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Bureau of Industry and Security
U.S. Department of Commerce
Herbert C. Hoover Federal Building
1401 Constitution Avenue NW
Washington, DC 20230

Re: Docket No. 250709-0122; XRIN 0694-XC130

To Whom It May Concern:

TechNet appreciates the opportunity to comment on the Bureau of Industry and Security's (BIS) investigation under section 232 of the *Trade Expansion Act of 1962*, regarding the effects on national security of imports of unmanned aircraft systems (UAS) and their parts and components.

TechNet is the national, bipartisan network of technology CEOs and senior executives that promotes the growth of the innovation economy by advocating a targeted policy agenda at the federal and 50-state level. TechNet's diverse membership includes over 100 dynamic American businesses ranging from startups to the most iconic companies on the planet and represents five million employees and countless customers in the fields of information technology, artificial intelligence (AI), e-commerce, the sharing and gig economies, advanced energy, transportation, cybersecurity, venture capital, and finance.

TechNet welcomes the Trump Administration's efforts to assess and reduce potential national security risks associated with foreign-manufactured UAS and their critical components, and to bolster U.S. drone manufacturing. As drone operations and applications increase, it is critical that the U.S. government and industry work together to identify and address potential supply chain vulnerabilities and eliminate risks posed by foreign adversaries without hindering America's global competitiveness in the drone industry.

We strongly urge the administration to conduct a thorough assessment in this investigation and work with industry and other stakeholders to understand the full implications of additional tariffs on the extended drone supply chain. Imposing restrictions on foreign-manufactured drones and their components would impede economic growth, job creation, and innovation and, by extension, U.S. global competitiveness by limiting access to products that are essential for maintaining American technology leadership. While U.S. companies pursue strategies to reduce

reliance on foreign-manufactured drones and component parts, any tariff actions taken based on the findings of this investigation should be phased in over time and geared toward minimizing supply chain disruptions that could harm American innovation at a critical time for commercial drone manufacturers and operators.

Increasing Domestic Manufacturing Capacity for UAS and Components

TechNet shares the common goal of seeing the U.S. commercial drone industry succeed while boosting domestic manufacturing capabilities and addressing national security concerns. To that end, it is important to acknowledge the realities of global economic trends that have come to pass over decades — including the movement of manufacturing capabilities to Asia and, specifically, China — largely in line with geopolitical policies intended to get China to cooperate with international norms. Supply chain disruptions are particularly concerning for commercial delivery services, which rely on drones to meet growing demand for last-mile logistics. Overly broad restrictions could slow the adoption of sustainable solutions and limit consumer access to efficient, technology-driven services.

For some but not all UAS manufacturers, U.S. domestic UAS production depends on hardware components from the Asia-Pacific region, with many sub-tier components produced by companies with links to People's Republic of China (PRC) ownership. Some components, like certain lithium-ion batteries and magnets, are only available from the PRC. Many U.S. companies that depend on these sources are working to establish alternative, competitive manufacturing of these elements in other geographic locations and without ties to foreign adversary-linked companies. Such alternative manufacturing capabilities, however, do not yet exist, especially at a scale to serve a rapidly growing industry. Establishing such facilities and manufacturing expertise is a multi-year process under the most optimistic estimates. Overly burdensome restrictions, including additional tariffs, on foreign-manufactured drone components could delay U.S. production timelines for some drones and act as a disincentive for companies to manufacture drones domestically.

Importantly, lithium-ion batteries used in drones, which are primarily produced in the PRC, remain the core energy supply for UAS systems, including those otherwise wholly or primarily produced in the United States. These lithium-ion batteries are critical to the development of strong LI cell/pouch production in the United States and are vital to maintaining UAS operations privately and by Government entities. We respectfully refer to the BIS Connected Vehicles Rule, which explicitly excluded from its scope "a hardware or software item that exclusively... supplies or manages power for the VCS." BIS's rationale for this exclusion was due to the "low-risk use cases and [to] provide the industry with greater flexibility" and that reasoning equally applies here.

