

**BUREAU OF INDUSTRY AND SECURITY
FISCAL YEAR 2026 BUDGET: EXPORT
CONTROLS AND THE AI ARMS RACE**

HEARING

OF THE

SUBCOMMITTEE ON SOUTH AND CENTRAL ASIA

BEFORE THE

COMMITTEE ON FOREIGN AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

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BUREAU OF INDUSTRY AND SECURITY FISCAL YEAR 2026 BUDGET: EXPORT CONTROLS AND THE AI ARMS RACE

Thursday, June 12, 2025

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON SOUTH AND CENTRAL ASIA
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 2172 Rayburn House Office Building, Hon. Bill Huizenga (chairman of the subcommittee) presiding.

Mr. HUIZENGA. The Subcommittee on South Central Asia will come to order.

OPENING STATEMENT OF CHAIRMAN BILL HUIZENGA

The purpose of this hearing is to examine Fiscal Year '26 President's budget request for the Bureau of Industry and Security. This hearing will serve as an opportunity for members to examine the Bureau of Industry and Security's critical and growing role in the U.S., ensuring that we win the AI arms race against the Chinese Communist Party.

Today's hearing will examine the Fiscal Year '26 budget request for the Bureau of Industry and Security, an agency whose mission is critical to ensuring America wins the AI arms race against the Communist Party of China. We are at a historic inflection point. Technologies that will define the 21st century such as AI, biotechnology, and quantum computing are achieving breakthroughs that increasingly sound more like science fiction than the reality that we're used to.

These technologies have the potential to unlock tremendous economic prosperity, medical innovations, and human flourishing. However, they are not just drivers of economic growth. They are instruments of military power and security as well.

Advanced AI models could coordinate fleets of self-driving cars in Michigan. They could also direct autonomous drone swarms over the Taiwan straits. The nation that leads in developing and deploying these technologies has an opportunity to gain geopolitical advantages for decades to come.

The CCP understands this. That's why it's trying to dominate these critical technologies by any means necessary through State subsidies, forced tech transfers, economic espionage, chip smug-

gling, and exploiting access to the West's most innovative AI labs and universities. AI dominance is central to the CCP's goals.

Its military modernization efforts, surveillance State, and human rights abuses are amplified by AI. Export controls play a crucial role in ensuring that U.S. and allied technologies are not used to fuel the CCP's pursuit of global dominance. Amongst its many important roles, BIS serves as a guardian of one of the world's most valuable and powerful supply chains.

The ecosystem of advanced chips, tools, components, and design software that underpins the development of cutting edge artificial intelligence. Leading Chinese AI companies have made it clear just how dependent their future is on U.S. technology. In response to a question on what their biggest obstacle to AI development is, DeepSeek's CEO put it bluntly. Quote, "Bans on shipments of advanced chips are the problem," close quote.

The CCP understands the importance of these AI choke points. That's why it's working around the clock to steal chips and exploit export control loopholes to internalize its production. That's why this hearing today is so important.

BIS fiscal '26 budget request includes a 133 percent increase in enforcement funding, a bold and necessary step. As the DeepSeek CEO made evident, it's not a lack of talent holding back China's AI development. It's the lack of access to U.S. technology.

That's what this budget supports. It allows BIS to better disrupt covert efforts to funnel U.S. innovation to the CCP's military and surveillance State. Let's be very clear. Enforcement is not about punishing innovation. It's about protecting it.

It's about making sure that the technologies that define the future are not weaponized against our values, our alliances, or our own people. We also recognize that BIS operates in a dynamic and challenging environment. The technologies we're discussing are evolving rapidly.

BIS must become faster, more adaptive, and more technologically capable than ever before. This subcommittee is committed to giving the Bureau the tools and resources it needs to meet that challenge head on. The geopolitical struggle between America and China defines the technologies of our time.

Global AI development shaped by democratic values or authoritarian control will depend on the decisions we make right now about licensing, enforcement, and strategic technology protection. I'm pleased that we are joined by Undersecretary Jeffrey Kessler who leads BIS during this decisive period in history. Mr. Kessler, thank you for your service and your appearance here at the subcommittee.

The window for preserving America's technology edge is narrow, but it does remain open. BIS with the support of Congress must ensure America wins the AI arms race. The chair now recognizes the ranking member from California, Representative Kamlager-Dove, for any statements she may have.

OPENING STATEMENT OF RANKING MEMBER SYDNEY KAMLAGER-DOVE

Ms. KAMLAGER-DOVE. Thank you, Mr. Chair. And thank you, Undersecretary Kessler, for being here today. It is mid-June, and you

are the very first administration witness to testify before a House Foreign Affairs Committee this Congress. I hope the rest of the administration can follow your example.

Today, we will examine the Fiscal Year '26 budget request for BIS and discuss the role of export controls within the larger national security objective of ensuring U.S. leadership in the global AI race. I say U.S. leadership because California, my State, is the No. 1 source of semiconductor manufacturing facilities and jobs in this country. These equities are very important to me and to all of us.

Over the past decade, export controls administered by BIS have become an increasingly divisive tool in U.S. foreign policy. Today, BIS is responsible for restricting the PRC's access to the advanced AI semiconductor chips powering China's military and technological advances. It is also tasked with enforcing an extensive multi-lateral export controls regime on Russia in response to its unprovoked invasion of a democratic Ukraine.

Yet despite its centrality to two critical national security priorities, BIS' resources have not kept pace to meet the demands of its responsibilities. Since 2010, BIS' budget for core export control functions has remained relatively flat while the number of license applications has nearly doubled from 20,000 a year in 2012 to over 40,000 a year in 2024.

I am glad to see the significant funding increase for BIS in the President's budget which must also be accompanied by increased responsiveness to Congress and greater congressional oversight. These resources will help ensure that the export controls needed to prevent the PRC from accessing leading edge chips and chip manufacturing equipment can be effectively enforced. However, I'm concerned that robust export controls cannot make up for the immense damage this administration is doing to America's competitiveness in AI.

To win the AI race, we can't just slow China down. We have to simultaneously speed up and sustain our lead in cutting edge technology. Yet Trump's budget would upend the Federal R&D that is an essential enabler of the semiconductor technology pipeline.

The President's budget slashes the National Science Foundation's research funding for microelectronics and semiconductors by 54 percent. NIST which supports foundational research to commercialize new developments in semiconductor technology would be cut by 28 percent. This comes after hundreds of employees working on semiconductor policies were DOGE'd.

The Department of Energy's Office of Science which supports national labs and the development of advanced manufacturing processes for semiconductors in the United States is getting a 14 percent reduction. Not to mention the administration's culture war against universities and its draconian immigration policies, including the deployment of the National Guard in my home city of downtown LA right now, creating a perilous environment for the high-skilled foreign talent we are dependent on to make up the semiconductor workforce shortage. Trump doesn't need to force a repeal of the CHIPS Act which has been essential to boosting domestic chip manufacturing to hurt our advancements in AI.

Turning back to BIS, I'm concerned that Trump is treating export controls as a bargaining chip to undo the problems he created or as clickbait to generate splashy headlines. That's certainly how it appeared when the administration imposed export controls on EDA software as a response to China's restrictions on rare earth minerals which itself was a response to hikes in U.S. tariffs on China which were a counter to China's retaliatory tariffs to Trump's original Liberation Day tariffs. And that's certainly how it appeared when the administration rescinded the AI diffusion rule right before Trump's Gulf trip where he announced a deal with no pre-baked security guardrails to sell tens of thousands of advanced AI chips to Gulf companies.

Trump's self-interested foreign policy makes me concerned that export controls which can backfire if not carefully calibrated may be wielded irresponsibly. I hope to receive some answers today that can help address my concerns. Thank you, Mr. Chair, and I yield back.

Mr. HUIZENG. The gentle lady yields back. The chair wants to remind the other members of the committee that their opening statements may be submitted for the record.

And today as I had said previously, we're pleased to have the honorable Jeffrey Kessler, Undersecretary of Commerce for Industry and Security from the U.S. Department of Commerce on this very important topic today. The committee recognizes the importance of the issues before us and is grateful that you are here to speak with us today. Your full statements will be made part of the record, and I'll ask that you keep your oral remarks to 5 minutes in order to allow time for members' questions.

I now recognize you, Undersecretary Kessler, for your opening statement.

STATEMENT OF HON. JEFFREY KESSLER, UNDER SECRETARY OF COMMERCE FOR INDUSTRY AND SECURITY, U.S. DEPARTMENT OF COMMERCE

Mr. KESSLER. Thank you, Mr. Chairman. Chairman Huizenga, Ranking Member Kamlager-Dove, members of the South and Central Asia Subcommittee, thank you for having me here today to testify on the 2026 President's budget request for the Department of Commerce's Bureau of Industry and Security, BIS.

BIS' mission is to protect and promote the crown jewels of the American economy, sensitive and dual use technologies, and critical supply chains. We're just a few months into the Trump administration. And under the strong leadership of President Trump and Secretary Lutnick, BIS is firing on all cylinders to deliver strong results to the American people.

First, in the area of export controls, we're strengthening and streamlining the rules and working on closing loopholes. We've already added more than 80 companies or entities to the entity list which is an export control's list of restricted parties, including companies involved in China's quantum computing and hypersonic weapons programs as well as Iran's procurement of drones. We're also reviewing a wide range of existing licenses, involving exports of strategic significance to ensure that sensitive technologies do not flow to our adversaries.

In the area of export enforcement, the Bureau of Industry and Security working with our partners in the Department of Justice has secured 22 criminal convictions, 32 arrests, 38 indictments, 231 detentions valued at more than \$185 million and 79 seizures valued at more than \$40 million. And we have many additional impressive enforcement operations and legal actions against wrongdoers underway now.

BIS is also conducting Section 232 investigations to revitalize and strengthen critical sectors of the economy. Since the beginning of this administration, we have initiated seven new 232 investigations, more than any administration ever, including on copper, lumber, pharmaceuticals, semiconductors, critical minerals, medium and heavy trucks, and commercial aircraft and jet engines. And BIS administers section 232 tariffs based on the results of previous investigations, namely steel, aluminum and auto parts—autos and auto parts. At the President's direction, we have significantly improved and strengthened these tariffs, for example, by eliminating a plethora of exclusions and exemptions from the steel and aluminum tariffs and by setting up an all new inclusion process for those tariffs.

BIS also administers a program established in the first Trump administration carried out by the Office of Information and Communications Technology Services, or OICTS. OICTS protects Americans from foreign adversary technologies that undermine national security. In March, the first major rule under the ICTS program came into effect which will require a phaseout of foreign adversary controlled software and hardware from passenger vehicles in the United States. And additional investigations and rulemakings are underway now.

The 2026 President's budget builds on these tremendous accomplishments by requesting \$303 million for BIS. This will represent the single largest investment in BIS history and one that will significantly bolster our ability to protect national security. An increase of this scale would enable BIS to significantly augment its enforcement capabilities.

We would be able to hire almost 200 export enforcement special agents stationed across the United States who are responsible for apprehending and charging criminals who seek to profit by unlawfully transmitting American technology to our adversaries. And this increase would also enable BIS to more than double the number of what we call export control officers, ECOs who are enforcement officials stationed overseas from 12 at present to 30. These ECOs are critical for monitoring foreign entity compliance with U.S. export controls.

A portion of the requested budget increase would also fund specialized engineers and technical experts who support BIS' enforcement efforts, for example, by determining whether a license was required for a particular export that has already taken place. These enforcement efforts are not only critical to protect national security, but they can also pay for themselves and penalty revenue, the results from the enforcement actions. BIS has an outsized role to play in promoting national security and supporting the President's America First Trade Policy.

The Bureau's increased responsibilities in administering and enforcing export controls, including and maintaining America's technological leadership in critical and emerging technologies like AI and investigating imports that threaten our national security. These tasks require commensurate resources. It's time for BIS to have the resources that it needs to do its job to keep America safe. The President's budget recognizes and enables this. Thank you, and I look forward to your questions.

[The prepared statement of Mr. Kessler follows:]



**Bureau of Industry and Security
HFAC - South and Central Asia Subcommittee
Under Secretary Kessler Budget Hearing Testimony**

June 12, 2025

Chairman Huizenga, Ranking Member Kamlager-Dove, Members of the South and Central Asia Subcommittee, thank you for inviting me to testify on the 2026 President's Budget request for the Department of Commerce's Bureau of Industry and Security (BIS).

