Section 4. Efforts for Effective, Efficient, Open, and Transparent Procurement

Appropriate and efficient procurement of defense equipment and materials is one of the most important elements for Japan’s defense. It is also imperative to maintain indispensable production and technological infrastructure for defense equipment in Japan even in peacetime. Moreover, since last year, taking into account several incidents of excessive billing by import firms that came to light, there is a need to build a transparent and fair system that is better able to fulfill its accountability to the public, including with regard to the importation of equipment.

This section will explain in detail the various efforts that the Ministry of Defense has taken thus far, as well as new initiatives that will be taken in light of the incidents of excessive billing for procurement of imports.

1. The Ministry of Defense’s Efforts to Date

1. Comprehensive Acquisition Reform

The Ministry of Defense has been promoting comprehensive acquisition reform. The major goals are: more efficient and streamlined procurement, supply and lifecycle cost management of defense equipment and materials; enhancement of open and transparent procurement processes; as well as preservation and upgrading of the necessary defense production and technological infrastructure.

Once procured, major defense equipment is used over a long period of time, ranging from 10 to 20 years and beyond. Therefore, acquisition reform towards more efficient and streamlined management of equipment—from concept-refining, development, procurement, operation (including maintenance and repairs) to disposal—is of increasing importance. In light of this fact, the Ministry of Defense established the Equipment Procurement Office (then) in July 2006 with the aim of achieving more efficient equipment procurement.10

The Ministry of Defense is pursuing a variety of efforts for efficient procurement of equipment and materials. These include the bulk purchase of equipment in a single fiscal year rather than over multiple fiscal years; lump-sum purchase of equipment and materials instead of respective purchase by the three SDF services; commoditization of certain specifications at the development stage; introduction of commercial off-the-shelf products; private consignment; and review of equipment maintenance costs.

While the Japanese government is making efforts to assure appropriate public purchasing in all fields, the Ministry of Defense has also been reviewing private contract procedures to enhance the transparency and fairness of the procurement process. Private contract procedures are being reformed by expanding the scope of the comprehensive evaluation bidding system,11 increasing the number of contracts for bulk purchase of equipment over multiple fiscal years, and introducing efficient bidding procedures. A vice-chief in charge of auditing was appointed at the Equipment Procurement Office in July 2006, while a counselor in charge of auditing and Audit Division were set up in the Internal Bureau in the Ministry of Defense in August 2006. (See Part IV, Sections 2 and 3)

(See Columns: “What is the procedure for equipment selection?” and “What are the concrete measures for cost reduction?”)

2. Enhancement and Strengthening of the Defense Production & Technological Infrastructure

Regarding equipment, it is necessary to pursue effective and efficient acquisition of equipment that adequately responds to the development of joint operations and meets the needs of troops, taking into account the latest trends in military science and technology. Therefore, for the acquisition of equipment the SDF selects the most appropriate method of procurement—domestic manufacture, import, or licensed domestic manufacture—on the basis of deliberations that take into consideration not only performance and price, but also maintenance, supply, ease of education and training, and the necessity of Japan’s own reforms.
In doing so, securing a domestic production and technology infrastructure that possesses the production capacity and technological capability to supply outstanding domestically-produced equipment plays an important role. In other words, regarding key types of equipment such as aircraft, ships, tanks and guided missiles, production volumes are low as a whole, initial investment is high and a high level of technological capability is required. The number of companies able to develop and produce these types of equipment is therefore limited to one or a handful of companies. For this reason, there is a possibility that withdrawal from the market of a single firm involved in the manufacture of equipment could immediately interfere with the stable acquisition and maintenance of equipment. When procuring equipment from outside of Japan, maintaining this domestic production and technology infrastructure makes it possible to secure negotiating power with the partner country and acquire equipment under conditions as favorable as possible to Japan.

For this reason, the Ministry of Defense, taking severe financial circumstances into account, believes that it should clarify the areas of defense production and technological infrastructure that should be prioritized, fostered and maintained, centered around the core technology areas indispensable to the safety and security of Japan, and that it should make efforts toward the establishment of truly essential domestic production and technology infrastructure.

(See Reference 80)

2. Recent Incidents

1. Excessive Billing by Yamada Corporation
On November 22, 2007, it was determined that Yamada Corporation had engaged in excessive billing for two pieces of imported equipment that had been delivered to the Ministry of Defense.

