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Intel in Lead to Get Billions for Secure Defense-Chip Facilities

Company has emerged as a potential top winner of Chips Act funding

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Intel **INTC -2.19%** ▼ is the leading candidate to potentially receive billions of dollars in government funding for secure facilities producing microchips for U.S. military and intelligence applications.

The facilities—which have yet to be disclosed publicly—would be explicitly designated as a “secure enclave,” according to people familiar with the development. The goal is to reduce the U.S. military’s dependence on chips imported from East Asia, particularly Taiwan, which some say is vulnerable to Chinese invasion.

Funded under the Biden administration’s \$53 billion Chips Act passed last year, the operation could reside at least in part at Intel’s Arizona factory complex, the people said.

The plan for the program illustrates Washington’s willingness to get deeply involved in private industry to secure supplies of chips increasingly seen as a fulcrum of geopolitical power and military might. Chips are vital in artificial intelligence, espionage and cyberwarfare, and feature prominently in cutting-edge jet fighters, missiles and other advanced weaponry.

The Biden administration has yet to set the exact amount of the funding that will be available. Several people familiar with the situation said the facilities could cost \$3 billion to \$4 billion, and the money would come from \$39 billion of manufacturing grants authorized under the Chips Act.

Increasing the stability of domestic chip supplies is among the central objectives of the Chips Act, which Commerce Secretary Gina Raimondo described earlier

this year as a “national security investment.” The Defense Department signed an agreement this summer with the Commerce Department that gave it insight into the details of the chip-project funding plans, according to a copy of the document seen by The Wall Street Journal.

Officials from the Commerce Department, the Office of the Director of National Intelligence and the Defense Department are negotiating the project with Intel and haven’t made a final decision, according to people familiar with the discussions.



New construction was under way in April at Intel’s campus in Chandler, Ariz. PHOTO: PATRICK BREEN/THE REPUBLIC/USA TODAY NETWORK/REUTERS

Commerce officials have said the department’s CHIPS Program Office, which oversees the Chips Act money, will begin distributing manufacturing grants for domestic chip projects in the coming weeks. The program has been popular: Over 500 entities have expressed interest and more than 130 have submitted applications or pre-applications for funding.

Intel could be a top beneficiary. In addition to the secure-enclave facilities, the company is a strong contender to receive billions of dollars in grants to help fund new factories it is building in the U.S., including in Ohio and Arizona. Intel Chief Executive Patrick Gelsinger, along with other tech leaders, has held a number of meetings with Raimondo.

Intel declined to comment on the secure-enclave project. A spokeswoman for the Commerce Department declined to comment. A Defense Department spokesman deferred the question to the Commerce Department.

The proposed facility has sparked concerns among rival chip makers and some lawmakers. They worry that huge grants given to Intel would mean less funding available for other companies.



Intel's Chandler, Ariz., chip factory in 2020. PHOTO: STEPHEN NELLIS/REUTERS

Some lawmakers question the need for a secure enclave, favoring an approach where security checks are made throughout the chip-making process but there are no exclusive facilities for the defense industry. The Chips Act requires recipient facilities to be commercially viable, and that requirement will influence the design and location of the secure enclave, people familiar with the situation say.

In a letter last month to Raimondo, three senators questioned the expense of building a new facility exclusively for defense purposes, citing a recent Defense Department review that determined security risks were low at the chip fabrication stage.

“We are concerned that the [department] is considering sole sourcing an award to one company to build a secure enclave at a cost that is far greater than” a longstanding approach for securing the chip supply chain for defense customers, the letter, obtained by The Wall Street Journal, said. “Doing so would limit

funding for other projects that would create a diversified domestic supplier base of semiconductors critical to the defense industrial base.”

The letter was signed by Jack Reed, a Rhode Island Democrat and chairman of the Armed Services Committee; Roger Wicker from Mississippi, his Republican counterpart on the committee; and Maria Cantwell, a Washington Democrat who chairs the Senate Commerce Committee.

Others disagree. Sen. Marco Rubio (R., Fla.) said that the Chips Act authorizes secure manufacturing capacities and that both the military and the intelligence community recommend a “secure enclave” approach. “Attempts to reverse that decision...threaten to undermine our national security,” he said in a statement.

Special facilities for the defense industry, however, may struggle to pay for themselves given that the sector represents roughly 2% of the overall chip market. Defense customers also often come with unusual needs, including protecting chips for use in high-heat environments or outer space.

“As a result, they are no longer the driver of demand or performance,” said Charles Wessner, senior adviser for the Center for Strategic and International Studies, a think tank, adding that building a designated fab for defense needs would be “too expensive.”

The Chips Act aims to boost domestic supply of chips for defense needs and cutting-edge chips to power high-tech consumer and business products. The program allocated \$2 billion to the Defense Department to build a national “lab to fab” network for research and development of semiconductor technologies. The department awarded part of that funding for regional programs in September.

Further strengthening defense officials’ role in distributing the Chips Act fund, the Commerce and Defense departments signed an agreement in July to work closely to shore up the domestic “semiconductor defense industrial base.” They agreed to collaborate on “potential investment applications” of their respective Chips Act fund allocations.

Intel has worked with the defense department on several programs, including one known as RAMP-C under which it is developing leading-edge chip

manufacturing in partnership with companies such as Boeing, Northrop Grumman and other tech companies such as Nvidia.

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