BIS's mission is to protect and promote the crown jewels of the American economy – sensitive and dual-use technologies and critical supply chains. We are just a few months into the Trump Administration, and under the strong leadership of President Trump and Secretary Lutnick, BIS is firing on all cylinders to deliver strong results to the American people.

First, in the area of export controls, we are strengthening and streamlining the rules and closing loopholes. We have already added more than 80 companies or entities to the Entity List (an export controls list of restricted parties), including companies involved in China's quantum computing and hypersonic weapons programs, as well as Iran's procurement of drones. We are also reviewing a wide range of existing licenses involving exports of strategic significance to ensure that sensitive technologies do not flow to our adversaries.

In the area of export enforcement, the Bureau of Industry and Security, working with our partners in the Department of Justice, has secured 22 criminal convictions, 32 arrests, 38 indictments, 231 detentions - valued at more than \$185,500,000 - and 79 seizures valued at more than \$40,000,000. And we have additional impressive enforcement operations and legal actions underway.

BIS is also conducting section 232 investigations to revitalize and strengthen critical sectors of the economy. Since the beginning of this Administration, we have initiated 7 investigations – more than any administration ever – including on copper, lumber, pharmaceuticals, semiconductors, critical minerals, medium and heavy trucks, and commercial aircraft and jet engines. Furthermore, BIS administers section 232 tariffs based on previous investigations, namely steel, aluminum, and autos and auto parts. At the President's direction, we have significantly improved these tariffs, for example by eliminating a plethora of exclusions and

exemptions from the steel and aluminum tariffs, and by setting up an all-new product inclusion process.

In addition, BIS administers a program established in the first Trump Administration carried out by the Office of Information and Communications Technology and Services (or OICTS). OICTS protects Americans from foreign adversary technologies that undermine national security. In March, the first major rule under the ICTS regime came into effect, which will require a phase-out of foreign adversary-controlled software and hardware from passenger vehicles in the United States. Several additional investigations and rulemakings are underway.

The 2026 President's Budget builds on these tremendous accomplishments by requesting \$303 million for BIS, the single largest investment in BIS history and one that will significantly bolster our ability to protect national security. An increase of this scale would enable BIS to significantly augment enforcement capabilities. Specifically, we would hire almost 200 Export Enforcement Special Agents stationed across the United States and responsible for apprehending and charging criminals who seek to profit by unlawfully transmitting American technologies to our adversaries.

The budget increase would also enable BIS to more than double the number of Export Control Officers (ECO) stationed overseas – from 12 to 30. These ECOs are critical for monitoring foreign entity compliance with U.S. export controls. In addition, a portion of the budget increase (\$6 million) would fund specialized engineers and technical experts who support BIS enforcement efforts, for example, by determining whether a license was required for a particular export that already took place. These enforcement efforts are not only critical to protect national security, but they also can pay for themselves in penalty revenue.

BIS has an outsized role to play in promoting national security and supporting the President's America First Trade Policy. The Bureau's increased responsibilities in administering and enforcing export controls, including in maintaining America's technological leadership in critical and emerging technologies like AI, and investigating imports that threaten our national security, require commensurate resources. It is time for BIS to have the resources it needs to do its job and keep America safe. The President's Budget recognizes and facilitates this. Thank you and I look forward to your questions.

Mr. HUIZENG. Thank you, Mr. Kessler. I appreciate that. I will now recognize myself for 5 minutes for some questions.

Not sure, you may or may not actually be aware of this. But at 10:08, Commerce Department released a statement announcing Micron Technology is doing a \$200 billion investment in memory chips here in the United States. And I know the ranking member has expressed some concern about where government funding has gone on technology and technology development and R&D.

I would be remiss if I didn't point out that the One Big Beautiful Bill reinstates R&D and allows the private sector to go do that. And in my mind, it has to be a partnership. We cannot just expect that the Federal Government is going to do much of this.

I was proud to introduce the bipartisan Chip Security Act. Representative Foster and I, we served together on Financial Services as well, we worked on that which would require location tracking on AI chip exports. Under Secretary Kessler, you are requesting 133 percent increase to BIS' enforcement budget.

You laid out that would allow you to double the number of agents, I believe, that are looking at the enforcement. Are you seeing a large number of diversions of U.S. AI chips? And could location tracking potentially assist BIS in preventing diversions of these chips to China?

Mr. KESSLER. Thank you, Mr. Chairman. We do see significant efforts by wrongdoers to divert AI chips as well as other products that are export controlled. But we see those more commonly that you might expect, and we have enforcement operations that are active to address those types of activities. I'm concerned that we're not catching all of it, that there's a lot that goes undetected. And this budget is intended to enable us to capture more of it and prevent more wrongdoing.

Mr. HUIZENG. There are some that deny that this smuggling is happening at all.

Mr. KESSLER. It's happening. It's a fact. It's happening.

Mr. HUIZENG. Unequivocally, right. Yes, Okay. That seems a reality that some are, for whatever reason, are choosing to try to ignore. Well, yesterday, President Trump announced a successful deal with China to restore rare earth minerals access to the United States, and we haven't seen necessarily all the details of that.

We know there's been plenty of hardball negotiations that have been going back and forth. Michigan, my home State, probably serves as the home of American car manufacturing. I know firsthand how dangerous China's weaponization of rare earth supply chain is to our economy. I was hearing that repeatedly from suppliers as well as the OEMs, the original equipment manufacturers.

President Trump stated that in exchange for China restoring access, the U.S. would, quote, "provide to China what was agreed to, including Chinese students using our colleges," close quote. Can you share any of the details of the recent agreement? And were any U.S. export controls on China included as part of that deal?

Mr. KESSLER. The details are still to come, and discussions are going on now between the governments. I'm not going to comment on the content of those discussions. But look, the discussions were largely about the Geneva agreement, making sure that China fulfilled its commitments from the Geneva agreement, including the

removal of non-tariff measures that it had imposed afterwards, such as those for rare earth.

It's such an important issue, as you know well and your constituents know well. Rare earths are critical input for automotive supply chains, defense supply chains, other supply chains. And the administration has been committed. We've been working very hard to make sure that those inputs continue to flow, that the industries and jobs that depend on them remain stable. That's what we're focused on.

Mr. HUIZENG. OK. Well, U.S. export controls on China's AI capabilities are only effective if China is unable to produce an alternative technology stack at scale. Because of that, Chinese AI chips production capability is an important metric of success. Last week, Secretary Lutnik disclosed that China's AI chip production capacity is, quote, "closer to 200,000 AI chips."

Is that the formal position of the U.S. government? And is that their assessment? And what does that mean? And does that mean 200,000 Huawei, 910Bs, 910Cs, or all Chinese AI chips? Can you shed some light on that?

Mr. KESSLER. So our assessment is that Huawei's Ascend chip production capacity for 2025 will be at or below 200,000. And we project that most or all of that will be delivered to companies within China. China is investing.

I think it's important to say we shouldn't take too much comfort from that fact. China is investing huge amounts to increase its AI chip production and as well as the capabilities of the chips that it produces. So it's critical for us not to have a false sense of security to understand that China is catching up quickly. But that is our projection for this year.

Mr. HUIZENG. OK. My time has expired. The ranking member is recognized for 5 minutes.

Ms. KAMLAGER-DOVE. Thank you, Mr. Chair. And actually, thank you for sharing that announcement. You referenced the Commerce announcement of the \$200 billion deal and the majority of that money is because of the CHIPS Act. So let's give some credit to Joe Biden. That is a big deal.

Mr. Kessler, as you know, enforcing export controls on Russia for its invasion of Ukraine requires constantly updating the entity list to account for front companies and subsidiaries that pop up to circumvent the controls. And so in your testimony, you stated that you all have added 80 countries to the entity list. But in the nearly 6 months since President Trump took office, BIS has not added a single company to the entity list in relation to Russia's war on Ukraine, effectively allowing our controls to deteriorate.

I mean, is that true that there have been no companies added to the entity list in relationship to Russia's war on Ukraine?

Mr. KESSLER. We have continued to enforce all of the export controls that we have in place, including those with respect to Russia. There have been enforcement actions since I've been in office that addressed Russian parties. So—

Ms. KAMLAGER-DOVE. But enforcing—

Mr. KESSLER [continuing]. I don't think it's correct—

Ms. KAMLAGER-DOVE. Enforcing is not updating. So I'm asking about updating the entity list.

Mr. KESSLER. If we identify Russian parties that we believe should be added to the entity list, we would do that.

Ms. KAMLAGER-DOVE. So the reason why I'm asking is because putting restrictions on American companies without getting national security outcomes you desire doesn't seem to me to be a strong policy. And the outcomes that I would think we desire would be to block evasion of controls and stop the shipment of dual use items to Russia. So I'm just asking—I would like to ask you if you would commit to restarting a regular cadence of entity list actions against entities supporting the Russian war machine.

Mr. KESSLER. Well, there hasn't been any pause. So when we identify entities that we believe should be added to the entity list and there's a formal process for gathering intelligence and for coordinating with interagency partners to determine which entities those are. If we determine a party should be added and it's Russian, then we would do that.

Ms. KAMLAGER-DOVE. Well, Secretary Rubio actually came before the full committee to talk about many things. And he did testify to the fact before our committee that in fact Russia was the aggressor in the war with Ukraine. So do you disagree or agree with Secretary Rubio that Russia started the current war in Ukraine and is the aggressor in this conflict?

Mr. KESSLER. I actually agree with Secretary Rubio's assessment of the war in Ukraine and defer to the State Department and Secretary Rubio on foreign policy in general.

Ms. KAMLAGER-DOVE. Great. Well, I'm so glad to hear you say that because I would hope that we would all be on the same page about making sure that we are blocking Russia's ability to smuggle these kinds of chips and equities and assets that are so important to us and our allies. And we also know that Russia is working with China. So when we're talking about the PRC, we should be adding Russia to that list as well.

So I'd like to now move on to the Gulf AI chip deal in the few minutes that I have left. So Secretary Kessler, as part of the AI deals that were announced last month, did the governments of UAE and Saudi Arabia sign any security agreements to protect U.S. technology from being diverted or remotely accessed by Chinese entities?

Mr. KESSLER. Well, what I can say is that the governments that we made deals with are very much aware of the security requirements that we have when we export AI chips. Those have been a topic of discussion, and we've made no secret of the fact that for any chips to be exported, any of the chips that they're interested in getting, BIS approval would be needed. And what we look at when we authorize or not, exports like that, what we look at is whether the chips are going to be secure when they're deployed overseas.

Ms. KAMLAGER-DOVE. So I would think that it would be just a simple answer, yes, we are going to do everything we can to protect U.S. technology and keep it safe.

Mr. KESSLER. Well, that's correct.

Ms. KAMLAGER-DOVE. Thank you. Thank you. I yield back.

Mr. HUIZENGA. The gentlelady yields back. With that, the representative from New Jersey, Mr. Kean is recognized for 5 minutes.

Mr. KEAN. Thank you, Mr. Chairman. And thank you, Under Secretary Kessler, for being here today. As the world becomes increasingly digital, the potential of technological warfare had become an increasing concern. It is important that our export control regime supports American businesses while preserving American security in both physical and in digital realms.

Under Secretary Kessler, BIS recently imposed license requirements on the export of certain AI inference chips, such as Nvidia H20 to PRC. How is BIS viewing the overall export of AI chips to China? And how are you considering factors like the evolution of PRC domestic capabilities and more advanced U.S. chips entering the market?

Mr. KESSLER. Thank you for the question. We have robust—BIS maintains robust controls on the flow of AI technology to China. They are extensive. They apply to semiconductors and to semiconductor manufacturing equipment and to software related to manufacturing semiconductors and all parts of the semiconductor supply chain.

So we have a robust set of rules that controls this type of technology, prevents it from flowing to China, to certain other countries as well. From time to time, we need to update these rules because—pardon me—because the technology evolves. And we need to make sure that our rules keep pace with the technology. So when we take an action like the one that you described, it's to make sure that the most sensitive technologies don't fall into the hands of our adversaries.

