

Whitepaper: AUVSI Partnership for Drone Competitiveness

For 120 years, since December 17, 1903, when Orville and Wilbur Wright launched the first crewed flight on a hill in Kitty Hawk, North Carolina, the United States has been the world leader in aviation.¹ The U.S. leads in commercial, business, and general aviation manufacturing and has a total aviation workforce of more than half a million people.² But there is one segment of the aviation industry that the United States does not lead: uncrewed aircraft systems (UAS) and domestic drone manufacturing and operations. While the U.S. has been content to maintain leadership of traditional segments in the aviation industry, China understood the tremendous economic and national security implications of uncrewed aviation and took aggressive measures to dominate the global UAS manufacturing and technology market.

In 2015, the People's Republic of China (PRC) launched "Made in China 2025," a ten-year whole-of-society effort to invest in key industries, primarily in the technology area, to ensure China's world leadership and market dominance.³ In a distinct role reversal with high-tech capitalist economies in the West, China has removed red tape to development while enabling sophisticated market mechanisms to spur rapid growth. While much of the discussion on PRC government involvement in the industry has centered around direct subsidization, the scope of their support is far greater. No Chinese company or investment firm is free of Chinese Communist Party (CCP) involvement. The CCP has used its influence to:⁴

- Direct investment firms to invest heavily in drones and component parts;⁵
- Direct banks to provide low-interest loans to industry participants;
- Direct companies to build Chinese domestic supply chains;
- Direct companies to buy domestically to meet domestic market share targets;
- Direct companies to spend a high percentage of their revenue on research and development;
- Direct companies to partner with high-tech industry to ensure an end-market; and
- Direct state-owned companies to acquire and transfer western technology.⁶

While this infrastructure has developed a robust internal industry for uncrewed systems in China, it has also allowed them to project their influence abroad and use their monopolistic position to put U.S. manufacturers at a disadvantage by flooding the global market with subsidized drones.

This is an illegal trade practice the U.S. Department of Commerce (DOC) labels as "dumping."⁷ In 2019, the U.S. Undersecretary for Defense, Ellen Lord, highlighted this challenge with respect to PRC drone company Da Jiang Innovations (DJI), noting, "We don't have much of a small UAS

¹ [1903-The First Flight - Wright Brothers National Memorial \(U.S. National Park Service\) \(nps.gov\)](https://www.nps.gov/1903-The-First-Flight-Wright-Brothers-National-Memorial)

² <https://datausa.io/profile/naics/aircraft-parts-manufacturing>

³ <https://www.csis.org/analysis/made-china-2025>

⁴ [Made-in-China-Backgrounder.pdf \(isdpeu\)](#)

⁵ <https://www.washingtonpost.com/national-security/2022/02/01/china-funding-drones-dji-us-regulators/>

⁶ [China Bought Italian Military-Drone Maker Without Authorities' Knowledge - WSJ](#)

⁷ <https://www.trade.gov/us-antidumping-and-countervailing-duties>: Unfair foreign pricing and government subsidies distort the free flow of goods and adversely affect American business in the global marketplace. Enforcement and Compliance, within the International Trade Administration of the Department of Commerce, enforces laws and agreements to protect U.S. businesses from unfair competition within the United States, resulting from unfair pricing by foreign companies and unfair subsidies to foreign companies by their governments.

industrial base because DJI dumped so many low-price quadcopters on the market, and we then became dependent on them.”⁸ More recently, former Secretary of Homeland Security, Chad Wolf, wrote that, “Chinese drone dumping presents a challenge not only to U.S. competitiveness, but more importantly, to our national security.”⁹ This monopolistic position has also created barriers to the development of U.S. supply chains for the autonomous industry by effectively excluding them from the largest markets. The results of Chinese drone dumping have been devastating to the U.S. drone manufacturing industry. Chinese drones account for more than 90% of the consumer market,¹⁰ 70% of the enterprise market (drones used as industrial tools),¹¹ and 92% of the first responder market.¹²

From the perspective of U.S. competitiveness and security, incentivizing U.S. leadership in the drone industry represents a strategic imperative in a market long characterized by state-subsidized companies based in China that have access to virtually unlimited, free to low-cost capital. As this paper will lay out, China has used its monopolistic position to flood the U.S. with subsidized drones, distorting the marketplace in favor of Chinese drones, stifling competition, and inhibiting new entrants. Further, by preventing access of U.S. component manufacturers into industry supply chains, China is able to stifle U.S. development of critical technology in autonomous systems. This has resulted in an emerging series of threats to the United States — including threats to national security, to the nation’s position as a global leader in aviation, to its aviation workforce, and to its democratic values and fundamental principles of human rights.

AUVSI accordingly challenges the U.S. government to take resolute action to level the playing field for U.S. drone manufacturers and their component suppliers. Additionally, we urge the U.S. government to work with its partners and allied nations to ensure they consider similar aid to support their domestic drone manufacturers and component suppliers. Together, the United States and its allied nations can effectively level the international playing field and spur robust competition with certain companies that are tied to our collective foreign adversaries. This paper sets forth the case for action and offers concrete policies to ensure U.S. companies can compete and win in the marketplace. Many of the suggestions in this paper would apply to small UAS, but the same lessons learned can be applied to larger UAS as well.

Further, the policies will enable change for markets beyond drones, including other autonomous and uncrewed vehicles, as well as other emerging technologies, which often use many of the same components and technology stacks. Lastly, consistent with AUVSI’s standing as an international organization, the recommendations in this paper will open supply chains for electronic components and rare earth materials that can be utilized by other international drone and electronics markets outside the United States that are also struggling to compete with subsidized Chinese competition and its dominance of the global electronics supply chain. AUVSI encourages the U.S. government to coordinate these activities with allied and partner nations, consistent with Washington’s approach to semiconductor reshoring, to generate a “stronger, more secure supply chain.”¹³

THE CHALLENGE

⁸ <https://foreignpolicy.com/2019/08/27/pentagon-seeks-to-counter-chinas-drone-edge/>

⁹ <https://www.foxnews.com/opinion/next-front-china-economic-war-out-this-world>

¹⁰ <https://www.reuters.com/article/us-usa-china-tech-dji-insight/game-of-drones-chinese-giant-dji-hit-by-u-s-tensions-staff-defections-idUSKBN2AZ0PV>

¹¹ Ibid

¹² <https://www.droneresponders.org/2019-chinese-uas-technology>

¹³ <https://www.foreignaffairs.com/united-states/industrial-policy-china-perils>

China Flooding the U.S. Market with Subsidized Drones and “No Limits’ Government Support

As noted, the flood of inexpensive drones into the U.S. has resulted in PRC drones accounting for more than 90% of the consumer market, 70% of the industrial drone market, and 92% of the first responder market. These figures account for all Chinese drones in the United States; however, one drone company dominates the U.S. and global market. Shenzhen-based Da Jiang Innovations, or DJI as it is commonly known, has been a major beneficiary of the “Made in China 2025” policy and the resulting subsidies. As a former U.S. Deputy Assistant Secretary of Defense put it, “China’s domination of drone manufacturing has been deliberately cultivated through aggressive government subsidies, direct investment, and strategic regulations to develop a domestic industry and gain a technological edge.”¹⁴ Accordingly, DJI is the world’s largest drone manufacturer, and has a dominant share of the U.S. and global drone market. According to a 2020 report from the Center for the Study of the Drone at Bard College, in 2020 DJI alone accounted for 77% of the U.S. hobby drone market and 90% of the commercial drone service provider market.¹⁵

In a February 2022 report, *The Washington Post* found that DJI’s investors included at least four Chinese investment firms with close ties to the government of the People’s Republic of China (PRC).¹⁶ The company’s investors include “China Chengtong Holdings Group, which is directly administered by Beijing’s State-owned Assets Supervision and Administration Commission, a ministerial-level organization tasked by China’s State Council to manage the country’s state-owned enterprises.”¹⁷ According to the *Post* report,

