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# Aerospace & Defense Insights

US Department of Defense Issues  
Updated Section 1260H Chinese Military  
Companies List







**Through Aerospace & Defense Insights, we share with you the top legal and political issues affecting the aerospace and defense (A&D) industry. Our A&D sector team monitors the latest developments to help our clients stay in front of issues before they become problems, and seize opportunities in a timely manner.**

On January 6, 2025, the U.S. Department of Defense updated its 1260H List, bringing the total to 134 entities across sectors like AI, aerospace, and biotechnology. Designation on the list signals risks such as restrictions on U.S. defense contracts, potential inclusion on other restricted party lists, reputational damage, and increased compliance costs for listed entities and their affiliates. Companies on the list face significant operational and legal challenges, including red flags for Military End User status under the Export Administration Regulations and scrutiny in federally funded research proposals. Businesses are urged to strengthen due diligence, monitor regulatory developments, and ensure compliance with export controls and contracting requirements to mitigate risks associated with the updated list.

## Introduction

On January 6, 2025, the U.S. Department of Defense (“DoD”) published an update to its list of “Chinese military companies” operating directly or indirectly in the United States (the “CMC List” or “1260H List”), as mandated by Section 1260H of the William M. (Mac) Thornberry National Defense Authorization Act (“NDAA”) for Fiscal Year 2021 (P.L. 116-283). Commonly referred to as the “1260H List,” this update includes prominent new entities. The updated list, now published in the Federal Register, brings the total number of listed entities to 134, while six Chinese entities have been removed from the previous version of the 1260H List. The 134 entities span various sectors, including aerospace, semiconductors, artificial intelligence (“AI”), unmanned aerial vehicles (“UAVs”), telecommunications, energy, transportation, and biotechnology.

Designation on the CMC List has several direct and indirect implications, most of which are expected to take effect in the future. For example, designation on the CMC List is generally viewed by the Department of Commerce’s Bureau of Industry and Security (“BIS”) as a “red flag” that the listed entity is a Military End User (“MEU”) as defined in the Export Administration Regulations (“EAR”). As such, U.S. companies and financial institutions may be reluctant to engage in transactions involving MEUs even if there is no strict legal prohibition on such interactions. In addition, designation on the CMC List may be a precursor to designation on other U.S. Government restricted parties list and other adverse consequences described on the following pages.



## Background

Section 1260H of the Fiscal Year 2021 NDAA requires the Secretary of Defense to publish an annual list, until December 31, 2030, of entities deemed to be “Chinese military companies” operating in the United States or its territories. DoD first published the Section 1260H List in June 2021, and implemented several subsequent updates.

On December 23, 2024, U.S. President Joe Biden officially signed the Servicemember Quality of Life Improvement and National Defense Authorization Act for Fiscal Year 2025 (“NDAA 2025”), which includes a comprehensive amendment to Section 1260H. Section 1346 of NDAA 2025 provides modification of public reporting of Chinese Military Companies operating in the United States. Based on the amendment, the 1260H List encompasses any entity determined to be operating directly or indirectly in the United States or any of its territories and engaged in commercial services, manufacturing, production, or export that falls into one of three distinct categories:

- **Category 1 - Direct or Indirect Connection to the Chinese Military:**

Entities directly or indirectly owned by, controlled by, or beneficially owned by, affiliated with, or in an official or unofficial capacity acting as an agent of or on behalf of, the People’s Liberation Army (“PLA”), Chinese military and paramilitary elements, security forces, police, law enforcement, border control, the People’s Armed Police, the Ministry of State Security (“MSS”), or any other organization subordinate to the Central Military Commission of the Chinese Communist Party, the Chinese Ministry of Industry and Information Technology (“MIIT”), the State-Owned Assets Supervision and Administration Commission of the State Council (“SASAC”), or the State Administration of Science, Technology, and Industry for National Defense (“SASTIND”).

- **Category 2 - Contributors to China’s Military-Civil Fusion Strategy:**

Entities identified as pivotal to the integration of civilian and military advancements within China’s defense industrial base. This second category, the “military-civil fusion contributor,” casts a wide net, including entities engaged in the following:

1. **Strategic Assistance:** Organizations benefiting from Chinese government or Communist Party support through initiatives under the military industrial planning apparatus.
2. **Collaborative Ventures:** Entities managed, overseen, or supervised by, otherwise under the control of, or affiliated with (including by means of formal participation in research partnerships and projects) MIIT, SASAC, SASTIND, the Ministry of State Security, or PLA.
3. **Policy-Directed Operations:** Entities receiving guidance or operational directives from the State Administration for Science, Technology, and Industry for National Defense.
4. **State-Defined Defense Enterprises:** Subsidiaries recognized as “defense enterprises” by China’s State Council.
5. **Enterprise Zones:** Entities situated in military-civil fusion enterprise zones or receiving government support through such zones.
6. **Licensed Military Production:** Recipients of government-issued military production licenses, such as those authorizing weapons research, production, or quality management.
7. **Advertising Military Equipment:** Participants in military equipment procurement platforms—whether at the national, provincial, or private levels.
8. **Other Determinations:** Entities deemed appropriate for designation by the Secretary of Defense.