Mr. KEAN. And what can we do as Congress to work with BIS to strengthen our export control regime?

Mr. KESSLER. I appreciate the question. I think the first thing would be to give BIS the resources that the President's budget requests. I think it's important for the world to understand that Congress stands with BIS in ensuring that our rules are strongly enforced, that they remain robust. And I think it's important for our foreign partners and allies to know that Congress expects them to align with U.S. export controls.

The one issue that we encounter frequently in export controls and that is recognized in ECRA in the statute that establishes export controls, one of the issues is that in order to be effective, export controls need to be coordinated with other countries. We can't have a situation where other countries undermine U.S. export controls by backfilling. And again, I think it's important for American allies and partners around the world to understand that Congress recognizes this problem and expects them to stand with United States when we impose our export controls.

Mr. KEAN. And Under Secretary Kessler, undersea cable infrastructure carries over 95 percent of the world's internet traffic, yet many of the components and support technologies remain available to foreign adversaries. Earlier this year, I introduced the Undersea Cable Control Act, which calls for a strategy to prevent our adversaries from acquiring technologies critical to global cable networks. What role can BIS play in identifying and controlling exports with sensitive cable-related technologies to ensure that our communications networks are not compromised by hostile cyber actors?

Mr. KESSLER. Well, I think that's an important area to look at. And I'd be happy to work with you on that. I think we have a number of tools at our disposal, including export controls and potentially including the ICTS authority that I mentioned. So I look forward to talking to you more about that.

Mr. KEAN. Thank you. And the Foreign Direct Product Rule was designed to close export control loopholes. The key allies like Netherlands and Japan have not fully aligned their controls, allowing adversaries to access semiconductor tools and potential cyber and military applications. How is BIS engaging with international partners to ensure that multilateral export controls are harmonized and our adversaries cannot exploit allied markets to undermine U.S. cybersecurity and export enforcement?

Mr. KESSLER. We and I personally have been engaging with foreign governments to stress that point. So I want to assure you that we're very focused on that issue. We take it very seriously. It's critical for U.S. export controls to be effective to have governments like the ones that you mentioned on board with U.S. controls.

Mr. KEAN. Thank you. I yield back.

Mr. HUIZENGA. The gentleman's time has expired. The gentleman from California, Mr. Bera, is recognized for 5 minutes.

Mr. BERA. Thank you, Mr. Chairman. Under Secretary Kessler, I'm going to follow on a line of questioning that the chairman started. I think last week in response to Senator Coons' question, Secretary Lutnik said that China is only capable of producing about 200,000 of the advanced chips annually.

I think you just confirmed that. Maybe said it might be even a little bit less than that. And that's a surprisingly small number compared to that. Now you also touched on we shouldn't rest on our lots and so forth.

I think you also indicated that right now those chips are for domestic consumption in China and production. I think—well, let me ask this question. How is China closing the gap with us? And then what can we do working with BIS to slow that gap closure down?

Mr. KESSLER. Thanks. I appreciate the question. So yes, as you said, we shouldn't take too much comfort in the fact that China's production of these advanced chips is relatively small because we know they have global ambitions. China wants to dominate the global supply chain in semiconductors and has had plans to achieve that goal for more than a decade.

It's consistently executed on those points. But I think there are two parts. One is we need to do what the President just did in the Middle East and ensure that American technology can become the foundation for AI infrastructure around the world because that closes—it closes out market space for others that would supplant us otherwise.

I think that's an important component and deals like the ones that the President just concluded in the Middle East bill helps cement America's primacy in this area. I think the controls are the other piece. We need to ensure that American technology doesn't become an input, an element of the technological advancement that companies like Huawei or others that are controlled by our adversaries have. So with those two pieces together, I think we can ensure that our lead over rivals remains as big as possible.

Mr. BERA. Let me continue on that line of questioning. One of the rationales for the Gulf deal was that if we don't do it, Huawei or others would do this and help the Gulf states build this infrastructure. Obviously, based on our conversation right now, they're not capable of doing that at this particular moment in time.

I think there are legitimate concerns I think on both sides of the aisle here that we provide some of our most advanced chips and technologies to the Gulf states. We do want to make sure that they're very secured. Bill Foster has talked to me a lot about the location tracking and inserting technologies that make sure those chips are not ending up in Beijing or somewhere else.

If we do go down this path of working with the Gulf states, I do think it's going to be incredibly important that we do everything in a bipartisan way here in Congress. But working with this to protect those chips, we don't actually inadvertently give Huawei or the Chinese that ability to compete with us globally when they can't right now.

Mr. KESSLER. Yes, Representative Bera, I agree with you, and I agree with you on all of that. I think it's critical that we make sure that the chips when they go overseas remain secure and that's our mission. That's what we're going to do.

Mr. BERA. Second line of questioning, I'm glad that you're increasing your workforce because I think these export controls, these regimes, again, protect natural advantages in this global competition. It's going to be incredibly important. My understanding, though, is about one-third of your workforce and personnel were lost due to layoffs, early retirements, or resignations.

And you've got an incredible workload. You have seven active Section 232 investigations and other things going on. Are you able at this particular moment in time to meet these critical responsibilities given what you've lost in terms of infrastructure and manpower?

Mr. KESSLER. Yes, I believe the number of people that we've lost is smaller than that. But yes, I do think we have the resources that we need to continue to function. I think we could do a lot more with it.

There's no resources that we're requesting. As I said, I'm concerned that although we're catching wrongdoers, our enforcement operation is robust, I'm concerned that many instances of wrongdoing go undetected. And that's what the budget request is about.

Mr. HUIZENGA. The gentleman's time has expired. Congressman Self, our subcommittee chair of Europe, is recognized now for 5 minutes.

Mr. SELF. Thank you, Mr. Chairman. And thank you, Under Secretary, for being here today. I want to highlight a growing concern. We know that China cheats. People's Republic of China is increasingly bypassing our export controls through complex corporate structures.

Right now, BIS' hands are tied when it comes to preventing our most sensitive technologies from falling into the hands of our adversaries. And we're seeing PRC linked companies, institutions, and military end users, established subsidiaries, often shell companies, to evade our restrictions. That's why I'm introducing the Stop Shells Act to close this subsidiary loophole which means if a sub-

sidiary is 50 percent owned or more by an entity list or military end user list entity, they would be—it would apply to them.

Corporate due diligence firms have identified thousands of Chinese subsidiaries that are at least 50 percent owned by entities already on the entity list. So Mr. Secretary, do you agree that closing this loophole is crucial in preventing the PRC from circumventing our export controls? And further, would you agree that reinforced by Foreign Direct Product Rule would meaningfully disrupt the CCP's acquisition of U.S. technologies? And third, is 50 percent the right number?

Mr. KESSLER. Well, thank you for the question. I would have to look at the details, especially with respect to your question about FDPR. I think in principle, I do agree that there's a problem, the problem that you're describing that the BIS restrictions list, the entity list, the military end user lists only cover narrowly the company that's listed.

And it does create loopholes and make evasion and circumvention easier. So I think that is something that's important for us to address. And I'd be happy to work with you on that.

Mr. SELF. Very good. So BIS recently put out helpful guidance clarifying preexisting U.S. policy that certain Huawei chips were subject to U.S. export controls and require a license from BIS for export. Is BIS planning on issuing similar guidance for other Chinese products such as semiconductor manufacturing equipment companies like NAURA?

Mr. KESSLER. I don't think we have any plans like that at the moment. But I would certainly consider it. I'd be happy to talk to you and your office about it more.

Mr. SELF. Very good. And I will submit that to you in writing as a question.

Mr. KESSLER. Terrific.

Mr. SELF. And last, I'd like for you to address—it seems to us that when we have lowered the threshold for a chip design, the companies—U.S. companies to include go just below the level. Would you address that for us, please?

Mr. KESSLER. Well, yes, I think it's important for BIS to set the technical parameters of its controls with precision. And in a sense, I don't believe companies for trying to continue shipping products to China that are not controlled. I think BIS should just make sure that the parameters are defined in a way that if companies do what we say is lawful, it doesn't undermine American national security.

And so I think that's the main lesson for me. We need to make sure that where we draw the line is where we intend to draw the line and that the corporate community can live with that. Because we need to not only prevent technology from flowing to adversaries. But we also need to communicate effectively to industry about what's permissible and what isn't.

Mr. SELF. If I can help you with a term, U.S. national interest. With that, Mr. Chairman, I yield back.

Mr. HUIZENG. The gentleman will yield—Mr. Self, the gentleman will yield to me?

Mr. SELF. I yielded back my time, Mr. Chair.

Mr. HUIZENGA. All right. I'd like to take the remaining moment just to have one clarification. You had said in discussion with the ranking member's questions about the Middle East deal. And I'm not trying to imply that this is what you're saying. I just want to make sure there's a clarification. There has not been a suspension of any sort of export controls with any of these agreements at this point?

Mr. KESSLER. Correct.

Mr. HUIZENGA. OK. You were just reinforcing that all of the export controls that are currently in place are part of any agreement?

Mr. KESSLER. Correct. No export controls have been suspended at all.

Mr. HUIZENGA. OK, great. Thank you.

Mr. KESSLER. I think I was trying to say the opposite, that of course when any chips go outside the United States, they must comply with export controls, whether it's to countries that we've done deals with or not.

Mr. HUIZENGA. OK. All right. That time has expired now. So with that, the ranking member of the full committee, Mr. Meeks, is recognized for 5 minutes.

Mr. MEEKS. Thank you. And I want to thank you, Chairman Huizenga and Ranking Member Kamlager-Dove, for organizing this meeting. And it's good to see you again, Under Secretary Kessler.

I appreciate your being here to discuss the administration's budget request. But the problem I have because I just find it difficult to have a credible hearing about BIS and its budget when the committee hasn't seen any detailed plans about the President's budget request for the agency. So we received a congressional budget justification from State but not from Commerce. So my question is, when will the Commerce Department's congressional budget justification be provided to Congress?

Mr. KESSLER. Representative Meeks, it's good to see you again as well. I enjoyed meeting with you a few weeks ago and look forward remaining in close touch.

Mr. MEEKS. Likewise.

Mr. KESSLER. And all the budget documents, my understanding is the Commerce Department has provided them. But if there's something that still needs to be provided, I'll just take that back and be happy to followup with you.

Mr. MEEKS. Yes, surely, we have not seen the budget justification. So I don't know. It's hard to have this conversation when we have not seen that. So I would hope that you could followup. And we'll make sure—if you want, we'll send you another letter just requesting exactly what we need. OK.

Second, in the last few weeks, BIS has suspended licenses for several companies, imposed new restrictions on chips and electronic design automation, EDA tools, and rescinded the Biden administration's AI diffusion rule which established a global regime for the export of our most advanced AI chips and technologies. So my question is, can you tell me about the decisionmaking process surrounding these actions and your role in making them?

Mr. KESSLER. Yes, the diffusion rule is very problematic. The diffusion rule was something that the Biden administration did in its final hours before leaving office. It was hastily constructed.

It established a regime—a worldwide regime for controlling chips that was bureaucratic, heavy handed. It drew arbitrary distinctions between different countries. Some are favored and some are less favored.

It offended many of our partners and allies. It was not ready for prime time. And I think frankly even members of the former administration might admit that to you in private. So that's why we rescinded that rule.

It is not suitable for actually being put into practice. And we did that before the rule became effective because we didn't want to disrupt global markets in these critical technologies. As for the other steps that you mentioned, BIS is reviewing products of strategic significance across the board. We want to make sure that we don't unintentionally allow products and software and technologies that are important that have a national security significance to flow to our adversaries.

Mr. MEEKS. So what I'm trying to find out is, has ever single license that you have suspended gone through full interagency and White House approval?

Mr. KESSLER. There is an interagency process for handling actions related to licenses. And we adhere to that process.

Mr. MEEKS. So they—

Mr. KESSLER. I think that's set up by executive order.

Mr. MEEKS. So those licenses that were suspended has gone through full—I know it's set up. My question is, did those companies that were suspended did, in fact—assuming that you were involved, they went through the full interagency and White House approval process as set up?