“Other funds that list DJI as an investment include the Shanghai Venture Capital Guidance Fund, which is administered under the Shanghai Municipal Government. Guidance funds in China mix state assets with private funds to advance Beijing’s industrial development goals in emerging industries. A Chinese-language S&P global report released in March 2021 says that state-run Guangdong Hengjian Investment Holding invested in DJI alongside SenseTime, which was also added to a U.S. sanctions list in December 2021 by the Biden administration over alleged human rights abuses in Xinjiang.¹⁸ SDIC Unity Capital, a fund administered by the State Development & Investment Corporation, a state-owned investment holding company approved by China’s State Council, also lists DJI as an investment on its website.”¹⁹

The PRC’s support for its drone industry, to the detriment of U.S. manufacturing and global competition, was recently reinforced by a Shenzhen visit from high-level government officials who noted “no-limits support” to DJI and the Shenzhen-based drone and component industry.²⁰ This unequivocal support for the PRC drone industry increasingly extends to another Shenzhen-based drone company, Autel Robotics (Autel), which has been growing in market share in recent years.²¹ Autel has received similar preferential tax rates and government subsidies as DJI, and as a result is similarly flooding the U.S. market with drones, crowding out U.S. and non-PRC

¹⁴ <https://www.thedefensepost.com/2023/10/13/drone-war-chinese-equipment/>

¹⁵ <https://dronecenter.bard.edu/files/2020/03/CSD-Public-Safety-Drones-3rd-Edition-Web.pdf>

¹⁶ <https://www.washingtonpost.com/national-security/2022/02/01/china-funding-drones-dji-us-regulators/>

¹⁷ Ibid

¹⁸ <https://www.washingtonpost.com/technology/2021/12/10/us-investment-ban-sensetime/>

¹⁹ <https://www.washingtonpost.com/national-security/2022/02/01/china-funding-drones-dji-us-regulators/>

²⁰ <https://www.scmp.com/economy/china-economy/article/3238118/shenzhen-trip-dji-visit-chinas-vice-premier-offers-no-limits-support-amid-us-tech-curbs>

²¹ <https://www.reuters.com/markets/asia/dji-is-more-elusive-us-target-than-huawei-2021-12-17/>

manufacturers who must compete on unequal footing with the government-backed PRC companies.²² The founder of Autel, Li Hongjing, described the PRC's support for the company as "indispensable oxygen" to the company.²³

Threat to U.S. National Security

PRC National Security Laws & Direct Threats to U.S. National Security

In January 2025, the U.S. House of Representatives bipartisan leadership of the Select Committee on the CCP noted, "Drones made in the People's Republic of China, including those made by DJI, pose acute risks to our national security and the privacy of all Americans."²⁴ The U.S. government has raised multiple security concerns associated with Chinese drone companies, which are obligated to comply with China's national security laws.²⁵ The Cybersecurity and Infrastructure Security Agency (CISA) warns:

Since 2015, the PRC has passed or updated comprehensive national security, cybersecurity, and data privacy laws and regulations, expanding their oversight of domestic and foreign companies operating within China. One of these laws, the PRC's 2017 National Intelligence Law, compels Chinese companies to cooperate with state intelligence services, including providing access to data collected within China and around the world. This includes prominent Chinese-owned UAS manufacturers that the Department of Defense has identified as "Chinese military companies" operating within the United States. The 2021 Data Security Law expands the PRC's access to and control of companies and data within China and imposes strict penalties on China-based businesses for non-compliance. The data collected by such companies is essential to the PRC's Military-Civil Fusion strategy, which seeks to gain a strategic advantage over the United States by facilitating access to advanced technologies and expertise. The 2021 Cyber Vulnerability Reporting Law requires Chinese-based companies to disclose cyber vulnerabilities found in their systems or software to PRC authorities prior to any public disclosure or sharing overseas. This may provide PRC authorities the opportunity to exploit system flaws before cyber vulnerabilities are publicly known.²⁶

As the former Director of Operations at U.S. Indo-Pacific Command, Rear Admiral Mark Montgomery, observed, "this National Intelligence Law of 2017 obliges PRC drone companies to provide whatever information they gather. This could include flight logs, users' sensitive data, and drone operators' geolocation."²⁷ Further, PRC policies require Chinese companies to install backdoors, or what the Chinese Communist Party refers to as "reserved interfaces," in software to allow the government access to data collected.²⁸ Montgomery has added additional context noting, "Numerous PRC-made drones have been detected in restricted U.S. airspace, including over Washington, D.C., despite DJI's claim that their drone design includes geofencing restrictions to

²² <https://www.defensenews.com/opinion/2023/09/15/dji-isnt-the-only-chinese-drone-threat-to-us-security-meet-autel/>

²³ <https://selectcommitteeontheccp.house.gov/sites/evo-subsites/selectcommitteeontheccp.house.gov/files/evo-media-document/11.29.23-letter-to-austin-yellen-and-raimondo-autel-drones-final-.pdf>

²⁴ <https://selectcommitteeontheccp.house.gov/media/press-releases/moolenaar-krishnamoorthi-commerces-move-restrict-prc-drones-enhances-national>

²⁵ <https://www.wsj.com/articles/china-adopts-sweeping-national-security-law-1435757589/> Article 7 of National Security Law of China states "All organizations and citizens shall support, assist, and cooperate with national intelligence efforts in accordance with law, and shall protect national intelligence work secrets they are aware of."

²⁶ https://www.cisa.gov/sites/default/files/2024-01/Cybersecurity%20Guidance%20Chinese-Manufactured%20UAS_final508_16JAN2024.pdf

²⁷ <https://www.defenseone.com/ideas/2023/08/extend-pentagons-ban-chinas-consumer-drones/389363/>

²⁸ <https://www.pointebello.com/insights/reserved-interfaces>

avoid sensitive locations.”²⁹ The former director of cybersecurity for the National Security Agency (NSA) noted, “Chinese drones are one of the most significant intelligence and national security threats we currently face as a country.”³⁰ Assistant Director of the FBI’s Cyber Division, Bryan Vorndran stated, “the widespread deployment of Chinese-manufactured UAS in our nation’s key sectors is a national security concern, and it carries the risk of unauthorized access to systems and data.”³¹

In January of 2025, the U.S. Department of Commerce initiated a formal effort to through the Bureau of Industry and Security (BIS) to explore how PRC drones “may offer our adversaries the ability to remotely access and manipulate these devices, exposing sensitive U.S. data.”³² The BIS effort notes that concerns over vulnerabilities in PRC drones could be exploited for data exfiltration, cyber espionage, and remote access control. Specific risks include unauthorized access to sensitive data, critical infrastructure disruption, and malicious firmware updates. BIS emphasizes that the PRC’s legal framework, as noted in this paper above, which compels companies to cooperate with government intelligence operations, exacerbates these risks. BIS further notes the PRC’s dominant market position in UAS and the potential for geopolitical leverage, making its involvement in the U.S. UAS supply chain a significant threat to national security, critical infrastructure, and personal safety.

In December of 2024, as part of the FY2025 National Defense Authorization Act, Congress passed language requiring a national security agency to conduct a security assessment of PRC drones.³³ Should the drones be deemed a threat to U.S. security, new models of PRC drones from DJI, Autel, and related and affiliated companies, like Anzu, Cogito, and Spectra, will be placed on the Federal Communications Commission’s “Covered List” restricting their ability to be imported to the United States.

