Section 2

Efforts toward Project Management, etc.

1 Project Management throughout Its Life Cycle

1 Acquisition of Defense Equipment through Focused Project Management

Since defense equipment is becoming more advanced and complex in recent years, there is an increasing tendency in the procurement cost of defense equipment throughout its life cycle of the equipment (equipment design, Research & Development, full rate production and acquisition, and sustainment). For acquiring the necessary number of equipment in appropriate timing, it is extremely important to streamline the procurement process throughout the life cycle of equipment.

Therefore, pertaining to important defense equipment, the Department of Project Management was set up within the Acquisition, Technology & Logistics Agency, which was launched in October 2015 to realize the most optimal acquisition in accordance with operational needs by managing the costs and schedule throughout the life cycle of equipment. Also, in November 2015, twelve types of equipment have been selected as eligible for project management focused equipment.

With regard to project management focused equipment, the MOD works to realize the acquisition of strategically optimal defense equipment by designating a Project Manager (PM) as the person responsible for performing the project management as well as by establishing the Integrated Project Team (IPT), which is composed of officials of the relevant departments.

2 Effective and Efficient Procurement from a Comprehensive Perspective

Procurement of defense equipment based on a comprehensive perspective is required to build a Dynamic Joint Defense Force.

So far, based on the integrative point of view, the Ministry has been striving to reduce development, acquisition, and maintenance expenses through (1) making the equipment function integrated, (2) procuring common equipment and supplies in bulk, standardizing some components, and development of product families, etc.

Hereafter, the Ministry will have the viewpoint of project management from the planning stage of defense equipment and strive to reduce procurement costs through connecting information and integrating functions, standardizing some components, and developing product families, etc., to promote effective and efficient procurement throughout the life cycle of equipment.

3 Initiatives for Strengthening Project Management

The MOD has carried out the following initiatives in order to strengthen project management.

- Utilizing knowledge from external audit firms to enhance the fairness of project management duties for the purpose of developing a system regarding project management.
- Working on the improvement of cost estimation evaluation methods through the creation of a database of cost information and carrying out statistical analysis for enhancing the accuracy of life-cycle cost estimation.
- Regularly carrying out training on project management methods used overseas and in the private sector to develop human resources pertaining to project management.

C-2 (one of the selected programs for project management)

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1 SM-3 Block IIA, Middle-range SAM (improved version), Global Hawk (unmanned aerial vehicle), AAV7 (amphibious vehicle), New Destroyers, GSDF UH-X, V-22 (tilt-rotor aircraft), enhanced SH-60K, P-1, C-2, F-35A, next-generation fighter aircraft (being considered as a successor of F-2 fighter aircraft)

2 Examples of “procuring common equipment and supplies in bulk,” “standardizing some components,” and “development of product families” are small arms, vehicles, and chemical supplies used by the Ground Self-Defense Force (GSDF), Maritime Self-Defense Force (MSDF), and Air Self-Defense Force (ASDF), short-range surface-to-air missiles used by the GSDF and ASDF, and anti-ship missiles used by all three branches of the SDF, respectively.
2 Improving the Contract System and Other Related Matters

Reviewing Acquisition Systems

For the purpose of promoting acquisition reform, which is a prompt response to swiftly changing surroundings, the MOD has been holding meetings of the Comprehensive Acquisition Reform Committee since 2007, besides the Contractual Systems Study Groups has been held since 2010 to review acquisition systems. Since FY2016, a special research officer system has been adopted in order to surely embody the review results.

Long-Term Contracts, etc.

The production of defense equipment requires a significant amount of time. Therefore, if a certain set amount is to be acquired by the integrated procurement method, in many cases a contract for more than five years is needed. With regard to defense equipment and services, economies of scale tend not to work mainly due to the following reasons: (1) the annual procurement quantity is small; (2) the MOD is the only customer; (3) companies that provide such defense equipment etc., are limited. In addition, it is difficult for companies to systematically move forward with their businesses with a high degree of predictability, which is peculiar to the defense industry.

For this reason, the upper limit of acts that incur national debt prescribed in the Public Finance Act as within five years in principle was changed to within 10 years for specific equipment through the enactment of the Long-term Contract Act. Introduction of this change regarding long-term contracts will make stable procurement possible, leading to the realization of the systematic improvement of defense capability. At the same time, for companies, given that the procurement amount will be assured, the systematic use of personnel and equipment, as well as cost reductions due to bulk orders, will be made possible. Furthermore, this will prevent subcontractors from withdrawing from the defense industry.

For the FY2015 budget, a long-term contract for the procurement of 20 fixed-wing patrol aircraft (P-1) (expected amount of cost reduction is approximately 41.7 billion yen on a contract basis) was concluded. For the FY2016 budget long-term contracts for the procurement of 17 patrol helicopters (SH-60K) as well as the aircraft maintenance of GSDF special transport helicopters (EC-225LP) and MSDF training helicopters (TH-135) (expected amount of cost reduction is approximately 14.8 billion yen on a contract basis) were concluded.

In addition, by realizing long-term multiple-year contracts through active utilization of the PFI Act, it is anticipated that the planned acquisition and execution of budgets through the standardization of investment amounts of the national expenditure will be realized. It is also anticipated that the realization of long-term multiple-year contracts will give rise to such benefits as cutting equipment procurement costs by reducing risks for those taking orders and by promoting the entry of new suppliers. In regard to the project of operation and management of private ships, which makes use of the PFI Act, the MOD concluded the contract for the project in March 2016.

In addition, regarding procurement of certain equipment with which little competitiveness can be expected due to its characteristics, and companies that work on cost reduction using the MOD’s programs, the MOD promotes limited tendering contracts while ensuring transparency and fairness as well as clarifying and putting the subject into patterns, from the perspective of the implementation of smooth and efficient procurement, and the enhancement of the company’s predictability.