Mr. KESSLER. In any case where that interagency process has to be followed, we have done it. So for example, to issue a new license, to make a decision about an emergency authorization request, there are certain types of actions with respect to license where BIS is required to adhere to this interagency process. And we consult with our partners at the Departments of State and Energy and Defense. We follow that process.

Mr. MEEKS. Let me in the few seconds I have left. Are you planning any additional actions on the U.S. semiconductor industries as it relates to China?

Mr. KESSLER. I'm sure that we will remain active in that space. I mean, this is a—it's a constantly evolving landscape. And we need to make sure that our controls remain effective. So—

Mr. MEEKS. Are you planning anything immediately?

Mr. KESSLER. No, I'm not planning anything immediately.

Mr. MEEKS. So there's nothing planned additionally right now as it applies to China, not immediately?

Mr. KESSLER. Correct.

Mr. MEEKS. Thank you. I yield back.

Mr. HUIZENGA. The gentleman's time has expired. With that, the representative from Indiana, Mr. Shreve, is recognized for 5 minutes.

Mr. SHREVE. Thank you, Mr. Chairman. BIS' enforcement capacity remains strictly structurally constrained by limited personnel. The Bureau maintains only a dozen overseas export control officers.

They're responsible for conducting in-person end use checks on thousands of export transactions annually. There have been delays in addressing emerging technologies, certainly including the fast moving areas of AI, quantum computing, synthetic biology. And as these global threats evolve, your Bureau must be able to compete in the private marketplace and other government agencies for the talent needed to keep up with these threats.

In coming weeks, I plan to introduce the BIS Strength Act. It's legislation that'll prevent adversarial nations, certainly including China from acquiring a product that could boost their economic competitiveness in areas of concern, giving your Bureau the hiring authority to bring leading technologists in for 1-year terms at market competitive rates to craft smarter, faster policy. Mr. Kessler, I'm not trying to lead the witness here. But do you believe that this flexible hiring authority could help BIS to keep pace with innovation and anticipate, not just react to the emerging national security threats from these emerging technologies?

Mr. KESSLER. It sounds very useful, I have to say. And some of the most talented people that I've worked with at BIS, particularly technical experts, have a strong industry background. Obviously, we need to understand—as an institution, we need to have a deep understanding of what industry is doing, what technologies are important. So your proposal sounds very constructive and I appreciate it.

Mr. SHREVE. Very good. Thank you. Mr. Chairman, I yield back.

Mr. HUIZENGA. Thank you. The chair now recognizes Congresswoman Johnson from Texas.

Ms. JOHNSON. Thank you, Mr. Chairman. Under Secretary Kessler, I appreciate that you're taking time to be with us today so that we can hear from you directly. You're only the second Trump administration official to testify in front of this committee and actually the first to testify to the subcommittee level. So I'm pleased to see you here.

As we see our adversaries take steps to work together with Russia, China, and Iran financing each other, the Bureau of Industry and Security is one of our most important national security tools to ensure that we maintain our technological leadership and enforce export controls. But it is important if we're to cut you a \$311 million check all while the Trump administration slashes all other agencies critical to our economic leadership, then we receive the final budget justification that you are obligated to provide Congress. And I want to echo Ranking Member Meeks' concerns that we have not received that justification which is unusual for you to come here and testify prior to us receiving the budget descriptions so that we can appropriately inquire about. And I would ask that you please submit that at your earliest convenience.

Instead, you are asking for a 50 percent increase without telling Congress about your AI enforcement strategy or plans. So what justifies this massive adjustment of increased funding for BIS? And what specific metrics for improvement are you committing to achieve with this additional funding?

Mr. KESSLER. Well, I think I am here to explain the plan for these additional resources. But we have a small—effective but small enforcement apparatus. We have around 200 people who are

responsible for enforcement altogether, and that includes many front line officers and people who are responsible for actually apprehending wrongdoers.

It includes the 12 export control officers that I mentioned before, the officials who are stationed outside the United States to make sure that foreign companies and countries are doing what they're supposed to do with our technology. These numbers are vanishingly small for the types of products that we're talking about. We're an agency that handles something on the order of 10,000, 20,000 licenses per month. We need more than just one officer per country in the world to enforce these rules effectively. And that's what this budget increase is about.

Ms. JOHNSON. Mr. Chairman, at this time, I'm going to yield the remainder of my time to Ranking Member Meeks.

Mr. MEEKS. Thank you. I wanted to ask you one more question. This week, your colleague from the National Economic Council, Director Kevin Hassett, told the media that scaling back U.S. export controls on China is on the table and the trade negotiations with China in London.

And I'm deeply concerned about this administration mixing export controls which require a national security justification with trade negotiations. And so using export controls as a leverage and trade negotiation I believe undermines the credibility of America's export control regime. So can you elaborate and tell us which controls are on the table in your negotiations with the Chinese and why? And what controls are not on the table and why?

Mr. KESSLER. I'm not going to comment on the content of discussions between—diplomatic discussions between the United States and China which are continuing. What I will say is that export controls have been strong. And I'm confident that they will remain strong in the future, including with respect to the AI technologies that we're talking about today and many other technologies of concern.

Mr. MEEKS. Were you at the—were you in the negotiations for the trade talks in London?

Mr. KESSLER. I was in London. I didn't participate in all of the talks.

Mr. MEEKS. But you participated in some of the talks?

Mr. KESSLER. Limited, in a limited set of them.

Mr. MEEKS. Do you care to say which talks you participated in?

Mr. KESSLER. I'm not going to comment more on the contents of the discussions.

Mr. MEEKS. So as Under Secretary, have you approved any export controls with the aim of bolstering the administration's leverage in ongoing trade negotiations?

Mr. KESSLER. I wouldn't say that. When we impose controls, it's based on an assessment of what would promote national security and foreign policy interests of the United States. And that's what the statute requires. So that's the basis on which we apply.

[Simultaneous speaking.]

Mr. MEEKS. But you understand my concern. You were there, part of it. And to me, there's two separate—

[Simultaneous speaking.]

Mr. KESSLER. I mean, look, part of the discussion is—part of the concern is China's measures, including those related to rare earths. And those were styled as export controls.

Mr. MEEKS. I yield back to the gentlelady.

Ms. JOHNSON. Oh, I think my—yes, I think we're—

Mr. HUIZENGA. The Congresswoman yields?

Ms. JOHNSON. Yes, sir. I yield back.

Mr. HUIZENGA. Thank you. The chair now recognizes Representative Moylan for 5 minutes.

Mr. MOYLAN. Thank you, Mr. Chairman. And as competition with China over cutting-edge technology dramatically intensifies, we can't overstate the importance of effective export controls. And the role of the Bureau of Industry and Security, BIS, in our national strategic—strategy is even more critical than ever. Sir, you really could use our help in Congress as you're stating and I support that.

Mr. KESSLER. Thank you, sir.

Mr. MOYLAN. You're welcome. Advanced semiconductors, quantum technology, artificial intelligence, and autonomous drones can be easily repurposed for military use by our adversaries. The range of products that require careful monitoring is highly diverse. And the supply chain for advanced technology such as semiconductors is highly complex, involving numerous international stakeholders.

This means it's nearly impossible for the U.S. to unilaterally control the entire process. And my multinational cooperation for effective export controls is critical. The cooperation among the U.S., Japan, an Netherlands on advanced semiconductors manufacturing equipment technology can serve as a good example.

Now when we think about effective export controls, we need to focus not only on which items should be regulated but also on how these regulations are effectively implemented and monitored to achieve our intended goals. Several significant loopholes have been reported, such as acquisitions by obscured companies under the control of regulated Chinese entities and evasive imports through third countries. These examples illustrate the difficulty of ensuring the workable enforcement of export controls.

Nonetheless, we remain resolved in our commitment to provide you with effective policy tools and work together to secure national interests in the face of this critical competition. Sir, you have a heck of a job. So Under Secretary, which area or items do we need to strengthen our international cooperation to deter our adversaries technology advancements? And are you thinking of utilizing the Foreign Direct Product Rule to prevent foreign backfilling of U.S. companies?

Mr. KESSLER. Thank you, Representative Moylan. I appreciate the question. I think it needs to start with some of the areas that you mentioned, particularly controls on semiconductors and semiconductor-related technology, semiconductor manufacturing, equipment, software that relates to semiconductor manufacturing, and other AI-related technologies.

We need to make sure that for all of these critical technologies, our allies are fully aligned. And I agree with you that there has been some progress, particularly with respect to the Netherlands and Japan. But it's incomplete. The task is incomplete and more

needs to be done. I would consider using the Foreign Direct Product Rule. I think it's an important tool in our toolkit to make sure that there isn't backfilling as you said.

I think the best approach when it's feasible is for foreign countries willingly—especially our allies and partners who share—after all, they share our security interests, and these controls are all about promoting national security. So the best outcome is when they willingly impose controls to achieve alignment with ours. But yes, where that's not possible, I think that we should consider the Foreign Direct Product Rule.

Mr. MOYLAN. Thank you. And sir, what kind of authorities and new funding are necessary to implement more effective export controls?

Mr. KESSLER. Well, I think it's the funding that we're requesting in this budget, a significant increase in enforcement capacity. As I mentioned a moment ago, we have approximately one enforcement official per country in the world. And that's totally inadequate to the task that we're charged with. These are technologies that are critical to national security, that are incredibly valuable. And I think it makes sense for the United States to invest in protecting them.

Mr. MOYLAN. Thank you for your efforts. I do hope and I support you with your goals that you're requesting. Thank you for your time and your expertise.

Mr. KESSLER. Thank you, sir.

Mr. MOYLAN. Thank you, Mr. Chairman. I yield back.

Mr. HUIZenga. The gentleman yields. We're now going to have a second round of questions, and the first person who'll be asking those questions, Congresswoman Johnson. You're recognized for 5 minutes.

Ms. JOHNSON. Thank you so much, Mr. Chairman. I'm just going to pick up where I left off a little bit. So one of the—we've kind of been touching on this. But my question is very specific. One of the Bureau's core missions is international cooperation on issues from controlling the spread of dangerous goods and technologies to protecting critical infrastructure.

As my colleagues have mentioned, especially with export controls, effective enforcement is often determined by international cooperation and coordinated efforts to harmonize U.S. laws with our trading partners. So I know you've testified that you're having increased personnel. But are there any other aspects of how you intend to spend the 120 million budget increase that your agency is requesting other than on personnel specifically?

Mr. KESSLER. Well, I think it is mostly personnel. A portion of the budget may go to—I'd have to check. But I think a portion of the budget may go to equipment that enforcement officers need bulletproof vests and cars—service cars that they use when they're doing enforcement operations, firearms, things like that. But I think most of it will be for personnel and things that the enforcement personnel need.

And I guess I just want to register agreement with the first part of your question also about the importance of international cooperation. As I mentioned a moment ago to Representative Moylan, it really is important to—well, preferably to get countries—foreign

countries willingly to align with our export controls, and when that's not possible to consider other options.

Ms. JOHNSON. I want to completely change the topic for a moment and turn to an often overlooked issue that I'm very passionate about which is just the intellectual brain drain that's happening in our country right now. And I think it's a matter of our national security. I'm concerned that the U.S. is producing just the same number of electrical engineering graduates here in 2025 as we did in 2021, almost 25 years ago.

This means that even if the administration is successful in re-shoring ship manufacturing and regaining semiconductor leadership, there may not be sufficient workforce in place to sustain these efforts. As an agency within the Department of Commerce, the U.S. Government agency charged with creating conditions for economic growth, promoting job creation, and attracting foreign direct investment, what is BIS doing to support growth of the engineering talent pipeline here in the United States so that we can remain to have a scientific technological advantage?

Mr. KESSLER. Well, BIS' mission is to protect critical technologies and to protect critical supply chains as a department and as an administration. Ensuring that we have a sufficient flow of talent into our cutting-edge technologies and cutting-edge companies is absolutely a priority. And we have a range of initiatives across the government to ensure, for example, American dominance, continued dominance in AI and other scientific fields.

And also to ensure a robust workforce at the technical level, trade schools, vocational training. So I agree with you about the importance of that. And it's something that we are focused on as an administration.

Ms. JOHNSON. I have a lot of concerns about the attack on higher ed in this country. The war that the administration seems to be having with higher ed and also on our immigration talent. We have scientists who's had their funding cutoff for their research.