In December of 2023, in recognition of the threat PRC drones pose to the United States, the American Security Drone Act was signed into law as part of the 2024 National Defense Authorization Act, prohibiting the U.S. government from purchasing and operating PRC drones, as well as drones from other “covered entities” including Iran, Russia, and North Korea.³⁴ In January 2024, CISA, along with the Federal Bureau of Investigation (FBI), released a warning memo noting that, “The use of Chinese-manufactured UAS in critical infrastructure operations risks exposing sensitive information to PRC authorities, jeopardizing U.S. national security, economic security, and public health and safety.”³⁵

The recent actions by the U.S. executive and legislative branches are just the latest examples of U.S. government action to address the threat of PRC drones dating back to at least 2017, as detailed below:

In August 2017, the U.S. Army discontinued the use of all DJI drones, referencing a classified Army Research Laboratory report on user vulnerabilities.³⁶ Also in 2017, a

²⁹ <https://www.defenseone.com/ideas/2023/08/extend-pentagons-ban-chinas-consumer-drones/389363/>

³⁰ <https://thehill.com/opinion/national-security/4730109-china-drones-intelligence-weapon/>

³¹ <https://www.cisa.gov/news-events/news/release-cybersecurity-guidance-chinese-manufactured-uas-critical-infrastructure-owners-and-operators>

³² <https://www.bis.gov/press-release/commerce-issues-advance-notice-proposed-rulemaking-secure-unmanned-aircraft-systems>

³³ <https://dronelife.com/2024/12/08/fy-2025-ndaa-conference-text-what-happened-with-the-countering-ccp-drones-act/>

³⁴ <https://www.congress.gov/bills/118th-congress/house-bill/2670/text?s=2&r=2&q=%7B%22search%22%3A%22national+defense+authorization+act+of+2024%22%7D>

³⁵ https://www.cisa.gov/sites/default/files/2024-01/Cybersecurity%20Guidance%20Chinese-Manufactured%20UAS_final508_16JAN2024.pdf

³⁶ <https://www.suasnews.com/2017/08/us-army-calls-units-discontinue-use-dji-equipment/>

Homeland Security Intelligence Bulletin noted that “since 2015, DJI has targeted a number of U.S. companies in the critical infrastructure and law enforcement sectors to market its UAS” and “the Chinese government is likely using information acquired from DJI systems as a way to target assets.”³⁷ In 2019, CISA released a threat memo reinforcing the serious security risk associated with PRC drones. The memo stated:

“The United States government has strong concerns about any technology product that takes American data into the territory of an authoritarian state that permits its intelligence services to have unfettered access to that data or otherwise abuses that access. Those concerns apply with equal force to certain Chinese-made UAS-connected devices capable of collecting and transferring potentially revealing data about their operations and the individuals and entities operating them, as China imposes unusually stringent obligations on its citizens to support national intelligence activities. Security professionals should mitigate these risks in the same manner that they would any other connected technology.”³⁸

In 2019, the United States Congress prohibited the DoD from purchasing drones made by companies based in China in Section 848 of the Fiscal Year 2020 National Defense Authorization Act (NDAA).³⁹ In 2022, in Section 817 of the Fiscal Year 2023 NDAA, Congress expanded Section 848 to prohibit private companies working with the DoD from using insecure drones in the performance of federal contracts.⁴⁰ In the same legislation, Congress directed the U.S. Coast Guard to transition their drone fleet to secure systems within 90 days.⁴¹ As noted, Congress extended the DoD ban on PRC drones to all U.S. government agencies with the passage of the ASDA in 2023. Congress is also considering legislation to mandate the Federal Communications Commission (FCC) to list DJI on the List of Equipment and Services Covered by Section 2 of The Secure Networks Act, which consists of companies deemed to pose an unacceptable risk to the national security of the United States.⁴² That action is supported publicly by at least one FCC Commissioner.⁴³

In addition to Congressional action, the administrations of both President Trump and President Biden have taken actions to address security concerns from Chinese drones. President Biden has continued implementation of Executive Order 13981, initially issued by President Trump, which makes it U.S. policy to “prohibit the use of taxpayer dollars to procure UAS that present unacceptable risks and are manufactured by...foreign adversaries, and to encourage the use of domestically produced UAS.”⁴⁴ In October 2020, the U.S. Department of Justice (DOJ) banned the use of agency grants for purchasing Chinese drones, citing national security concerns, noting the drones are “subject to or vulnerable to extrajudicial direction from a foreign government.”⁴⁵ Also in 2020, the Department of Interior (DOI) grounded all Chinese drones in its fleet, noting cybersecurity risks.⁴⁶

³⁷ <https://info.publicintelligence.net/ICE-DJI-China.pdf>

³⁸ https://content.govdelivery.com/attachments/USDHS/2020/06/03/file_attachments/1465486/Industry%20Alert%20-%20Chinese%20Manufactured%20UAS%20%2820%20May%202019%29.pdf

³⁹ <https://www.congress.gov/bills/116th-congress/senate-bill/1790/text>

⁴⁰ <https://www.congress.gov/bills/117th-congress/house-bill/7776/text>

⁴¹ Ibid

⁴² <https://www.rubio.senate.gov/public/index.cfm/2022/2/rubio-scott-cotton-stefanik-introduce-legislation-to-counter-chinese-drones> & <https://gallagher.house.gov/media/press-releases/gallagher-calls-us-take-swift-action-against-chinese-drone-maker-dji>

⁴³ <https://www.fcc.gov/document/carr-calls-review-dji-citing-national-security-risks>

⁴⁴ <https://www.federalregister.gov/documents/2021/01/22/2021-01646/protecting-the-united-states-from-certain-unmanned-aircraft-systems>

⁴⁵ <https://www.ojp.gov/sites/g/files/xyckuh241/files/media/document/ojpororderfundingdrones.pdf>

⁴⁶ <https://www.doi.gov/sites/doi.gov/files/signet-so-3379-uas-updated-10.6.2020-508.pdf>

Specific to DJI, in July 2021, the DoD labeled the company as posing “potential threats to national security” in a statement dedicated to the Pentagon’s concerns about DJI.⁴⁷ In October 2022, the DoD identified DJI as a “Chinese military company” operating in the U.S. under Section 1260H of the Fiscal Year 2021 NDAA.⁴⁸ The Section 1260H list catalogs companies that the DoD believes contribute to the modernization goals of the People’s Liberation Army, ensuring its access to advanced technologies as part of China’s military-civil fusion strategy. The U.S. Department of Commerce placed DJI on the Entity List,⁴⁹ and the U.S. Department of the Treasury placed DJI on the Office of Foreign Assets Control’s (OFAC) list of Chinese tech firms that are part of the Chinese military-industrial complex.⁵⁰ These lists restrict U.S. investments in DJI based on allegations of support of human rights abuses against the Uyghur people.

Specific to Autel, the U.S. House of Representatives’ Select Committee on the Chinese Communist Party Committee elaborated on Autel’s threat to U.S. national security, noting, “Autel is openly affiliated with the People’s Liberation Army (PLA) and poses a direct threat to U.S. national security as local law enforcement and state and local governments are purchasing and operating Autel drones, potentially exposing sensitive data across the country... Autel and its affiliates present themselves as a commercial-oriented business, but Chinese-language web postings reveal that the company is an active PLA supplier, as indicated by Autel job ads recruiting for a military industry sales director, while also publicly working alongside a PLA militia.”⁵¹ In June of 2024, the Department of Commerce, in consort with the U.S. Departments of Treasury and State, added Autel to the Entity List due to the company’s active support of Russia’s illegal invasion of Ukraine, as detailed below.⁵² In January 2025, Autel was added identified as a “Chinese military company” operating in the U.S. under Section 1260H of the Fiscal Year 2021 NDAA.⁵³

In September of 2024, a dozen Members of the U.S. House of Representatives wrote to CISA and the Department of Agriculture expressing concern about “relying on our greatest strategic adversary for technology critical to the success of our agricultural production endangers the resiliency of our food supply.”⁵⁴

Supply Chain Control – A Weapon of War

In testimony before Congress, the Alliance for American Manufacturing (AAM) testified that “The United States’ reliance on China, in particular, for critical supply chains is a significant danger for our economic and national security.”⁵⁵ China’s dominance of the global drone market poses

⁴⁷ <https://www.defense.gov/News/Releases/Release/Article/2706082/department-statement-on-dji-systems/>

⁴⁸ <https://www.defense.gov/News/Releases/Release/Article/3180636/dod-releases-list-of-peoples-republic-of-china-prc-military-companies-in-accord/>

⁴⁹ <https://www.bis.doc.gov/index.php/documents/regulations-docs/2326-supplement-no-4-to-part-744-entity-list-4/file>

⁵⁰ <https://sanctionssearch.ofac.treas.gov>

⁵¹ <https://democrats-selectcommitteeontheccp.house.gov/media/press-releases/krishnamoorthi-gallagher-colleagues-request-biden-administration-investigate>

