

Basic Policy on Enhancing Defense Production and Technology Bases

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Introduction

In December 2022, the Government of Japan formulated the National Security Strategy, National Defense Strategy, and Defense Buildup Program. These documents state that defense production and technology bases are indispensable foundations for stably ensuring research/development, production, and procurement of defense equipment such as vessels, aircraft, ration, and other supplies including their parts and components that are exclusively used by the Self-Defense Forces (SDF) (hereinafter referred to as “defense equipment”) in Japan and for incorporating cutting-edge technologies necessary for new ways of warfare into defense equipment; they are a virtually integral part of defense capability itself and need to be strengthened. Japan's defense industry is responsible for each stage of the life cycle of defense equipment (research, development, production, maintenance/improvement, replenishment, decommissioning of use, etc.). In this regard, the defense equipment and defense industry are inseparable, and the Government will take the necessary budgetary measures, develop necessary legislation, and utilize a government-affiliated financial institution to provide funds for highly policy-oriented projects to maintain and strengthen the ability of industry to produce advanced defense equipment and technology and to secure a high operating rate. In February 2023, a bill to realize these goals was submitted to the Diet and deliberated. On June 7, 2023, the “Act on Enhancing Defense Production and Technology bases” (Act No. 54 of 2023, hereinafter referred to as the “Act” or “this Act”) was enacted.

Article 3 of the Act stipulates that the Minister of Defense establishes a basic policy (hereinafter referred to as "this basic policy") on enhancing defense production and technology bases.

Measures for enhancing defense production and technology bases (hereinafter referred to as "bases") must contribute to the peace and independence of Japan as well as the safety of the country by ensuring stable manufacturing of defense equipment, building up the defense capability, and ensuring smooth execution of the SDF missions. From this perspective, this basic policy is established to ensure adequate implementation of the measures stipulated in this Act and effective exertion of their effects. In addition, replacing the "Strategy on Defense Production and Technological Bases" formulated in 2014 with this basic policy newly indicated direction on how to maintain and enhance the bases in the future.

The terminology used in this basic policy follows the terminology used in this Act.

Chapter 1 Basic Matters Concerning the Security Environment of the International Community, Including Japan, and the Trends in Technological Advancements Relating to Defense Equipment

Section 1 Security Environment of the International Community, including Japan

As Russia's aggression against Ukraine attests, the international community, including Japan, is facing serious challenges and has entered into a new era of crisis.

Looking at the military trends of Japan's neighboring countries and regions, China has sustained high-level growth of its defense budget and has been extensively and rapidly enhancing its military power, including nuclear and missile forces, without sufficient transparency. In addition, China has continued and intensified unilateral changes to the status quo by force and such attempts in the maritime and air domains, including in the East and South China Seas. Furthermore, China is strengthening its strategic ties with Russia and attempting to challenge the international order. The actual state of activities, such as development finance, also lacks adequate transparency. In some cases, China exerts economic coercion on other countries by taking advantage of their dependence on it. While China firmly maintains its policy for peaceful unification with Taiwan, it has not ruled out the possibility of the use of force. It has intensified its military activities in the sea and air space around Taiwan. China's current external stance, military activities, and other activities have become a matter of serious concern for Japan and the international community and present an unprecedented and the greatest strategic challenge ever to secure the peace and security of Japan and the peace and stability of the international community, and to strengthen the international order based on the rule of law. Japan should respond to it with its comprehensive national power and in cooperation and collaboration with its ally, like-minded countries, and others. To maintain its regime, North Korea is concentrating on building up its weapons of mass destruction, ballistic missiles and other missiles. In recent years, North Korea has been repeatedly launching ballistic missiles and other missiles at an unprecedentedly high frequency. It is also enhancing its nuclear and missile-related technologies and operational capabilities. Such military activities pose an even more grave and imminent threat to Japan's national security than ever before. Russia's aggression against Ukraine has shaken the foundations of the international order and is understood as the most significant and direct threat to defense in the European region. In addition, Russia has actively continued its military operations in the Far East region, including the Northern Territories, around Japan. Russia's military activities, along with its strategic partnership with China, are of grave defense concern in the Indo-Pacific region, including Japan.

Furthermore, rapid development in science and technology is fundamentally changing the

security paradigm. Countries are developing cutting-edge technologies that could become so-called “game changers,” which dramatically alter the future character of warfare. In addition, there exists a range of global security challenges, such as increasing serious risks in cyber and other domains, the expansion of information warfare, including the spread of disinformation, and climate change.

Section 2 Trends in Technological Advancements relating to Defense Equipment

As science and technology have significantly changed not only society and people's lives but also the paradigm of security, in recent years, various technologies have rapidly been developed, especially in the private sector, and have a significant impact on security.

In fields such as artificial intelligence (hereinafter referred to as "AI") and information communication technology, it is becoming extremely difficult to distinguish between civilian and security technologies. In Russia's aggression against Ukraine, attacks and surveillance/reconnaissance activities have been carried out by using unmanned aerial vehicles that use these technologies. AI-equipped unmanned vehicles are under development around the world, and recently, a variety of research and development has been carried out, such as small unmanned aerial vehicles capable of swarm flight, unmanned vessels for detecting submarines, and automation of air-to-air combat. Additionally, since cyberattacks are occurring frequently because of the development of information communication technology, they seriously affect society and pose a real threat to security.

In addition, quantum technology is attracting attention as an essential technology that will change society. In particular, research and development for the practical application of technologies expected to be applied in the military field - such as quantum cryptographic communication, quantum sensors, quantum computers, and post-quantum cryptography, which quantum computers cannot solve - has been carried out in each country. Additionally, the practical use of additive manufacturing technologies such as 3D printers is accelerating, making it possible to produce complex structures at low costs, and it is likely that non-stock procurement could revolutionize military logistics.

It is pointed out that Hypersonic Glide Vehicles would fly in lower orbits than conventional ballistic missiles at hypersonic speed above Mach 5 for a more extended period, and their maneuverability would make them difficult to be detected and intercepted. Additionally, railguns, high-energy laser weapons, and high-power energy weapons such as high-power microwaves are under development to counter various airborne threats.

Furthermore, as an example of future technology, the utilization of biomimetic technology is being researched, such as the one that mimics the structures and functions of birds and insects when they fly. Countries worldwide are researching and developing groundbreaking

defense equipment and technologies that have never been seen, such as small insect-sized drones that can collect information.

To defend Japan under these circumstances, it is crucial to identify and encourage the development of important technological fields, and to lead those technologies to the creation of groundbreaking defense equipment by securing advanced capabilities and technological superiority ahead of other countries. For example, the technologies necessary to gain superiority in the physical domain are as follows: unmanned/autonomous system technology; space related technology and micro-robot technology both of which are adaptable to future battles; technology for utilizing previously unused energy, and material technology that realizes new functions, etc.