- **Category 3 - Ownership Penetration:**

Section 1346 of NDAA 2025 also introduces an “upstream/downstream ownership penetration” clause under Section 1260H(g)(2)(C). This clause stipulates that if an entity itself meets the definition of a “Chinese Military Company” as defined in Section 1260H(g)(2)(B), then its parent company or subsidiaries (if owning or being owned by the entity with ≥50% equity control) can also be deemed Chinese Military Companies. This revision provides DoD with stronger legal grounds to include such affiliated entities on the 1260H List more efficiently, thereby imposing corresponding restrictions on them.





## Impact of Listing

Being included on the 1260H List has several direct and indirect implications:

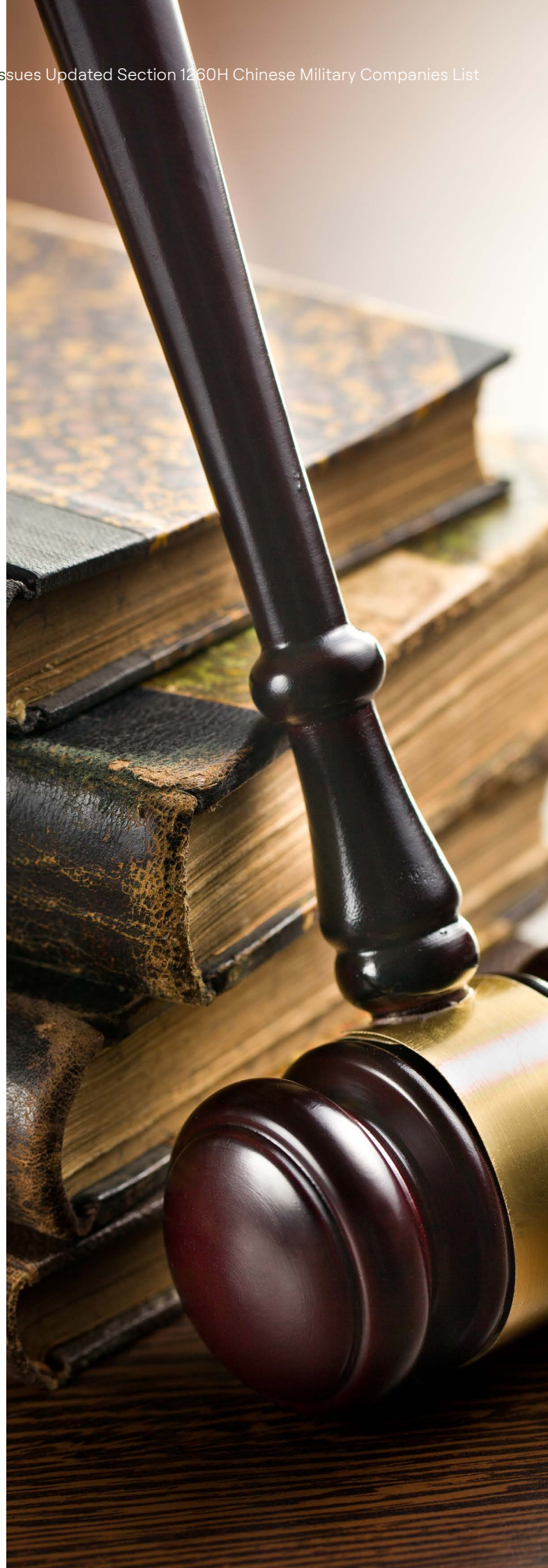
### 1. Restrictions on U.S. Defense Contracts:

Effective June 30, 2026, DoD is prohibited from entering into, renewing, or extending contracts for goods, services, or technology with entities on the Chinese Military Company List or their affiliates. Contracts with companies controlled by these listed entities are also prohibited. Additional restrictions on DoD's indirect procurement of goods and services take effect in 2027.