⁵² [https://www.bis.gov/sites/default/files/press-release-uploads/2024-06/Department%20of%20Commerce%20Announces%20Additional%20Export%20Restrictions%20to%20Counter%20Russian%20Aggression.p](https://www.bis.gov/sites/default/files/press-release-uploads/2024-06/Department%20of%20Commerce%20Announces%20Additional%20Export%20Restrictions%20to%20Counter%20Russian%20Aggression.pdf)
[df](https://www.bis.gov/sites/default/files/press-release-uploads/2024-06/Department%20of%20Commerce%20Announces%20Additional%20Export%20Restrictions%20to%20Counter%20Russian%20Aggression.pdf)

⁵³ <https://public-inspection.federalregister.gov/2025-00070.pdf>

⁵⁴ <https://dustyjohnson.house.gov/media/press-releases/johnson-requests-briefing-chinese-drones>

⁵⁵ Testimony of Scott N. Paul, President, Alliance for American Manufacturing Before the Energy and Commerce Subcommittee on Innovation, Data, and Commerce, Hearing Entitled, “Mapping America’s Supply Chains: Solutions to Unleash Innovation, Boost Economic Resilience, and Beat China” September 20, 2023:

https://d1dth6e84htgma.cloudfront.net/Scott_Paul_Testimony_IDC_Hearing_Supply_Chains_2023_09_20_1_6b75d3cfee.pdf

multiple challenges for the United States; accordingly, the Partnership for Drone Competitiveness concurs with the threat assessment by the AAM and lays out the details below.

In addition to controlling much of the world's drone production, China similarly controls much of the component supply chain as well. As a former Deputy Assistant Secretary of Defense noted, "This state-driven approach has made China the world's drone factory and created a dangerous imbalance in the global supply chain. Beijing has near total control over a vital tool in both modern warfare and domestic use cases."⁵⁶

In October 2024, China did in fact weaponize its control of the drone component supply chain by sanctioning U.S. drone manufacturer, Skydio, cutting the company off from its PRC-based battery supplier.⁵⁷ Ostensibly, the PRC's rationale for sanctioning Skydio was due to its sale of drones to Taiwan. In Skydio's case, they sold their drones to the National Fire Agency for public safety mission. Skydio CEO, Adam Bry, noted in response to the sanctions:

"This is a clarifying moment for the drone industry. If there was ever any doubt, this action makes clear that the Chinese government will use supply chains as a weapon to advance their interests over ours. The drone market has historically been dominated by Chinese companies who are now rapidly losing market share to Skydio and our Western peers. This is an attempt to eliminate the leading American drone company and deepen the world's dependence on Chinese drone suppliers."⁵⁸

The U.S.-China Economic and Security Review Commission warns of the risk this reliance on China poses for U.S. companies, noting that non-PRC companies should build more resilient technology supply chains.⁵⁹ A recent article in *Foreign Affairs* about the semiconductor industry observed that "the United States' reliance on foreign sources that are vulnerable to global rivals for semiconductors and other critical goods carries significant national security risks."⁶⁰ That logic applies equally to drones – a sector that, like semiconductors, has "become overly concentrated in China or in countries that are vulnerable to Chinese influence."⁶¹ Members of Congress have also identified the PRC's supply chain control as a weapon of war, noting, "If the success of the U.S. agricultural industry is dependent on American farmers' access to procuring and operating Chinese drones, then Communist China will have control over our nation's food supply."⁶²

This supply chain control is not an academic challenge; this poses a massive threat to U.S. national and economic security now. As AAM observed in Congressional testimony, "We should no longer question whether China will weaponize its supply chains and our reliance upon them to its advantage."⁶³ A *War on the Rocks* post wrote, "Supply chain interdiction in the open market can achieve desired outcomes without kinetic action or politically fraught sanctions."⁶⁴ The post goes on to note that, "The Department of Defense should view supply chain interdiction within the open marketplace as an effective weapon of war."⁶⁵

⁵⁶ <https://www.thedefensepost.com/2023/10/13/drone-war-chinese-equipment/>

⁵⁷ <https://breakingdefense.com/2024/11/chinese-sanctions-on-us-drone-firm-were-signal-about-supply-chain-weaknesses-diu-official/>

⁵⁸ <https://www.skydio.com/blog/chinas-sanctions-on-skydio>

⁵⁹ <https://www.wsj.com/articles/congressional-u-s-china-commissioner-warns-of-global-tech-supply-chain-risk-ae49ad2d?mod>

⁶⁰ <https://www.foreignaffairs.com/united-states/industrial-policy-china-perils>

⁶¹ Ibid

⁶² <https://dustyjohnson.house.gov/media/press-releases/johnson-requests-briefing-chinese-drones>

⁶³ https://d1dth6e84htgma.cloudfront.net/Scott_Paul_Testimony_IDC_Hearing_Supply_Chains_2023_09_20_1_6b75d3cfee.pdf

⁶⁴ <https://warontherocks.com/2023/05/the-art-of-supply-chain-interdiction-to-win-without-fighting/>

⁶⁵ Ibid

Lawfare observes, “A foreign adversary dominating the world market could deny the U.S. effective drone support in warfighting or potentially disable U.S. drones in a conflict.”⁶⁶ The *Lawfare* article proved prescient, confirming the fear that Chinese companies could and in fact would use software updates to disable drones.

A December 2023 firmware update from Autel disabled any drone – a process known as “bricking,” i.e. essentially turning a drone into a brick since it will no longer fly – in “conflict zones” as defined by the company, presumably with direct influence from the CCP.⁶⁷ The bricking process extended into international conflicts in Ukraine and Israel, but also, aligning with CCP policy, into the entire island of Taiwan and the disputed the Arunachal Pradesh region on the border of India and the PRC.⁶⁸ This is a disturbing example of CCP policy extending directly into corporate supply chain interdiction as a weapon of war.

The supply chain dominance by the PRC is also having real time implications in the ongoing war in Ukraine. As the *New York Times* recently noted, “More than any conflict in human history, the fighting in Ukraine is [a war of drones](#). That means a growing reliance on suppliers of the flying vehicles — specifically, China.”⁶⁹ The article goes on to state that this reliance “has given China a hidden influence in a war that is waged partly with consumer electronics.”⁷⁰ The Department of Defense (DoD) has recognized this problem, noting that the “replenishment rates for unmanned aerial delivery vehicles are neither capable of meeting surge demand nor achieving affordable mass.”⁷¹

Support to Russia’s Illegal Invasion of Ukraine

Further highlighting the threat to national security is China’s decision to supply Russia with DJI and Autel drones, as well as drones from other Chinese manufacturers, to aid Russia’s illegal invasion of Ukraine. *The New York Times* noted in early 2023, “In the year since Russia’s invasion of Ukraine, China has sold more than \$12 million in drones and drone parts to the country, according to official Russian customs data from a third-party data provider.”⁷² The *Times* highlighted that these sales include “a mix of products from DJI, the world’s best-known drone maker, and an array of smaller companies.”⁷³

As noted, the Department of Commerce added Autel to its Entity List in June of 2024, noting, “Shenzhen Daotong Intelligent Aviation Technology Co., Ltd (Autel), located in China, has been involved in the shipment of controlled items to Russia since Russia’s invasion of Ukraine in February 2022 as well as acquiring and attempting to acquire U.S.-origin items applicable to unmanned aerial vehicles to be used by Chinese military entities.”⁷⁴ According to the U.S. House of Representatives’ Select Committee on the Chinese Communist Party “Recent reports have

⁶⁶ <https://www.lawfareblog.com/us-reliance-chinese-drones-sector-next-chips-act>

⁶⁷ <https://dronexl.co/2023/12/24/autel-robotics-drone-no-fly-zones-conflict/>

⁶⁸ Ibid

⁶⁹ <https://www.nytimes.com/2023/09/30/technology/ukraine-russia-war-drones-china.html>

⁷⁰ Ibid

⁷¹ <https://www.diu.mil/work-with-us/submit-solution/PROJ00507>

⁷² <https://www.nytimes.com/2023/03/21/business/russia-china-drones-ukraine-war.html>

