

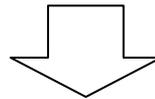
Outline of PBL Guideline

Bureau of Finance and Equipment
Ministry of Defense

July 2011

1. Introduction of PBL

- “To work toward the introduction of a new contract method (Performance-Based Logistics) in which payments depend on the performance of maintenance achieved, so as to keep a high level of equipment operation rate at low cost.”
 - Mid-Term Defense Program (FY2011-2015)
- In the US and UK, PBL is being introduced mainly for fixed-wing and rotating-wing aircraft. Of the total PBL contract cases, aircraft account for 70 % in the US and 55% in the UK.



Since PBL is an unconventional method related to the maintenance of equipments, it is imperative that the Ministry of Defense (MOD) and the contractors both share a common understanding, and therefore, it is necessary to formulate a guideline including the definition of PBL, and so forth.

【Reference】

Mid-Term Defense Program (FY2011- FY2015) (abstract)

III. Major Programs Regarding SDF Capabilities

5. Basic Foundations to Maximize Defense Capability

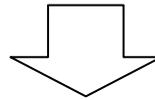
(5) Enhancement of the basis for operating equipment

The SDF will introduce “Performance Based Logistics,” a new contract method in which payments depend on performance of maintenance achieved, with the study of domestic and overseas advanced examples, so as to keep a high level of equipment operation rate at low cost while securing fuel and parts essential to the operation of equipments. It will also enhance the basis for operating equipments by beginning to take drastic measures aimed at improvement in quality and streamlining of equipment maintenance.

2. Overview of MOD Guideline For Introduction of PBL

○ Guideline Framework

- provides a definition of PBL introduced in the MOD;
- indicates the necessary items such as how to approach and to organize the issues that need to be resolved, by which providing transparency in the introduction process;
- will be constantly revised when such items needs to be upgraded.

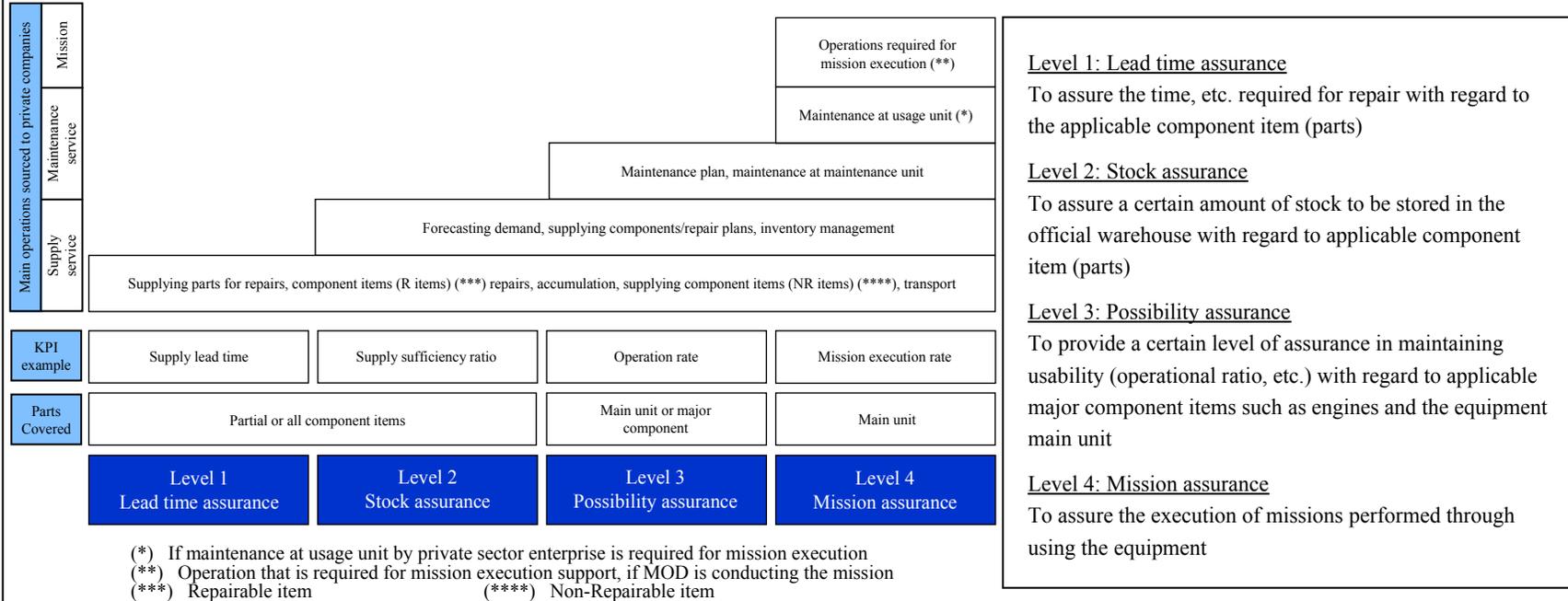


Definition of PBL

In the operations concerning supply and maintenance of equipment, a contract will be concluded on a long-term basis for a wide range of operations, with emphasis on achievement through the provision of the service (maintaining/upgrading the operation rate, shortening the time required for repairs, performance achievement such as securing a steady supply), instead of depending on the number of repaired parts and manpower required for the operations of equipment under sale contract for required parts, or work contract for production or service.

PBL Introduction level

Classified into four categories, based on the parts and/or the details of the required achievement and/or outsourced service that is covered in the PBL agreement.



Issues towards the introduction of PBL

The Integrated Project Team (IPT) established within the Ministry considers:

- contract method;
- calculation of the projected price;
- rules for incentives to be paid when the target has been achieved;
- penalty conditions to be executed when the target has not been achieved.

Approach towards the introduction of PBL

With regard to the selection of equipment in which PBL will be applicable, the following points will be taken into consideration in implementing the review process for its introduction:

- The structure of equipment is structured with complexity and technologically advanced, and frequent supply of parts and maintenance work are required;
- The equipment has a long life span before becoming decommissioned;
- The equipment currently requires a large budgetary expense;
- Information regarding the supply/maintenance of the equipment is organized.

Implementing a PBL Pilot Model, etc.

During the current Mid-Term Defense Program period, a PBL pilot model aimed toward the Special Transport Helicopter will be implemented. Furthermore, equipment will be selected based on the characteristics of the SDF service, and the PBL method will be introduced for equipment where an agreement has been reached between the MOD and a contractor.