



Japan: Defense Procurement

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Summary

Japan's \$225.1 billion "Medium Term Defense Program" sets the tone for Japan's future defense buildup to counter potential threats from ballistic missiles, guerilla attacks, terrorism, cyber space, and invasion of offshore islands and other maritime and economic interests. Japan's defense procurement focuses intelligence, surveillance, and reconnaissance (ISR) capabilities, securing maritime and air supremacy, and rapid deployment capabilities.

Major U.S. defense contractors have established long years of working relationships with domestic manufacturers for license production of U.S. military technology and equipment. New-to-entry U.S. suppliers of defense products in the areas of Japanese defense programs are encouraged to seek local partnership with specialized trading firms capable of representing the U.S. firms as registered vendors to the Ministry of Defense.

Market Demand

Japan's current security and defense programs are carried out according to a pair of foundational documents, the "National Security Strategy (NSS)" and "National Defense Program Guidelines (NDPG) for FY2014 and Beyond." The "Medium Term Defense Program, FY2014-2018 (MTDP)" provides details about the defense programs that will enable the strategies in the NSS and the NDPG to be achieved. (Japan's FY2014 to FY2018 covers five years from April 2014 to March 2018.) All three documents were promulgated in December 17, 2013 by the National Security Council and the Cabinet of the Japanese Government.

Six aspects underline Japan's National Security Strategy: (1) strengthening and expanding Japan's capabilities and roles in nuclear and ballistic missile threats, maritime security, terrorism, intelligence, and cyber defense, (2) strengthening the U.S.-Japan alliance, (3) strengthening diplomacy and security cooperation with Japan's partners for international peace and stability, (4) proactively contributing to international efforts for peace and security, (6) promoting universal values such as free trade and the rule of law to resolve global issues, and (6) strengthening domestic and defense production, technological, and intellectual bases to support national security.

Under the NSS, the NDPG calls for the building of a "Dynamic Joint Defense Force" that will regular conduct intelligence, surveillance, and reconnaissance activities and swiftly build a response posture through maritime supremacy and air superiority to prevent further escalation of a situation. It envisions an increasingly unpredictable regional security environment where the number and duration of "gray-zone" situations that are neither fully peacetime or contingencies over territorial sovereignty or vested maritime and economic interests are increasing and a severe global security environment under threat by cyber attacks, international terrorist organizations, and hybrid warfare.

For its future defense buildup, Japan envisions enhancing its deterrence and response capability by pursuing further joint operations, improving the mission-capable rate of its equipment, and strengthening the logistical support foundations of the Self-Defense Forces (SDF) such as training and exercise, operational infrastructure, personnel and education, medical, defense production and technological bases, efficiency in equipment procurement, research and development, collaboration with local communities, boosting of communication capabilities, enhancement of the intellectual base, and reforming the Ministry of Defense.

The future architecture of the SDF from FY2014 is reproduced below.

Table 1: Organization, Equipment and Disposition in the Self-Defense Forces, from FY2014

<u>Ground Self-Defense Force</u>	Size from FY2014 and beyond
Personnel	159,000
Regular	151,100
Reserve (Ready Reserve Personnel)	8,000
 Major Units	
Rapid Deployment Units	3 rapid deployment divisions 4 rapid deployment brigades 1 armored division 1 airborne brigade 1 amphibious rapid deployment brigade 1 helicopter brigade
Regional Deployment Units	5 divisions 2 brigades
Surface-to-Ship Guided Missile Units	5 surface-to-ship guided missile regiments
Surface-to-Air Guided Missile Units	7 anti-aircraft artillery groups/regiments
 <u>Maritime Self-Defense Force</u>	
Major Units	
Destroyer Units	4 flotillas (8 divisions) 6 divisions
Submarine Units	6 divisions
Minesweeper Units	1 flotilla
Patrol Aircraft Units	9 squadrons
 Major Equipment	
Destroyers	54
(of which Aegis-Equipped Destroyers)	(8)
Submarines	22
Combat Aircraft	Approx. 170
 <u>Air Self-Defense Force</u>	
Major Units	
Air Warning and Control Units	28 warning squadrons 1 AEW group (3 squadrons)
Fighter Aircraft Units	13 squadrons
Aerial Refueling/Transport Units	2 squadrons
Air Transport Units	3 squadrons
Surface-to-Air Guided Missile Units	6 groups
 Major Equipment	
Combat Equipment	Approx. 360
Fighters	Approx. 280