⁷³ Ibid

⁷⁴ [https://www.bis.gov/sites/default/files/press-release-uploads/2024-](https://www.bis.gov/sites/default/files/press-release-uploads/2024-06/Department%20of%20Commerce%20Announces%20Additional%20Export%20Restrictions%20to%20Counter%20Russian%20Aggression.pdf)

[06/Department%20of%20Commerce%20Announces%20Additional%20Export%20Restrictions%20to%20Counter%20Russian%20Aggression.pdf](https://www.bis.gov/sites/default/files/press-release-uploads/2024-06/Department%20of%20Commerce%20Announces%20Additional%20Export%20Restrictions%20to%20Counter%20Russian%20Aggression.pdf)

found that Autel drones are being marketed in Russia under the name *Patriot*, while the company itself continues to assert full compliance with relevant export control laws.”⁷⁵

Showcasing the broader supply chain complications, the *Times* wrote, “American efforts to isolate Russia from much-needed technology and cash have been complicated by China’s dominance of the global electronics supply chain.”⁷⁶ The *Times* observed, “The United States has sought to undercut some Chinese companies through export controls in recent years, but the world remains heavily reliant on China’s city-size assembly plants and clusters of specialized component makers.”⁷⁷ Another *Times* article reported that “Direct drone shipments by Chinese companies to Ukraine totaled just over \$200,000 this year through June, according to trade data. In that same period, Russia received at least \$14.5 million in direct drone shipments from Chinese trading companies.”⁷⁸

China’s dominance of the electronics supply chain, including drones, is harming U.S. national security interests, domestically and in Ukraine, and exposes the risk of relying on a strategic competitor for a key supply chain. The United States government — the White House, DoD, DOJ, and Congress — have all deemed Chinese-made drones as a whole, and DJI specifically, as a threat to national security. Accordingly, action must be taken for the U.S. drone market to compete on a level playing field and grow to meet the demand of the U.S. military and commercial industries.

Threat to U.S. Aviation Leadership & Workforce

The U.S. must recognize that, in addition to national security concerns, China’s subsidized drone market is harming the U.S. workforce, and ultimately our standing as the global leader in aviation. Drones are already playing an important role in the economy, and that role will continue to grow as drones become indispensable tools used for industrial inspection, lifesaving operations by first responders, and the delivery of products and services. Drones are also critically important to U.S. leadership in a new era of aviation defined by uncrewed and autonomous systems. The drones of today — relatively small systems that fly relatively close to the ground to inspect industrial sites and deliver goods — increasingly employ advanced autonomy technology that, once perfected, will enable much larger uncrewed systems to carry people and cargo. The future of aviation is in advanced automation and autonomy, and the United States must invest in building the knowledge base, workforce, and manufacturing capacity to lead. If we cede leadership in drones and autonomy to other nations, specifically China, we are posturing ourselves poorly on the world stage and opening the door for even greater national security risks.

American drone manufacturers face multiple challenges when competing against subsidized foreign competition. Critical components, rare earth materials, and supply chains outside of China can be difficult to access, and often, if available at all, come at a significantly higher cost due to Chinese subsidization artificially lowering the price of Chinese components. Moreover, with the ability to flood the U.S. with subsidized Chinese-made drones, China has artificially lowered the price of drones, making it challenging for U.S. manufacturers, who compete in the commercial marketplace without government subsidies, to be competitive on price. One U.S. drone industry executive noted that “DJI dropped its prices by as much as 70% in less than a year,” driving the

⁷⁵ <https://selectcommitteeontheccp.house.gov/sites/evo-subsites/selectcommitteeontheccp.house.gov/files/evo-media-document/11.29.23-letter-to-austin-yellen-and-raimondo-autel-drones-final-.pdf>

⁷⁶ <https://www.nytimes.com/2023/03/21/business/russia-china-drones-ukraine-war.html>

⁷⁷ Ibid

⁷⁸ <https://www.nytimes.com/2023/09/30/technology/ukraine-russia-war-drones-china.html>

U.S. company to end drone production.⁷⁹ These artificially low prices drive sales away from commercial U.S. companies and into subsidized Chinese companies, fulfilling the goal of Made in China 2025.

In July of 2018, the United States Trade Representative (USTR) instituted Section 301 tariffs on a broad range of Chinese goods, including drones. The 25% tariffs were reinforced in July of 2022 and specific categorizations were added for different categories of drones.⁸⁰ To avoid the tariffs and current and potential future restrictions on DJI drones, it appears as though DJI has developed various “passthrough companies” with Anzu Robotics and Cogito.⁸¹ As the U.S. House Select Committee on the CCP noted in an August 2024 letter to the Department of Commerce, “security researchers have confirmed that Anzu’s Raptor T is essentially a DJI Mavic 3 painted green, with its remote control and application all running on DJI technology. Researchers have likewise found that Cogito’s Specta Air is likewise effectively identical to the DJI Air 3—including parts that are interchangeable with those on DJI’s drones and an internal code that lists “DJI” as the manufacturer. DJI appears to be using these companies as part of a concerted effort to thwart current and prospective restrictions on its operations imposed by the United States.”

Chinese government policies of subsidies, dumping, tariff circumvention, and “white label” products harm the U.S. industry’s ability to attract capital, investment, and workforce and ultimately stifle innovation and the growth of the U.S. market. This vicious cycle can be upended through targeted government action, including demand signals, tax incentives, grant programs, and other efforts to level the playing field for U.S. manufacturers. It will be imperative that any potential grant program has palatable and sensible requirements and that the funding is easily and widely accessible.

Threat to U.S. Values & Fundamental Human Rights

In addition to posing threats to U.S. national security and distorting the economic marketplace by flooding the U.S. with subsidized drones, DJI and Autel have been alleged to support human rights abuses.

As noted, the in 2021 U.S. Department of Commerce placed DJI on the Entity List,⁸² and the U.S. Department of the Treasury placed DJI on the Office of Foreign Assets Control’s (OFAC) list of Chinese tech firms that are part of the Chinese military-industrial complex.⁸³ These lists restrict U.S. investments in DJI based on allegations of support of human rights abuses against the Uyghur people. Specifically, the Department of the Treasury noted, “SZ DJI Technology Co., Ltd. (SZ DJI) operates or has operated in the surveillance technology sector of the economy of the PRC. SZ DJI has provided drones to the Xinjiang Public Security Bureau, which are used to surveil Uyghurs in Xinjiang. The Xinjiang Public Security Bureau was previously designated in July 2020, pursuant to E.O. 13818, for being a foreign person responsible for, or complicit in, or that has directly or indirectly engaged in, serious human rights abuse.”⁸⁴ As noted earlier, in October 2022,

⁷⁹ <https://www.vox.com/2017/4/14/14690576/drone-market-share-growth-charts-dji-forecast>

⁸⁰ <https://www.wileyconnect.com/new-import-codes-for-drones-what-you-need-to>

⁸¹ <https://selectcommitteeontheccp.house.gov/sites/evo-subsites/selectcommitteeontheccp.house.gov/files/evo-media-document/2024-08-20%20-%20DOC%20Anzu%20+%20Cogito%20Letter.pdf>

⁸² <https://www.bis.doc.gov/index.php/documents/regulations-docs/2326-supplement-no-4-to-part-744-entity-list-4/file>

⁸³ <https://sanctionssearch.ofac.treas.gov>

⁸⁴ <https://home.treasury.gov/news/press-releases/jy0538>

the DoD identified DJI as a “Chinese military company” operating in the U.S. under Section 1260H of the Fiscal Year 2021 NDAA.⁸⁵

In November of 2023, Members of Congress serving on the Select Committee on the Chinese Communist Party wrote to the U.S. Secretaries of Defense, Treasury, and Commerce asking that Autel also be added to the Commerce Entity list, the DoD Chinese Military Companies list, and the Treasury Non-SDN Chinese Military Industrial Complex List.⁸⁶ The letter describes Autel’s affiliation with the Chinese military, the People’s Liberation Army (PLA), and concerns that “Autel’s technology has been leveraged by PRC public security officials to conduct surveillance operations throughout the country and that Autel maintains operations in the Xinjiang Uyghur Autonomous Region, the base of the Chinese Communist Party’s (CCP) genocidal repression against Uyghurs and other ethnic minority groups.”⁸⁷

It is U.S. government policy to combat forced labor in Xinjiang and strengthen international coordination against this egregious violation of human rights.⁸⁸ To be consistent with this policy, and American values, the U.S. must move away from Chinese drones, which have been found by the U.S. government to facilitate human rights abuses against the Uyghur people.

