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Enhancing Defense Industrial Cooperation Between Australia and the United States

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Enhancing Defense Industrial Cooperation Between Australia and the United States

Cynthia R. Cook—is director of the Defense-Industrial Initiatives Group and a senior fellow in the Defense and Security Department at the Center for Strategic and International Studies. Cook is a member of the editorial board for the Defense Acquisition Research Journal and is an adjunct professor at the Pardee RAND Graduate School. From 1997 to 2021, Cook worked as a senior management scientist at RAND, where she served as the director of the Acquisition and Technology Policy Center. She holds a PhD in Sociology from Harvard University and a BS in Management from the Wharton School of the University of Pennsylvania. [ccook@csis.org]

Henry H. Carroll—is a research associate with the Defense-Industrial Initiatives Group at the Center for Strategic and International Studies (CSIS). His analytical focuses include the defense industrial base, naval policy, and assessing foreign military industrial capacity. Prior to joining CSIS, he worked as an intern in the defense and international practices of Brownstein and as a defense-focused legislative intern for Senate Majority Leader Chuck Schumer. Henry holds a BA in History, with a concentration in war and society, from Yale University. His undergraduate senior thesis examined the politics of U.S. naval shipbuilding in the interwar period. [hcarroll@csis.org]

Katy Buda—is an associate director with the Defense-Industrial Initiatives Group at CSIS. She previously interned at the U.S. Army War College. She holds an MA in International Studies with a focus in security from the Korbel School at the University of Denver. Katy completed an undergraduate degree at Temple University, where she studied political science and French. [kbuda@csis.org]

Abstract

The alliance between Australia and the United States is becoming increasingly salient as threats have evolved and challenges have multiplied. In the Indo-Pacific region, the primary threat to regional stability is China, but Australia and the United States are well postured to work in partnership against global threats. Defense industrial cooperation is a distinct interest of both partners, with public statements from leaders culminating in the AUKUS agreement. Drawing on desk research, interviews with approximately 30 business organizations in the both nations and with government personnel, and outputs of two discussion workshops, this paper gives an overview of the goals of the bilateral Australia-U.S. partnership with a focus on strengthening the defense industrial ecosystem of emerging technology acquisition between Australia and the United States. The strategic imperative of enhancing defense industrial cooperation between Australia and the United States requires a response rooted in a clear understanding of the specific challenges of this bilateral relationship combined with a broader mastery of the strategic imperatives of both countries, the acquisition process, and the numerous obstacles to any form of defense industrial cooperation. Simple solutions and single policy changes (i.e., “fix ITAR”) are not going to yield the desired results. A longer-term plan for change management—with a focus on sharing the strategic vision, providing resources and training, continually looking to identify and address barriers, and highlighting wins, can enhance cooperation outcomes. A plan to measure and track cooperative activities will provide a useful metric that can be used to assess whether policy changes are having an effect.

Introduction

Australia and the United States have had a close partnership for over a century, fighting side by side in every major war since World War I. The next potential conflict that could involve both countries working together is in the Indo-Pacific. Over the past few years, China has become increasingly aggressive with its stated intentions and its actions, and concern over China’s posturing is laid out in each nation’s strategic planning documents. In the United States, the National Security Strategy characterizes China as the U.S. military’s pacing challenge, with the People’s Republic of China (PRC) as “the only competitor with both the intent to reshape the international order and, increasingly, the economic, diplomatic, military, and technological power

to advance that objective" (Biden, 2022). Australia's 2024 National Defense Strategy identified Chinese actions in the Indo-Pacific—and especially in the South China Sea—as directly endangering regional stability and Australia's national security interests, while also emphasizing Australia's role as an active shaper of the Indo-Pacific strategic environment. Australia and the United States are well postured to work in partnership against global threats.

Both countries' visions recognize the importance of a strong industrial base and how working with allies and partners can contribute to this goal. Turning these ideas into action will require time and attention from senior policymakers to translate the strategic vision into tactical-level steps to identify and fund requirements and overcome existing barriers. Necessary actions include facilitating critical technology transfers, allowing for the sharing of classified and sensitive information, and providing opportunities for defense firms to enter each other's markets. There have been important recent steps to address some of the policy challenges, such as changes to the International Traffic in Arms Regulations (ITAR) regime, which is designed to limit the proliferation of advanced technology to problematic actors. On September 1, 2024, the AUKUS exemptions to ITAR went into effect, granting Australia and the United Kingdom the same privileged status within the U.S. defense industrial base (DIB) as Canada, after the State Department determined that the export control systems of both countries are "comparable" to those of the United States (Cooper, 2024). The reforms add an expedited licensing process for exporting some defense articles to AUKUS partners and increase the scope of exemptions for transferring defense articles to some dual nationals who have security clearances from Australia and the United Kingdom (State Department, 2024).

However, there has been less research on the experiences that private enterprises face when trying to do business in the partner nation. If the U.S. and Australian governments truly want to encourage defense industrial cooperation, they should address the full spectrum of challenges and adjust policies accordingly. The research analyzed in this report aims to support this goal by providing a framework to better understand barriers and catalysts to cooperation. This framework builds off existing research by diving deeper into the defense industrial cooperation component of security cooperation, assessing the challenges faced by industry, and providing recommendations to both government and industry.

Methodology and Report Outline

Drawing on research, interviews, and workshops, this paper gives an overview of the goals of the U.S.-Australia alliance, with a focus on strengthening the entire defense industrial ecosystem. The project team reviewed policy documents focused on the strategic goals of the partnership, the breadth and depth of defense industrial ties between Australia and the United States, and the laws, policies, and cultural barriers that limit these ties, including the export control regimes of both countries.

Interviews included discussions with government personnel on both sides of the Pacific. The team gathered data from engagements with government representatives at the working and senior levels. These engagements included a conference in Canberra, Australia, and a follow-on conference in Washington, D.C (Cook et al., 2024a; Cook et al., 2024b). Each conference included private track 1.5 dialogues to establish space for forthright discussion, and the twin conferences allowed both Australian and U.S. stakeholders to have the opportunity to take center stage. Some of the industry executives interviewed for the project had previously worked in government, allowing them to offer perspectives from both viewpoints.