And then China has come in and offered them all the funding in the world to continue to lure them away since the United States is with the cuts across other disciplines in this government. It's harming our research. It's harming our development. Have you expressed concerns within the administration that some of these other efforts are counterproductive to the work that you're trying to achieve?

Mr. KESSLER. No, not at all. And I don't see anything counterproductive.

Ms. JOHNSON. Well, I completely disagree with that because I do believe it's counterproductive when the United States has invested significant sums of research—of resources to educate foreign talent at our universities, to put them in labs, to put in the research, to pay for their research to then unilaterally cut it off after decades of progress and Nobel prize winning efforts and the like only to be recruited by China and some of the very countries that were in this discussion to keep a competitive advantage. It certainly isn't helpful at all.

And I would suggest that you take a look at that because if we don't have the talent in this country to continue to develop and research and push our technologies forward, we will be behind in this

effort. None of these export controls are going to even matter. And with that, I yield back. Thank you.

Mr. HUIZENG. Thank you. The Congresswoman yields. I now recognize myself for 5 minutes. There are serious concerns that SMIC is violating U.S. export controls in its production of advanced AI shifts for Huawei. Will you commit to utilizing the increased enforcement budget to thoroughly investigating SMIC and finally determine SMIC's compliance with U.S. export controls?

Mr. KESSLER. If we believe there's a violation happening, we will absolutely investigate it. And if you have information about any particular company that's violating export controls now, we would absolutely investigate it, especially that one.

Mr. HUIZENG. Thank you.

Mr. KESSLER. Doesn't have to wait even for the additional appropriations. And I think that goes for everybody. If there's ever any violation that you think may be happening, we would want to know that immediately.

Mr. HUIZENG. OK. Our export controls require robust enforcement. They also frequently require timely administration. The Export Control Reform Act requires BIS process licenses within 30 days of receiving an application. What efforts is BIS taking to meet that goal?

Mr. KESSLER. Well, we have a significant staff in the part of BIS called export administration that's devoted to processing license applications. And so that's how we try to ensure that licenses are processed in a timely way.

Mr. HUIZENG. Thank you. And how is BIS leveraging global demand for U.S. technology to convince other countries to assist in enforcing U.S. export controls and preventing illegal divergence?

Mr. KESSLER. Well, I mean, I think—I'm not sure I would frame it exactly that way. My view is that it's positive when U.S. technology is used as the basis, as the foundation for technology infrastructure around the world because there are alternatives. And we would rather have foreign countries choosing U.S. technology rather than others. I see the role of export controls as making sure that when that happens, it's done in a secure way in a way that ensures that the technology remains in the hands of the United States and our partners and allies and not in the hands of our adversaries.

Mr. HUIZENG. Thank you. That completes my final round of questions. I now recognize the Congressman from Texas for his second round of questions.

Mr. SELF. Thank you, Mr. Chairman. So I want to explore our export controls almost in general because your answer to my first round of questions was interesting. So do you believe our export controls on advanced semiconductors, those most important related technologies are effectively curbing the PRC's access to militarily significant chip capabilities?

Mr. KESSLER. I do. I do. I think—and Chairman Huizenga mentioned it in his opening remarks that there are PRC company officials who have acknowledged that U.S. export controls are a significant impediment to their own companies' development.

Mr. SELF. And how aggressively could BIS leverage the Foreign Direct Product Rule to restrict China's access to advanced chips,

particularly when foreign labs are producing these same items using our technology?

Mr. KESSLER. BIS has the ability to impose the Foreign Direct Product Rule particularly with respect to semiconductor-related technologies. So the FDPR doesn't apply equally across technology areas. But in the area of semiconductors, it's fairly strong. So we have a lot of flexibility to be aggressive.

Mr. SELF. So what legislative authority would strengthen your hand?

Mr. KESSLER. Well, I would—rather than commenting on that here, let me just suggest that we have a separate conversation about how that might be done. I think there are ways that Congress could help strengthen BIS' authority in this area.

Mr. SELF. I look forward to that conversation. And to what extent are our efforts undermined by our allies' export controls, particularly countries like Netherlands, Japan, South Korea. And what is your candid assessment of the multilateral export control success?

Mr. KESSLER. Well, that's a complicated question. I think there's a lot more to be done. As I said, I think there has been progress in achieving greater alignment between the United States and some of those countries. But it's incomplete, and it's incomplete in important ways.

And the areas where we haven't yet achieved alignment, unfortunately our enabling U.S. adversaries to advance and cultivate their technology, we've sort of—the system, the regime that United States and its partners and allies have set up has encouraged adversaries to find alternative pathways to acquire advanced technology and they're very good at that. They're very good at finding ways around the rules and that's happening. So I think it's a serious problem and one that, as I mentioned before, I think, in response to another member's question, I've been very focused on personally. So I think there's a lot more to do there.

Mr. SELF. And I just want to emphasize on the Science, Space, and Technology Committee, we are starting to realize just how critical AI and quantum computing marriage could be. I mean, there are people that will tell you the first quantum computing computer, the first will render our encryption obsolete. So this is a vital question, advanced semiconductors. This is absolutely critical to our national interest, our national security, and our national defense.

Mr. KESSLER. I fully agree.

Mr. SELF. Yes. So this is more important than just the Washington speak here. It's vital. With that, Mr. Chairman, I yield back.

Mr. HUIZENGA. The gentleman from Texas yields. Representative Moylan is recognized for 5 minutes.

Mr. MOYLAN. Thank you, Mr. Chairman. Last Congress, this committee uncovered that BIS was routinely approving licenses for some of the worst enablers of the CCP military modernization, human rights abuse, and surveillance State. For example, between November 2020 and April 2021, BIS approved 60 billion worth of licenses to Huawei and 40 billion worth of licenses for SMIC. In fiscal year 2023, BIS only denied roughly 2 percent of all license applications it received. What actions, sir, are you taking to reassure

Congress that additional funding will not simply used to facilitate BIS' traditional rubber stamp policies for CCP?

Mr. KESSLER. Let me be unequivocal. That has stopped and it will not resume.

Mr. MOYLAN. Loud and clear. Thank you. And sir, what is your assessment of China's recent technological advances such as DeepSeek and Huawei launch of first laptops with self-developed computer operating systems? And do you believe that these developments indicate that we need more robust export controls?

Mr. KESSLER. I do. I think that it reveals several different areas where our export control should be stronger, both on the hardware side and on the software side. I think in practice, the hardware is easier to control.

There was a lot of reporting after DeepSeek's January advancements about its use of certain chips made with U.S. technology for performing inference operations. And BIS has addressed that. But I think it does show that we need to constantly be vigilant about the potential use of U.S. technology for our adversaries and their companies to achieve advancements over us and to leapfrog us.

Mr. MOYLAN. Very good. I trust everything will go well under your leadership. Thank you so much. Thank you, Mr. Chairman. I yield back.

Mr. HUIZENG. The gentleman yields. Under Secretary Kessler, I'm interested in hearing more about how you think that we should categorize AI when contemplating our export control strategy. Is it a general purpose technology like electricity or steam engines? Or is it more of a weapon? And is it closer to an F-35 or a Boeing 737? And how should these analogies shape our export control strategy?

Mr. KESSLER. All of the analogies have a degree of imprecision. Another one that I've heard used is civil nuclear technology, one that has enormous potential benefits to humanity but that can be dangerous if it falls into the wrong hands. One that needs to be controlled carefully and monitored, especially when deployed overseas, but one that we should also promote and ensure United States continued leadership.

So I think that it is an area that needs some degree of regulation—some degree of regulation, particularly with respect to security. We need to make sure that when it's deployed in the United States or overseas, it's deployed in a secure way, one that is consistent with American interests. But it's also important not to regulate this to death, and I think that's the trap that frankly the Biden administration fell into with the AI diffusion rule I was discussing a moment ago with another member. That was an example of command and control style regulation of this dynamic and rapidly evolving technology area that would have just strangled it.

Mr. HUIZENG. And what specific areas of concern did you have regarding that structure?

Mr. KESSLER. Regarding the diffusion rule?

Mr. HUIZENG. Yes, yes.

Mr. KESSLER. I mean, they are almost too many to list. There was a series of elaborate caps on computing power and the number of chips that companies could get depending per country and depending on the classification of that country. And it was just a very

byzantine set of rules, difficult to understand, much more difficult to comply with and divorced from commercial reality.

Mr. HUIZENG. Thank you for that clarification. Congress has persistently raised issues with BIS' delays in identifying emerging and foundational technologies at BIS as required under ECRA. BIS has effectively established shadowy policy that will only recognize emerging and foundational technologies after working through the Wassenaar arrangement.

The statute clearly does not provide a Wassenaar exemption to BIS' statutory responsibilities. The BIS delays directly affect CFIUS jurisdiction. Will you commit to ensuring that BIS follows the ECRA's mandate and ends its shadow Wassenaar requirements prior to identifying emerging and foundational technologies?

Mr. KESSLER. Yes. If that shadow policy exists, that's not one that I will honor. I agree with you that there's no requirement to perform some kind of multilateral box checking exercise before recognizing and controlling foundational technologies.

Mr. HUIZENG. Thank you. And then one more question for you, sir, from me. BIS has not fully replaced its IT infrastructure since 2008. The current IT systems present legitimate national security risks as it hinders BIS' ability to conduct investigations, produce analyses, and process licenses in a timely manner. The One Big Beautiful Bill passed by the House included resources for Commerce to improve its IT infrastructure. Are the funds in the One Big Beautiful Bill sufficient for BIS to address its IT deficiencies?

Mr. KESSLER. I believe so.

Mr. HUIZENG. And which areas would you focus on first to utilize those resources?

Mr. KESSLER. Well, we need to shore up the security first and foremost of BIS' IT. Unfortunately, BIS—much of BIS' IT system runs on a platform that's two decades old. So it needs to be updated and overhauled and we need to focus especially on cybersecurity.

Mr. HUIZENG. I yield to Representative Self for further questions.

Mr. SELF. Thank you, Mr. Chairman. So I think it's fair to say that not all of the people that can produce advanced chips hold our position on China that it is certainly peer adversary. Are you prepared to recommend to the Secretary, to the Secretary of State, and to the President that if our export controls or our allies or other nations that are producing these chips continue to provide them to China, whether surreptitiously or openly, that other means might be necessary to curb the traffic of advanced chips into China? And I have no idea what that might be, what might be decided. But would you be willing to advise the use of sanctions of tariffs, whatever means outside of export controls to stop the flow of advanced chips into China.

Mr. KESSLER. I would. My view as I believe yours is, is that these are national security priorities. And United States should consider all options when advancing those priorities, including but not limited to those that are in the export controls toolkit. But there are tools outside of that toolkit we should consider as well.

Mr. SELF. Thank you for that answer, Mr. Secretary, and I yield back.

Mr. HUIZENG. Thank you. Representative Self yields back. The chair now recognizes Representative Kamlager-Dove, the ranking member of this committee, for 5 minutes of questions.

Ms. KAMLAGER-DOVE. Thank you, Mr. Chair. And I'm so glad that we're still having these conversations. Great questions. Under Secretary, I wanted to go back to some of the earlier questions that I'd asked you about the Gulf AI chip deals.

And I know that you said earlier that it was your goal to make sure that our chips remain secure. And I think it's our intention to make sure that American countries and our allies around the world also feel like they're being taken care of and thought of by this administration. So we also do know that there are chips and entities that are getting smuggled into Russia or accessed remotely by China. So would you commit right now that no advanced U.S. AI chips would be exported to the UAE or Saudi Arabia until those governments sign a binding security and monitoring agreement?

Mr. KESSLER. What I would commit to is ensuring that for any AI chip exports that require a license, we would ensure that rigorous security requirements are in place. And we would enforce those requirements.

Ms. KAMLAGER-DOVE. And so what does rigorous security requirements enforcement look like and mean to you?

Mr. KESSLER. Among other things, it means that if the chips are going to be deployed to a data center located overseas, we would want to make sure that the operator of the data center that the cloud service provider if it's being deployed as a cloud, that those companies are trusted, that they have demonstrated that they can fulfill rigorous security requirements both with respect to who can access the computing power and also physical security. It would also include the personnel that work at those facilities. It would include the companies deploying know your customer requirements to make sure that there are not shell companies illicitly diverting—

Ms. KAMLAGER-DOVE. Right.