SOLUTIONS FROM THE PARTNERSHIP FOR DRONE COMPETITIVENESS

U.S. Drone Manufacturing Competitiveness & Security

From the perspective of U.S. competitiveness and security, incentivizing U.S. leadership in the drone industry — the focal point of a new era of aviation — represents a strategic imperative in a market long characterized by state-subsidized companies based in China. AUVSI believes it is essential to advance security and competitiveness in a thoughtful way that respects existing investments while building toward a more secure, sustainable future that puts U.S. interests — including security, the economy, and overarching values — first. By addressing these issues in a measured manner, we believe we can help to balance competing interests and facilitate sound policy.

Leveling the Playing Field for U.S. Drone Manufacturing

U.S. drone manufacturers and their component supply chain have struggled to compete against foreign subsidized competition, which hinders the availability of American-made UAS on the market and impedes workforce growth and investment. Accordingly, the U.S. government must foster a more competitive and fair playing field for U.S.-based drone manufacturers. AUVSI is advocating for specific proposals that would generate demand for U.S.-made drones and supply-side measures that level the playing field for U.S. drone and component manufacturers against subsidized competition and dumping practices.

⁸⁵ <https://www.defense.gov/News/Releases/Release/Article/3180636/dod-releases-list-of-peoples-republic-of-china-prc-military-companies-in-accord/>

⁸⁶ <https://selectcommitteeontheccp.house.gov/sites/evo-subsites/selectcommitteeontheccp.house.gov/files/evo-media-document/11.29.23-letter-to-austin-yellen-and-raimondo-autel-drones-final-.pdf>

⁸⁷ Ibid

⁸⁸ Public Law 116-145, UYGHUR HUMAN RIGHTS POLICY ACT OF 2020:
<https://www.govinfo.gov/content/pkg/PLAW-116publ145/html/PLAW-116publ145.htm>

As noted by Chairman Eric Schmidt and President & CEO Ylli Bajraktari of the Special Competitiveness Studies Project (SCSP) in their intro to SCSP's recently released *National Action Plan for U.S. Leadership in Advanced Manufacturing*, "The national security implications of advanced manufacturing cannot be understated. Prudence requires that the United States rebuild its advanced manufacturing ecosystem — including both the know-how and capacity to build things that the country needs."⁸⁹ This is especially true for drones, which are a dual use technology.

Bolstering new drone manufacturing capabilities and the associated workforce will require infrastructure and capital expenditures. Providing tax incentives, loan guarantees, and other mechanisms to spur that spending would accelerate growth and development that would have otherwise been delayed or denied. Manufacturer tax credits for the production and sale of certain UAS equipment and components produced and sold in the U.S. would benefit the industry and its competitiveness and would decrease reliance on subsidized, foreign drones.

This has worked in other industries. According to the *Financial Times*, U.S. manufacturing commitments doubled — to more than \$200 billion, creating 82,000 jobs — based on the success of tax incentive programs for other industries, including solar panels, semiconductors, electric vehicles, and other clean technologies.⁹⁰ In the solar industry alone, since the passage of the Solar Energy Manufacturing Act (SEMA), more than \$100 billion in private sector investment has been made into fifty-one new manufacturing facilities in the United States, ultimately representing more than 20,000 additional U.S. jobs to be created and significant capacity added for domestic solar panel production.⁹¹ A September 2024 report found that based upon new federal incentives, U.S. solar panel manufacturing capacity grew by 400%.⁹²

In a hearing on the CHIPS and Science Act, it was stated that since the law was enacted, along with \$39 billion in government appropriations and 25% investment tax credit to spur domestic production of semiconductors, more than \$200 billion in additional private sector funding has flowed into the industry in the U.S.⁹³ Recently, the Energy Department has made \$15.5 billion in new funding available to spur domestic battery manufacturing through cost-shared grants and loans.⁹⁴ In February 2024, to bolster the security of U.S. ports, the White House issued an Executive Order to "strengthen maritime cybersecurity, fortify our supply chains and strengthen the United States industrial base" with a \$20 billion investment in onshoring U.S. crane construction.⁹⁵

The time has come for the U.S. Government to act to similarly spur investment into the U.S. drone and component marketplace.

The Partnership for Drone Competitiveness supports:

⁸⁹ <https://www.scsp.ai/wp-content/uploads/2024/06/Advanced-Manufacturing-Action-Plan.pdf>

⁹⁰ <https://www.ft.com/content/b1079606-5543-4fc5-acae-2c6c84b3a49f>

⁹¹ <https://www.seia.org/research-resources/impact-inflation-reduction-act>

⁹² <https://seia.org/news/report-u-s-solar-panel-manufacturing-capacity-grows-nearly-4x-under-new-federal-incentives/>

⁹³ Senate Committee on Commerce, Science, and Transportation CHIPS and Science Implementation and Oversight, October 4, 2023:

<https://www.commerce.senate.gov/2023/10/chips-and-science-implementation-and-oversight>

⁹⁴ <https://www.energy.gov/articles/biden-harris-administration-announces-155-billion-support-strong-and-just-transition>

⁹⁵ <https://www.whitehouse.gov/briefing-room/statements-releases/2024/02/21/fact-sheet-biden-harris-administration-announces-initiative-to-bolster-cybersecurity-of-u-s-ports/>

- **Manufacturing tax credits:** To promote domestic drone manufacturing capacity, Congress needs to develop a tax incentive program for drone manufacturing. This program can leverage the language and model the frameworks of SEMA, CHIPS, the House’s Bioeconomy Research and Development Act of 2021 (America Creating Opportunities for Manufacturing, Pre-Eminence in Technology and Economic Strength (COMPETES) Act of 2022), and the Senate’s United States Innovation and Competition Act (USICA) on semiconductors and other technologies.
- **Loan guarantees:** In addition to tax incentives, to promote competitiveness against subsidized Chinese competition, Congress should develop a program of loan guarantees to U.S. drone and component manufacturers modeled around language included in the Advanced Technology Vehicles Manufacturing Direct Loan Program.
- **Ensuring critical mineral access:** Access to rare earth driven components is a challenge to U.S. drone and component manufacturers. Congress should enact legislation along the lines of H.R. 8981, the Securing America’s Mineral Supply Chains Act, from the 117th Congress. It would be highly beneficial to the American drone industry by helping ensure the domestic availability of critical materials that are required in the manufacturing of UAS and their components.

In taking action to level the playing field and promote competition, the U.S. government should also coordinate activities with allied and partner nations to create a stronger, more secure supply chain.

Federal Market Demand Programs

Programs focused on U.S.-made drone acquisition incentives, specifically grants, would signal to investors the market opportunity for U.S. drones, stimulating investment into U.S. drone and component manufacturing. These programs are also fair and market-driven, maximizing public choice, as the government would not be picking winners and losers.