The team also conducted interviews with business leaders from Australian and U.S. companies on their experiences doing business in the partner nation. The interviewees included representatives from nine large U.S. defense contractors, eight of which are doing business with Australia. The team also spoke with representatives from 19 Australian companies. Only one of

these had decided not to pursue business with the United States because of perceived challenges. The other 18 are either doing business with the United States or are trying to break into the market. These companies were identified through two means. The Austrade representative in the Australian embassy in Washington offered a list of companies that they worked with on marketing to U.S. and global industry (Austrade, n.d.). To avoid any bias by using a sample defined by the Australian government, the study team also worked with a Washington-based consultant who advised Australian companies more generally, including those trying to break into the U.S. market.

Current Strategic Challenge and Relationship

While the United States and Australia share a long history of deep cooperation, the contemporary strategic environment is propelling both countries to pursue a significantly expanded and deepening set of initiatives. The rapidly deteriorating strategic environment has been a key driver in strengthening the U.S.-Australia alliance in recent years, with an increasingly assertive China, and its ever-more-aligned partner Russia, standing at the forefront of this challenge. This is a fight the United States and its like-minded partners and allies can win—or, better yet, can avoid through deterrence. There is no place more promising to start than by revamping the U.S.-Australia alliance to ensure that it can both align national strategic visions and also produce the vital defense equipment needed.

Fortunately, there is already a strong history of alignment upon which to build. Australia's close strategic relationship with the United States has translated into support in the U.S. Congress and from the president for closer industrial relationships. This was shown in 2017 with the expansion of the U.S. National Technological and Industrial Base (NTIB) to include Australia and the United Kingdom. All three countries also hold a bilateral Reciprocal Defense Procurement Agreement (RDP-A) with the United States, which means that "Buy American" provisions do not apply to U.S. Department of Defense (DoD) purchases from those nations. Along with New Zealand, these countries also enjoy a close intelligence-sharing relationship with the United States through the Five Eyes arrangement.

The arrangement that has received the most attention recently is the AUKUS partnership, announced in 2021 (Vaughn, 2023). AUKUS, including its two pillars, is designed to counter twenty-first-century threats through enhanced technology partnerships. Pillar I is designed to enhance Australia's military capability with a new fleet of conventionally armed nuclear-powered submarines. The Pillar II technology partnership focuses on new technologies, including artificial intelligence and autonomy; quantum technologies; hypersonic, undersea, and advanced cyber capabilities; electronic warfare; and innovation (The White House, 2022).

Understanding Defense Cooperation

A variety of public statements and formal policies affirm the strength and endurance of the defense relationship between Australia and the United States. This relationship fits into a broader frame of U.S. defense cooperation, which the DoD defines as: "a generic term for the range of activity undertaken by DoD with its allies and other friendly nations to promote international security. Such activity includes . . . security assistance, industrial cooperation, armaments cooperation, Foreign Military Sales (FMS), training, logistics cooperation, cooperative research and development (R&D), Foreign Comparative Testing (FCT), and Host-Nation Support (HNS)" (Defense Acquisition University, n.d.).

One highlighted approach is industrial cooperation, which can take a variety of forms. McGinn's 2023 study highlights five pathways for a "Build Allied" approach to defense industrial cooperation: 1) an increase in the number of U.S. subsidiaries of foreign defense companies, 2) co-development of systems or subsystems across two or more countries, 3) co-production of

defense systems across two or more countries, 4) second-sourcing or licensed production to qualify multiple producers for the same part or system, and 5) foreign sustainment (maintenance, repair, or overhaul) of existing systems (McGinn, 2023, p. 5).

Defense industrial cooperation across national borders requires catalysts—reasons for action—as well as deliberate efforts to overcome barriers. One approach to specify barriers is offered by Jennifer D. P. Moroney et al. in a 2023 report on U.S. security cooperation, which provides a typology of barriers that impede U.S. security cooperation with highly capable allies and partners in the air, space, and cyber domains (Moroney et al., 2023). The authors examine defense industrial cooperation as part of the broader framework and note that it is subject to numerous barriers. The author's research and framework focus on security cooperation, which is led by government actors. Adding information derived from CSIS interviews with industry conducted as part of this research, this report expands the framework to include a broader range of issues which government policies may help resolve. Table 1 includes an overview of barriers and is an extension of the framework offered in the work of Moroney et al. The figure includes the addition of the economic barriers experienced by industry, as derived from the literature and informed by this project's interviews.

Table 1. Barriers to Security Cooperation
(Adapted from Moroney et al., 2023)

Type of Barrier	Representative Examples
Budgetary	Differences in funding priorities or availability of resources Inability to determine or agree to fair share (costing requirements)
Bureaucratic	Sheer number of stakeholders and organizations Over-classification of communications (default to NOFORN) Conflicting priorities and incentives within U.S. and partner organizations
Cultural	Differing approaches or expectations regarding military cooperation Reluctance or inability to share sensitive or classified data Historical experience in bilateral or multilateral engagements/relationships
Political	Government restrictions or limitations external to a nation's defense department Domestic pressures or influences from industry, legislatures, or popular opinion
Regulatory	Written prohibitions or limitations to collaboration in U.S. legal code, congressional legislation, or departmental instructions Ally/partner legal or executive-level restrictions on collaborations with foreign partners
Strategic	Diverging national interests and threat perceptions Differences in priorities concerning collaboration with the United States and other allies and partners
Technical	Lack of compatible systems or procedures to share information Imbalances in scientific or domain experience Lack of confidence in ally/partner's ability to effectively protect classified or sensitive information
Economic	*Insufficient business case to incentivize cooperation for industry *Cost of learning new, foreign acquisition system or setting up a subsidiary and office in the partner nation *Misaligned business strategies as companies prioritize different end markets and products

*Note: *New elements added by CSIS to the Moroney et al. framework.*

CSIS expanded Moroney's framework by including an "economic" barrier category with three representative examples. The first is an insufficient business case to incentivize industry to conduct international cooperation activities. The second identifies the costs—both financial and the opportunity cost of personnel time—associated with learning a new acquisition system in the partner country or the cost of acquiring or establishing a subsidiary company and offices in the partner nation. The third is the potential misalignment of corporate strategies between defense firms which prioritize different end markets and products, thereby hampering their ability to effectively cooperate with each other.