Source: Ministry of Defense, Government of Japan

Market Data

According to the Medium Term Defense Program for FY2014-FY2018, the expenditures required to develop the Self-Defense Forces as specified amount to 24.76 trillion yen or \$225.1 billion (110 yen/dollar) in FY2013 prices over five years. The following table, reproduced from the *Defense of Japan 2015* white paper, describes the quantities of major procurement that the Medium Term Defense Program calls for over a 10-year time frame:

Table 2: Quantities of Major Procurement in the Medium Term Defense Program, FY2014-2018

Classification	Type	Procurement size
Ground Self-Defense Force	• Mobile Combat Vehicles	99
	• Armored Vehicles	24
	• Amphibious Vehicles	52
	• Tilt Rotor Aircraft	17
	• Transport Helicopters (CH-47JA)	6
	• Surface-to-Ship Guided Missiles	9 companies
	• Mid-Range Surface-to-Air Guided Missiles	5 companies
	• Tanks	44
	• Howitzers (excluding mortars)	31
Maritime Self-Defense Force	• Destroyers (Aegis-Equipped Destroyers)	5 (2)
	• Submarines	5
	• Other Ships	5
	• Total (Tonnage)	
	• Fixed-Wing Patrol Aircraft (P-1)	23
	• Patrol Helicopters (SH-60K)	23
	• Multipurpose Helicopters (Ship-Based)	9
Air Self-Defense Force	• New Airborne Early Warning Aircraft	4
	• Fighters (F-35A)	28
	• Fighter Modernization (F-15)	26
	• New Aerial Refueling/Transport Aircraft	3
	• Transport Aircraft (C-2)	10
	• Upgrade of PAC-3 MSE	2 groups
Joint Units	• Unmanned Aerial Vehicles	3

Source: Ministry of Defense, Government of Japan

Best Prospects

The Medium-Term Defense Program for FY2014-FY2018 specifies major plans related to Self-Defense Forces' capabilities and the major military procurement items these plans will require:

- **Maritime and airspace security**
 - Procure new airborne early warning (and control) aircraft and fixed air defense radar
 - Improve airborne warning and control systems (AWACS) (E-767)
 - Procure surface-to-ship guided missiles, fixed-wing patrol aircraft (P-1), Aegis-equipped destroyers (DDG), submarines, and patrol helicopters (SH-60K)
- **Response to attacks on remote islands**
 - Procure fighter aircraft (F-35A)
 - Replace fighter aircraft (F-15) unsuitable for modernization with more capable fighter aircraft
 - Procure new aerial refueling/transport aircraft
 - Equip transport aircraft (C-130H) with aerial refueling capabilities

- Procure rescue helicopters (UH-60J)
- **Improving rapid deployment and response capabilities**
 - Procure transport aircraft (C-2)
 - Acquire amphibious vehicles; refit Tank Landing Ships (LST)
- **Response to ballistic missile attacks**
 - Introduce advanced PAC-3 missiles (PAC-3 MSE)
 - Improve automated warning and control systems
 - Procure and improve fixed air defense radar (FPS-7) systems
 - Promote Japan-U.S. cooperative development of advanced interceptor missiles (SM-3 Block II-A)
 - In preparation for an attack by guerrilla or special operations forces, continue procurement of a variety of surveillance equipment, light armored vehicles, NBC reconnaissance vehicles, etc.
- **Response in outer space and cyberspace**
 - Develop X-Band satellite communications system

Key Suppliers

The Ministry of Defense's defense contracts for FY2013 amounted to 1.27 trillion yen or \$11.54 billion (110 yen/dollar) with 6,901 items, and for FY2014 amounted to 1.67 trillion yen or \$15.19 billion (110 yen/dollar) with 6,925 items.

Table 3: Top 20 largest Ministry of Defense contractors in FY2014, by monetary size of contract

	Contractor	Items procured	Amount	Share (%)
			(in hundred million yen)	
1	Mitsubishi Heavy Industries	213	2,632	16.7
2	Kawasaki Heavy Industries	156	1,913	12.2
3	NEC	287	1,013	6.4
4	ANA Holdings	1	928	5.9
5	Mitsubishi Electric	118	862	5.5
6	IHI	20	619	3.9
7	Fujitsu	128	527	3.4
8	Toshiba	70	467	3.0
9	Komatsu	34	339	2.2
10	Mitsui Engineering & Shipbuilding	8	319	2.0
11	Itochu Aviation	37	287	1.8
12	JX Nippon Oil and Energy	140	261	1.7
13	Hitachi	63	219	1.4
14	Cosmo Oil Company	113	207	1.3
15	Okai Electric Industry	43	162	1.0
16	Itochu Enex	122	160	1.0
17	Daikin Industries	41	138	0.9
18	Showa Shell Sekiyu	92	123	0.8
19	Japan Steel Works	21	107	0.7
20	Japan Marine United	3	102	0.6

