



Potomac Institute for Policy Studies

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Challenges and Opportunities: Implementation of Pillar 2 of the Australia – United Kingdom – United States (AUKUS) Partnership

A Roundtable Summary

Dr. Tim Welter and Dr. Jason Blessing



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About the Potomac Institute for Policy Studies

The Potomac Institute for Policy Studies is an independent, non-partisan, 501(c)(3), non-profit science and technology policy research institute. The Institute identifies and leads discussion on key science and technology issues facing our society. From these discussions and forums, we develop meaningful policy recommendations and ensure their implementation at the intersection of business and government.

About the Global Competition Project

The Potomac Institute for Policy Studies regularly engages with a spectrum of experts to elevate insights on the primary challenges and opportunities associated with technology policy and national security. The Institute's Global Competition Project (GCP), focused on societal level competition, develops foundational references for national security professionals, policymakers, industry leaders, and others while driving awareness in how the U.S. might address the most consequential aspects of the globally competitive environment. The Project has delivered on that goal through its research, publications, panels, and continuous dialogue, all through the lens of the Institute's mission intersecting science and technology, business, and government.

About the Authors

Dr. Tim Welter is a Senior Fellow at the Potomac Institute for Policy Studies and lead scholar for the Global Competition Project. His research expertise is focused on national security policy development and implementation and economic statecraft.

Dr. Jason Blessing is a Research Analyst at the Potomac Institute for Policy Studies and scholar with the Global Competition Project. His research expertise is focused on cybersecurity and strategic partnerships.

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INTRODUCTION

The Australia – United Kingdom – United States (AUKUS) security partnership, announced on September 15, 2021, was a watershed moment for competition with China in the Indo-Pacific region. Intended to “promote a free and open Indo-Pacific that is secure and stable,”¹ the trilateral initiative consists of two lines of effort. Pillar 1 of the agreement, which hinges on the US and UK sharing nuclear propulsion technology and the delivery of nuclear-powered submarines to Australia, has received the lion’s share of attention.² Pillar 2, focused on the joint development of advanced technological capabilities, arguably has far greater potential for economic and security impact and cooperation among the AUKUS partners.

On May 9, 2024, the Potomac Institute for Policy Studies in collaboration with 401 Tech Bridge hosted a closed-door roundtable on the partnership. The purpose of this roundtable was to identify the key challenges and opportunities associated with the co-development of advanced capabilities under Pillar 2 of AUKUS. The event convened experts from government, industry, and academia across the three countries to discuss implementation and lay a foundation for action.

BACKGROUND ON AUKUS PILLAR 2

Pillar 2 is both more ambitious and nebulous in scope than Pillar 1. For Pillar 1, the three governments have established a clear timeline with milestones for implementation to provide nuclear-powered attack submarines to Australia.³ No such vision exists for Pillar 2, due in part to its broad nature. Pillar 2 efforts have coalesced around eight working groups: undersea capabilities; quantum technologies; artificial intelligence and autonomy; advanced cyber; hypersonic and counter-hypersonic capabilities; electronic warfare; innovation; and information sharing. As a result, the implementation of Pillar 2 remains somewhat poorly defined.⁴

The 2024 US National Defense Authorization Act codified US commitments to AUKUS into law and charted a path forward for Pillar 2 by establishing governance arrangements, acknowledging issues with information sharing and export controls, and taking steps to integrate US defense industrial bases with Australia and the UK.⁵ These steps are crucial for realizing the potential of and aligning AUKUS efforts to the broader US strategic vision of Integrated Deterrence derived from the 2022 National Defense Strategy’s approach to international collaboration.⁶ Yet, the AUKUS partnership and its derivatives are still in their infancy and these measures only represent a starting point.

¹ The White House. (2023, March 13). *Joint Leaders Statement on AUKUS*. Whitehouse.Gov.

<https://www.whitehouse.gov/briefing-room/statements-releases/2023/03/13/joint-leaders-statement-on-aukus-2/>.

² Eckstein, M. (2024, May 9). *What has the AUKUS alliance accomplished in the last year?* Defense News.

<https://www.defensenews.com/naval/2024/05/09/what-has-the-aukus-alliance-accomplished-in-the-last-year/>.

³ Australian Submarine Agency. (2024, January 30). *Optimal Pathway*. <https://www.asa.gov.au/aukus/optimal-pathway>.