Additionally, with certain exceptions, the Defense Federal Acquisition Regulation Supplement ("DFARS") currently prohibits DoD from directly or indirectly procuring "any items covered by the United States Munitions List or the 600 series of the Commerce Control List . . . from any Communist Chinese military company." For this purpose, the DFARS broadly defines the term "Communist Chinese military company" ("CCMC") to mean any entity that is "(1) A part of the commercial or defense industrial base of the People's Republic of China including a subsidiary or affiliate of such entity; or (2) Owned or controlled by, or affiliated with, an element of the Government or armed forces of the People's Republic of China." Although the definition of "Chinese Communist military company" is not explicitly tied to the 1260H list applicable to "Chinese Military Companies," the government may look to the 1260H list for guidance in determining whether an entity should be deemed a CCMC.

### 2. Restrictions on Lobbying Service:

Effective June 30, 2026, Section 851 of the 2025 NDAA, titled "Prohibition on Contracting with Covered Entities that Contract with Lobbyists for Chinese Military Companies," establishes a future ban on the Department of Defense from contracting with any company (including its subsidiaries or parent company) that engages with individuals or entities involved in lobbying activities on behalf of certain Chinese military companies. Section 851 ties its lobbying-related definitions to the Lobbying Disclosure Act of 1995 ("LDA"), requiring defense contractors to conduct enhanced due diligence. Specifically, contractors must ensure their external consultants or representatives are not engaged in federal lobbying activities on behalf of listed People's Republic of China ("PRC") military companies—even if those lobbying activities are entirely unrelated to the contractor's operations.



### 3. Risk of Additional Designation by OFAC:

Entities on this list face the risk of being added to the U.S. Department of the Treasury's Non-SDN Chinese Military-Industrial Complex Companies List ("NS-CMIC List") maintained by the Office of Foreign Assets Control ("OFAC"), which prohibits U.S. persons from purchasing or selling public securities of the designated entity.

### 4. MEU Designation:

Designation as a "Chinese Military Company" is viewed by BIS as a "red flag" that the entity is a MEU, which imposes significant due diligence obligations on any company seeking to transact with the designated entity if certain items subject to the EAR are involved. Given the presence of these "red flags," business partners and financial institutions may be reluctant to engage in transactions involving Chinese companies set forth on the 1260H List. In addition, such designated companies may later be identified by BIS on its MEU List. Such a designation restricts access to specific items subject to the EAR, particularly sensitive technologies such as semiconductors, software, and telecommunications equipment.

### 5. Impact on DoD Federally-Sponsored Research Proposals:

DoD issued a memorandum titled, "Countering Unwanted Foreign Influence in Department-Funded Research at Institutions of Higher Education," dated June 29, 2023. The memorandum provides DoD policy for risk-based security reviews of proposals for fundamental research projects for the purpose of mitigating potential research security risks. Specific to the 1260H list, DoD will review proposals and require mitigation measures where a proposed "covered individual" (a term that includes key personnel such as the principal investigator or co-principal investigator) is associated with an entity on the 1260H list.

### 6. Reputational Impact on International Markets:

Being listed negatively affects a company's reputation in international markets, especially in the U.S. and allied nations. This reputational damage can create doubts among potential customers and business partners about engaging in collaborations.

### 7. Increased Compliance Costs:

Companies on the list may face higher compliance costs. Significant resources may be required to address associated challenges and to develop comprehensive risk mitigation strategies to manage the long-term impact of the listing.

## Removal Process

In the published Federal Register notice, DoD outlined an administrative process for entities requesting removal from the 1260H List. Entities seeking reconsideration must submit the following:

#### 1. Entity Information:

- The listed entity's name and mailing address (including email address).
- An authorized representative's name and mailing address (including email address).

#### 2. Statement of Reconsideration:

- A statement indicating the entity's intent to request reconsideration of the Department's determination.
- A detailed description, supported by evidence, explaining why the entity should be removed from the 1260H List.





### 3. Additional Information:

- Arguments and evidence that demonstrate either 1) an insufficient basis for the listing, or 2) that the circumstances leading to the listing no longer apply.

Some designated firms have pursued litigation as an alternative course of action. For example, in January 2024, DoD added Advanced Micro-Fabrication Equipment Inc. China (AMEC) to the 1260H List. The DoD's rationale for the designation was AMEC's receipt of the "Manufacturing Individual Champion Product Award" from MIIT in 2019, which the DoD interpreted as evidence of a connection between AMEC and MIIT.

AMEC disputed the designation, asserting that the award was solely a recognition of its performance in manufacturing and had no military connections. In response, AMEC and its subsidiary filed a lawsuit on August 14, 2024, in the U.S. District Court for the District of Columbia against the DoD and the Secretary of Defense (Case No. 1:24-cv-2357).