Source: Ministry of Defense, Government of Japan

Major U.S. defense contractors, such as Boeing, General Electric, Honeywell, Lockheed Martin, Northrop Grumman, Raytheon and United Technologies, have established long-standing relationships with domestic manufacturers for licensed production of the U.S. defense systems and technology incorporated into domestic military hardware.

Prospective Buyers

The Acquisition, Technology, and Logistics Agency (ATLA), launched in October 2015 under the Ministry of Defense (MOD), consolidates the equipment procurement-related departments within the MOD, namely the Internal Bureau, the Staff Offices, the Technical Research and Development Institute, and the Equipment Procurement and Construction Office. It has 1,800 staff and a commissioner who has seniority equivalent to an administrative vice-minister, a top bureaucratic position within the Ministry, and reports directly to the Defense Minister.

ATLA was conceived to efficiently manage defense equipment acquisition in an efficient manner, promote defense equipment cooperation with the United States and Japan's other trusted security partners, and implement acquisition reforms to save on costs. It will be responsible for policy, R&D, testing and evaluation, project management, contracting, technology security, and other functions in close coordination with the Self-Defense Forces, the Ministry of Economy, Trade, and Industry (METI), and the National Security Secretariat.

Although ATLA is the ultimate potential buyer for Ministry of Defense (MOD) regarding procurement, research, and development, it is impractical for non-resident U.S. companies to deal directly with Japanese government agencies, including the MOD. Tender invitations, application procedures, required documents, and business communication are all conducted in the Japanese language. Post-sale service including repair and maintenance must be readily available to the end users.

For new-to-entry U.S. suppliers, specialized trading firms knowledgeable in defense industry networks may prove valuable resources for successful entry into the Japanese market. A Japanese partner is also helpful with the local language and cultural and business practices.

Market Entry

The U.S.-Japan Security Arrangements, spanning over the last 60 years, have fostered the closely-knit joint operational environment between U.S. Defense Forces and the Japanese Self-Defense Forces. A new set of Guidelines for Japan-U.S. Defense Cooperation were recommended by the Subcommittee for defense cooperation at the "2+2" meeting between both the foreign and defense ministers of Japan and the United States held on April 27, 2015, and approved by the Japan-U.S. Security Consultative Committee. The new Guidelines update the general framework and policy direction for the roles and missions of the two countries in the Security Arrangements and create a strategic vision for a more robust security alliance during peacetime and contingencies.

As part of the 2015 Guidelines, Japan and the United States will establish a new, standing Alliance Coordination Mechanism that will include information and communications infrastructure for policy and operational coordination, and enhanced interoperability mechanisms between the Self-Defense Forces and the U.S. Armed Forces in intelligence, maritime security, air and missile defense, and logistic support.

With the exception of helicopters and aircraft engines, the need for interoperability of military technology and equipment has historically strongly favored U.S. defense suppliers against European and other third-country suppliers, and will continue to in the future of Japan's defense.

Foreign Military Sales (FMS) by U.S. companies to Japan are administered by the Defense Security Cooperation Agency (DSCA), which is part of the U.S. Department of Defense. All transactions are initiated by a request from the Government of Japan for price and availability data for a specific item or service. Direct Commercial Sales (DCS) are handled by Japanese defense trading firms, distributors and agents.

The U.S. Embassy of Japan's Mutual Defense Assistance Office (MDAO) represents the U.S. Defense Forces as a liaison to the counterpart Japanese Self-Defense Forces. It is the in-country office for FMS between the U.S. and Japanese governments and plays a leading role in co-production and licensed production arrangements.

New-to-entry U.S. suppliers of defense products in the areas of Japanese defense programs are encouraged to seek local partnership with specialized trading firms capable of representing the U.S. firms as registered vendors to the Ministry of Defense.