Procurement cost reduction for patrol helicopters (SH-60K) is attempted through integrated procurement based on long-term contracts

3 This is a system to conduct research, which contributes to the procurement system of defense equipment, by inviting experts such as associate professors from different universities specializing in the areas of concern in order to review and reconsider an effective procurement system, based not only on the viewpoints of the Ministry of Defense personnel but also on theories that have been proposed in the field of business administration and economics.
4 Economies of scale refer to the cost advantage that arises with an increased output of a product. For example, costs per unit can be reduced by a bulk purchase of materials.
5 “Special Measures Law Concerning the Term of Expenditure Based on the Obligatory Assurance of National Subsidization for Specific Defense Procurement” (enacted in April 2015)
6 This amount of approximately 14.8 billion yen includes the cost reduction effect (stated later) due to PBL contracts pertaining to the aircraft maintenance of EC-225LP and TH-135.
7 Act on Promotion of Private Finance Initiative
8 A business contract was concluded with HIGH SPEED MARINE TRANSPORT CORPORATION, a special purpose company, which owns, operates, maintains and manages two ships (HSC Natchan World and Hakou).
Decrease Procurement Cost and Improve Companies’ Incentives to Reduce Cost

With regard to the procurement of defense equipment, due to the peculiarity that there are a variety of equipment without a market price, it is necessary to achieve both the reduction of procurement cost and improvement of companies’ incentives to reduce cost simultaneously. Thus, the MOD has been striving to achieve the reduction of procurement prices by confirming the actual costs incurred and ensuring that no excessive business profit will be added after the execution of the contract through cost audit contracts with a special provision requiring respective companies to conduct a review of the contract sum and return any excessive profit (audit contracts incorporating a provision requiring the return of excessive profit).

However, it has also been noted that these contracts diminish the effectiveness of cost reduction incentives for the companies due to the particular condition that they might be required to return excessive profits after the completion of the contract payment at the end of the fiscal year. Therefore, the MOD conducts a review of a risk sharing-type incentive contract as a new contract method in which public and private sectors jointly carry out the management of contract implementation to minimize the risk of it, and in which a certain percentage will be given back to the companies if the cost reduction has been performed.

Initiatives Aimed at Increasing the Efficiency of Procurement, and Other Related Initiatives

Achieving Further Efficiency in the Acquisition of Defense Equipment

The MOD carries out the following measures in addition to a review of the contract system when acquiring defense equipment: a bulk purchase, which seeks greater efficiency by budgeting and entering into contracts for defense equipment, supplies, and components based on the approach of consolidating the quantities required for several years into a single specific fiscal year; and integrated procurement, which involves the consolidated implementation of budgets for equipment used across multiple different organizations, or for components that are common to different types of defense equipment. In the FY2016 budget, approximately 46.5 billion reduction of expenses on a contract base is expected, by concluding an integrated contract of the procurement of ship-to-air missiles (SM-2) and the upgrading of maintenance equipment for fighter aircraft (F-15), etc.

In addition, the Ministry is striving to reduce development, acquisition, and maintenance expenses through integrating procurement of common equipment and supplies, standardizing some components, and developing product families, etc.

Effective and Efficient Maintenance and Replenishment

With regard to periodic maintenance checks of defense equipment, the MOD has been working to achieve greater efficiency by extending the interval between the maintenance checks, after making sufficient effort to ensure safety. In addition, the MOD embarks on the introduction of Performance Based Logistics (PBL) from the perspective
of improving the equipment availability ratio and long-term cost reductions. In FY2016, approximately 9.9 billion yen\(^\text{10}\) of cost reduction is expected on a contract basis by concluding PBL contracts on the aircraft maintenance of GSDF special transport helicopters (EC-225LP) and MSDF training helicopters (TH-135) as well as the components of GSDF attack helicopters (AH-64D).

### 3 Efforts to Increase Fairness and Transparency

The MOD implements measures for making contracts more appropriate and strengthening checking functions to promote the enhancement of fairness and transparency in relation to the acquisition of equipment and materials.

As a part of the effort to “make public procurement more appropriate” across the whole government, the MOD continues to carry out the introduction and expansion of a comprehensive evaluation bidding system\(^\text{11}\) and make bidding procedures more efficient.

In addition to these, based on reflection on the past, Strengthening system investigation, reviewing penalties, ensuring the effectiveness of supervision and inspection, and other measures have steadily been carried out in order to prevent recurrence of incidents such as overcharging and falsified results of product testing by defense-related companies. Through these measures, the MOD strives to surely prevent recurrence of scandals, enhance fairness and transparency, and make contracts more appropriate.

In addition, the Acquisition, Technology and Logistics Agency (ATLA) conducts multilayered checks through both internal and external checking systems for more strict checks – namely, ATLA conducts internal inspections etc., by establishing the inspection and audit department, and through deliberations in the Defense Procurement Council, which consists of inspectors and external experts, run by the Inspector General’s Office of Legal Complaints. Moreover, ATLA has also improved its education department and strives to enhance compliance awareness by providing thorough education pertaining to compliance for ATLA personnel.

See>> Fig. III-3-2-2 (Inspection and Audit Functions regarding the Procurement of Defense Equipment)

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10 This amount of approximately 9.9 billion yen includes the cost reduction effect related to long-term contracts pertaining to the aircraft maintenance of EC-225LP and TH-135.

11 Unlike the automatic bid system which focuses only on price, this is a system in which the successful bidder is determined on the basis of a comprehensive evaluation that includes both the price and other elements. This method is adopted when it is appropriate to carry out such procedures as evaluating the technological elements.