Federal Grants for First Responders

According to a 2019 survey by Droneresponders, 92% of first responders in the U.S. are using drones made by China.⁹⁶ This is a direct consequence of China subsidizing the drones, driving down costs, and a program to donate DJI drones to first responders.⁹⁷ The Droneresponders survey also noted that 88% of first responder agencies would prefer to use U.S. drones; however, cost is a major factor in being able to transition away from the subsidized Chinese drones to market-based U.S. drones.⁹⁸

- Congress should enact a new program designed to help public safety agencies transition from using Chinese drones to U.S.-made solutions. This program could borrow lessons from the Supply Chain Reimbursement Program which “reimburses providers of advanced communications services ... incurred in the removal, replacement, and disposal of communications equipment and services

⁹⁶ <https://www.droneresponders.org/2019-chinese-uas-technology>

⁹⁷ <https://www.newsweek.com/lawmakers-request-federal-inquiry-over-concerns-drones-donated-china-are-being-used-spy-us-1504222>

⁹⁸ <https://www.droneresponders.org/2019-chinese-uas-technology>

produced or provided by Huawei Technologies Company (Huawei) or ZTE Corporation (ZTE).”⁹⁹

- This new program should be funded appropriately to ensure sufficient annual funding to ensure that a) public safety agencies can begin to replace and upgrade drone fleets, and b) U.S. domestic drone manufacturing can meet demand in terms of both production capability and drone reliability and capability.
- H.R. 8416, the Drones for First Responders (DFR) Act, would establish a new grant program for first responders, critical infrastructure providers, and farmers and ranchers to purchase secure drones that are manufactured and assembled in the U.S. or allied nations.¹⁰⁰ The grant program would be funded through incremental increases in the existing tariffs on PRC drones, with all the tariff funds collected directed into the grant program to ensure it is revenue neutral.
- Congress should enhance existing federal grant programs for first responders. Reports confirm that DOJ, FEMA and other agencies have permitted federal taxpayer dollars to fund the purchase of Chinese-made drones.¹⁰¹ Congress should ban that practice and ensure that federal grant programs to support first responders are adequately funded to enable state and local agencies to transition to secure, U.S.-made solutions.
 - This should include, among other programs, the Department of Justice’s Byrne Memorial Justice Assistance Grant (JAG) program, the Department of Homeland Security’s (DHS) Urban Areas Security Initiative (UASI) Program, and the Federal Emergency Management Agency’s (FEMA’s) Homeland Security Grant Program.
 - Critically, these and other federal grant programs for first responders must allow grant recipients to purchase drones. At present, the Justice Department’s Bureau of Justice Assistance flatly prohibits the use of grant funds to purchase UAS,¹⁰² as does FEMA’s Assistance to Firefighters Grants (AFG) Program. Enabling these programs to support the purchase of U.S.-made drones would significantly benefit first responders.

Federal Grants for Infrastructure Inspection

- Congress should fully fund the recently enacted the Drone Infrastructure Inspection Grant (DIIG) Act, which would create a \$48 million grant program for local, state, and tribal governments to use U.S.-made drones for critical infrastructure inspection and construction projects.
 - The DIIG Act also provides grant funding for workforce development programs, coupling with community colleges and four-year institutions, to enable the future workforce required for the U.S. to remain a global aviation leader.

⁹⁹ <https://www.fcc.gov/supplychain/reimbursement>

¹⁰⁰ <https://stefanik.house.gov/2024/5/stefanik-introduces-bill-to-bolster-the-u-s-drone-industry>

¹⁰¹ <https://www.tabletmag.com/sections/news/articles/government-funds-chinese-spy-technology-americas-backyard>

¹⁰² <https://bja.ojp.gov/program/jag/prohibited-expenditures-associated-procedures-under-jag>

- The DIIG Act would enhance U.S. drone competitiveness by spurring investment in the U.S. drone industry and worker training and provide tangible benefits for infrastructure resilience.
- U.S. Department of Transportation (DOT) programs that enable the use of drones for infrastructure inspection, such as the Every Day Counts (EDC) program, should incentivize the use of U.S. manufactured drones.
- Congress should enact a new program designed to help industrial inspection companies engaged in critical infrastructure inspection transition from using Chinese drones to U.S.-made programs, which could reflect, in part, the Supply Chain Reimbursement Program as mentioned above for first responders. Again, the program should be funded appropriately to ensure that critical infrastructure owners and operators can begin to replace and upgrade drone fleets and U.S. domestic drone manufacturing can meet demand in terms of both production capability and drone reliability and capability.

DoD Programs

DoD programs across all domains have identified uncrewed systems as essential tools for the future of warfare.¹⁰³ The potential for DoD investment into these systems, many of which are dual purpose commercial and defense technologies, benefits the warfighting capabilities of the United States and could boost U.S. foreign allies defense, including Ukraine and Taiwan. It also boosts U.S. industry, spurring job creation, investment, and advanced R&D. A recent study by the Special Competitive Studies Project notes that to close the deterrence gap and to build the joint-force of the future, the U.S. should purchase “high volumes” of drones, a recommendation AUVSI strongly supports.¹⁰⁴ Nevertheless, as the New York Times recently reported, drone companies, as well as other advanced technology industries “are facing a stiff challenge on another field of battle: the Pentagon’s slow-moving, risk-averse military procurement bureaucracy.”¹⁰⁵ The DoD must work with industry to overcome the acquisition challenges to get capable tools into the hands of warfighters faster, ensuring a strong U.S. industry for defense and commercial missions.

The Replicator initiative announced by Deputy Defense Secretary Kathleen Hicks is a step in the right direction. In an August 2023, speech, Secretary Hicks noted: “... now is the time to take all-domain, attritable autonomy to the next level: to produce and deliver capabilities to the warfighter at the value and velocity required to deter aggression, or win if we're forced to fight.”¹⁰⁶ The goal, according to Hicks, is “to field attritable autonomous systems at scale of multiple thousands, in multiple domains, within the next 18-to-24 months.”¹⁰⁷ To meet this goal, DoD will have to rely on both traditional defense companies as well as commercial autonomy platforms, which Hicks acknowledged. Accordingly, a significant boost to the advanced manufacturing capacity of the United States will be required. Further details on the Replicator program are largely classified and may remain largely disclosed to the public given sensitivities

¹⁰³ <https://www.nationaldefensemagazine.org/articles/2021/5/28/unmanned-systems-and-the-future-of-war>

¹⁰⁴ <https://www.scspace.org/wp-content/uploads/2023/05/Offset-X-Closing-the-Deterrence-Gap-and-Building-the-Future-Joint-Force.pdf>

¹⁰⁵ <https://www.nytimes.com/2023/05/21/us/politics/start-ups-weapons-pentagon-procurement.html>

¹⁰⁶ <https://www.defense.gov/News/Speeches/Speech/Article/3507156/deputy-secretary-of-defense-kathleen-hicks-keynote-address-the-urgency-to-innovate>

¹⁰⁷ Ibid

around advanced technology integration.¹⁰⁸ Nevertheless, the sentiment delivered by the DoD with Replicator is certainly welcome and, if successful, will help to drive investment and innovation that will be an important element of the transformation of the drone industry.

The DoD has established the Office of Strategic Capital (OSC) “to develop, integrate, and implement proven partnered capital strategies to shape and scale investment in critical technologies.”¹⁰⁹ The OSC is designed to “identify and prioritize promising critical technology areas for the Department of Defense” and, importantly, “fund investments in those critical technology areas, including supply chain technologies not always supported through direct procurement.”¹¹⁰ Given that access to capital can be a challenge for the drone and component manufacturing industry due to the flooding of subsidized PRC drones that undercut the market, the OSC offers promise to the industry as a tool for overcoming limitations from the private sector. OSC should designate and prioritize drones and drone components as a critical technology and immediately work to fund investments in this area to expand U.S. capabilities and manufacturing capacity. A key goal of this effort should be to de-risk the supply chain from ties to the PRC. Redundancy and resiliency are key to overcoming the reliance on the PRC for critical components essential to the manufacturing of drones. It is imperative that DoD purchases drones of all sizes, at scale, from U.S. companies. OSC should partner with other agencies, like the Small Business Administration, to leverage their tools in the form of loan guarantees, loans, and other mechanisms.