Additionally, as for technologies in the information domain, there can be mentioned sensing technology for obtaining information more accurately and quickly, computing technology for processing vast amounts of information instantaneously, quantum illumination technology and elementary particle detection technology for making the things detectable that couldn't have been seen before, metaverse technology and 3D hologram projection technology for utilizing virtual and fictitious information, Beyond 5G technology for enabling information to be instantaneously shared inside and outside a unit, and cyber kill-chain automatic shutdown/countermeasures technology for defending cyberspace efficiently and effectively. Examples of technologies in the cognitive domain include training technology for improving cognitive ability using brain science and technology for visualizing the cognitive domain. In addition to those cutting-edge technologies, even in the field of conventional technologies unique to the defense, it is essential to make efforts to steadily improve the capabilities of existing defense equipment by using those advanced and digital technologies.

As mentioned above, the trends in the technological advancement of defense equipment have changed dramatically; new technologies are constantly coming out, replacing old technologies at a remarkably accelerating pace. As the security environment surrounding Japan is rapidly becoming more severe, creation of science, technology, and innovation is the source of Japan's economic and social development. To procure defense equipment necessary for new ways of warfare and to thereby improve Japan's security environment, it is important to actively and promptly utilize the outcomes of advanced technology research in public and private sectors as well as various newly created technologies by thinking outside the box.

Section 3 Environment Surrounding Bases

The bases in Japan have several characteristics. First, as a premise, Japan has no state-run facilities to manufacture defense equipment and relies heavily on private companies to play

an important role in producing defense equipment. Therefore, as it is required to reinforce defense capabilities fundamentally, the role of the defense industry becomes even more important because it is responsible for producing defense equipment necessary for the SDF to carry out its missions. Especially when manufacturing defense equipment, it is necessary to respond to a high degree of performance and security measures. From the perspective of economic rationality, indicating a certain degree of predictability is required for companies to step into investments in this sector. These companies are apt to be required to produce many models with unique specifications in small quantities, beside being demanded to secure a manufacturing system over a long period of time due to the long life cycle of defense equipment. Such companies have limited opportunities to recover investments since their customers are basically limited to the Ministry of Defense (MOD) and the SDF. In Japanese society, having aversion and reputational risks towards defense industry remain a problem.

Due in part to the above characteristics, the bases have been weakening. Since it is necessary to respond to a high degree of performance and security measures, companies need to invest a great deal of management resources. But in actuality, their profitability is lower than that of the expected level on a procurement system. Some industrial surveys show that there are some defense-related companies in other countries whose operating profit margins exceed 10%; on the other hand, the profit margins of defense industry in Japan remain at only 2-3%. Additionally, with regard to the sales ratio of defense business in each company, the ratio in Japan tends to be lower than that of in other countries. Under such circumstances, companies deciding to withdraw from defense businesses or downsize their operations are appearing intermittently, and business investment and new entrants tend to be sluggish as well. Consequently, it not only interferes with the stable procurement of defense equipment essential for the SDF operations, but also causes the loss of proper competitive environment and innovation in the long term, resulting in losing its ground on Japan's technological superiority in security.

Furthermore, in recent years, various risks involving the bases have become apparent. Nowadays, digitalization proceeds across all industries, and this is a growing trend toward collecting information on advanced technologies, including the ones for civilian application from other countries, and diverting it to military use. In these circumstances, cyberattacks - on suspicion of involvement by national organizations, including military forces - pose more severe threats for the defense industry that keeps sensitive information on defense equipment and technology. For example, in 2021, a group of hackers, which seems to be the case of military intervention by a foreign country launched large-scale cyberattacks on approximately 200 domestic companies and research institutes, including defense-related companies. Additionally, there are concerns about information theft where foreign-origin

malicious elements undermine the safety and reliability of supply chains by intruding facilities and parts used for manufacturing defense equipment. Furthermore, as the international trend of hoarding important resources continues - for example, due to the movement of export restrictions - there is a risk of being unable to secure raw materials necessary for the manufacturing of defense equipment. As a result, the risk of jeopardizing stable supply is becoming more realistic. The Government needs to implement measures to alleviate such relatively new risks.

Chapter 2 Basic Concepts of Maintaining and Enhancing Bases

Section 1 Basic Concepts and Directions of Maintaining and Enhancing Bases

1. Significance of Maintaining and Enhancing Bases

The following three points have been mentioned on the significance of maintaining and enhancing domestic bases. Firstly, it is to ensure Japan's independence in security environment. Enhancing the self-reliance of Japan's security is of great importance, assuming from the fact that the following cases presuppose the existence of domestic bases; enabling the acquisition of defense equipment that meets the performance requirements based on operational concepts adopted for the national land characteristics and policies of Japan; facilitating continuous operational supports such as maintenance, buildup, improvement, renovation, technical support, and parts supply for defense equipment after it being acquired, in addition to facilitate an additional acquisition of defense equipment; and enable to procure defense equipment which basically should not depend on foreign countries from the perspective of confidentiality. Such significance is being emphasized with growing demand for acquiring advanced defense equipment for new ways of warfare at early stage and maintaining and assuring sufficient war sustainability of the SDF.

Secondly, it is to have an external effect on national security. Externally being recognized that Japan has built up its defense capabilities of its own will with a certain speed will potentially contribute to improving deterrence. Additionally, in the case of acquiring defense equipment and technology by importing them from foreign countries or conducting defense equipment and technology cooperation, including international joint development and production with other countries, having bases to some extent within Japan has the potential of making negotiation advantageous.

Thirdly, it is to contribute economically and technologically to domestic industries. Japan's defense industry, responsible for essential roles in the bases, is composed of widespread and various suppliers, ranging from prime contractors which have direct contract with the MOD to subcontractors like small and medium-sized enterprises. As technological borders between civilian and military uses are vanishing, technological progress in defense equipment can immediately influence fields in private sector and vice versa. Therefore, efforts to maintain and enhance such domestic bases are expected to be meaningful to make domestic industries, including the ones in the private sector, stronger in the economy and more advanced in technology.

Moreover, considering the significance of maintaining and enhancing domestic bases, new elements have emerged in these years. In the face of external threats imposed through economic means, it has become an urgent issue to enhance Japan's autonomy and to secure technological superiority and indispensability from economic security perspectives.

Additionally, with supply chain disruption due to the spread of COVID-19, blockage of critical materials and their supply chains have been developing and other nations have been intensifying activities in prioritizing domestic industries. Even between allies, cutting-edge technologies are less likely to be disclosed/offered under the stricter technology control policies. Under these circumstances, it is increasing the need to maintain and enhance domestic bases with a wide range from finished products of defense equipment to their parts and components in terms of ensuring stable manufacturing of defense equipment, which is directly related to national defense, and of maintaining technological superiority.