Mr. KESSLER [continuing]. the—

Ms. KAMLAGER-DOVE. And I don't want to—I only have a few minutes. So I do not want to cut you off. But I'm glad you said that because we do know that, for example, Russia does participate in starting up shell companies so that they can evade the kinds of export controls that we have in place.

You also mentioned license applications. And so segments of the U.S. industry have actually complained to Members of Congress about significant delays when it comes to license reviews. And these delays have been so prolonged and pronounced that some companies are saying that there seems to be a deliberate pause. So have you ordered a pause or delay in review of license application since you assumed your role at Commerce?

Mr. KESSLER. I have been carefully reviewing the licensing process. As another member mentioned, there has been a problem in the past with BIS rubber stamping license applications, including it appears those that are for products that go to China and technologies that go to China and other adversaries. I view that as a problem. And when I came into office, I decided that one of the first

things I would do is to take a close look at the licensing process—

Ms. KAMLAGER-DOVE. I'm so glad.

Mr. KESSLER [continuing]. in order to—

Ms. KAMLAGER-DOVE. I'm glad that you are saying that because I do think that's important. I'm also concerned when we hear from companies who say that it seems to be an excessive length of time for this review process, even though it is important that we carefully review. So has there been an increase in the average time it takes BIS to get back to companies with license application decisions?

Mr. KESSLER. I don't know. But I would guess that there has been because I'm no longer rubber stamping applications.

Ms. KAMLAGER-DOVE. It would be helpful for us, I think, to get that information. I know the chair talked about was happening in Michigan. I've talked about the companies that are in California.

I'm sure that there are other members. I know Arizona is also a State that's deeply committed, interested in semiconductors and issues around export controls. So could you share that information with this committee about the length of time that it is taking to review these license applications and what your goal is in terms of decreasing the time it takes to review while you are still making sure that you are giving it careful consideration?

Mr. KESSLER. We can provide information about our licensing practices.

Ms. KAMLAGER-DOVE. Thank you so much. And with that, I yield back.

Mr. HUIZENGA. The ranking member yields. Seeing no further questions, I want to thank Under Secretary Kessler for his valuable testimony and for the members for their questions. Members of the subcommittee may have some additional questions for the witness and will ask you to respond to them in writing. Pursuant to committee rules, all members may have up to 5 days to submit statements, questions, and extraneous materials for the record subject to the length limitations.

Without objection, the committee stands adjourned.

[Whereupon, at 11:35 a.m., the subcommittee was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD



Chairman Brian Mast

**COMMITTEE ON FOREIGN AFFAIRS
SUBCOMMITTEE HEARING NOTICE**
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515-6128

Subcommittee on South and Central Asia
Bill Huizenga (R-MI), Chairman

June 5, 2025

TO: MEMBERS OF THE COMMITTEE ON FOREIGN AFFAIRS

You are respectfully requested to attend an OPEN hearing of the Committee on Foreign Affairs to be held by the Subcommittee on South and Central Asia at 10:00 a.m. in Room 2172 of the Rayburn House Office Building. The hearing is available by live webcast on the Committee website at <https://foreignaffairs.house.gov/>.

DATE: Thursday, June 12, 2025

TIME: 10:00 a.m.

LOCATION: 2172 RHOB

SUBJECT: Bureau of Industry and Security FY26 Budget: Export Controls and the AI Arms Race

WITNESSES: The Honorable Jeffrey Kessler
Under Secretary of Commerce for Industry and Security
U.S. Department of Commerce

*NOTE: Witnesses may be added.

By Direction of the Chair

The Committee on Foreign Affairs seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-226-8467 at least four business days in advance of the event, whenever practicable. Questions with regard to special accommodations in general (including availability of Committee materials in alternative formats and assistive listening devices) may be directed to the Committee.

COMMITTEE ON FOREIGN AFFAIRS
MINUTES OF SCA SUBCOMMITTEE HEARING

Day Thursday Date June 12, 2025 Room 2172 RHOB

Starting Time 10:05 Ending Time 11:35

Recesses ☐ (____ to ____) (____ to ____) (____ to ____) (____ to ____) (____ to ____) (____ to ____)

Presiding Member(s)

Chairman Huizenga

Check all of the following that apply:

Open Session ☒

Executive (closed) Session ☐

Televised ☒

Electronically Recorded (taped) ☒

Stenographic Record ☒

TITLE OF HEARING:

Bureau of Industry and Security FY26 Budget: Export Controls and the AI Arms Race

COMMITTEE MEMBERS PRESENT:

Attached

NON-COMMITTEE MEMBERS PRESENT:

None

HEARING WITNESSES: Same as meeting notice attached? Yes ☒ No ☐

(If "no", please list below and include title, agency, department, or organization.)

STATEMENTS FOR THE RECORD: *(List any statements submitted for the record.)*

Attached

TIME SCHEDULED TO RECONVENE _____

or

TIME ADJOURNED 11:35

Meg Wagner
Full Committee Hearing Coordinator

Meeting on: Bureau of Industry and Security FY26 Budget: Export Controls and the AI Arms Race
Date: June 12, 2025

[illegible]

House Committee on Foreign Affairs
Subcommittee on South and Central Asia
Bureau of Industry and Security FY26 Budget: Export Controls and the AI Arms Race
June 12, 2025
Rep. Joaquin Castro
Questions for the Record for Under Secretary Jeffrey Kessler

Question 1: Diversion and Trafficking Pathways

What steps is BIS taking to disrupt known arms trafficking routes that have been repurposed for smuggling controlled dual-use technologies, such as AI chips and drone components, to adversarial regimes or non-state actors?

Answer: BIS aggressively investigates violations of export control regulations. In the United States, Special Agents and analysts located across the country use the full set of law enforcement tools at their disposal to identify diversion and proliferation networks, investigate violations, and pursue criminal and administrative penalties. Outside of the United States, Export Control Officers (ECOs) monitor the compliance of transactions subject to BIS's Export Administration Regulations (EAR) to prevent and detect illicit diversion to unauthorized end-uses, end-users, or destinations, including adversarial regimes and non-state actors.

Question 2: Export Control Gaps in Conflict Zones

Given the collapse of centralized control in regions like parts of Libya, Yemen, and Sudan, how does BIS assess and mitigate the risk of U.S.-origin technologies being diverted into regional arms markets or militant supply chains?

Answer: BIS's license review policies take into consideration the risk that controlled items may contribute to regional instability, contrary to U.S. national security and foreign policy interests. In addition, BIS restricts the export of certain items to countries subject to a United Nations arms embargo, such as Libya, and restricts the export of Commerce-controlled munitions items to countries subject to a U.S. arms embargo, including Libya and Sudan. BIS also places countries of concern from a national security, proliferation, or arms embargo perspective in restrictive country groupings under the EAR to impose supplemental license requirements, strict license review policies, limitations on the use of license exceptions, or enhanced catch-all controls on unlisted items destined for certain proliferation activities. Libya, Yemen, and Sudan are each listed in one or more restrictive country groupings under the EAR.

From an enforcement perspective, in addition to working alongside our interagency colleagues, BIS partners with industry and other nations to assess and mitigate the risk of diversion.

Question 3: Transparency in License Approvals for Sensitive End Users

How many license applications have been approved since January 2025 for exports to entities previously linked to arms trafficking or illicit procurement networks, including those in the Middle East or Southeast Asia? Please disaggregate approvals by country and sector.

Answer: From January 20, 2025, to July 15, 2025, BIS approved over 2,000 license applications authorizing the export of firearms, related parts and components, and ammunition specified in Export Control Classification Numbers (ECCNs) 0A501, 0A502, 0A505, 0A506, 0A507, and 0A508 on the Commerce Control List (CCL) (supplement no. 1 to 15 CFR part 774). No parties listed on the firearms licenses approved since January 20, 2025, were identified as being listed on the Consolidated Screening

List (CSL). The CSL combines lists of parties of concern maintained by various federal agencies, including Commerce's Entity List, Military End-User List, Unverified List, and Denied Persons List; Treasury's List of Specially Designated Nationals and Blocked Persons; and State's Nonproliferation Sanctions and Debarred Parties lists. These lists include entities designated by the U.S. government as Transnational Criminal Organizations (TCOs) or Narcotics Traffickers/Kingpins based on their involvement in, inter alia, arms trafficking.

Question 4: Coordination with State Department on Illicit Arms Flow Monitoring

How does BIS coordinate with the State Department's Directorate of Defense Trade Controls and the Bureau of International Security and Nonproliferation to track whether export-controlled technologies are contributing to regional arms buildups or proxy conflicts?

Answer: BIS works closely with our interagency partners and regularly communicates with our State Department colleagues on matters related to foreign policy. The State Department also generally reviews and provides recommendations on the disposition (i.e., approval, denial, or return without action) of license applications submitted to BIS. The Directorate of Defense Trade Controls reviews BIS license applications involving the export of firearms or Commerce-controlled munitions items, while the Bureau of International Security and Nonproliferation reviews dual-use license applications to evaluate national security and proliferation risks from a foreign policy perspective.

Question 5: Impact of Budget Increase on Arms Smuggling Detection

If appropriated, how will the proposed increase in BIS enforcement personnel enhance the Bureau's ability to detect and disrupt arms-related technology transfers—particularly unmanned aerial vehicles, missile components, and encrypted communication gear?

Answer: The proposed increase will allow BIS to hire more Special Agents, who will be able to lead more investigations into illegal transfers and engage with interagency partners to better pool information and resources to address this threat. The proposed increase will also allow BIS to hire more ECOs stationed abroad to identify parties involved in unauthorized exports and reexports, and to hire more analysts to review all-source information and provide case support, which will improve BIS's ability to target and disrupt proliferation networks.

Question 6: Shell Company Evasion and Enforcement Gaps

What legislative or regulatory tools does BIS need to address the rise in shell companies used to reroute U.S. export-controlled goods to sanctioned regimes or armed groups, particularly in Latin America, the Middle East, and Central Asia?

Answer: BIS's main challenge is enforcement resources. The President's proposed FY26 budget will help BIS close any enforcement gaps and apprehend more criminals.

Question 7: Use of Export-Controlled Goods in Human Rights Abuses

Will BIS commit to publishing an annual unclassified report detailing instances where U.S.-origin technologies have been identified in weapons or surveillance systems used in violations of international humanitarian law, including in conflict zones?

Answer: BIS issues an Annual Report to Congress pursuant to Section 4824 of Title 50 of the U.S. Code, which includes a review of the effect of controls imposed on exports, reexports, and in-country transfers of items in addressing threats to the national security or foreign policy of the United States.

Question 8: Support for Counter-Arms Trafficking Operations

Has BIS provided technical support or information to interagency counter-trafficking operations—including DHS, DOJ, or Treasury’s OFAC—when its export investigations identify arms proliferation risks?

Answer: BIS conducts joint investigations and operations with the Department of Homeland Security (DHS), the Department of Justice (DOJ), the Department of State (DOS), the Department of Defense (DOD) and the Office of Foreign Asset Control (OFAC) and coordinates with interagency colleagues on export control-related enforcement matters.

Question 9: Prosecutions for Trafficking

How does BIS coordinate with the DOJ, ATF, and other authorities to prosecute individuals responsible for trafficking small arms?

Answer: BIS routinely conducts trafficking in arms investigations with DOJ’s Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF). BIS also engages with other agencies to protect U.S. national security and foreign policy interests.

Question 10: FTO Designations

What procedures, if any, has BIS instituted following the designation of a range of transnational criminal organizations in Mexico, Haiti, and the Western Hemisphere as Foreign Terrorist Organizations? How is BIS ensuring that exported firearms that are diverted to these designated FTOs are tracked, and that individuals are prosecuted for any relevant crimes including for providing material support to a terrorist organization?

Answer: BIS works closely with the State Department and other interagency partners. Foreign Terrorist Organizations are subject to export control restrictions for all items subject to the EAR, and BIS aggressively enforces violations.

Question 11: Reversal of Presumption of Denial Policy

What evidence or risk assessment has BIS conducted to justify potentially reversing the presumption of denial policy for firearms exports to countries with documented diversion risks, particularly in the Caribbean, Latin America, and Southeast Asia?