In light of this discovery, the Ministry both halted business transactions with Yamada Corporation and implemented a survey of all contracts concluded with this company from 2002 and onward to verify the authenticity of estimates through direct contact with the overseas manufacturers. As a result of this inquiry, an additional 16 incidents of excessive billing were revealed, and disclosed to the public on February 28.

In addition, regarding a procurement contract for chaff/flare launchers in 2000, although there were suspicions that the company had engaged in excessive billing by falsifying the estimate provided by U.S. manufacturer BAE Systems, Inc., it was ultimately decided that only an initial reduction of the contract had been made. An investigation into the contract through documents from the time, interviews with employees and information provided by BAE is ongoing, along with an investigation of excessive billing by Yamada Corporation. Currently the Ministry is conducting a random survey of other import firms to confirm the authenticity of estimates directly with overseas manufacturers.

Through this random survey, it has been discovered that estimates had been falsified in six contracts for submarine communications antennas procured by Kyokuto Boeki Kaisha, Ltd. (KBK), and that excessive billing had occurred in five of these contracts. This finding was announced on January 7, 2008.

In light of this discovery, the Ministry of Defense both halted business transactions with KBK and implemented a survey of all contracts conducted with this company from 2002 and onward to verify the authenticity of estimates through direct contact with the overseas manufacturers. As a result of this inquiry, an additional 12 incidents of excessive billing were revealed and disclosed to the public on June 20.

2. Selection and Procurement of C-X Engines and Other Equipment
There were several accusations made regarding the involvement of a former Vice-Minister of Defense in the selection and procurement of the engines for the ASDF’s next-generation cargo aircraft (C-X), the engines installed in biological reconnaissance vehicles and minesweeper/cargo helicopters (MCH-101), and the engines installed in 19DD destroyers. As a result, there have been calls for even further transparency in the decision-making processes of the Ministry of Defense.
3. New Initiatives at the Ministry of Defense

1. Recent Actions

Recently, there have been changes in the situation surrounding acquisition of equipment. First, amid budget constraints, rising unit prices of equipment due to the increasing sophistication of equipment has led to a decrease in the volume of units procured. This in turn gives rise to a vicious cycle in which unit prices consequently increase still further. Therefore, promotion of various cost control measures are an urgent issue.

Second, there has long been an increasing demand for greater transparency and openness in the process. Although in the past the Ministry of Defense has endeavored to disclose information related to the acquisition of equipment – even amid such restraints as the limited number of firms capable of manufacturing defense equipment and the need for preservation of confidentiality – there has been demand for increased accountability, including with regard to procurement procedures.

In light of such changes to the situation, in October 2007, the Ministry received the Ministerial Directive for the Acceleration of Acquisition Transformation, and the Project Team for the Promotion of Acquisition Transformation was established, led by Parliamentary Secretary for Defense Terada. Immediately following its establishment, this team uncovered incidents of excessive billing for import procurement, and has since held a total of 10 meetings on the issue of import procurement. In March 2008, it released a report on the topic.

2. Efforts for Comprehensive Acquisition Reform

(1) Actions for Import Issues

In November 2007, several incidents related to import procurement came to light, including the determination that excessive billing had taken place in two contracts for equipment delivered to the Ministry of Defense by Yamada Corporation.

The Ministry of Defense is making the following efforts to address this issue:

1) In order to uncover and prevent excessive billing, the Ministry is consulting directly with overseas manufacturers to obtain estimates.
2) The number of import liaisons in the Equipment Procurement and Construction Office has been increased from 3 to 10 people to enhance the price survey function in the United States. (FY 2008)
3) In order to facilitate the participation of overseas manufacturers in the contract, the Ministry is continuously improving the environment and promoting direct contracts (including through the use of bid guidance materials written in English and by conducting English-language information sessions).
4) The Ministry will request a FY 2009 budget for the department of import in the Equipment Procurement and Construction Office.
5) The Ministry will make use of chartered accountants and personnel from outside who have worked in trading companies.
6) The Ministry will strengthen punitive measures against incidents of excessive billing (the Ministry currently demands the refund of the amount paid in excess and charges a penalty equal to the amount paid in excess. This penalty will be doubled). (FY 2008)
7) In addition to comparing the records in the trading company’s accounting system with the estimate submitted to the Ministry of Defense, the Ministry will introduce an import procurement survey that investigates the company’s internal fraud prevention measures and legal compliance structures. (FY 2008)