The Industry Perspective: Barriers to Cooperation

The policy benefits of defense industrial cooperation between Australia and the United States are well understood and have led to the many cooperation agreements. Despite those agreements, however, the interviews conducted for this project revealed numerous tactical-level barriers to cooperation, with roots both in the government and within industry itself.

Budgetary: Getting the Money, from Budgets to Contracts

Business organizations must continually consider their financial picture, and interviewees frequently mentioned budget concerns when working with both the United States and Australia. These concerns related both to budgets on the national level (making this a political issue as well) along with the timely and long-term funding of projects (overlapping with bureaucratic acquisition concerns).

For Australia, businesses' budgetary concerns centered on how government funding levels impacted the extent of what the government of Australia was able to invest in. For example, one U.S. company speculated that a large project was terminated because the Australian government wanted to put those resources toward AUKUS Pillar I nuclear-powered submarines instead. Another issue raised was a lack of consistent funding across governments, without which industry is less able to access the resources necessary to invest in production to scale and sustain production over time. One interviewee summarized this as "lots of promises are being made and not a lot of money is flowing." This impacts both Australian and U.S. companies working to do business in Australia. For the most part, the U.S. government does not face the same overall funding issues. Funding stability is mostly ensured once new requirements become programs of record, with the caveat that frequent continual resolutions limit new program starts. However, the delays caused by the budget process are seen as a barrier by both Australian and U.S. industry when doing business with the U.S. government, indicating that some of the challenges identified by industry when considering international cooperation projects are in fact generic challenges endemic to working in the defense industrial base.

It can also be difficult for companies to get longer-term, multiyear funding. More complex projects benefit from firm commitments for funding across multiple years. Companies may be eager to work together across national lines, but as the U.S. subsidiary of an Australian firm noted, "both governments struggle to give long-term contracts" which would enable this cooperation. Ramping up a supply chain and the workforce requires a multiyear commitment to be economically worthwhile, but those longer-term commitments are difficult to extract and run into political barriers within both nations.

There are solutions to all these issues, but they are challenging to enact. The Australia budget challenge could be addressed by the government consistently funding defense over time, but this is a policy that will depend on national government decisions. Another approach for the Australian government is to deliberately help Australian industry strengthen its export market to ensure a more consistent customer base over time. In fact, this is the approach being

taken in the Guided Weapons Explosive Ammunition (GWEO) enterprise, which is focused on munitions production. An export-focused approach could build upon Australia's 2018 Defence Export Strategy, which advocated for Australia to become a top 10 defense exporter (Defence Australia, 2018).

Another challenge links budgeting and contracting processes. For small businesses, delays in finalizing a contract, which can relate to the government's availability of funds, can mean that they do not have the resources to pay their employees and, moreover, will otherwise interfere with the longer-term viability of the enterprise itself. Small enterprises frequently noted that "the government does not understand cash flow." Payment delays are disruptive to any business, but small and medium-sized enterprises (SMEs) may be particularly vulnerable. Furthermore, Australian firms often complain that banks and venture capital groups in Australia lack sufficient capital supply because of reliance on foreign sources, exacerbating critical balance-of-payment issues for Australian SMEs (Connolly & Jackman, 2017, p. 59). Finally, one DoD interviewee suggested that the United States has more funding streams available than Australia does to bring projects from early-stage science and technology into more advanced stages of development, using vehicles such as the Defense Innovation Unit or the Defense Advanced Research Projects Agency (DARPA). The individual recommended creating a dedicated pot of funds in Australia for investing in these early-stage efforts.

Other discussions raised the specifics of getting paid. One Australian company highlighted that a U.S. defense innovation organization's default payment method was via check, and that it cost more to get them to wire funds. Another complained that the aforementioned organization did not know what a SWIFT key was, delaying payment by eight months. This was reported to create months-long delays before the DoD could find the correct form to process the payments.

The challenge of industry being able to access stable funding with enough certainty to grow production to scale and scope is by no means unique to the international cooperation context, and it represents a challenge for business enterprises doing business for their own national governments as well as for those of partner nations. While strengthening relations with partner nations via defense industrial ties is not the main goal of any nation's budget process, the negative impacts on partners of budget perturbations are real and should be a consideration in deciding if industrial cooperation with allies is a true priority.

Bureaucratic: Navigating Complex Acquisition Systems

The U.S. defense acquisition system can be difficult to navigate, even for U.S. firms. This difficulty is magnified for small Australian firms and amplified by the lack of personal connections with decisionmakers, societal and cultural differences, and the tyranny of distance and tight travel budgets. Australian firms report finding it hard to understand who U.S. decisionmakers are and how to connect with them, a challenge also shared by small U.S. businesses. Interviews with Australian industry often noted that "if Australian companies don't understand the U.S. procurement system, they can't sell." Many of these Australian firms added that hiring U.S. advisers as guides to understanding the system is expensive, which serves as a deterrent for trying to make the jump into the U.S. defense ecosystem.