Answer: In April 2024, BIS issued an Interim Final Rule entitled “Revision of Firearms License Requirements.” The public submitted comments on the rule, which contain information about the appropriate export control policies on firearms.

Question 12: Impact on Regional Security and Trafficking

Given rising concerns about U.S.-origin firearms being used in violent crime and trafficking networks in

Mexico, Haiti, and Central America, how does BIS plan to prevent increased exports from fueling instability or being diverted to criminal groups?

Answer: BIS uses rigorous enforcement to prevent diversion to criminal groups. The requested funding increase for FY2026 will enable BIS to prevent more activity that violates export controls.

Question 13: Interagency and Congressional Coordination

Which agencies has BIS consulted in preparing the potential reversal of the April 2024 rule, and has it sought input from the State Department, ATF, or congressional committees concerned with international crime and public safety?

Answer: The issuance of any rule—including one that reverses a previous rule—normally involves confidential interagency consultation and coordination, particularly with agencies that have relevant expertise.

Question 14: Evaluation of Firearms Export Tracing Data

Does BIS consider firearm trace data—such as ATF’s eTrace program findings—when evaluating export license applications or formulating export control rules? If not, why not?

Answer: Yes, BIS works with ATF and leverages the eTrace program when applicable. BIS also considers all-source information, both public and non-public, in consultation with the Departments of Defense and State, when evaluating export license applications or formulating export control rules.

Question 15: Transparency and Public Input

Will BIS commit to holding a public comment period or stakeholder consultation before finalizing any rule reversing the Biden-era firearms export restrictions? If not, how will the agency ensure transparency and public accountability in the rulemaking process?

Answer: BIS provided a 60-day public comment period from April 30 to July 1, 2024, on the April 2024 firearms rule. These comments will inform any amendments to the firearms export controls.

Foreign Affairs Committee SCA Subcommittee
“Bureau of Industry and Security FY26 Budget: Export Controls and the AI Arms Race”
June 12, 2025
Under Secretary Kessler
Rep. Bill Huizenga

Question 1: BIS is requesting a 133% increase to its enforcement budget. Is BIS seeing a significant increase in enforcement activity, including increased illegal diversion and smuggling that merits this significant budgetary increase?

Answer: BIS is concerned that many instances of diversion, smuggling, and other violations of export controls currently go undetected. We encounter such schemes routinely in our investigative work.

There is less than one BIS Special Agent for each country around the world. As a result, each Special Agent currently handles far above the average case load when compared to agents at the FBI, HSI and ATF. With more resources, BIS would likely catch more wrongdoing.

- a. You stated that it is a fact that there are diversions of AI chips. What is the estimated scale of those AI chip diversions (tens, hundreds, thousands, etc.)?

Answer: BIS has identified significant efforts to divert AI chips and servers. We have multiple ongoing investigations related to AI chip smuggling and have detained or seized AI chips and servers that were part of attempts to circumvent U.S. export control laws. BIS is unable to provide details related to ongoing investigations.

1. If AI chip diversion is occurring, where are these chips primarily being diverted from and to?

Answer: Diversion occurs both from the United States and third countries. Diversion, smuggling, and transshipment occur to U.S. adversaries and their proxies worldwide. Certain parts of Southeast Asia, in particular, are known diversion hubs.

2. Does BIS assess that it is currently catching all AI chip diversion, or does it believe that additional enforcement resources would uncover more AI chip diversion than is currently being caught?

Answer: Additional enforcement resources would uncover more AI chip diversion than is currently being caught.

- b. Is a geolocation mechanism for AI chips, as called for in the Chip Security Act (H.R. 3447) technically feasible and could geolocation mechanisms potentially assist BIS in identifying and preventing AI chip diversion?

Answer: Potentially. More study is needed to assess the feasibility of this type of technology.

Question 2: In your testimony you stated that BIS could use the increased funding for enforcement to hire an additional “almost 200” enforcement officers stationed across the United States and an additional 18 Export Control Officers (ECOs) overseas. What is the reasoning for adding an additional nearly 200 officers within the United States while increasing the overseas enforcement presence by only 18 ECOs?

Answer: With the requested increase in appropriations, BIS could increase the number of U.S.-based enforcement officers from 159 to over 350, and overseas-based ECOs from 12 to 30 or more. U.S.-based enforcement officers conduct operations both within the United States and overseas. ECOs provide valuable on-the-ground insights into potential violations by conducting end-use checks overseas and by developing relationships in host countries. These U.S.-based enforcement officers and their ECOs around the world work in tandem to enforce our export controls.

Only U.S.-based enforcement officers can conduct overseas investigations, and they do so frequently with the consent of host governments. U.S.-based enforcement officers travel abroad to conduct such investigations when necessary. By contrast, ECOs—who are stationed overseas—conduct end-use checks overseas and coordinate with foreign governments regarding their enforcement activity. However, ECOs do not conduct investigations overseas due to restrictions imposed by host governments. In addition, ECOs typically require a greater per capita budget outlay than U.S.-based enforcement officers.

- a. Where in the United States does BIS envision stationing the nearly 200 additional enforcement officers?
 - i. How does that enforcement posture support BIS's enforcement goals?

Answer: BIS evaluates a multitude of data sources, including export information, the criticality of commodities and where they are produced, research and development hubs, and internal investigative equities to determine the most effective allocation of our personnel.

Currently, BIS Special Agents are stationed across the United States, including its headquarters in Washington, DC, nine field offices located in Boston, Chicago, Dallas, Los Angeles, Miami, New York, Northern Virginia, Phoenix, and San Jose, and resident offices in Atlanta, Houston, and Portland. In addition, Special Agents have been deployed to FBI field offices in Charlotte, Cincinnati, Detroit, Huntsville, Las Vegas, Memphis, Minneapolis, New Haven, Pittsburgh, Sacramento, Salt Lake City, San Diego, Seattle, Tampa, and Savannah, as well as to Defense Criminal Investigative Service (DCIS) offices in Denver and San Antonio, and the Homeland Security Investigations (HSI) Field Office in Baltimore to provide enhanced coverage for investigating export violations. These agents are responsible for apprehending and charging criminals who seek to profit by unlawfully transmitting American technology to our adversaries.

- b. Where overseas does BIS envision stationing the additional 18 ECOs?

Answer: BIS would station ECOs in locations that enable us to have greater reach to diversion hubs, such as Southeast Asia.

- i. How does BIS envision flexibly deploying ECOs globally as diversion routes dynamically change as export control violators attempt to avoid detection?

Answer: Individual ECOs operate in multiple countries. If circumstances warrant changing the posting locations of ECOs to most efficiently and effectively address the changing dynamics of export control violations, BIS will do that.

- ii. How does BIS envision the role of additional ECOs for supporting AI projects overseas that allow U.S. AI technology to securely expand and flourish globally, such as the recent U.S.-UAE AI deal and other potential deals with countries in the future?

Answer: ECOs will help ensure that exported chips are used in a manner that is consistent with BIS rules and license requirements.

- iii. Would the Export Control Analyst stationed in Canada be converted to an ECO?

Answer: We are not planning to do this.

- 1. Does BIS envision all of the additional overseas personnel being ECOs or does it envision utilizing additional Export Control Analysts?

Answer: The current plan is that they would all be ECOs.

- c. How does BIS envision how ECOs' time should be split between conducting end use checks, coordinating with host governments on export control enforcement, assisting host governments and the private sector with improving export control compliance efforts and capacity, and any other duties that may support BIS's overseas enforcement efforts?

- i. In other words, does BIS envision ECOs to primarily serve overseas for the purposes of conducting end-use checks, or does BIS envision a larger enforcement policy role for ECOs?

Answer: ECOs perform a variety of functions overseas that are valuable to enforcement, such as developing relationships with local enforcement authorities and coordinating on foreign government enforcement activity. Their role is not limited to end-use checks.

- ii. Are there any plans to renegotiate the 2004 U.S.-China bilateral agreement that restricts BIS's ability to conduct end-use checks in the People's Republic of China?

Answer: Not at this time.

- d. The Administration is requesting a \$122 million increase to BIS's budget in its FY26 budget request, a more than 50 percent increase. To what extent has BIS conducted long-term workforce planning to ensure that these additional resources, if appropriated, will be used effectively?

Answer: BIS is currently conducting a comprehensive review to determine the most effective geographic allocation of our personnel. The results of this review are expected in the next several months.

Question 3: 50 U.S.C. 4815(b) states "It is the sense of Congress that the Secretary should make best efforts to ensure that an accurate, consistent, and timely evaluation and processing of licenses or other requests for authorization to export, reexport, or in-country transfer items controlled under this subchapter is generally accomplished within 30 days from the date of such license request." What is the average time for license processing at BIS so far this year?

Answer: *The average processing time for licenses in 2025 through mid-July is approximately 45 days.*

- a. What is BIS doing to strive to process licenses within 30 days of receiving the application while still ensuring robust screening of each license application?
- b. If a license application does take longer than 30 days to process, does BIS provide clarity to companies about what is driving the delay in the license decision?

Answer: *When questions arise during reviews of license applications, BIS works closely with industry to address them. The applicant sees the status updates of their license applications, and the licensing officers are in communication with applicants on a regular basis.*

Question 4: BIS recently restricted the export of certain AI “inference” chips to China, such as the NVIDIA H20 and similar products from AMD and Intel. What is the national security threat that BIS assessed these chips posed?

- a. These chips were previously allowed to be sold under the Biden administration. Did the Trump administration assess that the previous administration’s original national security assessment of these chips was incorrect; or was there a technological innovation that changed the national security assessment, such as the proliferation of reasoning models, that led to the decision to restrict the sale of the chips to China?

Answer: *BIS imposed a license requirement in light of national security concerns related to certain AI chips. This gave BIS an opportunity to assess the benefits and risks of exporting these products while controlling their flow to China.*

- b. Are these restrictions permanent bans on selling these chips to China or is BIS considering a potential license requirement for their future sale to China?

Answer: *Whenever BIS imposes a license requirement, companies may apply for a license. BIS considers license applications in accordance with the applicable licensing policy.*

- c. Does BIS believe there is a role for U.S. AI chips to be sold to China in a way that does not harm U.S. national security?
 - i. If so, what is that role and how does BIS envision U.S. industry fulfilling that role in a way that does not lead to significant financial losses if the national security threat assessment of chips produced to fulfill that role rapidly changes?

Answer: *U.S. sales of less advanced AI chips to China may be consistent with national security objectives—for example, in situations where foreign substitutes are available to China, and the U.S. sales deprive home-grown Chinese chip producers of market share.*

- d. How does BIS assess the national security impact of PRC AI chips’ growing market share in China?

- i. How does BIS consider AI software ecosystem competition when evaluating AI chip controls on China?

Answer: BIS considers, among other things, whether the export of particular chips is likely to encourage the development of a tech ecosystem rooted in U.S. technology.

- e. How does BIS consider factors like the evolution of PRC domestic capabilities as well as the introduction of more advanced U.S. chips entering the global market in the national security assessments?

Answer: BIS considers, among other things, whether the export of particular chips is likely to encourage the development of a tech ecosystem rooted in U.S. technology.

- f. When BIS considers PRC domestic capabilities, does it consider solely the capability of an individual PRC AI chip versus an individual U.S. AI chip, or does it also factor in the number of PRC chips able to be produced?

- i. In other words, is BIS concerned only about how whether a PRC AI chip alternative is more capable than an unrestricted U.S. AI chip or is BIS also concerned about unrestricted sales of U.S. AI chips facilitating significant increases in total amount of compute available in China due to superior U.S.-designed chip production numbers?

Answer: BIS considers, among other things, whether the export of particular chips is likely to encourage the development of a tech ecosystem rooted in U.S. technology.

Question 5: On May 13, 2025, the Commerce Department rescinded the AI Diffusion rule in an announcement that included your statement that, “The Trump Administration will pursue a bold, inclusive strategy to American AI technology with trusted foreign countries around the world, while keeping the technology out of the hands of our adversaries. At the same time, we reject the Biden Administration’s attempt to impose its own ill-conceived and counterproductive AI policies on the American people.” What is the expected timeline for the Trump administration’s strategy or alternative export control framework?