⁴ Parrish, P., & Nicastro, L. A. (2023). *AUKUS Pillar 2: Background and Issues for Congress* (No. R47599).

Congressional Research Service. <https://crsreports.congress.gov/product/pdf/R/R47599>.

⁵ 118th Congress (2023-2024): National Defense Authorization Act for Fiscal Year 2024. (2023, December 22).

<https://www.congress.gov/bill/118th-congress/house-bill/2670/text>

⁶ United States Department of Defense. (2022). *2022 National Defense Strategy of the United States of America*.

<https://media.defense.gov/2022/Oct/27/2003103845/-1/-1/1/2022-NATIONAL-DEFENSE-STRATEGY-NPR-MDR.PDF>, pp. 8–11.



ROUNDTABLE FINDINGS

Roundtable participants highlighted four distinct yet overlapping challenges to the successful implementation of Pillar 2 of AUKUS:

Defining success under Pillar 2 is a core challenge for AUKUS partners given the breadth of activities under the eight working groups. To this end, event participants across the partner nations identified three essential aspects of Pillar 2 success:

- getting capabilities into warfighter hands;
- creating an environment that enables the delivery of those capabilities; and
- *de facto*, organic capability development and cooperation across all three defense industrial bases.

Defining success alone, however, remains insufficient for progress. Event participants also agreed on the need for measurable outcomes to create accountability across industrial and national lines.

Current business culture and norms—via defense security cooperation (DSC) and foreign military sales (FMS), for example—are too cumbersome to meet the threat and do not match the spirit nor the intent of AUKUS. The buying, selling, and co-development of capabilities at all stages between AUKUS partner nations should move toward treatment as one seamless domestic marketplace. Governmental policies and business practices should be adopted to incentivize such a shift. Overall success will require continuously engaged leadership and focus at the highest levels of government and industry.

Information sharing restrictions have long hindered coordination and cooperation with allies. In addition to issues related to overclassification, the roundtable experts agreed that self-imposed barriers resulting from unnecessary “Not Releasable to Foreign Nationals” (NOFORN) designations and other information classifications are stifling the goals of AUKUS cooperation. Uniquely troublesome is the Controlled Unclassified Information (CUI). While the CUI designation does not legally classify information, the designation discourages information sharing between the US and the UK. In contrast, the UK and Australia have more streamlined information sharing practices.

The proposed changes to the US International Traffic in Arms Regulations (ITAR)—which would effectively create licensing exemptions for defense trade with Australia and the UK—are a welcome signal for cooperation and innovation across industrial bases.⁷ However, a deliberate and broader reexamination of what information must truly be withheld and shared between partners is necessary. Boundaries must be lifted for industry and government to have meaningful and timely conversations at the unclassified level or with greater ease at classified levels.

Financial Disincentives also hinder motives for cooperation across the industrial bases of the AUKUS partner nations. Industry remains conservative due to the increased costs associated with cross-border business opportunities. Room must be made for smaller contractors to compete and

⁷ United States Department of State. (2024, May 2). *AUKUS Partners Rule Changes for Secure License-Free Defense Trade*. <https://www.state.gov/aukus-partners-rule-changes-for-secure-license-free-defense-trade/>.



contribute, as well as for intellectual property to be shared equitably to garner innovative solutions from which all can benefit. Antiquated government policies and practices need updating to counter financial disincentives and reduce logistical and time hurdles for commercial contracting.

CONCLUSION

Pillar 2 of AUKUS holds transformational potential for trilateral defense cooperation and wide-ranging implications for security dynamics in the Indo-Pacific and beyond. However, realizing this potential will require sustained efforts within and across government, industry, and academia to overcome barriers to the joint development and fielding of advanced technological capabilities. Chief among these challenges are: (1) the limitations of existing defense security cooperation and foreign military sales processes—perceived and actual, (2) formal and informal information restrictions, and (3) misaligned financial incentives presented to national industrial bases.

Forging a path ahead on Pillar 2 necessitates leadership attention and alignment to a common vision of success. The Potomac Institute's Global Competition Project has initiated a series of events to foster greater dialogue among key stakeholders across the three partner nations. These convenings represent an ongoing effort to explore and identify actionable steps for policymakers, business leaders, and thought leaders to turn the promise of AUKUS into reality.