2. Subjects for which to Maintain and Enhance Bases

Defense equipment is an aggregation of many parts and components. In addition to prime contractors that deliver finished products to the MOD, many suppliers are taking an essential role in manufacturing defense equipment, such as delivering parts and components to them. Both prime contractors and suppliers are equally essential to stably manufacturing defense equipment. Accordingly, when implementing measures to maintain and enhance bases, the entire supply chain of defense equipment, including not only prime contractors but also suppliers, shall be in the scope of the measures, bearing in mind the maintenance of manufacturing defense equipment as the finished products as well as parts and components thereof.

3. Concepts of Acquisition of Defense Equipment

Deciding acquisition method of defense equipment is equivalent to determining the future of bases in Japan at each stage of the life cycle of the defense equipment so that it directly affects the bases. Therefore, it is necessary to establish an acquisition method based on the aforementioned purpose of maintaining and enhancing the bases in Japan. There are multiple acquisition methods that the MOD is using: domestic development, licensed production, imports, etc. However, no matter which method is adopted, it is a premise to keep in mind the following points: acquiring defense equipment that meets the standard of required performance, consisting with operational concepts of defense equipment necessary for defense of Japan; being able to continuously acquire and maintain the defense equipment in terms of expenses. On top of that, it is necessary to decide on an acquisition method with the viewpoints of nurturing sectors in which Japan has a comparative advantage and as required, complementing sectors in which Japan is falling behind or lacking, in addition to a growing need to maintain and enhance bases in Japan, as it is described in 1 of this section.

Therefore, when acquiring new defense equipment, procurement of domestic products is pursued, focusing on the following areas:

A. What can meet various conditions, such as operational concepts, performance,

acquisition cost, life cycle cost, schedule, etc., with Japanese technologies

- B. What is indispensable in light of maintaining war sustainability in the event of a contingency as well as of ensuring the ability to improve operations and maintenance in peacetime (e.g., ammunition and ships)
- C. What are the items that should not be dependent on foreign countries from the perspective of confidentiality (e.g., communications and encryption technology)
- D. What is indispensable for realizing operational concepts based on Japan's geographical and policy peculiarities
- E. What are the latest technologies from foreign countries that are hard to obtain
- F. What is a potential target of external threats through economic means

In cases where the procurement of domestic products is difficult, the MOD will pursue acquisition through international joint development and production or licensed production from the viewpoints of improving technological capabilities by transferring technology to Japan and securing flexibility for future renovation by Japan.

When acquiring defense equipment under the circumstance where it is necessary to select either domestic or foreign products that satisfy the conditions shown in A, the MOD should decide which to choose after evaluating the conditions, such as industrial participation by Japanese companies in each stage of the life cycle of defense equipment, and the range and the extent of transferring technologies to Japan. To validate the appropriate selection criteria, the MOD shall make efforts to bring transparency to the process, to determine a milestone for each stage of the life cycle after the selection, and to carry forward thorough management so that cost, schedules, etc., can be explained to the public.

Additionally, what approaches to take for the procurement of defense equipment significantly even affects the business plans of business actors. Therefore, the MOD will make efforts to enhance the predictability in defense business, for example, by estimating scheduled quantity for procurement of defense equipment as clearly as possible.

4. Concepts of International Cooperation

As countries are recently competing fiercely in research and development in the military field and making remarkable technological progress, it is difficult for each country to maintain necessary bases without cooperating with other countries. Considering the abovementioned perspectives, promoting international cooperation in defense equipment and technology is essential. Basically, bases related to defense equipment, which should not be relied upon for other countries, should be maintained and strengthened domestically. Beyond that, it is necessary to promote international joint research and development in addition to active international cooperation and licensed production, contributing to incorporating the

excellent technologies of various countries into Japan's defense equipment.

International cooperation, such as international joint development and production, often requires much effort in coordination and project management among participating countries. Nevertheless, such lack of coordination may fail to sufficiently meet the required performance that Japan is seeking. Additionally, as it entails risks such as technological leaks and rising costs that Japan cannot manage, it is necessary to consider those challenges in order to promote international cooperation in defense equipment and technology.

International cooperation in defense equipment and technology helps strengthen cooperative relations and interoperability for security with other countries. It is not only beneficial for Japan itself but also contributes to regional stability by enhancing the capabilities of countries sharing fundamental values with Japan. Japan will promote international cooperation strategically in consideration of such significance.

Additionally, as countries continue to hoard critical technologies and materials, it is impossible to complete supply chains of defense equipment only within Japan so that it is essential for Japan to build a mutually complementary relationship with its ally and like-minded countries. In order to stably procure defense equipment, it is needed to maintain a supply chain, considering not only procurement but also maintenance of the defense equipment after its acquisition. Given abovementioned aspects, it needs to endeavor to alleviate the global vulnerability of supply chains and risks of mutual dependence between nations/regions through strengthening collaboration with its ally and like-minded countries.

Furthermore, it is becoming more apparent the necessity of taking measures such as standardizing specifications of defense equipment to guarantee interoperability and interchangeability with other countries by looking at the situation where countries support Ukraine through providing it with defense equipment, etc. responding to the Russia's invasion of Ukraine. It is necessary to develop defense equipment taking into account whether its specification meets the global standards and beside having perspectives of maintaining war sustainability in the case of contingency and international cooperation.

The transfer of defense equipment and technology is a key policy instrument to ensure peace and stability, especially in the Indo-Pacific region, to deter unilateral changes to the status quo by force, to create a desirable security environment for Japan, and to provide assistance to countries that are subject to aggression in violation of international law, use of force, or threat of force. Accordingly, the Government will carry forward with the transfer of defense equipment and technology in joint public and private efforts by establishing the fund and implementing measures, including providing corporate assistance, to promote the smooth transfer of defense equipment and technology of high-security significance and international joint development in a broad array of fields.

5. The Ideal Future of Defense Industry

Each initiative intended to maintain and enhance bases needs to be promoted to realize the ideal state of the defense industry. From the standpoint of the Government, it is essential in the defense industry to maintain the ability to manufacture the necessary defense equipment and support high operating rates, based on the recognition that the bases are a virtually integral part of the defense capability itself and indispensable to stably ensure the manufacturing of defense equipment in Japan and to incorporate advanced technology necessary for new ways of warfare into the defense equipment. Adequate competitive environments between companies inside and those outside Japan promote market competition, which may lead to achieving the price optimization of defense equipment and improvement in the relevant technologies, etc. Additionally, it is significant for the activation of defense industry that, not only new companies aggressively enter defense projects, but also companies which already engaged in defense projects still actively invest in new projects and improve production processes. It is especially essential to encourage companies that have conventionally not really been involved in the defense business – for example, startup companies that have cutting-edge software technologies in some areas where remarkable progress in private sector could be seen like AI or information communication technologies – to enter into the defense field. To actively promote international cooperation in defense equipment and technology, including international joint research, development, and production, companies must not only maintain an appropriate competitive environment in Japan but also catch up with technological innovations and gain technological superiority to obtain a competitive edge in the international market. It has been an emergent task to have the ability to adequately address various risks, including external threats by economic means, which have become more apparent.