(2) **Enhancing Management of Equipment Lifecycle Costs**
Generally, the equipment is designed, developed, and manufactured over a significant period of time and at considerable cost, and the equipment is used for a long period of time. The Ministry has estimated the lifecycle costs (LCC) for certain individual pieces of equipment over the entire lifecycle of the equipment, from concept-refining to development, procurement, operation (including maintenance and repairs) and disposal.

In order to promote LCC management on a Ministry-wide basis, in March 2008, the Ministry set up LCC management procedures and calculation procedures and applied LCC management to key equipment on a trial basis. Going forward, the Ministry will also pursue new initiatives, including establishment of cross-organizational liaison and coordination meetings based on the IPT methods in use in various other countries, and establishment of uniform calculation methods for LCC.

(3) **Establishment of Performance Targets for Cost Control**
For the first time, the Ministry of Defense has established a comprehensive cost reduction goal of a 15% reduction in costs within five years (by FY 2011) and a 9% reduction in costs by FY 2009 in comparison with the costs in FY 2006 through efficiency-boosting measures such as ongoing review of methods of acquisition, utilization of commercial products and technologies and integrated procurement.

(4) **Expansion of Incentive Contracts**
The Ministry of Defense has made use of only two incentive contracts since the concept was introduced in 1999. The Ministry has introduced a new system that improves the evaluation procedure for corporate proposals which promotes corporate cost reduction activities by reviewing the overall system to enhance the effect of incentive contracts.

(5) **Expansion of Outsourcing to the Private Sector**
In order to respond to the increasing sophistication of equipment and diversity of missions, there are limits to the conventional model of task-by-task basis outsourcing to the private sector. Therefore, from the perspective of acquisition transformation, the Ministry of Defense continues to implement analysis of cost effectiveness, including ascertaining total costs, and promote the utilization of new methods (such as PFIs) to further expand outsourcing to the private sector.

(6) **Further Improvement of Foreign Military Sales (FMS)**
FMS is the supply of equipment to eligible arms-exporting countries based on United States Government laws on arms export control. Currently, however, there are several issues, including insufficient disclosure of cost breakdowns. Going forward, the Ministry of Defense will make efforts for further improvement, including expansion of cost breakdowns.

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[14] PFI: Public-Private Initiative

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MSDF Kure Museum, part of the PFI project
(7) Acquisition of Equipment from the Perspective of Joint Operations
In the past as well, 1) unification of equipment specifications, 2) standardization of equipment, 3) integration of the command and operations systems of the SDF services, and 4) research and development concerning 1) to 3) above have been conducted on the premise of joint operations. Going forward, while continuing to promote consideration of suitable equipment to contribute to joint operations in the fields of rescue, health, transportation, and warning and surveillance, the Ministry of Defense will conduct efforts toward such goals as materializing a framework of deliberation and coordination, and establishing the system for sharing information on stock and specifications among the SDF services.

(8) Strengthening Evaluation of Technological Research and Development, etc.
From the perspective of acquisition improvement, current evaluation of research and development is by no means sufficient. Therefore, the Ministry of Defense has established a Technology Evaluation Committee headed by the Parliamentary Minister for Defense and has instituted a new and effective structure for evaluation of technology.

In addition, with the aim of promoting international cooperation that contributes to effective and efficient research and development, while vitalizing technological exchange with various countries, the Ministry of Defense must further deepen its discussions on the background, benefits, and problems related to joint international research and development.

(9) Review of Central and Regional Procurement
In order to conduct third-party oversight of contracts at regional departments and bureaus, the Ministry of Defense reviews the bid oversight committees of regional defense bureaus and conducts oversight of contracts related to equipment and materials.

In addition, in order to further improve transparency, the approval of the Minister of Defense, which currently applies to only high-level negotiated contracts in central procurement, is conducted at the regional level as well, taking into account operational efficiency (as with central procurement, this applies to contracts for major equipment over 150 million yen).