U.S. government organizations need a contract vehicle as a pathway to get funds to performers. Many Australian SMEs reported that U.S. contracting vehicles are difficult for them to use, requiring them to go through larger U.S. companies as resellers, which reduces the SMEs' profit margins and, therefore, their incentive to cooperate across the Pacific. The issue of the reseller dynamic arose several times as a complicating factor in Australian firms closing deals. An Australian firm going through a U.S.-based reseller is going to have longer lead times for contracts and may miss out on business opportunities due to speed (or lack thereof) rather

than capability—an issue complicated and magnified by the already long lead times for export control licenses and security clearance processes. Another complicating factor is the U.S. acquisition workforce's unfamiliarity with acquisition processes for foreign firms, which leads some DoD acquisition staff to encourage Australian firms to work with resellers. This well-meaning advice may be given without fully considering the impact it could have on the speed of the Australian firm's subsequent contract and therefore the firm's business case for working with the DoD.

Australia does have a dedicated agency called Austrade whose mission includes helping Australian exporting companies grow their business. Austrade has representatives stationed in the United States, and according to this project's interviewees, the agency has provided useful guidance in navigating U.S. processes and providing information about tenders. One company noted that "We would not have been able to do what we did without Austrade." Another offered, "Austrade has been incredibly helpful—[they help companies] plug into shows and be part of delegations and make it easier to go to [conferences] like SeaAirSpace." On the other hand, other companies noted that Austrade has provided briefings on a less detailed (and therefore less useful) level and has not helped them navigate the U.S. market, largely due to Austrade lacking the necessary contacts with customers. Smaller businesses interested in exporting did not always know how to access Austrade's tools. Policymakers should consider providing additional support for the agency so that it could more effectively reach out to new defense companies interested in exporting. A throughline in Australian interviews was the necessity of education both for industry and the government in terms of the opportunities for partnership and the specific bureaucratic challenges that need to be overcome.

Cultural: Two Nations Divided by a Common Language and an Ocean

Cultural barriers were among the most common types of impediments mentioned by the interviewees and spanned across most of the pathways of connection in the defense industrial relationship. One challenge centers on the differences between corporate culture in Australia and the United States regarding considerations like self-promotion and seeking legal advice from counsel. According to both Australian and U.S. interviewees, Australian firms tend to be much less self-promoting when discussing their products with U.S. officials or businesspeople than Americans are used to, leading to occasional moments of mismatched expectations and underappreciated offerings from Australia. One interviewee noted that "Australians are not pushy. . . . They don't puff themselves up." Furthermore, Australian firms are much less likely than their U.S. counterparts to seek legal recourse or the advice of counsel when encountering regulatory difficulties in U.S. acquisition efforts or business-to-business (B2B) engagements, such as with export controls restrictions. This can hamper the ability of Australian firms to get contracts compared to U.S. entities. As one U.S. firm explained, "Cultural differences get overlooked between the U.S. and Australia. . . . We like to believe that they are very similar, but the cultures are very dissimilar. The similarities outweigh the dissimilarities, but they are very different cultures."

Another cultural barrier identified by interviewees relates to bureaucratic and regulatory issues. Both nations prefer local suppliers, which affects the relationship on both sides of the Pacific and limits cooperation. Even as the countries align closer on defense cooperation, and senior officials make statements and policies about the essential nature of AUKUS and U.S.-Australia cooperation, interviewees noted persistent parochial favoritism from mid-level officials in acquisition and business decision-making processes (DoD, n.d.; Garamone, 2023). This was pervasive in the United States, including with the DoD acquisition workforce and when partnering with U.S. companies. One Australian company noted, "Americans like things made in America, a culture which flows through to procurement people from corporate leadership." Government and industry preference for local suppliers is a known factor across global

procurement, with the literature highlighting an even greater local preference by government than industry actors (Mulabdic & Rotunno, 2022).

Risk aversion is a persistent cultural challenge across the defense cooperation space, one often linked to other barriers, including regulatory ones. Australian interviewees noted that U.S. government officials are hesitant to green-light cooperation with Australia, even if they have the authority to do so. Working-level officials are perceived as adhering to the status quo, even as senior leaders advance new visions of cooperation (Henneke & Stephens, 2024). This is mirrored in industry, where companies are sometimes overly cautious despite encouragement from government officials with regulatory authority. This occurs even when considering sharing information already publicly available on corporate websites. One Australian company offered an example where a U.S. government agency approved the use of their products, but then lawyers at the prime contractor directed an additional review out of an excess of caution. One interviewee highlighted risk aversion as a serious problem when thinking about the competitive global landscape, which links cultural factors to political ones: "If China is our pacing threat, [we should] find things we can go jointly after. . . . Time is our enemy; we're squandering opportunity. Only so long we can say PRC won't catch up with us; they have smart people too. . . . Accept some amount of failure."

An increased recognition of the strategic challenge may help the U.S. government embrace a global supply chain. Policies like the National Defense Industrial Strategy highlight the importance of allies and partners as part of an economic deterrence strategy (*National Defense Industrial Strategy*, 2024). Consistent messaging across administrations in both nations (which demands strong leadership support) is required to evolve government and industry cultures over time—though this alone may not be sufficient.

Political: Moving from Policy Announcements to Tactical Support

Industry in both nations observed that even with the necessary political support, translating policymaker intent into action has proven difficult. One interviewee observed that all politicians "love announceables" but that moving from the policy level into tactical execution was more of a problem. In spite of pronouncements, there was some cynicism as to whether national governments were truly behind cooperation. In general, businesses did not always see the next steps necessary to move the vision into action even though they thought the governments believed what they were saying.

One U.S. prime interviewee argued that the most likely business successes came from U.S. companies selling systems to Australia but getting beyond that was difficult, observing that the goals of highly publicized agreements like "AUKUS . . . [don't] trickle down to the small companies." An Australian firm echoed this same sentiment, stating, "The ambiguity around how these high-level strategic agreements translate into business opportunities is harmful to the Australian business community because they are making assumptions on how to export and if they lose money they may exit the business." Several Australian interviewees expressed frustration with inconsistent signals from the United States, where government policies seemed to support cooperation but failed to result in business opportunities for Australian companies. One employee stated that "If the U.S. is just saying no to Australian products, that's fine. . . . The problem is unclear messaging. [When] he talks to other defense companies . . . they all don't have clarity." The offered solution was that the ADOD "needs to be more direct about the need for the United States to understand and support Australia business," which would depend on the DoD listening to and valuing this message from the ADOD over its other priorities.