From the standpoint of companies, each company at each layer of a supply chain needs to expect having benefits of engaging in defense business, from comprehensive viewpoints, including profitability and stability, synergistic effects of technological spin-offs from defense business into commercial business, and a deterrent effect to prevent hostile takeover attempts.

While defense-related companies in foreign countries, such as Western countries, are normally engaged in defense projects for their main businesses, major defense-related companies in Japan are fundamentally engaged in commercial businesses for their primary businesses. In almost all cases, their defense-related sales account for lower than 10% to total sales (defense demand dependence). Low defense demand dependence leads to such a tendency as lower priority of resource distribution, within the companies. In order to make

the defense industry internationally competitive, it is important to build a defense industry led by companies for which defense business is their main priority.

However, it is important to keep in mind that the nature of an organization depends on what such a company determines for its management. It is necessary to continuously exchange opinions fully between the public and private sectors, with business affiliation and section consolidation included while collaborating with other ministries and departments on effective policies for making defense industry competitive.

Section 2 Roles of the Government of Japan and the Defense Equipment Manufacturers in Ensuring Stable Manufacturing of Defense Equipment

The Government and business actors such as defense equipment manufacturers (hereinafter referred to as "Defense Equipment Manufacturers") need to recognize that bases are indispensable for ensuring the stable domestic manufacture of defense equipment as well as for incorporating the advanced technologies necessary for new ways of warfare into defense equipment. The Government and Defense Equipment Manufacturers divide tasks between them to make efforts for various policies related to maintaining and enhancing the bases, in addition to measures based on the law. The Government needs to build a system adequate for carrying out the various policies described in the next chapter and Chapter 4.

Of course, since companies aim to make a profit, the Defense Equipment Manufacturers need to be able to expect receiving concrete benefits from engaging in the defense business, from comprehensive viewpoints as follows: there should be profitability and stability as in the case of commercial business; the technology acquired through defense business can be spun off into the company's commercial business and have a synergistic effect; and the company can serve as a deterrent to prevent hostile takeover attempts. Therefore, the Government must go ahead with maintaining and enhancing bases by placing importance on preparing an environment where the Defense Equipment Manufacturers can engage in defense projects and determine to further continue the project.

The Defense Equipment Manufacturers are also expected to make efforts on their initiatives, newly recognizing that they are essential entities responsible for national defense, to maintain and enhance bases while using various measures enforced by the Government. In doing so, they are expected, in consideration of the security environments surrounding Japan and the directions of Japan's security policy, to maintain the productivity/technological capabilities necessary for ensuring stable manufacturing of defense equipment to support the SDF operations. It is also expected that, not only technologies, including in the private sector, which are owned by companies, but also the cutting-edge technologies of startup companies will be actively used in the defense business.

In any case, due to the relation that the MOD/SDF is the defense capability while defense production and technology bases are a virtually integral part of defense capability itself, the MOD/SDF and the Defense Equipment Manufacturers must play each role with shared recognition on matters such as defense buildup and operational concept. Therefore, both parties are required to closely communicate with each other on a continual and daily basis at each level.

Chapter 3 Basic Matters Concerning Measures Based on this Act

As described in Chapter 1, the Defense Equipment Manufacturers in Japan face various problems such as the withdrawal from defense business and business scale reduction in defense projects, the stagnancy of new investment and new entry from existing Defense Equipment Manufacturers, the increasingly serious threat of cyberattacks on the Defense Equipment Manufacturers holding sensitive information on defense equipment and technology, the concern such as information theft that foreign-origin malicious elements undermine the safety and reliability of supply chains by entering facilities and parts used for developing and producing defense equipment and technology, and the risks that stable manufacturing of defense equipment cannot be secured due to restriction on export of raw materials, etc., by foreign governments.

As the bases made up of the Defense Equipment Manufacturers are indispensable foundations of Japan's defense capability, they must be strengthened. This Act stipulates policies for enhancing bases that, from such a viewpoint, especially require immediate countermeasures.

Regarding civilian products, it is more appropriate to take initiatives for strengthening their manufacturing bases through policies other than those stipulated by this Act. Thus, basically, civilian products shall not be included in the scope of measures stipulated by this Act.

Section 1 Basic Matters Concerning Financial and Other Measures for the Defense Equipment Manufacturers to Ensure Stable Manufacturing of Defense Equipment

1. Basic Concepts of Specific Initiatives

For the manufacturing of defense equipment, it is assumed that various risks impede stable manufacturing of defense equipment, such as a risk of unavailability of imported raw materials, etc., because of export restriction by a foreign government, a risk of delay delivery or falling short of the performance requirement because dilapidated facilities have not been renewed and productivity and technological standards become sluggish, a risk of major concerns for the parts infected with malware or spyware in the manufacturing process, a risk of leakage of information like performance due to cyberattacks, and risk of withdrawing from defense projects because it has become challenging to continue businesses.

To cope with such risks effectively as well as to make a supply chain consisted of prime contractors and suppliers function more effectively and efficiently, which enables to contribute to stable manufacturing, etc., the following specific initiatives need to be taken and the basic concepts of the specific initiatives shall be clarified by category.

(1) Reinforcing Resilience of the Supply Chain

It is concerned that a supply chain of defense equipment is more vulnerable than the one of general industrial products because it includes suppliers having special facilities and technologies that have little or no substitute and its acquisition channel for some raw materials is limited. If acquisition/withdrawal of a supplier or a natural disaster/accident happens, there is concern over a decline in function of production and logistics as well as delayed procurement and cost increase of parts and components necessary for manufacturing defense equipment. Therefore, it is imperative to respond to supply chain risks by ensuring redundancy and replaceability in a supply chain in order not to hinder the operations of defense equipment.