- a. What steps is BIS taking to ensure industry has had sufficient opportunity to provide input, so any future rule avoids similar issues as the previous rule?

Answer: BIS will consult with industry as well as experts in the Administration regarding any future rule pertaining to AI chips.

Question 6: You stated that “Our assessment is that Huawei’s Ascend chip production capacity for 2025 will be at or below 200,000, and we project that most or all of that will be delivered to companies within China.” Does that Ascend production number reference Ascend 910Bs, 910Cs, or both, and does that production number rely on Huawei’s allegedly illegally procured stockpile from TSMC?

Answer: My statement referenced internal assessments from BIS. I am not able to share further details of those assessments. However, as I noted at the hearing, we should not take comfort in this relatively low number. Huawei’s chip production capacity is expected to grow significantly in 2026.

- a. Are you able to share comparable projections for other entities critical to China's AI technology stack and indigenization efforts—such as SMIC, YMTC, CXMT, NAURA, AMEC, and others?
- i. What are your current assessments of their production capacity and technological maturity in 2025?

Answer: BIS assessments of entities critical to China's AI technology stack and indigenization efforts are ongoing and will inform its evaluation of current controls and changes necessary to ensure that U.S. advanced technology does not flow to our adversaries.

Question 7: The first Trump administration demonstrated the national security impact that the Foreign Direct Product Rule (FDPR) can provide to U.S. export controls when it applied the FDPR to its Entity-Listing of Huawei. There is growing concern that a lack of alignment between U.S. export controls and those of allied nations, particularly in regard to semiconductor manufacturing equipment, enables foreign firms to backfill Chinese orders vacated by U.S. companies. This backfilling can undermine the national security impact of U.S. export controls and undermine U.S. industry technological leadership in critical technologies. Do you believe it is realistic to expect harmonization of controls from allies, given the economic incentives tied to access to the Chinese market?

- a. Is the Administration willing to use all of its legal authorities, including potentially the FDPR and other authorities, to end foreign backfilling of critical technologies that are critical to U.S. national security interests?

Answer: Yes, depending on the circumstances.

Question 8: Given the emergence of frontier models that can generalize across domains—including code generation, strategic planning, and cyber operations—how does BIS plan to evaluate whether a particular model architecture or capability should be export-controlled, independent of the hardware used to train it?

Answer: BIS continuously consults with interagency colleagues and industry stakeholders to review and identify new types of technology, such as frontier models, for potential controls.

Question 9: What actions is BIS taking to strengthen existing controls on advanced semiconductor test equipment by leveling the playing field between American and foreign producers and closing loopholes to deny Huawei access to the tools it needs to develop and test its newest AI processors and strengthen the foundation of U.S. global AI dominance?

Answer: BIS would welcome the opportunity to engage with you regarding potential loopholes related to semiconductor test equipment.

House Committee on Foreign Affairs
Subcommittee on South and Central Asia
Bureau of Industry and Security FY26 Budget: Export Controls and the AI Arms Race
June 12, 2025
Rep. Kamlager-Dove
Questions for the Record for Under Secretary Jeffrey Kessler

Question 1: At the hearing, you indicated that there has likely been an increase in the average time for making and sharing license decisions since the start of the Trump Administration. What has been the average decision time for license reviews for applications submitted in 2025?

Answer: The average processing time for licenses in 2025 through August 26, 2025, is approximately 49 days.

Question 2: Of the license applications submitted from January through May 2025, how many have yet to receive a decision? Please provide a break down by month.

Answer: From January to late August 2025, BIS approved, denied or returned without action more than 21,900 export license applications. The breakdown by month of license applications submitted and still pending is as follows: January – approximately 160 applications; February – approximately 360 applications; March – approximately 500 applications; April – approximately 520 applications; May – approximately 500 applications; June – approximately 530 applications; July – approximately 900 applications; and August – approximately 1,950 applications.

Question 3: Of the license applications submitted since the start of 2025, how many applications did not receive an answer from BIS within 30 days?

Answer: As of August 26, 2025, about 8,957 license applications did not receive a final decision from BIS within 30 calendar days of application submission. The average processing time for export licenses in 2025 year-to-date is 49 days, which is 11% less than in 2024. In other words, on average, BIS is processing licenses more quickly in 2025 than under the prior administration.

Question 4: At any time in 2025, has the Administration imposed any pause on license reviews? If so, for how long and what kinds of license applications did the pause cover?

Answer: BIS has reviewed licensing policies for sensitive technologies—particularly those with significant military use—that are potentially flowing to foreign adversaries.

Question 5: At the hearing, you indicated that you are no longer rubber-stamping licenses. Since taking over as Under Secretary, what changes have you made to the internal process for reviewing licenses?

Answer: BIS is reviewing the licensing policies for each category of export licenses that potentially involve the export of sensitive technologies to foreign adversaries. This factor informs the decision for particular export license applications.

Question 6: BIS has not added a single entity to the Entity List in relation to enforcing its export controls on Russia since January 20, 2025. During the same period last year, BIS added over 100 entities to the Entity List in connection to diverting dual-use items to the Russian war machine.

a. Has BIS paused enforcement activities related to Russia?

- b. If not, how does BIS plan to deter smugglers and other bad actors that are helping sustain Russia's war effort?

Answer: BIS continues to aggressively enforce all controls in place, including with regard to Russia, and will impose criminal and/or administrative penalties as warranted.

Question 7: When will BIS issue a rule replacing the AI diffusion rule?

Answer: The Biden-era AI Diffusion Rule was a disaster. Any future policies we impose regarding exports of AI chips will be far more thoughtful and effective.

Question 8: Will BIS provide time for public comment on a replacement to the AI Diffusion rule before the rule goes into effect?

Answer: There is no replacement rule at present.

Question 9: How many staff at BIS are working on the Section 232 investigations? How many BIS staff review license applications?

Answer: There are currently more than 50 staff working on Section 232 investigations at BIS.

Currently, BIS has approximately 60 staff dedicated to reviewing license applications.

Question 10: The Microsoft agreement with G42, which was finalized last December, included a range of robust security measures to ensure that U.S. chips are not misused. Will you commit to ensuring that any export of U.S. chips to the UAE meet the same standard?

Answer: BIS has robust security requirements to ensure that AI chip exports are not misused, and we will rigorously enforce those requirements.

Foreign Affairs Committee SCA Subcommittee
“Bureau of Industry and Security FY26 Budget: Export Controls and the AI Arms Race”
June 12, 2025
Under Secretary Kessler
Rep. Michael Lawler

Question 1: There are public reports of Chinese companies and Entity List companies avoiding U.S. export controls by remotely accessing advanced AI chips and other U.S. technology through the cloud. These foreign companies are remotely accessing items that they would be prohibited from physically accessing without a license. BIS previously stated in public advisory opinions that it currently lacks the legal authority to close these cloud computing loopholes. Recently, the House Foreign Affairs Committee favorably reported by a 51-0 vote the Remote Access Security Act (H.R. 2683). This bill would provide BIS with clear legal authority to regulate the remote access of items, similar to its authority regulate the export, re-export, and in-country transfer of items under the Export Control Reform Act of 2018. Would Congress passing the Remote Access Security, thus providing BIS the clear legal authority to regulate the remote access of items, assist BIS in its mission to safeguard America’s dual-use technologies?

Answer: The Remote Access Security Act defines “remote access” under the Export Control Reform Act of 2018 and clarifies that BIS has authority to control items that are remotely accessed by foreign entities. This would provide BIS with authority to address Chinese companies that use cloud computing to access the computing power of restricted chips to train advanced AI models via remote access. Furthermore, this authority is not specific to AI technology and would also allow BIS to regulate and enforce remote access to other controlled technologies, such as malware that can be used in offensive cyberattacks against critical infrastructure and other U.S. equities.

Foreign Affairs Committee SCA Subcommittee
“Bureau of Industry and Security FY26 Budget: Export Controls and the AI Arms Race”
June 12, 2025
Under Secretary Kessler
Rep. Rich McCormick

Question 1: Despite efforts to guard the technology, China is now a formidable competitor on AI hardware and model fronts. As your office works on a revised rule, how will you ensure that the U.S. leads in global deployments of AI?

- Will that new system reflect real-world diplomatic partnerships and tech maturity levels, rather than blanket classifications?

Answer: Yes, any future rules on AI will be grounded in commercial and diplomatic reality.

Question 2: The administration blocked the export of weaker chips that were specifically designed to be compliant with U.S. law. When the administration changed the rules, America’s leading AI companies incurred billions in write-offs that cost the U.S. Treasury billions more in lost tax revenue. ^(SEP)

Mr. Kessler, can you explain the new threat that weaker chips pose to national security?

- Can the millions of chips already in China developed by Huawei and other companies pose the same threat?

Answer: Yes, there is a risk that Huawei can supply chips similar to some designed by U.S. companies. BIS will consider this risk in setting future licensing policies.

Question 3: How is BIS working with the State Department and our international partners to align AI export policies with our strategic alliances, particularly with India and other Indo-Pacific partners?

Answer: BIS is in regular communication and coordinates with the interagency and our international partners to align export controls and promote global technological leadership.

Question 4: What does China’s rapid response to U.S. export restrictions tell us about their state-backed R&D strategies?

- Are there lessons for how the U.S. should organize and fund innovation at the national level?

Answer: U.S. export controls have motivated China to pursue greater self-sufficiency in key technologies and industries. The U.S. must achieve greater self-sufficiency in key technologies and strategic supply chains as well, in part to protect against future acts of economic aggression.

Foreign Affairs Committee SCA Subcommittee
“Bureau of Industry and Security FY26 Budget: Export Controls and the AI Arms Race”
June 12, 2025
Under Secretary Kessler
Rep. Keith Self

Question 1:

Do you agree that closing this loophole is critical to preventing the PRC from circumventing our export controls? And further, do you believe that such an approach—particularly if reinforced by a Foreign Direct Product Rule—would meaningfully disrupt the CCP’s acquisition of U.S. technology?

Answer: It is critical to close loopholes related to the Entity List. Doing so would likely degrade U.S. adversaries’ technology base.

Question 2:

The STOP Shells Act uses a 50% ownership threshold to trigger export control restrictions on subsidiaries of Entity List or Military End User List companies. From your enforcement perspective, is 50% the right threshold? Or are adversaries exploiting minority stakes—say, 40% or even 10%—to maintain influence while evading controls?"

Answer: The 50% ownership threshold aligns with existing OFAC sanctions rules. BIS should have the flexibility to consider lower ownership levels as well, in certain circumstances.

Question 3:

BIS recently put out helpful guidance clarifying pre-existing U.S. policy that certain Huawei chips are subject to U.S. export controls and require a license from BIS for export. Is BIS planning on issuing similar guidance for other Chinese products, such as semiconductor manufacturing equipment companies like NAURA?

Answer: BIS continuously reviews export control policy and will issue further guidance, as needed, to ensure the effectiveness of our export controls.

Question 4:

Under Secretary Kessler, do you believe our current export controls on advanced semiconductors and related technology are effectively curbing the PRC’s access to militarily significant chip capabilities? And more fundamentally—what is the strategic end goal of these controls: to delay, to degrade, or to deny China’s military-tech advancement altogether?

Answer: Robust implementation and enforcement of our controls curb the PRC’s access to militarily significant AI chips. The end-goal is to promote American technological dominance and ensure that America’s advanced technologies, like AI, do not flow to our adversaries.

Question 5:

How can BIS more aggressively leverage the Foreign Direct Product Rule to restrict China's access to advanced chips, particularly when foreign fabs are producing semiconductors using U.S.-origin technology? Are there current limitations preventing broader application of FDPR, and what legislative authority—if any—would strengthen your hand?

Answer: BIS uses the FDPR to restrict adversaries' access to advanced chips, and we constantly re-evaluate and consider potential adjustments to our use of the FDPR.

Question 6:

To what extent are U.S. efforts undermined by gaps in allied export controls—particularly from countries like the Netherlands, Japan, or South Korea? What's your candid assessment of multilateral compliance and coordination?"

Answer: U.S. allies' alignment with U.S. export controls is incomplete. Backfilling of U.S. controls undermines our shared security interests and creates an uneven playing field for U.S. industry.