

**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.