There are government efforts in support of industrial cooperation, such as Australia's investment in the Global Supply Chain (GSC) Program and Austrade (covered above).[1] The GSC Program is an export initiative aiming to give Australian companies better opportunities to enter the supply chains of global defense primes by providing funding to "establish a team within their company dedicated to identifying export opportunities leading to contract award for Australian suppliers in both Civil and Defence businesses of the Prime."(Department of Defence, 2024a) Not every interviewee at the U.S. primes mentioned the GSC Program, but at least one found it to be a very useful support for bringing Australian firms into their supply chain. That said, in the interviews, many Australian SMEs expressed distrust of the commitment of the major U.S. primes—or their Australian subsidiaries—to incorporating Australian companies into their supply chains. The SMEs were concerned that U.S. primes use Australian SMEs as "window dressing" for their Australian government bids to comply with local preference regulations, only to squeeze the Australian SMEs out of these contracts later. One colorful Australian interviewee, describing the defense system in Australia, said that the "organ grinder is the [U.S.] primes, and the monkey varies between the government and the Australian industry."

One U.S.-based Australian interviewee was a former employee at a U.S. prime contractor and had also spent time working in the U.S. government. They suggested that that while the United States says it wants cooperation, what it really wants is "U.S. companies to split off units and do business for Australia. We are much less interested in building up native Australia companies—don't want them to be too competitive." Nevertheless, other U.S. defense prime figures repeatedly stressed their commitment to the GSC Program and noted the successes they had seen under it. U.S. industry individuals did note that the GSC Program was more effective when the Australian government had previously provided funding for Australian SMEs to qualify as subcontractors under the program, an initiative that could be revitalized.

Regulatory: Policy Underpins Many Cooperation Challenges

Government regulatory policy, including national export control regimes, shapes and limits defense industrial cooperation. Export controls have multiple goals, including limiting the export of sensitive military technologies that could find their way into the hands of adversaries. The challenge that export controls create is extensively highlighted in the literature on cooperation, but changes are being instituted to support AUKUS . In the U.S. system, there are at least 37 departments, agencies, and commissions with export control authority, including the Departments of State, Commerce, and the Treasury (U.S. Customs and Border Protection, 2024). The State Department handles ITAR compliance and the U.S. Munitions List for traditional military capabilities, and the Commerce Department enforces the Export Administration Regulations (EAR) and the Commerce Control List for dual-use technology (Kerr & Casey, 2021). The Defence Export Controls (DEC), part of the ADOD, oversees military and dual-use export controls through the Defence Trade Controls Act 2012, Defence Trade Controls Regulations 2013, and the Defence and Strategic Goods List (Australian Government, Department of Defence, n.d.). In March 2024, Australia changed legislation to place controls on the re-export of articles originally from Australia, information sharing on controlled technology areas to certain foreign persons in Australia, and various defense services, which went into effect on September 1, 2024 (Department of Defence, 2024b; Industry and Security Bureau, 2024). Following changes approved to Australian export controls, the U.S. State Department amended ITAR to provide licensing exemptions for Australia in technology areas not included

[1] One reviewer highlighted the existence of additional government programs designed to support cooperation, which were not raised during the interviews. More details can be found here: "Policy and Engagement," ADOD, accessed December 11, 2024, https://www.defence.gov.au/business-industry/industry-governance/industry-regulators/australian-defence-export-office/policy-engagement.

on the Excluded Technology List, which also went into effect on September 1, 2024 (Department of State, 2024). The U.S. Commerce Department implemented EAR changes as well, proposed and in effect by April 2024, enabling Australia to be treated in the same manner as Canada (Industry and Security Bureau, 2024).

The U.S. State Department's goal for export controls is to "mitigate diversion and proliferation risks, which both bolsters U.S. national security and contributes to regional and international security and stability"(Department of State, 2023). Interviewees universally understood and supported the goals for ITAR and other methods of information and export control regulation, but they highlighted that these regulations also create delays and other challenges for industrial cooperation. One U.S. prime specifically noted that the pace of the regulatory review did not match the pace of the acquisition cycle. Australian export controls are simpler, but export controls from each country are not the only regulatory barrier.

For Australian companies, fear of U.S. export control penalties can affect their business dealings with the United States. One U.S. company stated that "if they violate ITAR . . . [Australian firms] are worried about getting put out of business by a foreign regulator." Smaller vendors fear that they will be put out of business if they receive a penalty for violating ITAR. On the other hand, one larger Australian firm noted that the concern is often misplaced: "People think 'I am at the risk of going to jail,' but if they follow the process then that's just not going to happen." The small scale of many Australian firms amplifies the stifling effects of information security regulations, as their compliance teams and their financial margins for error are much smaller.

Protracted wait times can also be barriers to business. A U.S. prime interviewee indicated that if they wanted to work with an Australian SME, they could face production delays of up to 90 days while waiting for a license. They noted that "oftentimes those opportunities come and go within 90 days." There can also be holdups if a firm changes suppliers, and delays can be detrimental to smaller companies. One U.S. firm argued that "regulation shouldn't be easier [to navigate] for those with resources." Australian regulators have their own resource limitations and likely will need additional resources and funding following the enactment of new export controls to successfully implement these changes (Greenwalt & Corben, 2024).

Information sharing is another barrier for foreign suppliers interacting with U.S. primes, as foreign suppliers can face hurdles that in-country business dealings will never encounter. From the very start, conversations between a U.S. company and a foreign partner on sensitive topics can require ITAR approval—and the line between the two can be unclear, causing delays while this is determined. If the Department of State issues approvals only for a portion of the conversations needed, that is insufficient for building international cooperation. While some State Department personnel interviewed noted their progress in approving thousands of these approvals, a U.S. industry figure argued that the department needs "to approve millions to cover all the potential conversations—or else to change policy." The September 1, 2024, ITAR reforms between the United States and Australia may be able to abate this problem once companies become part of the "authorized user list," although there is still a range of excluded technologies that remain a concern.