Furthermore, the ability of foreign adversaries, including the PRC, to weaponize control over drone components through export restrictions is a serious national security concern. U.S. commercial drone manufacturers were recently impacted by

the PRC limiting the export of rare earth minerals found in magnets commonly used in drone propulsion motors. Beginning in 2023, the PRC began imposing export controls on strategic materials used by U.S. industries including gallium, germanium, antimony, graphite, and tungsten. As the Administration works to implement trade agreements with foreign trade partners, TechNet encourages the Administration to address this problem by requiring the approval of export license requests or prohibiting restrictions on the export of these materials.

An additional challenge facing the drone industry is that it currently relies on many of the same components and supply chain decisions as the cell phone and consumer electronics industry. Suppliers make decisions on changes to or relocations of existing fabrication facilities to optimize for the production of millions of units for cell phone components rather than thousands of units for drone components. Thus, U.S. tariffs on drone components are unlikely to motivate these large component producers to relocate production to the United States. It follows that tariffs on drone components would not have the desired impact, but would jeopardize the health and success of the domestic drone industry.

In addition, as U.S. drone companies rework their supply chains, support from the U.S. government will be critical to seeing continued success and global leadership from this sector. Moreover, any Section 232 tariffs on foreign-made UAS and components should be implemented over time. The phase-in period should be sufficient to allow the U.S. domestic drone industry to identify and develop alternative domestic sources of drone components. TechNet further recommends coordinating across agencies for a whole-of-government approach to minimizing costs for the drone industry. For instance, the drone industry would greatly benefit from financial incentives and resources available for alternative manufacturing and building domestic capabilities. Without such aid to offset changes to supply chain regulations, American innovation, economic growth, and global competitiveness in the drone industry will suffer.

Concentration of U.S. Imports and Associated Risks

The concentration of U.S. imports of UAS and their parts and components from a small number of suppliers or foreign nations varies by type of component. Some drone components are widely available or have a low manufacturing barrier to entry. A domestic UAS manufacturer's sourcing decision for a particular component could involve competition between U.S., European, and Asian providers for that component based on quality, price, and capacity. For these parts, favoring U.S. suppliers over foreign suppliers through the use of Section 232 tariffs would in the short term increase price and reduce competitive pressure on quality and other non-cost factors, and may lead to short-term capacity constraints as the supply side adjusts.

However, some UAS components — typically those requiring specialized technology (batteries), aerospace-level quality tolerances (propellers and flight surfaces for

certain drones), or complex assemblies (motors) — have fewer suppliers that may be concentrated outside the U.S.

The most pronounced UAS supply concentration risk is batteries. China is a global leader in manufacturing the high-density and cost-effective batteries used by the drone industry and many others. Companies pursuing strategies to reduce reliance on Chinese batteries are running into obstacles, both in terms of prohibitive costs and in terms of supply availability.

A sudden increase in the cost of batteries (whether due to tariffs, required sourcing changes, or withdrawal of any market supports) could place a tremendous financial burden on the U.S. domestic UAS industry in the face of lack of supply and increased cost.

Conclusion

TechNet shares the administration's concerns over national security and its goal of expanding domestic manufacturing of UAS and their components. We appreciate the administration's whole-of-government approach to addressing these critical issues, and recognition that the U.S. must address emerging threats while maintaining our ability to innovate and compete. For this reason, we urge the administration to refrain from imposing Section 232 tariffs on the critical components that the U.S. drone industry needs to continue its growth.

Thank you for your consideration of our views on this matter and we look forward to serving as a resource to BIS in its important work.

Sincerely,

A handwritten signature in blue ink that reads "Linda Moore". The signature is fluid and cursive, with the first name "Linda" and last name "Moore" clearly distinguishable.

Linda Moore
President and CEO