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AUKUS Pillar 2 Defense Cooperation: Where are We and What Do We Hope to Achieve?

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The AUKUS agreement concluded by Australia, the United Kingdom, and the United States will be three years old next month. Its more well-known centerpiece is **Pillar 1**, creating a decades-long collaboration on nuclear-powered submarines. Less well known to date is the agreement's **Pillar 2**, which provides for the creation of a long-term, trilateral defense cooperation framework on such strategic priorities as artificial intelligence and autonomy, hypersonics/counter-hypersonics, and electronic warfare.

We had the opportunity recently to catch up with two BENS members very familiar with the goals and potential of AUKUS Pillar 2: **Adam Leslie**, Director of the Australian Strategic Policy Institute's Washington D.C. office; and **Matt Ort**, Managing Director at Vaxa Bureau and former U.S. Naval Attaché to Australia.



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The following views reflect their personal perspectives, and their comments have been slightly edited for readability.

Considerable work will be needed to make the promise of AUKUS a reality. Let's say we fast-forward to a decade from now and posit that AUKUS Pillar 2 has worked, what would that successful implementation look like? What would need to happen for allied industries to consider the effort a success?

Adam Leslie: Taking a step back, both Pillars of AUKUS are proceeding in two phases – enablement and implementation. The first phase -- the enablement phase -- is where the governments of each of the three countries are aligning the regulatory legislative environment to enable work to happen.

So, in the U.S. context, that means changes are necessary to ITAR ([the International Traffic in Arms Regulations](#)) and other regulatory frameworks for U.S. technology sharing. The same goes for Australia and the UK. From an outside perspective, that process looks frustrating and slow, but for government action, it's actually happening incredibly fast. The challenge we run into is that, as we unravel various barriers to trade, we find still more. For example, while reforms to ITAR now are now successfully underway, challenges to Pillar 2 created by MTCR ([Missile Technology Control Regime](#)) regulations have yet to be addressed.

In 10 years' time we hope that the enablement phase will be complete and, ideally, a trilateral free market for defense technology will have been created, which will incorporate not only trade but a free flow of knowledge and people. It will be important for security clearances by that time to be recognized equally across all three countries so that genuine collaboration can flow as smoothly as possible between the three allies.

While Pillar 1 has specific deliverables in the form of nuclear submarines, the deliverables for Pillar 2 are, so far, less clearly defined. What I would like to see is the creation of some kind of genuine, trilateral clearinghouse for Pillar 2 where industry, the government, and the military, working together can develop clear objectives so that the entry point for potential suppliers and investors will be visible and obvious. In military terms--using command and control terminology--that means setting up a technical command structure. This framework would develop standards to answer questions like: What is an AUKUS project? What is a Pillar 2 project? You know, ticking through the boxes of what makes something a part of AUKUS—is it Indo-Pacific focused? Does it involve the industrial base of all three countries? And is there a military benefit for all three? And then, with those boxes ticked, the structure would determine things like the right funding source, the most appropriate contracting vehicle, the right place to test and evaluate, the right way to bring the product and technology into service across the three countries, etc. Such a central body would serve the key coordinating function to address all of these defense acquisition questions.

Matt Ort: I know we're focused on Pillar 2 for this discussion, which I think will be the most interesting and impactful element of the agreement over the next 25 years, but if we're talking about overall AUKUS success, it's hard to disassociate from Pillar 1. If Pillar 1 fails, or doesn't reach expectations because of submarine industrial base shortfalls or an inability to share certain information, that will have an adverse impact on Pillar 2. So far, most of the financial and political capital has been focused on Pillar 1, which has clearer defined goals in terms of delivery of specific submarine capabilities. And

we have to appreciate how much skin Australia, in particular, has in that game. Not only do we have the requirement of reciprocal funding into each other's submarine industrial base, but the agreement also forced Australia to cancel its deal with the French, losing \$3 billion it already spent in that process. On top of that, the idea of Australia doing anything related to "nuclear" 10 years ago was a non-starter. They have since gone all-in on nuclear-powered conventionally armed submarines. So, there are a lot of eyes on the Pillar 1 submarine deal. If it fails, I do not see how Pillar 2 can ever truly get off the ground and succeed.