The U.S. export and information control apparatus has led participants in the U.S. defense sector to proceed with caution when dealing with foreign actors, even if allies. For the United States, "they're built to never engage with a foreigner." While export control reforms have taken place in both Australia and the United States, there will likely be questions over who can operate license-free. Moreover, if businesses expect to need licenses and face delays, they could avoid certain suppliers or partners. Stakeholders need to allow time for industry to understand these changes and feel safe operating under the greater flexibility of a new export

control policy. The regulatory barrier posed by export controls is therefore intertwined with the cultural barriers of risk aversion and resistance to change within the U.S. acquisition workforce and compliance departments in U.S. defense primes. One U.S. firm mentioned "ITAR/export controls focus on a thing or a defense article. Even if all of these are removed [after reforms], we need to accept that it will take time for folks to understand what it means and to execute it. The real barrier, when that's gone, there will be a hesitation/blockage of the systems. It will be OK if it takes three to six months. But if it takes years…"

Another regulatory barrier relates to limitations on sharing information, including classification and controlled unclassified information (CUI).[2] Classification of information is meant to prevent damage to national security by controlling information release. The challenge this presents is not always visible to Australian companies, but their employees with military experience sometimes remarked that it is much easier to share information between the partner militaries than it is to access classified information on the industry side. This creates challenges for partnering on some national security projects and also sometimes limits Australian access to marketing opportunities in cases where tenders are classified. Even though it notionally presents less of a danger to national security, CUI was described as sometimes more difficult to handle than classified information because, while there are carefully established channels for classified information, the way to properly handle CUI is not as clear-cut. Interviewees also raised concerns about NOFORN markings prohibiting access to non-U.S. persons, which creates similar difficulties for access and also lacks a clear-cut and expeditious process for removal. One industry representative suggested that to enhance cooperation "YESFORN is the objective, NOFORN is the barrier." Interviewees suspected that NOFORN labels are sometimes simply the default habit of an overly cautious acquisition and industrial workforce, rather than reflective of the contents.

Strategic: The Need for a Common View of the Challenge

The U.S. and Australian governments are closely aligned on their strategic outlooks, with both seeing China as the main strategic concern. However, one area where the United States and Australia have been reported not to see eye-to-eye on strategic issues is the ability of Australia to acquire certain U.S. systems. Interviewees noted that Australia often wants to purchase advanced U.S. technology that was still in the early R&D phase using the Foreign Military Sales (FMS) approach. The U.S. government, however, does not like to sell equipment that is still in early-stage R&D because, as one U.S. government official noted, "we don't sell systems that won't meet the requirements. . . . This is the problem with FMS, which is transactional, not meant to be flexible and have vision and work with different strategies and designs." U.S. caution on FMS sales processes has occasionally clashed with Australian eagerness to acquire cutting-edge U.S. tech, a downstream problem from slight misalignments on strategy and timing of acquisitions.

Technical: Aligning Engineering Details

An ongoing challenge to cooperation is the existence of different technical standards and varying technical standards regimes. These differences may be physical incompatibilities, or there may be regulations that impose specific policies depending on the source. Differing standards can impede the ability of companies to work together and limit their ability to sell to partner governments or participate in partner supply chains. This issue was raised in several of the interviews as one of the tactical challenges that the interviewees did not see being

[2] Though not covered in detail here, CMMC cyber mandates for working with the DoD could also be a problem based on different standards than the Australian "Essential Eight" for cybersecurity. The issue of diverging standards is covered in the Technical Barriers section.

addressed in policy statements: “People want to get technology as fast as possible, [but] a company will have to produce a completely different variant for different [customers].” This challenge demonstrates that strategic vision in support of partnership cannot drive industrial cooperation without the identification and solving of specific challenges.

One of the examples raised during the interviews is the fact that the two nations have different regimes for the non-destructive testing of defense articles. Australia has the National Australian Testing Authority (NATA), but this authority is not recognized by the United States. Meanwhile, the United States has the National Aerospace and Defense Contractors Accreditation Program (Nadcap), an industry-led cooperative accreditation program for aerospace and defense industries. These two programs have different training of test operators and different standards for test success. Companies can put their articles through the other nation’s test regimes, but this duplication of testing adds time and additional costs. One interviewee argued that standards could be assessed to see if they are close to those of the other nation; if they were, companies could then be permitted to test in only one nation while being certified in both. One Australian firm stated, “Standards is a small thing but could be impactful moving forward. Under AUKUS, there are working groups at technology levels, [but they have] not extended into standards . . . those are the big barriers.”

Any deviation in standards also means that when technical details or parts need to be changed, even slightly, the part may need to be recertified. This increases the costs of non-recurring engineering, which can then increase the average cost of a part. One company raised the issue of different voltage standards as a source of recertification requirements (standard voltage in the United States is 120 V, Australia’s is 240 V): “We meet a higher standard, but we don’t meet the U.S. standard. Because the standard is slightly different, we have to recertify.”

One interviewee noted that there is an AUKUS working group to address technical standards, but this challenge is complex and cross-cutting from the defense industrial base to the broader national manufacturing industrial base. To fully tackle this long-term challenge, the interviewee recommended that the working group should have the authority to create an action plan to address different standards, with the goal of continually identifying and addressing differences that create challenges for cooperation and cross-border sales. Other frameworks and organizations have found ways to establish common standards. One interviewee pointed out that NATO has a common standard, demonstrating that a solution across national borders is possible.

Finally, one interviewee raised a complication to overcoming this barrier: there may be benefits for incumbents in maintaining different standards, as it limits competition: “The primes developed this and don’t allow outsiders in.”