AMEC argued under the Administrative Procedure Act ("APA") that the DoD's decision was factually unfounded and violated due process. AMEC also highlighted that the DoD failed to provide prior notice or an opportunity for appeal before making the designation, in contravention of APA requirements, and DoD's determination relied solely on the 2019 award, with no substantial evidence to establish a military affiliation. Ultimately, after reviewing the case, the DoD rescinded the designation.

In January 2025, the 1260H List was updated to include 71 newly added entities and the removal of 6 entities. A summary chart of listed Chinese entities, updated as of January 7, 2025, is provided in the appendix. Newly added entities are marked with asterisks, while removals are listed separately.

### Looking ahead

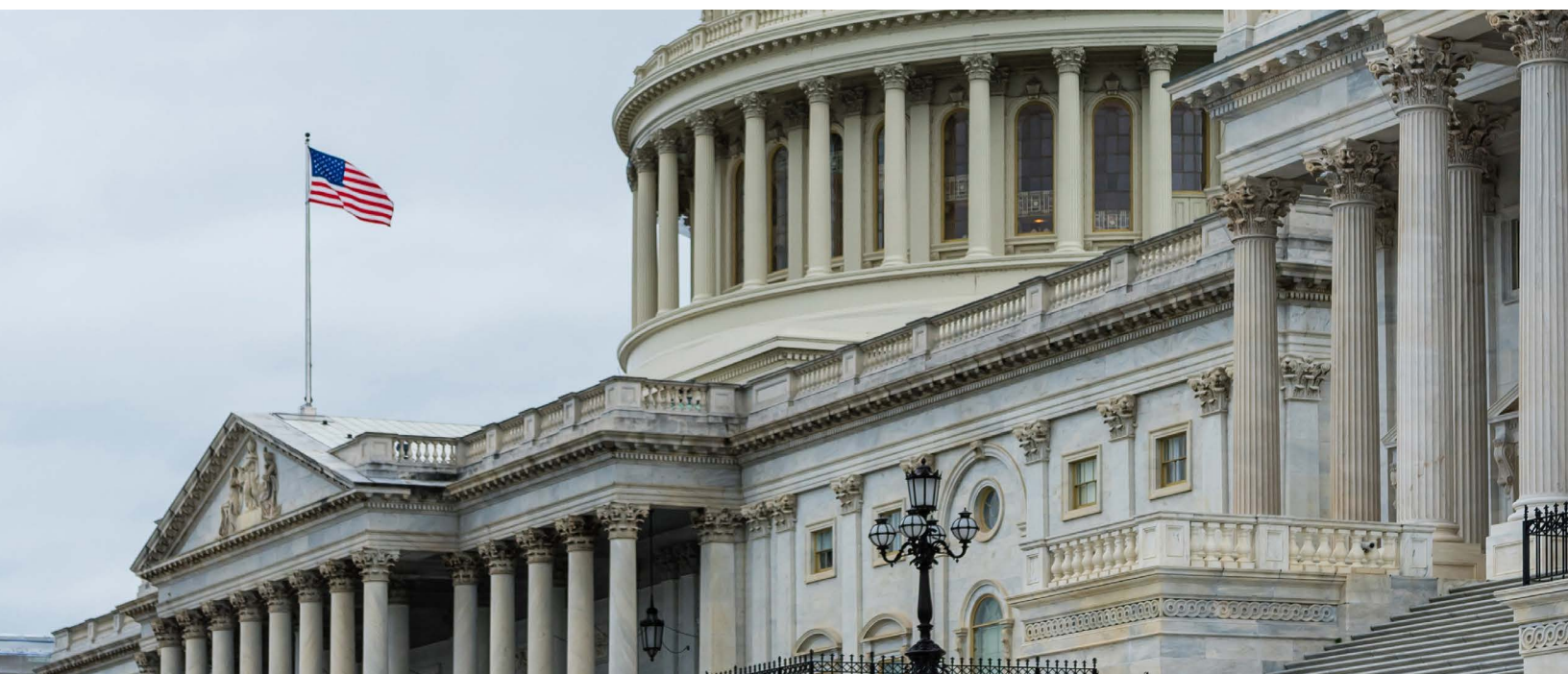
Congress has demonstrated growing interest in strengthening the legal consequences of designations under the 1260H List. Proposed legislation under consideration could impose sanctions or other restrictions, such as blocking transactions under OFAC framework. These initiatives align with the U.S. government's broader strategic competition agenda, which aims to address Chinese entities implicated in forced labor, human rights violations, and other national security concerns.