So, success would be: Pillar 1 is solved, Australia gets three to five Virginia class submarines, and they are working on their AUKUS class submarines. That means the parties are all receiving something out of their major investments and are fully dedicated to the initiative. That would also mean we've gotten past what I think is the biggest hurdle, which is technology and information sharing. If we've figured out how to do that for some of the U.S.' most prized technology, then we will likely have figured out how to do it for hypersonics, counter-hypersonics, offensive cyber capabilities, and cybersecurity; plus we will have likely merged our drone and AI technology to work seamlessly. It would also mean the successful introduction of more advanced manufacturing techniques for defense capabilities across the three countries that move away, for example, from legacy casting as old casting houses are drying out. And all of this will also depend on successful reconfiguration of supply chains that can provide access to essential inputs from trusted sources. Because we don't just need to figure out what we're producing, but how we're producing it as well.

AUKUS will be three years old in September. In that time, trilateral working groups have been stood up, independent support networks like the AUKUS Defense Investor Network have been established, and regulatory reforms have been initiated. How is industry viewing work on Pillar 2 of AUKUS to date?

Adam Leslie: I think industry finds it incredibly frustrating. I would say that none of the governments have been particularly transparent about key specifics including, for instance, the regulatory environment / enablement phase versus the capability implementation phase. The governments only just started talking about this literally in the last few weeks. They have come to realize that they set this big expectation of something happening straight away and then nothing has been happening. So, they have to get that messaging right, and they have started down that path, to their credit.

The biggest frustration I would say is that there is no obvious entry point for Pillar 2. And that's true for both industry and capital markets. I've been working with and tracking a good dozen or more venture firms in the tech space who are eager to become involved in genuine trilateral investment, but they just aren't getting the demand signals from the government to help them de-risk their potential investment right now.

And there are some practicalities. I mean, the government isn't going to give an investor an assurance that they're going to buy one of their technologies, but there are certainly things that the government can do to give greater assurance to investors, to help mobilize capital into this space. I think that's what government is not very good at. They don't really get that and understand capital, don't understand how it works, don't understand de-risking, any of that sort of stuff. They just perceive investors as kind

of greedy capitalists who just want to make a buck. But we live in a capital-driven democracy, and you can be both aware of national security and want to make a profit at the same time.

What I've been telling people and advising companies and investors from an asset perspective, from a policy perspective, and from a consulting perspective is that there is an opportunity right now for tech companies and investors to take solutions to the government. If you can present a package that has a commercially viable prototype with an investor who has clean capital with a clear-eyed vision of how that technology will meet an AUKUS outcome, you take it to any one of the three governments, but especially the Australian government, and say "here's an idea we want to build up as a military prototype and as an AUKUS project, and here's why it's AUKUS, and here's why it's good." They may well back you including because they're desperate for a couple of projects with AUKUS flags on them that they can write up.

Matt Ort: There is a lot of uncertainty for industry right now because industry can't make key decisions until it knows what the government is interested in buying. Right now, on the Australian government side, you've got no new money until 2025, and they are reallocating money from other programs in the meantime. They've cut the acquisition of their Hunter-class frigate in half, and there's been a lot of cuts and reallocations of money, but no new money. So, industry in Australia is raising the question of, "What are we investing in?" Australia changed their whole approach under the Defense Strategic Review--they're not focusing on Australian content so much anymore. They want proven U.S. technology or joint technology that they can just get off-the-shelf. That's a big switch.

You've got all these old programs that were tied to their old process, which was Australian content. Now you've got a new mandate to not do that, to get this off-the-shelf stuff that's already working. The industry is like, "What are you going to buy? Which one is it?" The machinations of the wheel have been turning in the U.S. and there's been a little bit more money, but you've got to make sure that Australia and the UK are angling for that capability as well if it's to be done under AUKUS.

And despite all of the efforts at regulatory reform to enable technology sharing and coordination, in my mind, we're way behind. Addressing information sharing is a problem that we should have focused way more attention on at the inception of the agreement, and there were a lot of us advocating for that right out the gate. For example, our classification systems don't match. What we call Secret or TS/SCI (Top Secret/Special Compartmented Information) is different from what our allies call it, so we need alignment there. If we need our Australian partners to be physically in the United States to be able to share sensitive information, this isn't going to work.

That's not to dismiss a lot of work that is going on. If you talk to somebody in government involved in one of the trilateral working groups, they're like, "Oh yeah, we're moving, we're going in the right direction." But the actual reforms need to be adopted into legislation, which is hard and time-consuming. While those involved in the AUKUS processes have the appropriate sense of urgency, I'm not necessarily convinced that everybody has the same sense of urgency. Government bureaucracy is tough. "Yes" is hard, "No" is easy. You've got all these stakeholders, especially the nuclear program that's been such a closely guarded secret. There's a lot of folks that don't want to give that information to anybody, and it's hard for them to let go of it.