For these reasons, the Defense Equipment Manufacturers, whose plans for ensuring stable manufacturing of defense equipment (hereinafter referred to as “Stable Manufacturing Plans”) are approved by the Minister of Defense, are required to take the following measures, for example, based on the Stable Manufacturing Plans;

- To hedge the risk of supply disruption, shift import sources of raw materials from a foreign country which has such risk to several countries which have less risks.
- Have a stockpile of raw materials in consideration of assumptions based on procurement/replenishment plans.
- Introduce production technologies for initiatives, such as the domestic production of raw materials, or carry out research, development, and improvement for substitute products and specification-modified products in order to make manufacturing of designated defense equipment no longer need raw materials, which have the risk of supply disruption, or make it sufficient to use a small amount of such raw materials.
- Modify manufacturing processes, facilities, etc., to eliminate the possibility of mix-up of parts or programs, which may cause malfunction or leak information of designated defense equipment

(2) Improving Manufacturing Process Efficiency

In the private sector, manufacturing facilities, etc., have been upgraded rapidly in such a manner as to utilize advanced technologies, for example, AI and 3D printers. On the other hand, the defense sector has the features peculiar to defense equipment, such as manufacturing of a wide variety of products in small quantities and a slow rate of invested capital recovery. In addition, it takes on various risks that cause difficulty in stable manufacturing of designated defense equipment, such as decreased productivity and quality due to deteriorating facilities, aging workforce, and so on, as well as the likelihood of withdrawal from the defense industry with a background of uncertainty in future demand through dependence on security environments. To reduce such risks, efforts to make

manufacturing processes of designated defense equipment more efficient are required in such manners as reducing costs, building a flexible manufacturing system, and shortening development periods and procurement lead time through the following efforts.

- Streamline manufacturing processes and labor-saving
- Make electronic data and analysis of expertise on manufacturing processes, such as the experience of skilled workers
- Improve manufacturing methods for flexibly responding to diversified and small quantity production and manufacturing of parts, etc., over a long period, which are unique to the manufacturing of defense equipment.
- Reduce the frequency at which facilities for manufacturing, etc., fail to work

From these perspectives, the Defense Equipment Manufacturers whose Stable Manufacturing Plans are approved by the Minister of Defense are required to carry out, based on the Stable Manufacturing Plans, facility investment, and investigation of the introduction feasibility of the facilities, which contribute to better efficiency as follows.

- Make efforts to make manufacturing processes more efficient by introducing instruments provided with advanced technologies such as up-to-date machine tools and 3D printers
- Make efforts to automate manufacturing processes by introducing the programs of AI, etc.
- Make efforts to make manufacturing processes more efficient through digital transformation

(3) Cybersecurity Enhancement

Suppose information on technology, design drawings, etc., is possessed by the Defense Equipment Manufacturers that manufacture designated defense equipment leaks. In that case, Japan could have its defense strategy and technological superiority adversely affected seriously and be remarkably hindered from stably procuring defense equipment and technology, damaging the trust in the relationship with its ally and like-minded countries. Therefore, the MOD has provided “Defense industry cybersecurity standards” (ensuring information security for procuring defense equipment, technology, and services {ATLA No.137. March 31, 2022}) and has successively started to apply it since the 2023 fiscal year. In some cases, it is appropriate that to meet the standards and to respond to cyberattacks becoming more complicated and elaborate, the Defense Security Gateway, which is a cloud shared between the public and private sectors, be utilized, and additional information security measures complying with the standards be taken for information system held by the company. For that, each company needs to make facility investments, such as building up information

systems/establishments with functionalities corresponding to advanced information security measures.

For this reason, the Defense Equipment Manufacturers whose Stable Manufacturing Plans are approved by the Minister of Defense are required to take the following measures, for example, based on the Stable Manufacturing Plans.

- Authenticate a system user with multi-factor authentication
- Monitor the system constantly and consistently analyze logs
- Carry out vulnerability scanning and analyze the results
- Carry out response tests for information security accidents, etc.
- Ensure physical security of establishments by using entry/exit management instruments provided with electronic locks, etc.

(4) Support for Business Succession, etc.

The withdrawal of the Defense Equipment Manufacturers engaged in manufacturing all, or most of the designated defense equipment from defense business will be decided based on the judgment of each company.

There is a concern that delayed delivery and lower operational availability of defense equipment may be caused by the disruption of the supply of defense equipment due to the withdrawal from defense projects or the prolonged adjustment related to business succession, etc. To prevent such situations, it is necessary to acquire manufacturing facilities and technical documents, etc., so that the Defense Equipment Manufacturers can smoothly and steadily proceed with business succession, etc.

For this reason, the Defense Equipment Manufacturers whose Stable Manufacturing Plans are approved by the Minister of Defense are required to take the following measures, for example, based on the Stable Manufacturing Plans.

- Acquire establishments and facilities that can be expected to ensure stable and efficient manufacturing capabilities
- Acquire technical documents and licenses necessary for the manufacturing, etc.
- Train employees through education, drills, etc.

2. Targets of Stable Manufacturing Plans

The “designated defense equipment” to be objects for Stable Manufacturing Plans is defense equipment indispensable for the SDF to carry out its missions and is defense equipment for which, in the case stopping manufacturing by specific Defense Equipment Manufacturers who carry out manufacturing thereof threatens to hinder the adequate procurement by the MOD.

The defense equipment indispensable for the SDF to carry out its missions specifically

includes weapons, ammunitions, vehicles, ships, aircraft, radars, guided weapons, information systems, and various other supplies, the lack of which causes the SDF to encounter difficulties in accomplishing its missions.

3. Matters on Financial Measures

Regarding Stable Manufacturing Plans related to specific initiatives that the Defense Equipment Manufacturers have submitted, the Minister of Defense confirms whether or not they comply with policies of manufacturing understood or controlled by suppliers and prime contractors superior to the Defense Equipment Manufacturers and whether or not they are indispensable for stable manufacturing of designated defense equipment to be delivered to the MOD, and then approves the Stable Manufacturing Plans. The MOD shall confirm necessary costs for each specific initiative, conclude contracts for the specific initiatives with Defense Equipment Manufacturers, whose Stable Manufacturing Plans are approved by the Minister of Defense, and make the costs, according to provisions of the contracts, directly paid without delay to them.

Section 2 Basic Matters Concerning Measures to Smoothly Carry Out the Transfer of Defense Equipment and Technology, which Contributes to Ensuring Stable Manufacturing of Defense Equipment and Technology under Appropriate Control

1. Basic Concepts Concerning the Adjustment of Specification and Performance for the Transfer of Defense Equipment and Technology

The transfer of defense equipment and technology is a key policy instrument to ensure peace and stability, especially in the Indo-Pacific region, to deter unilateral changes to the status quo by force, to create a desirable security environment for Japan, and to provide assistance to countries that are subject to aggression in violation of international law, use of force, or threat of force. Therefore, Japan is carrying forward with the transfer of defense equipment and technology in joint public and private efforts. It is a strategic tool of foreign and defense policy to build effective partnerships with ally and like-minded countries and to deter unilateral changes to the status quo by forces or invasion of Japan. Furthermore, defense cooperation with foreign governments can be practical for the growth of defense industry since it could result in expanding sales channels through a smooth transfer of defense equipment and technology under appropriate management.