Market Issues and Obstacles

Plenty of opportunities in terms of the co-production and development of defense articles are expected to come in the coming years. In April 2014, Japan announced the “Three Principles on transfer of Defense Equipment and Technology,” based on its National Security Strategy and its new defense posture towards proactive peacekeeping and defense. The new Three Principles replaces the previous “Three Principles on Arms Exports,” a virtual ban on arms exports which was first declared in 1967 and prohibited Japan from exporting arms to Communist countries, under arms embargos set by the U.N., and/or involved or likely to be involved in international disputes.

Under the new Three Principles, the previous ban on sales to countries under UN-backed sanctions and those that violate treaties and/or in conflict still apply. However, Japan can now export arms and participate in joint weapons development and production when (a) it contributes to peacekeeping, disaster relief, and “international cooperation” efforts, or (b), when it contributes to Japan’s national security and the effective operation of the U.S.-Japan security arrangements. Japan will also allow third-party technology transfer to another country beyond the initial buyer when “appropriate control” of the technology is ensured, which further widens the potential market.

In July 2014, Japan approved the export of gyroscopes to the United States used for PAC-2 missile interceptors, the first major deal under the New Three Principles. In December 2014, the Department of Defense that Japan, along with Australia, would host maintenance hubs for F-35 stealth fighter jets. In addition, beginning in 2013, Japan has negotiated a series of defense equipment cooperation agreements with Australia, France, India, and the United Kingdom, and is in opinion exchanges with ASEAN about defense equipment and technology cooperation in humanitarian assistance, disaster relief, and maritime security. Firms can expect increasingly ambitious bilateral and even trilateral cooperation involving the United States, Japan, and one other partner.

Potential U.S. suppliers of military products may note that U.S. exports are destined solely to the defense needs of Japan and not to be re-exported to other countries.

U.S. firms also need to be aware of U.S. export control issues. A delay in delivery of U.S. products because of U.S. export clearance issues creates not only the operational problems for the Ministry of Defense but costly penalties on the part of the local partner(s) involved in the transaction.

Upcoming Trade Events

Japan International Aerospace Exhibition (JA2016)

Dates: October 12-14, 2016

Venue: Tokyo Big Sight

Website <http://www.japanaerospace.jp/eng/Index>

Risk Control in Tokyo (RISCON)

Dates: October 19-21, 2016

Venue: Tokyo Big Sight

Website: <http://www.kikikanri.biz/english/>

Special Equipment Exhibition and Conference for Anti-Terrorism (Seecat)

Dates: October 19-21, 2016

Venue: Tokyo Big Sight

Website: <http://www.seecat.biz/english/>

MAST Asia (Maritime/Air Systems and Technologies) Chiba, Japan

Dates: May 17-19, 2017

Venue: Makuhari Messe, Chiba

Contacts and useful links

Japan Ministry of Defense (MOD)
<http://www.mod.go.jp/e/index.html>

Information about MOD contracts (Japanese only)
<http://www.mod.go.jp/j/procurement/jouhou.html>

The Society of Japanese Aerospace Companies (SJAC)
http://www.sjac.or.jp/en_index.html

The Ministry of Economy, Trade and Industry (METI)
<http://www.meti.go.jp/english/index.html>

Defense Security Cooperation Agency (DSCA)
<http://www.dsca.mil/>

Resources

Ministry of Defense, *Defense of Japan 2015*, http://www.mod.go.jp/e/publ/w_paper/2015.html

Ministry of Defense, “National Defense Program Guidelines for FY2014 and beyond,” December 2013, http://www.mod.go.jp/j/approach/agenda/guideline/2014/pdf/20131217_e2.pdf

Ministry of Defense, “Medium Term Defense Program (FY2014-FY2018) (Provisional Translation),” December 2013, http://www.mod.go.jp/j/approach/agenda/guideline/2014/pdf/Defense_Program.pdf

Sato, Heigo, “Japan’s Arms Export and Defense Production Policy,” Center for Strategic & International Studies, March 2015, http://csis.org/files/publication/150331_Sato_JapanArmsExport.pdf

Schoff, James L., “Navigating a New U.S.-Japan Defense Technology Frontier,” Carnegie Endowment for International Peace, March 2015, <http://carnegieendowment.org/2015/03/10/navigating-new-u.s.-japan-defense-technology-frontier>

For more information

The U.S. Commercial Service in Tokyo can be contacted via e-mail at: Sayoko.Koto@trade.gov; Phone: 81-3-3224-5079; Fax: 81-3-3224-5064; or visit our website: <http://export.gov/japan/>

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