What are the primary concerns for industry in the implementation of AUKUS Pillar 2?

Adam Leslie: I think the real risk is probably all of the people who now have expectations that AUKUS is going to be faster or bigger or better than what has really taken place until now. If, for instance, a CEO has told his investors, “Hey, look, we’re going after an AUKUS project and we’ve been assured that we’re going to be able to do some kind of advanced manufacturing in Australia and we can invest in that”, whatever it is, something that is based on a promise of what AUKUS could be without fully understanding where AUKUS actually is, then that’s a risk. I think there are few tech companies that are falling into that trap right now.

Fortunately, most investors, especially the wily ones, understand that this is an exercise in flag-waving and there might be some outcomes which are good, but really what it’s doing is creating energy in the market. That energy can always go away. Meanwhile, the reality of contract timelines and doing business with the government, that continues to remain the same. So, I think the people who have been in this space kind of get that. Even so, I think there’s way more upside than there is downside.

There’s also a risk in failing to think holistically about what is trying to be achieved with AUKUS, which goes beyond simply sharing military technology and hardware. For example, are there opportunities for the three countries to really secure supply chains from point of origin? You know, minerals in the sand all the way through to advanced manufacturing and production. People are thinking about it, but I don’t think that there is a lot of effort on the government side to say, “OK, well, how can we provide assurances that if Australia starts doing rare earth magnet and battery mineral mining, how do we then invest in middle-level processing in Australia?” Rather than sending stuff up to China, how do we then think about stockpiling and giving price assurance for some of those things when the Chinese are flooding the market and driving Western producers out of business? Many of the capabilities in Pillar 2 rely on these essential inputs. If there is no plan for securing sources of those inputs and you run out during a conflict, then that work under Pillar 2 isn’t sustainable when it’s really needed.

The other point I would make is that there are investors, such as private equity firms and the bigger infrastructure investors, who are looking for these sorts of opportunities. One thing the AUKUS partners need to start thinking about is logistics and the combination of logistics and force posture investment in the Indo-Pacific and combining that with development. There are assumptions that military planners are making about having access to refueling services or places to forward-deploy logistic capabilities in countries in the region that haven’t really been tested. One of the ways you can provide greater assurance for those things is to have Western capital invest in relevant infrastructure projects. That has a potential double effect of addressing BRI (**Belt and Road Initiative**) efforts, countering the Chinese narrative in the Indo-Pacific, and doing Western investment in a way that is holistic, incorporates democratic principles and fairness, and sends a unified deterrence message to Beijing.

Matt Ort: Industry is optimistic because they have to be ready when called upon, but they understand that there are risks. A big paradigm shift we’re hoping to see is the injection of private equity and venture capital into this process. I know of probably 4-5 new funds that have been set up in the last year specifically for AUKUS. You see firms like DYNE and Salas - they’re banking on AUKUS working out. Beyond the handful that are focused solely on AUKUS, there are many others that have portions of their portfolios in defense and would be happy to invest if they see a decent return. The reality is

that relying solely on government funding will not get us the agility and flexibility we need to rapidly identify capabilities and get them into the field.

The U.S. Navy has realized that with the decline of the industrial base and shipbuilding industry, they can't rely solely on Congressional funding. They need to turn to private equity and venture capital. I recently sat in on a roundtable in DC with Australian ministers and National Security Council folks, and there were many venture capital and private equity guys in the room wanting to be part of it. Defense is realizing they need it, but there are legislative hurdles to overcome. Once such private money starts flowing, it will inspire the prime contractors too. Industry doesn't care where the money comes from, they will produce if it's there. Private investors could help speed up the process and get more cutting-edge tech to warfighters faster. This also impacts recruiting and retention. Many join for the cool planes and cutting-edge tech, but it's frustrating when the "most advanced aircraft" you've been promised take 15 years to materialize. We're too sluggish in acquisitions, not agile enough.

So there's a lot of upside there. But there's also the real risk that AUKUS governments move too slowly, or are not visionary enough in their reforms, or the acquisition process doesn't do enough to adapt. If that happens, at the end of the day, there will have been a lot of energy generated but nothing really changes as far as permanent transformation of trilateral defense trade relationships under AUKUS.



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