When carrying out the transfer of defense equipment and technology, the Government needs to have the Defense Equipment Manufacturers modify and adjust the specifications and performance of the equipment appropriately from the perspective of Japan's security environment, giving due consideration to the cooperative relations with foreign countries. It

is necessary to appropriately address concerns of losing ground on technological superiority in the defense field over other countries by securing information, particularly on advanced technologies used for the SDF equipment.

From such problem awareness, this Act aims to promote initiatives to conduct appropriate equipment transfer under appropriate control of the Three Principles on Transfer of Defense Equipment and Technology and decides to subsidize Defense Equipment Manufacturers working on the transfer of defense equipment and technology for necessary adjustments of specifications and performance of the equipment.

2. The Defense Equipment Manufacturers Eligible for Receiving Grants

The adjustment of specifications and performance for the transfer of defense equipment and technology (hereinafter referred to as the “specifications and performance”) refers to the adjustment of specifications and performance to meet a certain standard for the usage of destination's countries, following the request by the Minister of Defense, to ensure confidentiality of information regarding defense equipment as well as from the perspective of Japan's national security. The grants are awarded to Defense Equipment Manufacturers who attempt to conduct equipment transfer to foreign governments when they need the expense of adjusting specifications and performance for such equipment transfer. “Defense Equipment Manufacturers,” in this case is, not limited to prime contractors that manufacture and sell finished products to foreign governments as transfer destinations but also suppliers that take partial roles such as designing.

3. The Purpose of Usage of Grants

To conduct appropriate equipment transfer from the perspective of national security, a grant will be awarded to the Defense Equipment Manufacturers to cover the cost necessary for changing the design for modifying specifications and performance of goods to be transferred and to work on a series of necessary operations in response to the request by the Minister of Defense, based on plans for adjusting specifications and performance for the transfer of defense equipment and technology (hereinafter referred to as “Adjustment Plans”), which are approved by the Minister of Defense.

Since the adjustment of specifications and performance is requested from the Minister of Defense to the Defense Equipment Manufacturers from the necessity of national security, the Government should cover the cost. Additionally, even if equipment transfer expected in an international competitive bid, etc., was not realized, the Defense Equipment Manufacturers will not be requested to return the costs of the adjustment of specifications and performance they had already spent.

Section 3 Basic Matters Concerning Roles, which the Designated Equipment Transfer Support Corporation should Play, in Equipment Transfer Support Operations and Fund

1. Roles of the Designated Equipment Transfer Support Corporation

The Designated Equipment Transfer Support Corporation (hereinafter referred to as "the Designated Corporation") will provide a necessary grant from fund to Defense Equipment Manufacturers, whose Adjustment Plans are approved by the Minister of Defense for making adjustments to specifications and performance. The Designated Corporation will manage and allocate grants to the Defense Equipment Manufacturers, whose Adjustment Plans are approved by the Minister of Defense, to conduct equipment transfer according to the Adjustment Plans approved by the Minister of Defense. In addition, regarding the matters concerning the adjustment of specifications and performance by the Defense Equipment Manufacturers, the Designated Corporation also receives inquiries, offers consultations, and provides necessary advice for the Defense Equipment Manufacturers.

As stated in the previous section, equipment transfer is a key policy instrument for the defense of Japan, and joint public and private efforts promote it. Therefore, the Designated Corporation needs to provide support, as mentioned earlier, to Defense Equipment Manufacturers, whose Adjustment Plans are approved by the Minister of Defense to smoothly conduct equipment transfer aligned with the political objectives of the MOD. Thus, a corporation qualified to handle such operations should provide such supporting service.

2. Matters Related to the Fund

In supporting Defense Equipment Manufacturers, whose Adjustment Plans are approved by the Minister of Defense, the Designated Corporation shall conduct necessary screening before allocating grants from the fund to them. Once the allocation of the grants is decided, the Designated Corporation is responsible for executing the grants properly through inspections or other methods. As for fund management, the use of the fund should be operated properly within the scope of the guidelines for the support in conducting equipment transfer defined by the Minister of Defense and should not damage the assets of the fund.

Specifically, note the following matters.

- In executing the grants, the Designated Corporation shall cooperate with the Minister of Defense to confirm the proper and reliable operation of the Adjustment Plans approved by the Minister of Defense
- If the Minister of Defense rescinds the approval of the Adjustment Plans or takes other measures, the Designated Corporation shall promptly proceed with the required procedures, including the return of the grants, depending on the measures.

- Given that the fund is accounted for separately from all other business account assets, the accounting process shall proceed appropriately as this Act requires.
- The fund shall be managed by reducing operational risks to the minimum level to ensure safe asset maintenance and transparency of asset management following the stipulation of this Act.

Section 4 Basic Matters Concerning Security Measures to Protect Classified Information Regarding Contracts for Defense Equipment and Technology

1. Importance of Protecting Classified Information Contained in Defense Equipment and Technology

The contractors in each stage of the life cycle of defense equipment are inseparable for the steady procurement and usage of such defense equipment.

In the production of defense equipment, for steady procurement of higher quality defense equipment, the classified information contained in defense equipment and technology, such as advanced technology, is provided to contractors.

On the other hand, in recent years, there have been higher risks of the leakage of classified information in defense equipment, including cyberattacks, industrial espionage, and corporate acquisition, by countries of security concern. If such information leaked out from contractors, it would disclose information, including the performance of defense equipment, to hinder the smooth operation of the SDF and the defense of Japan.

In addition, with the advancement of international collaboration in research, development, and manufacturing, including procurement of defense equipment and technology from foreign countries and the Global Combat Air Programme (GCAP), when exchanging any classified information contained in defense equipment and technology with foreign countries, and in the case where such information leaked from contractors, it would lower our credibility and hinder ongoing collaborative development, resulting in the frustration of the international cooperation.

Considering the necessity to protect classified information contained in defense equipment, a legal obligation to protect classified information is now imposed on contractors handling such classified information through the establishment of penal provisions for compromise in addition to obligation based on the contract currently in place, which will further strengthen defense industrial security system, the trustworthiness between nations, the reliability of contractors with strict information management, thereby strengthening the defense production and security bases.

2. Principles of Protecting Defense Equipment Confidential

The measures introduced this time specifically label the classified information provided to contractors under the security contract as "Defense Equipment Confidential." It is explicitly

indicated to contractors and their employees handling such classified information that they are concerned with Defense Equipment Confidential and that such information requires strict management. When it is necessary to share documents containing such classified information with contractors, the MOD designates such information as Defense Equipment Confidential. It provides the information to the contractors and a “Defense Equipment Confidential Designation Document,” which describes instructions, including its marking and effective period. Thereby, such contractors and their employees can manage the information more rigorously.