Economic: Making It Worthwhile to Invest

Economic challenges for industry are intertwined with their access to capital, the scale of their firm, and their corporate aspirations. Companies mentioned the challenge of finding funding, which plays out differently in the two economies. It is perceived to be easier to raise funds in the United States because of the size and strength of the venture capital community. In Australia, there is “skepticism in their own market,” and the “investment community [is] skeptical about the U.S. market.” Better funding from government could bridge this funding gap. One company argued that we “need to unlock funding . . . quickly to win opportunity—look at process, what Australia does well and what [the] U.S. does well, look at convergence of how we do funding and financing for small business.” In the United States, the DoD’s Office of Strategic Capital has been set up to try to “crowd in” private capital for defense and dual-use technologies, a model that could be adopted in Australia. One Australian firm mentioned, “We haven’t seen a lot of actionable things come to market about workforce problems, and how we

will share knowledge and skills across the two continents. . . . The broader population is completely unaware of what all the jobs and job opportunities will be. Joe plumber doesn't know about this. There is available talent that is disconnected from the demand."

Another issue highlighted was the challenge of scale, especially when partnering with, selling to, or competing with U.S. firms. Australian companies are often much smaller than their U.S. partners, and a deal that is a matter of survival for an Australian company may be relatively unimportant for their U.S. partner. One Australian firm noted that they "have to partner with U.S. companies and then [work] at the whim of their creative ambitions. [U.S.] companies were making huge gains in passing through the work." For a small company, the costs of the procurement process can be overwhelming: "How do I compete with a 10-person team at IBM focused on this Request for Proposal (RFP) when I'm three people and a cat." Industry as a whole faces strong government pressure to manage costs, but the customer can be oblivious to the economic repercussions of delays and other bureaucracy. One U.S. firm noted that "government regulators on both sides don't seem to be concerned about the economic impacts. They are focused on national security. . . . The Hill underestimates the scale of these transaction costs. Industry doesn't make the case effectively about the impact of delays." Small companies feel these burdens acutely.

Some Australian SMEs noted that small firms occasionally hold unrealistic expectations about what their role in U.S.-Australian B2B cooperation could look like given their size and production capacity. As a recent Australian Strategic Policy Institute report on AUKUS Pillar II cooperation notes, "size matters" in defense cooperation (Stephens, n.d., p. 18). Medium or large enterprises have greater scale than small ones, which allows them to more easily upscale their production when needed and to navigate complex bureaucratic tasks like export controls or acquisition. An Australian firm noted that being a "perennial smaller company working with larger companies," their firm faces the "challenge of being treated as a peer or equal. Larger or established companies, [find it hard] to take the reputational risk of partnering with a start up." Multiple Australian SMEs noted that they had more success working with small U.S. firms than with the primes. One ADOD official similarly commented that companies needed to find firms of similar sizes with which to match up. U.S. firms stated that they believe Australian companies are less willing than U.S. ones to partner up in order to conquer new, non-U.S. markets and are naive about what technology is required to compete globally.

Another barrier is a lack of industry alignment between Australia and the United States regarding the form and focus of possible future industrial collaboration. Indeed, some of the aforementioned Australian SMEs' lack of trust in U.S. primes and their frustration with the GSC Program may stem from misaligned expectations of what Australian firms and U.S. firms can productively partner on. The GSC Program identified second sourcing and exploiting innovative technology as potential inroads for Australian firms into prime supply chains, with success seeming to have been found more in the latter than the former (Department of Defence, 2024a). Interviewed companies reported that it is very difficult to bring in Australian firms as new second-source suppliers due to non-recurring engineering costs, the difficulties of technology transfer, and a high learning curve leading to a production cost well above target price. In short, Australian firms struggle to compete against entrenched, typically U.S., firms. In DoD contracting, even when second sources of products or systems are identified, there is no guarantee they will be cost competitive, and those which are competitive are often U.S. firms that do not face the same challenges as Australian SMEs (Adjei & Hendricks, 2022).

In connection with the cultural barrier of parochialism, more than one Australian company highlighted the necessity of being both aggressive and sensitive to local issues to successfully enter the U.S. market. Simple steps such as registering a website with a ".com" address instead of a ".com.au" address may overcome initial U.S. suspicion about working with

foreign suppliers and lead to companies getting past an initial screen. Australian businesspeople will need to travel to the United States and do their own marketing. Another Australian firm stated that “they [Austrade] won’t do business for you—you have to knock on doors, build [your] own pipeline [and sell] into [your] own market. . . . I look for what events are happening and go to as many as possible to meet in person.” Oftentimes, success relies on the personal determination of entrepreneurs.

One last barrier, mentioned in almost every interview, is the “tyranny of distance.” Australia and the United States are half a world away from each other. Vastly different time zones mean that connecting on the phone during business hours is a challenge, and the flights take almost a day in both directions and cross the International Date Line. There is no easy solution for this. The fact that industry continues to press to cooperate despite this challenge is a signal of a broad commitment to cooperation.

Recommendations

The strategic significance of enhancing defense industrial cooperation between Australia and the United States requires a response grounded in a clear understanding of the specific challenges of this bilateral relationship combined with a broader mastery of the acquisition process and the numerous obstacles to any form of defense industrial cooperation. These barriers are often mutually reinforcing. For these reasons, some topics, such as standards, appear under multiple categories of barriers, and many recommendations have implications that go beyond the barrier that they primarily address.

Budgetary and Technical Recommendations

For the United States and Australia, increasing the speed and quantity of defense production is crucial to addressing the threats that have been identified by their respective national strategies. Achieving these goals will be expensive, even with the opportunity provided by rising defense budgets. Australia recognizes that its desired sovereign defense industrial capabilities cannot be sustained without integration into other defense ecosystems and funding streams. The U.S. National Defense Industrial Strategy correctly identifies greater commonality with partners as an imperative. In short, commonality is an area where industrial integration can and should have a return on investment that offsets fiscal barriers to cooperation. The recommendations below take aim at the technical obstacles to commonality, which in turn will aid in justifying the budgetary investments in cooperation.