In light of this recent development, businesses are advised to:

- **Review and update compliance protocols** to address risks associated with listed entities.
- Conduct detailed due diligence to ensure adherence to export control and contracting requirements.
- Monitor regulatory developments for potential new restrictions or guidance.

### Next Steps

In light of the recent updates to the 1260H List and their potential implications for your business, please contact the team at Hogan Lovells for tailored legal advice and strategic support.



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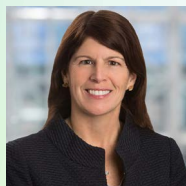


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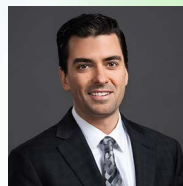
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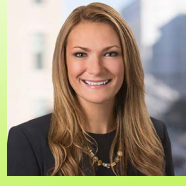
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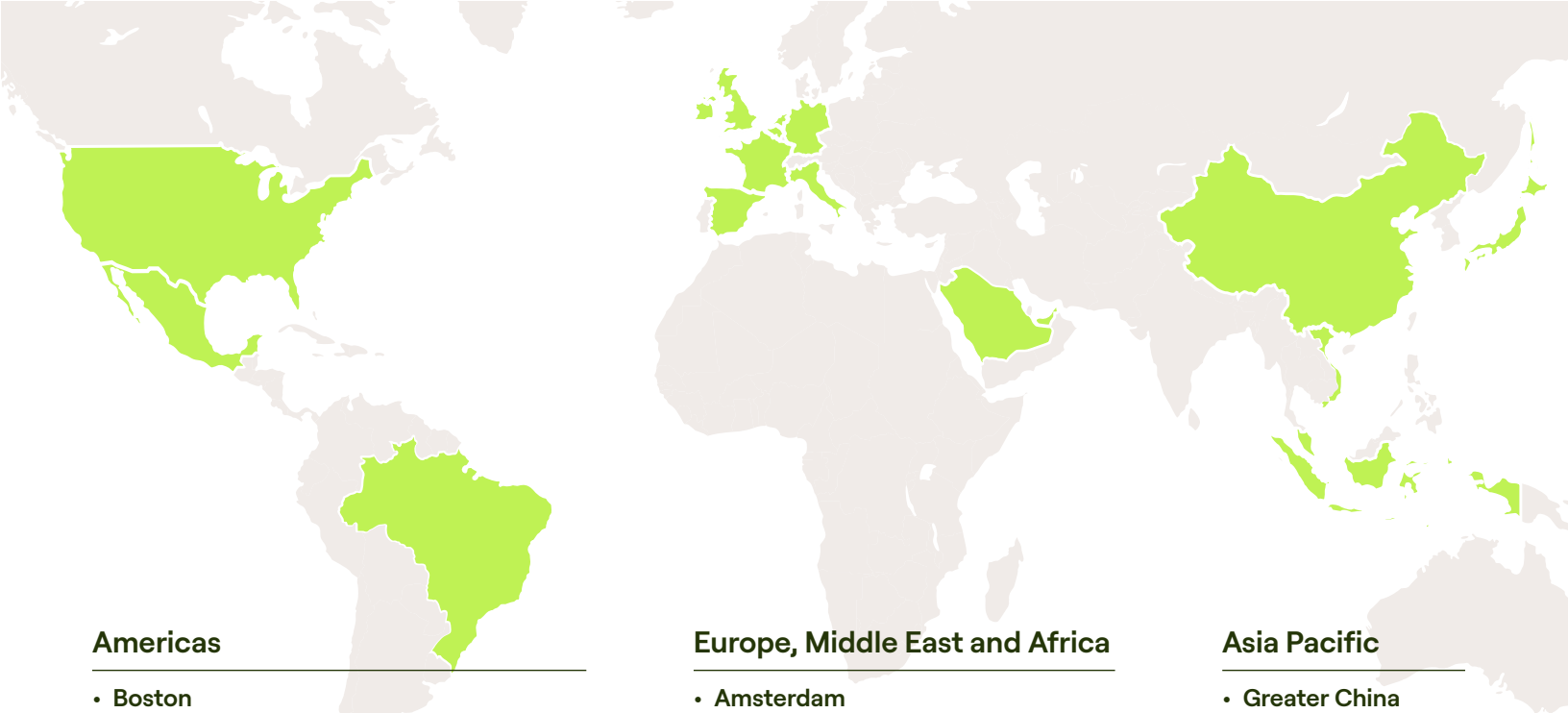


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