(10) Division of Duties for Various Stages of Planning and Procurement in Equipment Selection
For next-generation rescue helicopters and other equipment, based on the outcome of detailed deliberation on more transparent and efficient equipment selection procedures, the Ministry of Defense will implement a test-run of the system in which the Bureau of Defense Policy is in charge of selecting functions and performance, while the Bureau of Finance and Equipment is in charge of model types and acquisition method. (In April 2008, the Ministry of Defense formed a cross-organizational work team to deliberate on selection procedures and other matters.)

In addition, the Ministry of Defense is aiming to review procedures for selection of aircraft model types, and looking into application and expansion of a more competitive bidding system.

3. Steady Implementation of Measures
In advancing measures for reform, it is extremely important to continually propose new measures while making clear the road for steady implementation of those measures.

Going forward, taking into account the schedule for implementation of acquisition improvement, the Ministry of Defense will conduct a necessary review of the progress of measures at each important point. Through such measures, the Ministry of Defense will endeavor to advance acquisition improvement without backtracking or unproductive delays.

Moreover, based on the contents of the July report of the “Council for Reforming the Ministry of Defense,” these efforts will be continued.
What is the procedure for equipment selection?

The equipment selection process depends on the type of equipment. The basic flow is as follows:

1) First, the necessary functions and performance for defense of Japan are evaluated.

2) Next, factors such as cost, introduction method such as whether it is acquisition of a newly-developed equipment item or existing one, the type of equipment, type of model, and quantity are determined.

For example, in the case of an aircraft, after the process whereby the Internal Bureau of the Ministry of Defense performs adjustment and evaluation of the model selection plan and performance requirement made by the Ground, Maritime or Air Self-Defense Force, the proposal of model selection is drafted as the Ministry of Defense Proposal. After the model selection of the aircraft with items that should be kept secret is submitted to and evaluated by the Aircraft Model Selection Conference in the Ministry of Defense for consultation and approval, a decision is made by the Minister of Defense. Furthermore, regarding model selection of combat aircraft, the Security Council is consulted in accordance with the year end budget compilation as an important issue for the maintenance of defense forces for each fiscal year.

For aircraft with no items requiring secrecy, such as training aircraft, a competitive bidding system that adopts the comprehensive evaluation bidding method may be used.

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1) Required performance items in order to satisfy required items such as operation objective, operation structure, and expected main performance.
What are the concrete measures for cost reduction?

The measures for cost reduction and the amount of expenditure retrenchment raised by the cost reduction effort in recent years are as follows.

- **Active use of commercial goods and technology**
  The Ministry of Defense makes effort in the use of commercial goods and technology, such as the use of commercial goods for components of the ASDF’s JADGE system (expenditure retrenchment of approx. ¥600 million), pursuing the adoption of specification of the commercial vessels as much as possible in regards to the marine observation vessels and examines the observation equipment (expenditure retrenchment of approx. ¥16 billion).

- **Lump-sum procurement**
  The Ministry of Defense has introduced lump-sum procurement for the equipment as follows:
  1) GSDF’s Type-89 rifles (approx. 20,000 rifles: expenditure retrenchment of approx. ¥300 million), 2) MSDF’s next-generation patrol aircraft (P-1: expenditure retrenchment of approx. ¥10.6 billion) (four aircraft in two years), 3) MSDF’s minesweeping and transport helicopters (MCH-101: expenditure retrenchment of approx. ¥300 million) (three aircraft in two years), 4) modernization of ASDF’s combat aircraft (F-15) (20 aircraft in two years: expenditure retrenchment of approx. ¥16.8 billion).

- **Revision of maintenance measures**
  The Ministry of Defense has reviewed maintenance regulations to extend the period of periodic repairs of ASDF short-range SAM (expenditure retrenchment of approx. ¥1.1 billion).

- **Revision of specifications**
  As a result of technology advancement, crashworthiness has been given to fiber-reinforced plastic (FRP). Thus, the body of minesweepers (MSC) is switched from wood to fiber-reinforced plastic (FRP), which has made it possible to expand the minesweepers’ service life to approximately 30 years. This figure is double that of the wood-body MSC (an expenditure retrenchment of approx. ¥600 million).

Note: The amount of expenditure retrenchment is an estimation made at the time of budget compilation, which is expected to change according to the situations of future procurements.