Among the classified information that SDF personnel is prohibited from divulging pursuant to Article 59, paragraph (1) of the SDF Law (Act No. 165 of 1954), the Defense Equipment Confidential provided in Article 27 of this Act does not include "MDA Secrets" provided in Article 1, paragraph (3) of the Act on Protection of Secrets Incidental to the "Mutual Defense Assistance Agreement Between Japan and the United States of America" (Act No. 166 of 1954), and "Specially Designated Secrets" provided in Article 3, paragraph (1) of the Act on the Protection of Specially Designated Secrets (Act No. 108 of 2013). This Act assumes Defense Equipment Confidential to be what is called "Ministerial Confidential" designated as "HI" following Article 16, paragraph (1) of the Directive for Protection of Ministerial Confidential (MOD No. 36 of 2007) and Directive for Protection of ATLA Confidential (ATLA Directive No. 26 of 2015).

The penalties for compromise introduced this time target intentional leakers and external abettors. Such penalties align with those currently imposed on the SDF personnel, which will more effectively prevent compromise from those who handle Defense Equipment Confidential.

When taking these measures, the MOD will fully explain to contractors the necessity of safeguarding Defense Equipment Confidential to gain their understanding and continue the steady implementation of existing security measures, including facility security measures, security education, and periodic inspections, so that both the MOD and contractors will prioritize strict information management concerning Defense Equipment Confidential.

Section 5 Basic Matters Concerning the Government Ownership of Designated Defense Equipment Manufacturing facilities by the Minister of Defense, and the Entrustment of the Management

1. Basic Concepts

Chapter 2 of this Act stipulates measures allowing the MOD to acquire designated equipment manufacturing facilities, etc. which manufacture designated defense equipment if the MOD cannot obtain designated defense equipment produced therein appropriately.

Especially when it is difficult to ensure stable manufacturing of the defense equipment even if the measures of Chapter 2 of this Act are applied, the MOD helps to reduce risks that the Defense Equipment Manufacturers are supposed to incur when owning fixed property by MOD acquiring designated equipment manufacturing facilities. This is expected to ensure the sustainability of production for defense equipment and to prevent supply disruptions.

For example, these measures are applied in the following cases.

- When a contractor withdraws from business such as manufacturing defense equipment and:
 - there is a Defense Equipment Manufacturers capable of manufacturing defense equipment if it doesn't need to take on any risk of owning designated defense equipment production facilities by itself.
 - Even though there is a Defense Equipment Manufacturers as a business successor, the designated equipment manufacturing facilities related to the withdrawal have exceeded their useful life of the building and have deteriorated so that the successor finds it challenging to acquire new facilities, and the Government would build new ones instead.
- When designated equipment manufacturing facilities are destroyed due to reasons such as accidents and natural disasters, and the process and duration of recovering the facilities by the Defense Equipment Manufacturers are uncertain, the Government would build new ones.

With these assumptions, specific cases must be examined individually, considering the necessities in various situations. It should be noted that as a precondition that the MOD acquires designated equipment manufacturing facilities, there should be some Defense Equipment Manufacturers, who engage in manufacturing designated defense equipment on consignment from the MOD.

Furthermore, based on Article 30, paragraph (1) of this Act, private companies should be the project entities that manufacture designated defense equipment in the designated defense equipment manufacturing facilities commissioned by the MOD. That won't change anything from the usual business activities, and it is expected to operate the management efficiently.

2. Matters Concerning the Entities to whom the Management of Designed Equipment Manufacturing Facilities is Outsourced

Fundamentally, the Defense Equipment Manufacturers produce designated defense equipment and manage the facilities on behalf of the Minister of Defense. Such facilities are hereinafter referred to as a "consigned facility."

3. Matters Concerning Designed Equipment Manufacturing Facilities acquired by the MOD

The target of the acquisition by the Minister of Defense is the land, facility, and equipment capable of producing designated defense equipment. The designed equipment defense manufacturing facilities to be acquired shall be selected based on specific cases.

4. Matters Concerning Outsourced Facility Management: Details, Rights, and Obligations

Contracted facility managers shall maintain and manage their consigned facilities to manufacture designated defense equipment when required. Additionally, contracted facility managers shall ensure an adequate number of skilled employees to maintain and manage the consigned facilities as well as to maintain their performance.

The Minister of Defense will bear the cost of the maintenance and management of the consigned facilities. However, this may not apply if a consigned facility sustains damage due to the absence of the due care expected of a contracted facility manager, in terms of maintenance and management or manufacturing designated defense equipment.

5. Matters Concerning Extra-Purpose Uses

If consigned facilities achieve the main objective of manufacturing designated defense equipment, the Minister of Defense may exceptionally permit the consigned facilities to be used for extra-purpose.

In pursuit of achieving such main objective, the period of time for the contracted facility managers to manufacture products other than designated defense equipment (hereinafter referred to as “exceptional products”) in the consigned facilities shall basically not exceed the time for manufacturing designated defense equipment. When it is required to manufacture designated defense equipment, the manufacturing of these designated defense equipment should be prioritized rather than the manufacturing of exceptional products.

Additionally, the Minister of Defense will collect appropriate fees from contracted facility managers if they use the consigned facilities for such purposes as manufacturing exceptional products.

6. Matters Concerning the Transfer of Consigned Facilities

In view of the fact that the Government's acquisition of designated defense equipment manufacturing facilities is regarded as a policy instrument that should only be implemented when appropriate procurement of designated defense equipment could not be realized even after taking financial measures etc. In line with this, as stipulated in paragraph (1), Article 33

of this Act, it is encouraged for the Government to promptly cede the land acquired for designated defense equipment manufacturing facilities. On the other hand, given that this Act's primary objective is to ensure the consistent manufacturing of defense equipment, it does not mandate the Minister of Defense to cede the land going so far as to cause troubles to hinder this objective.

For this reason, following paragraph (2), Article 33 of this Act, the Minister of Defense shall consider not to hinder consistently manufacturing designated defense equipment. While doing so, the Minister of Defense is obligated to transfer the facilities based on steady procurement and economic rationality as early as possible within the time frame that matches the purpose of this Act. The concrete time of transfer is appropriately decided, considering the specific cases and the opinions of the Defense Equipment Manufacturers commissioned for facility management.

Chapter 4 Other Matters Necessary for Maintaining and Enhancing Defense Production and Technology Bases

To enhance defense production and technology bases, the following additional measures are implemented beyond those specified in this Act. Furthermore, the MOD will collaborate with other relevant ministries and agencies to enhance the bases as a unified government effort.

1. Making the Defense Business More Attractive (Proper Profit calculation)

Defense business requires a considerable investment of management resources to meet sophisticated performance requirements and information security measures, while profitability is often less than procurement system standards. In explaining to stakeholders the necessity of maintaining the defense business, it is essential for private enterprises, which primarily pursue profit, to perceive the concrete benefits of engaging in the defense business. In this context, factors such as profitability and stability, synergistic effects from the spin-off of technology obtained through the defense business into a company's commercial business, and possible deterrence against hostile takeover attempts will be considered.