1. The United States and Australia should endeavor to align their requirements for new weapons systems or produce shared requirements, where possible, especially in the context of AUKUS.

2. Groupings such as AUKUS or the overlapping members of Five Eyes and the NTIB should be used as venues for implementing shared standards working groups.

Regulatory and Bureaucratic Recommendations

Regulatory and bureaucratic barriers inevitably add friction to international cooperation. To alleviate some of these obstacles, the U.S. Congress legislated a partial ITAR exemption for AUKUS countries, only the second such exemption in existence. This AUKUS ITAR exemption is a generational shift in U.S. export and technology control policies, moving from mandating licensing to requiring tracking for a range of technology in the territories of Australia, the United Kingdom, and the United States. Some analysts, such as William Greenwalt and Tom Corben, call for further liberalization in the next steps of implementation (Greenwalt & Corben, 2024). The interviews for this project took place before the implementation language was released;

therefore, the recommendations below do not seek to evaluate the implementation of the AUKUS ITAR exemption itself but instead focus on findings from the interviews and data that remain relevant in this rapidly changing environment.

1. The United States and Australia should enact equivalency agreements that recognize that certain defense standards are close enough to be mutually acceptable, even if these standards are not made in common.

2. The United States and Australia should mutually recognize each other's accreditation standards regimes where the requirements are close enough to be functionally interchangeable.

3. A joint procurement vehicle, such as a pan-AUKUS panel, could be created to deepen AUKUS collaboration, especially in the key areas of AUKUS Pillar II.

4. The United States and Australia should fully embrace mutual recognition of security clearances, within necessary parameters.

5. The U.S. Congress should explore passing legislation which would connect the AUKUS and Canadian ITAR exemptions to allow cross-compatibility.

Cultural, Political, and Strategic Barriers Recommendations

Legislative and regulatory changes alone are often not sufficient to effectively overcome barriers to cooperation. Cultural change is often necessary to fully institutionalize new authorities or integrate regulations into everyday practice. In the absence of cultural change, new authorities and strategic objectives may be hindered by inertia. Cultural change can be further hampered by competing messages, such as when the United States' Buy American Office was launched just before AUKUS materialized (The White House, 2021).[3] Measures such as these create an acquisition culture of defaulting to what is known, streamlined, and easy. Overcoming this cultural default requires not just direction from senior leaders but also consistent reinforcement at all levels and periodic evaluation of success.

1. The DoD and ADOD should conduct an audit of the implementation and outcomes of industrial cooperation efforts in preparation for each annual Australia–United States Ministerial Consultation (AUSMIN).
2. The DoD and ADOD should furnish an annual report on the implementation of cross-national industrial integration initiatives to their respective legislatures.
3. The U.S. Department of State should conduct a rigorous and proactive outreach campaign to inform industry about the specific requirements of the 2024 new AUKUS waiver; Austrade should establish a pipeline to refer companies to the Defence Export Controls office to provide clear messaging and education to industry about ITAR rules and boundaries.

Economic Recommendations

Economic barriers to defense industrial cooperation are mainly the product of uncertain returns for vendors supporting international cooperation, which make it difficult to justify addressing the forms of friction introduced by borders. A common kind of friction is the difficulty of incorporating a foreign supplier into an established supply chain or the costs of establishing a subsidiary and building contacts in a distant foreign nation. Insufficient incentives undercut the role the U.S. and Australian defense industrial bases can play in support of defense

[3] These steps do not directly contradict each other because the U.S.-Australia reciprocal defense procurement arrangements mean that the two countries exempt one another from national preference laws.

cooperation. Barriers to international cooperation can resemble those of small or non-traditional U.S. vendors. The lack of a perceived “front door” access for AUKUS applicants complicates what would otherwise be a comparatively easy path for Australian vendors that have established a U.S. subsidiary.

1. Defense industry groups in the AUKUS countries should consider creating an AUKUS-focused consortium.
2. The governments of Australia and the United Kingdom should consider subsidizing the overhead costs of establishing these AUKUS-focused consortia for AUKUS Pillar II topics.
3. The U.S. acquisition workforce should use Other Transaction Authority arrangements for AUKUS acquisition coordination.
4. The Australian government should empower and provide additional funding to Austrade to enhance Australian industry understanding of the U.S. acquisition system and to aid Australian SMEs in establishing U.S. domestic subsidiaries.
5. The DoD should expand the training and education of its acquisition workforce to include the financial and bureaucratic complexities of working with international companies.
6. The DoD and ADOD should embrace Modular Open Systems Approaches to lower barriers to entry and encourage competition.

Conclusion

Enhancing defense industrial cooperation between Australia and the United States will take concerted efforts by government and industry from both nations. Ensuring that business practices and industry and government culture support cooperation will require both resources and a thoughtful requirement-setting process that enhances opportunities for collaboration. Simple solutions and single policy changes (e.g., “fix ITAR”) alone will not yield the results desired. To enhance cooperation outcomes, both systems must commit to a longer-term plan for change management, with a focus on sharing the strategic vision, providing necessary resources and training, and continually identifying and addressing barriers. Measuring and tracking cooperative activities can provide a useful metric to assess whether policy changes are having the desired effect. Real and sustained change can only start once policymakers embrace a mindset that believes time is of the essence and that approaches the challenges of national and allied preparedness with a sense of urgency (Kotter International Inc., n.d.). Given new collaborations between Beijing, Moscow, Pyongyang, and Tehran, as well as the rapidly deteriorating security conditions globally and in the Indo-Pacific region specifically, allied deterrence must transform into a collective endeavor. Such an enterprise necessarily demands more integration and alignment of defense systems and industries. AUKUS provides a superb opportunity to expand defense industrial collaborations by revitalizing the U.S.-Australian alliance with a laser-like focus on industrial policy. The national security of both counties, and the stability of the region, might well depend on it.

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Acquisition Research Program
Department of Defense Management
Naval Postgraduate School
555 Dyer Road, Ingersoll Hall
Monterey, CA 93943

www.acquisitionresearch.net