires an active, whole of government approach. We have supported our Ukrainian partners against Russia’s illegal and unprovoked invasion of Ukraine without putting a single U.S. servicemember on the front lines of that conflict. Responsible states of the world united in our response, which was only possible through strategic and novel uses of defense cooperation. There remains a strategic imperative that we not remain static in our technology collaboration. As our response to Russia’s invasion has proven, we must maintain the ability to cut off bad actors from dangerous capabilities – but we must also maintain the tools and vision to share and collaborate with our allies and partners. Preparation for future conflicts – or deterring them from occurring in the first place – will rely on our ability to expand and enhance military partnerships before any shots are fired.

In addition to the security benefits the partnership provides, AUKUS also requires us to rethink how we work with our allies and partners, just as the National Security Strategy and

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National Defense Strategy demand. American business is one of the strongest and most resilient assets in the national toolkit. We need to widen the aperture, foster collaborative defense innovation, advance military interoperability with our closest allies and partners, and leverage our collective strengths as a force multiplier. Our discussions with AUKUS partners have provided a lens into not only what military capabilities our closest allies need, but also what barriers exist that hamper the pursuit of our integrated security strategy – and how we need to adapt our approach to meet our national security objectives. We are closely aligned with the State Department on this, and working together collaboratively to pursue novel, rapid, and open ways of enhancing defense cooperation through AUKUS.

The Secretary of Defense has tasked the Department to pursue a series of “sprint teams” to ensure seamless and secure information sharing and capability cooperation with AUKUS partners. As we identify opportunities to streamline our processes, we commit to sharing the results with Congress.

Even as the Administration makes changes through current authorities, we will also work with our AUKUS partners on trilateral standards for secure defense trade. By increasing confidence in our security frameworks, we will facilitate unprecedented integration and responsible streamlining of our export control and information sharing laws, regulations, processes, and policies.

In tandem, the Administration plans to consult closely with Congress and propose legislative changes to meet the ambitions of AUKUS Leaders. To that end, we will seek legislative changes that would allow increased exemptions to licensing requirements for AUKUS partners and expanded to permit transfers of both unclassified and classified defense articles and services. This bold approach is critical to ensuring the AUKUS partnership continues to innovate and progress to meet the challenges of the global security environment.

### **Conclusion**

Mr. Chairman, today I discussed the value of AUKUS as a generational opportunity, how this trilateral military partnership connects to the 2022 National Defense Strategy, and why we need to expand U.S. defense cooperation with our close allies and partners – particularly as it relates to AUKUS. The success of integrated deterrence will take a whole-of- government approach if we are to respond to and overcome the challenges of today and tomorrow with the power of American resolve with our allies and partners by our side. I appreciate the Committee’s leadership on this issue and for the opportunity to speak with you today. I look forward to answering any questions you may have.

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## McCaul Delivers Opening Remarks at Full Committee Hearing on Modernizing U.S. Arms Exports, Strengthening AUKUS

Press Release 05.25.23

Media Contact 202-226-8467

**Washington, D.C.** – Yesterday, House Foreign Affairs Committee Chairman Michael McCaul gave the following remarks at a full committee hearing with officials from the State and Defense Departments on challenges our allies and U.S. industry face with our arms exports processes and how those challenges can be bridged to ensure the trilateral security partnership between Australia, the United Kingdom, and the United States is successful.



[WATCH HERE.](#)

**-Remarks as delivered-**

From its increasingly aggressive posture in the waters surrounding Taiwan, to Chairman Xi's stated goal to unify with Taiwan, the malign actions of the Chinese Communist Party pose a clear and present danger.

I have seen China's tactics firsthand. I recently led a Congressional Delegation to Asia, where I met with our Indo-Pacific Command, 7<sup>th</sup> Fleet, and leaders in Japan, South Korea, and Taiwan, including President Tsai.

After I met with President Tsai, the CCP sanctioned me— a badge of honor, as far as I am concerned.

In response to my delegation's visit and Speaker McCarthy's meeting with President Tsai, the CCP launched more than 70 aircraft into Taiwanese airspace and deployed 11 warships, including an aircraft carrier, to encircle the island nation.

The CCP is testing their capabilities and Taiwan's vulnerabilities in preparation for a potential invasion.

This will not intimidate us.

In fact, it only strengthens our resolve to foster a more innovative defense industrial base that can develop and supply weapons for deterrence, and if necessary, [for] defense.

After seeing Taiwan's defense capabilities firsthand, I can say that they are not where they need to be.

Weapon sales I [and the ranking member] signed off on four years ago... have yet to make it to Taiwan. [President Tsai asked me, "where are my weapons? I paid for them."]

The war in Ukraine has shown us that weapons are needed before – not after a conflict erupts.

Now, more than ever, we need to work with our allies to counter this growing threat.

The AUKUS partnership between Australia, the United Kingdom, and the United States is just that – it will establish critical deterrence measures.

However, for this trilateral partnership to succeed, we must reform prohibitive policies and complicated arms exports rules as soon as possible through bipartisan legislation.

It is this committee's responsibility to examine the policy and effectiveness of United States government foreign military sales and the International Traffic in Arms Regulations, known as ITAR, a regulatory measure which controls the export of defense and military technologies from U.S. defense companies.

Last month, I held a classified roundtable with our AUKUS partners first, and then from U.S. industry representatives, to discuss the challenges we face in the region due to growing CCP aggression and how best to address them.

We heard from them that much more needs to be done.

Specifically, ITAR and our antiquated arms sales processes need legislative fixes for AUKUS to be successful.

One of our AUKUS partners dedicates one percent of their annual defense budget to simply navigate U.S. export controls.

In another case, it took a year and a half of paperwork to support the upgrade of a weapon system that we previously sold to them.

Our approach to defense and military technology exports is in dire need of reform.

This administration has failed to deliver, so Congress took bipartisan action in the last NDAA:

- My Taiwan Enhanced Resilience Act ensures there can be creative solutions such as foreign military financing grants, training for Taiwan forces, and war reserve stockpiles to bolster Taiwan's defense.
- Chairwoman Young Kim's Arms Exports Delivery Solutions Act mandates the administration to report on why our weapons to Taiwan are delayed and to provide interim capabilities in the face of these delays.

I also included a provision to better bring American innovation into Pentagon procurements, to address delayed weapons development and address high-tech challenges like quantum computing, hypersonics, and artificial intelligence.

Rebuilding our arsenal of democracy will require new thinking and innovative, dynamic companies.

To that end, the House recently passed legislation I introduced with the ranking member to strengthen the AUKUS partnership through cooperation on advanced capabilities.

This legislation focuses on ensuring the State Department is authorizing technology transfers quickly to fully support implementation of this partnership.

I will continue to lead efforts to help ensure the successful implementation of AUKUS throughout this Congress through additional bipartisan legislation.

The longer outdated and costly regulations stand in the way of successful implementation, the more it plays into the CCP's hands and erodes our closest allies' security.

We are in a great [global power] competition, and for far too long at both the Department of Defense and the State Department, it's been business as usual.

The years-long delays are unacceptable. We need results, not interagency finger pointing.

We can no longer accept the status quo of an ineffective and outdated system.

The United States does not seek conflict – but only through strength can we provide the deterrence necessary to secure [the] peace in the region, and around the globe.

History has shown that projecting weakness invites aggression and emboldens dictators and despots.

I believe in Ronald Reagan’s policy of peace through strength. That was the doctrine that defeated the Soviet Union, and one we must continue to employ to project American strength across the globe.

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