

## Concerning Policy Proposal for the Promotion of Defense Equipment Transfer

The defense industry is the foundation of Japan's security, and the government should assume the responsibility to sustain and strengthen the defense industry not as part of industrial policy, but as a national security policy itself. Nevertheless, in recent years, the defense industrial base has been in a shaky situation as companies, one after another, have been withdrawing from the business. In a situation where it is becoming difficult to maintain the domestic defense industrial base solely through domestic procurement, it is essential to find a way into overseas markets, not just for the purpose of maintaining and strengthening the competitiveness of the defense industry, but also from the perspective of our national security policies as well.

Furthermore, the overseas transfer of defense equipment (hereinafter referred to as "defense equipment transfer") not only contributes to international peace, but also plays a role in the security policy to realize a "Free and Open Indo-Pacific" through defense cooperation with friendly countries in Asia and others. In addition to the complete system, other types of defense equipment transfer, such as repair and maintenance of critical parts and equipment, contributes to securing the defense supply chain of the partner country, thereby enhancing Japan's strategic essentiality.

In April 2014, Japan formulated the Three Principles on Transfer of Defense Equipment and Technology, which stipulate that the defense equipment transfer may be permitted if it serves to the active promotion of peace contributions and international cooperation, as well as if it contributes to Japan's national security.

The government has so far been working on defense equipment transfer under the Three Principles on Transfer of Defense Equipment and Technology, but the transfer of complete systems has been limited to one transfer case of air-defense radar system to the Philippines after it lost the bid of a submarine sale to Australia. For defense equipment developed only to be procured domestically, even if Japan attempts to consider overseas transfer after its development is accomplished, it would be quite challenging to meet the requirement set by the buyer country on price, usage and performance requirements.

Although the overseas transfer of defense equipment requires proactive efforts by the private sector, it cannot be proceeded with their efforts alone. The beneficiaries of the transfer are the defense authorities who make decisions as part of their security policy. In addition to factors such as price, usage and performance, the final decision on procurement will be based on the overall defense cooperation with the opponent country, by taking into account the training support and maintenance system to be provided following the transfer of the equipment. In case the transfer is to a newly emerging country, it is often the case that offset types of local content conditions are attached, making it extremely difficult for a single private company to fulfill based on its own effort. In the case of international bidding opportunities, the competitors would be the European and U.S. companies, who will be bidding based on defense export supported by its national policy, under military-private partnership. In order for Japan to prepare a competitive enough proposal to not lose against such competitors, it is necessary for the public and private sectors to build a new cooperative framework and institutionalize such a system. As we are less-experienced with defense equipment transfer, the Japanese government should be taking the lead to make the best use of the collective power created from the public and private collaboration.

In addition, Japan's potential capabilities in the area of defense equipment transfer through the supply of components, as well as repair and maintenance services, may not have been fully explored, as much as we should have been. In particular, strict enforcement of proper management requirements resulting from the Three Principles on Transfer of Defense Equipment and Technology may have deprived potential opportunities for defense transfer, by being regarded as excessive and not necessary by the recipient

## Concerning Policy Proposal for the Promotion of Defense Equipment Transfer

country, when it has been extended even to less sensitive components, which will only be used and consumed within recipient country. From the perspective of enhancing Japan's strategic essentiality and linking it to Japan's national security, application of the Three Principles on Transfer of Defense Equipment and Technology in the implementation phase should be reassessed.

Based on the above understanding, we propose to promote defense equipment transfer as part of our national strategy, by drastically strengthening the formation to actually implement the defense equipment transfer, under collaboration between the public and private sector as one team. We do hope that these recommendations will be clearly stated in the National Security Strategy and the National Defense Program Outline, which are scheduled to be revised in the future.

(1) Sustaining and strengthening of the defense industry itself is a national security policy, and the national government should proactively promote the transfer of defense equipment that effectively contributes to strengthening of the defense industrial base as part of national security policies.

(2) Drastic reinforcement of the government structure to promote defense equipment transfer

- Establish a command post within the government to strongly promote defense equipment transfer
- Designing new public-private collaborative formation and risk sharing mechanism (Japan version of FMS)
- Strengthen the structure of ATLA responsible for practical operations and improve functionality of on-site embassies. (In particular, actively recruit and utilize business-savvy personnel from the private sector.)

(3) Strengthening the competitiveness of equipment transfers

- Develop necessary environment to strengthen international competitiveness in defense equipment transfers

(4) Reassess the operational procedure related to Three Principles on Transfer of Defense Equipment and Technology

- Rationalize requirements for proper managements for the components with low sensitivity from technological perspective and are to be consumed by the recipient country
- Rationalize and streamline various procedures based on past operational track records

(5) Drastic increase in the Defense R&D Budget

- Drastically increase the R&D budget for defense equipment, which has remained at an extremely low level compared to international norm.
- Enable supporting of companies who can develop technologies deemed to be beneficial by JMOD

(6) Exclude specially designated defense industrial sectors from participating in competitive bidding process; restoration of "Minister's Directive"

- In cases where the number of companies capable are extremely limited (e.g., only two companies have the capability to build military ships) and competitive bidding is not conducive to the

*February 15th 2022*

## **Concerning Policy Proposal for the Promotion of Defense Equipment Transfer**

sustainment of the defense industry, bidding method should be reexamined to enable long term investment and the sustainment of the industry.

### **Study Group on Overseas Transfer of Defense Equipment**

member of the House of Representatives Wada Yoshiaki

member of the House of Representatives Yana Kazuo

member of the House of Councilors Matsukawa Rui

member of the House of Councilors Sato Kei