In calculating price in the cost accounting system, the MOD will build a system for a fair evaluation of the business efforts and a proper profit calculation to establish the business operation. In addition, for the procurement system, while ensuring propriety, a continuous review of contractual systems will be undertaken to enhance effectiveness. The effort helps the defense business become more attractive.

Additionally, to reduce the aversion and reputation risks associated with the defense business, the Government will take measures to positively appeal to the importance of the defense industry, its technological superiority, and its positive impact on economics and scientific technology.

2. Maintenance and Reinforcement of Competitiveness and Technology of Companies

In the defense industry, where attractiveness is declining, incentives for new investments and new company entries are reduced. If leaving this alone, it might result in the loss of an appropriate competitive environment and innovation, potentially leading to the loss of Japan's technological superiority in the security domain.

Based on the approach to acquiring defense equipment and technology presented in Chapter 2, Section 1, Paragraph 3, the MOD will promote acquiring defense equipment with an even greater emphasis on maintaining and enhancing the domestic bases. In addition, following accounting laws and regulations, while considering the purposes of the Minister of Finance's notification on "Normalization of Public Procurement" (dated August 25, 2006, Finance Calculation No. 2017), the MOD will consider the use of discretionary contracts and

promote flexible operation of the contract system. Moreover, to address the demand for long-term funds in the defense business and encourage the sustainable development of the defense industry, support will also be provided financially through the use of government financial institutions, etc. Furthermore, by introducing new research and development methods, establishing research institutions, and promoting various initiatives to strengthen Japan's bases, the MOD aims to promptly realize the functions and equipment necessary to protect our country, directly linked to future warfare strategies. Under the collaboration of the public and private sectors, the MOD will harness our nation's scientific and technological strengths and innovative capabilities to ensure technological superiority in the defense field for the future and achieve advanced capabilities ahead of other nations. In doing so, in the fields in which use is limited to the defense, attention will also be paid to the maintenance and improvement of the existing technologies.

3. Revitalization of the Defense Industry (Promotion of New Entries)

With limited appeal as a business, new entries into the defense industry remain sluggish. If left unaddressed, there is a risk that the industry as a whole will lose its vitality, possibly missing opportunities to incorporate cutting-edge technologies from the private sector into the security domain.

By promoting matching events for companies and establishing consultation counters for new entrants, the MOD will encourage new entries into the defense industry by small and medium-sized enterprises and startups. In addition, the MOD strives to eliminate barriers to entering the defense industry.

4. Appropriate Responses to Withdrawing Companies

In recent years, there have been intermittent decisions by companies to withdraw from the defense business or to reduce the scale of their operations. Such trends not only cause the decline of the defense industry but can also be significant obstacles to the stable manufacturing of defense equipment.

Firstly, initiatives will be promoted to make the defense business more attractive. Through timely explanation, etc., on the outlook for the buildup of defense capability, efforts will be made to improve the future predictability for companies in the defense business, aiming to prevent them from withdrawing. Through the effective implementation of supply chain surveys and other measures, early signs of withdrawal will be detected. If business withdrawal becomes inevitable, efforts will be made to ensure a smooth business succession, striving to guarantee the stable manufacturing of defense equipment.

5. Building a Resilient Supply Chain

Regarding the supply chain for defense equipment, there are potential risks, such as the interruption of raw material supplies due to export controls and the risk of information theft through vulnerable facilities or components. Leaving such vulnerabilities unaddressed could not only threaten the stable production of defense equipment but also risk damaging Japan's relative technological superiority due to information theft.

Through the effective implementation of supply chain surveys and other means, the MOD will promptly identify risks in the supply chain and support initiatives by Defense Equipment Manufacturers to reduce such risks. In implementing the survey, to enhance its effectiveness from the perspective of ensuring stable manufacturing of designated defense equipment, the MOD will encourage proactive cooperation from the Defense Equipment Manufacturers. Furthermore, to construct a mutually complementary relationship for the supply chains of defense equipment, the Government will strengthen cooperation with foreign countries such as the United States.

6. Strengthening Industrial Security

The interstate competition over cutting-edge technologies is intensifying, and there are attempts by states to acquire technical information from military and private sectors through various means. The defense industry is at the forefront of this situation. As the ICT integration of defense equipment and the defense industry rapidly progresses, in recent years, cyberattacks on defense-related companies believed to be carried out by groups with suspected state involvement, have occurred, making countermeasures against cyber threats an urgent necessity. If Japan does not ensure an international security standard at a high level equivalent to that of the United States and other foreign countries, it could potentially hinder the introduction of state-of-the-art equipment from the United States and further progress in international joint research, development, and production with other countries.

In advancing industrial security measures based on international standards, the Government will provide support through measures such as covering costs in defense procurement when companies invest in addressing these measures. Additionally, efforts will be made to create a secure information-sharing environment between the MOD and companies, ensuring that companies handling sensitive information related to defense business establish the necessary information security framework.

7. Strengthening Sensitive Technology Management

The interstate competition over cutting-edge technologies is intensifying, and advanced technologies, including civilian technologies, are being actively collected and repurposed for military use. It has become essential for the Government to strengthen the management of sensitive technologies.

The MOD sets up a framework to appropriately handle sensitive technologies and foster cooperation with other countries towards this objective.

8. Promotion of Transfer of Defense Equipment and Technology

The transfer of defense equipment and technology is not only a strategic tool of foreign and defense policy to build effective partnerships with its ally and like-minded countries and to deter unilateral changes to the status quo by forces or invasion of Japan but is also effective in ensuring the growth of the defense industry through the expansion of sales channel for defense equipment. However, it has not progressed far enough.

Therefore, the Government will promote appropriate transfers of defense equipment and technology under further cooperation between the public and private sectors. The Government will also establish a fund and provide corporate assistance as necessary.

9. Rationalization of Foreign Military Sales Procurement

The Foreign Military Sales (hereafter referred to as "FMS") is a program that enables U.S. allies and partners to procure defense equipment and services with high performance and confidentiality. By making joint purchases with countries like the United States, there are expected scale merits. However, it also has characteristics such as prices being estimates without confirmed delivery dates and the principle of paying upfront with final adjustments made after delivery. In recent years, the amount procured through FMS has been at a high level, and there is a need to be mindful of balancing this with the maintenance and enhancing of the domestic bases.

The MOD will further strive to rationalize FMS procurement, such as strengthening the activities of ATLA in the United States by utilizing external personnel. In addition, the MOD will promote the participation of domestic companies in the manufacturing of FMS defense equipment and pursue an approach that emphasizes the benefits of such participation.