Further, Congress and the DoD should continue to invest in AFWERX, which is “a Technology Directorate of the Air Force Research Laboratory (AFRL) and the innovation arm of the Department Air Force.”¹¹¹ Multiple AFWERX programs offer opportunities for the drone industry, including AFVentures, which, “invests in emerging technologies to scale Department of the Air Force capabilities, strengthening the US industrial base that empowers Airmen and Guardians by incentivizing private, for-profit investment in national security interests”¹¹² and Agility Prime, which seeks to “accelerate emerging dual-use markets by leveraging government resources for rapid and affordable fielding.”¹¹³

Enabling Regulations

As noted in the opening paragraph of this paper, the one segment of the aviation industry that the United States is not leading is drone manufacturing and operations. While much of this paper is focused on leveling the playing field in drone and component manufacturing, AUVSI similarly advocates for bold action by the U.S. government to enable drone operations to scale.¹¹⁴ The U.S. is falling behind other nations in the global effort to safely and efficiently integrate drones – which perform many lifesaving and critical industrial missions – into the airspace. Accordingly, the Federal Aviation Administration (FAA) must take steps to streamline approval processes and minimize the bureaucratic barriers to

¹⁰⁸ <https://defensescoop.com/2024/01/04/hicks-selects-replicator-capabilities/>

¹⁰⁹ <https://www.cto.mil/osc/>

¹¹⁰ Ibid

¹¹¹ <https://afwerx.com/>

¹¹² <https://afwerx.com/afventures-overview/>

¹¹³ <https://afwerx.com/prime-overview/>

¹¹⁴ <https://www.auvsi.org/our-impact/advocacy-initiatives/auvsi-air-advocacy-committee>

successful integration. Congress can assist by giving the FAA additional tools, authorities, and resources to accomplish this mission. Such tools should include mechanisms and funding to help the FAA implement 2024 FAA Reauthorization efforts/mandates. Making progress on drone operational integration will spur investment into the drone industry, including manufacturing and workforce development in the United States.

Drone Cybersecurity

AUVSI, through its Trusted Cyber Program Working Group, made up of nearly forty companies in the uncrewed and autonomy industry, has developed a framework for cyber standards for drones.¹¹⁵ In conjunction with the DoD's Defense Innovation Unit (DIU)¹¹⁶, AUVSI brought to market the Green UAS compliance program to assess and verify commercial drones to ensure that they meet the highest levels of cybersecurity and NDAA supply chain requirements.¹¹⁷ DIU and AUVSI maintain a standing MOU to share data to ensure alignment and to build frameworks of compliant drones and components.¹¹⁸

- The Green UAS cleared list of drones, components and software, meet updated levels of security requirements of the DIU's Blue UAS 2.0 Program. Accordingly, U.S. government agencies should apply Green UAS, along with Blue UAS, to their respective drone acquisition policies to ensure secure drones are available for acquisition.¹¹⁹ Congress should require this as a best practice of USG agencies and encourage this practice at the state, local, tribal, and territorial level.
- The FAA should incorporate voluntary consensus standards in the uncrewed systems cybersecurity arena like those developed by AUVSI to ensure trust, integrity, and availability of data collected by drones.
 - This is accomplished through a security controls assessment and vulnerability and penetration test.
- Congress should continue to fund the DIU's Blue UAS program to allow the program to scale and incorporate connected drones in the future.

Restrictions and Tariffs on Chinese Drone Imports

Country of Origin Restrictions

AUVSI has developed targeted principles for legislative or executive measures designed to advance the use of trustworthy systems made in the U.S. and allied nations in a responsible, measured manner. Our principles for rational, tailored, risk-based country of origin restrictions are as follows:

- Ensure any UAS restrictions are reasonably related to national security, cybersecurity, human rights concerns, and target companies whose governments provide significant subsidies and are engaged in other unacceptable practices, such as military-civil fusion. This may include referencing sources such as:
 - The Consolidated Screening List (International Trade Administration), Entity List (U.S. DOC, Bureau of Industry and Security), entities identified by the

¹¹⁵ <https://www.auvsi.org/cybersecurity-working-group>

¹¹⁶ <https://www.diu.mil/latest/auvsi-launches-green-uas-cybersecurity-certification-program-for-commercial>

¹¹⁷ <https://www.auvsi.org/green-uas>

¹¹⁸ <https://www.auvsi.org/auvsi-and-diu-announce-mou-improve-drone-cybersecurity>

¹¹⁹ <https://www.auvsi.org/sites/default/files/UAS-Procurement-Guidance-Memo-2024.pdf>

DoD as military companies from countries of concern operating directly or indirectly in the United States, and other such lists managed, maintained, and regularly updated by the U.S. government.

- Consider reasonable transition periods for end users, where appropriate, for operations in the least-sensitive use-cases. This is important for operators using UAS manufactured in countries of concern, most notably the PRC.
 - Consider risk-based approach to transition periods with shorter timelines for high-risk operations and longer transition times for lower risk operations:
 - High Risk = Critical Infrastructure
 - Medium Risk = Agriculture & Public Safety
 - Low Risk = Recreational Users
- With respect to components, limit any restrictions to only cover security-critical components, including rare earth magnets (and omit passive components). These types of restrictions are best exemplified by the American Security Drone Act (ASDA), the legislative initiative that is now U.S. law which has initially limited component restrictions to two components (communications links and the controller).
- Include affirmative measures designed to support a timely, low-friction transition, which may include grants or other incentives to end users or pathways designed to support the domestic manufacturing of trustworthy UAS systems.
 - Following the transition period, those mechanisms must remain in place to foster a more competitive and fair playing field for non-PRC manufacturers.

Tariffs

As noted, in July of 2018, USTR instituted Section 301 tariffs on a broad range of Chinese goods, including drones. The 25% tariffs were reinforced in July of 2022 and specific categorizations were added for different categories of drones.¹²⁰ At a minimum, the Partnership supports maintaining the current 25% tariffs. USTR, however, should consider increasing the tariff amount to better blunt the dumping of subsidized Chinese drones into the U.S. market. AUVSI commented accordingly on USTR's 2024 request for comments on Section 301 tariffs review.¹²¹

By DJI's own admission in a filing with USTR, "Market surveys show a majority of the commercial drone products purchased by U.S. residents are still manufactured outside of the U.S. In addition, the majority of drones assembled in the U.S. still use Chinese components. Having additional duties did not have positive effects on domestic manufacturing of drones or downstream products."¹²² Accordingly, the 25% tariff should be reviewed by USTR for enhancement to produce positive effects on domestic manufacturing of drones. Further, efforts to circumvent tariffs through white label companies or by shifting imports through third party nations should be tracked and stopped by the Department of Commerce and U.S. Customs and Border Protection.

AUVSI was pleased to see a letter recently sent to the Department of Commerce by then House Select Committee on the CCP Chairman Mike Gallagher (R-WI) and Ranking Member Raja Krishnamoorthi (D-IL) agreeing with AUVSI's call for higher tariffs on PRC

¹²⁰ <https://www.wileyconnect.com/new-import-codes-for-drones-what-you-need-to>

¹²¹ <https://www.federalregister.gov/documents/2024/05/28/2024-11634/request-for-comments-on-proposed-modifications-and-machinery-exclusion-process-in-four-year-review>

¹²² DJI in comments to USTR on 301 Tariffs, USTR-2022-0014-00034924: <https://comments.ustr.gov/s/commentdetails?rid=DYBJHKW9QR>

drones. The letter notes, “that the current Section 301 tariff of 25% on UAVs from the PRC is inadequate for protecting the ability of American domestic innovators and manufacturers to produce the drones needed to satisfy U.S. national defense requirements. We call on the Department of Commerce to initiate a Section 232 investigation to determine the effects of UAV imports from the PRC... In addition, it is our hope that USTR’s pending four-year review of the Section 301 tariffs will determine that the current tariff rate on PRC imports of UAVs is inadequate and that a substantially increased duty on these products is warranted to help protect U.S. manufacturers in this critical industry.”¹²³

Further, the money collected from the tariffs should flow towards programs that offset the cost of U.S. drone purchases for key industries – including public safety, infrastructure inspection, and agriculture.

¹²³ <https://selectcommitteeontheccp.house.gov/media/press-releases/gallagher-bipartisan-lawmakers-call-new-restrictions-and-tariffs-protect>



CONCLUSION

The capabilities, utility, and life-saving potential for drones are unparalleled, but the inability to scale and grow the market are hampered by stifling international subsidies and bureaucratic roadblocks to enabling regulations. The policies in this paper would help to level the playing field for U.S. drone and component manufacturers, ensuring a key industry remains in America to meet the growing demand from industry and the warfighter.

AUVSI challenges the U.S. government to take resolute action to level the playing field for U.S. drone manufacturers and their component suppliers. We urge the U.S. government to work with its partners and allied nations to ensure they consider similar aid to support their domestic drone manufacturers and component suppliers. Together, the United States and its allied partners can effectively level the international playing field and spur robust competition with certain companies that are tied to our collective foreign adversaries.

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