

Subcommittee on Security Export Control Policy*

Interim Report (April 2024) — Overview

* A subpanel of the Industrial Structure Council.

1. Current situation

- The international security environment has undergone significant changes, such as: the **re-emergence of some state actors as security interests**; the **growing importance of dual-use technologies**; and the **rise of technology-holder countries that do not participate in multilateral export control regimes (MECR)**. These factors pose challenges to the current security export control system of Japan.
- While **exporters** are required to make further efforts in **identifying items subject to export control and confirming end-use and end-users**, the **export control authority of Japan** should act to **make the rules and implementation more comprehensible** to exporters. **Public-private partnership** will be essential in promoting security export control.

2. Recommendation on future policy directions

The traditional framework of export control developed in the Post-Cold War era, centering on non-proliferation, **has reached a turning point**. It is necessary **to realize more effective security export control** while **pursuing new approaches to non-listed items**. In doing so, the Government should review systems and operations as described in (1) through (6) under the following three principles, paying attention to the sound development of international trade and impacts on business activities.

- ① Considering the current international security environment, **the Government should adopt a risk-based approach** and **focus strictly on transactions with higher security risks** and pursue streamlined measures for transactions with lower risks.
- ② Through **multilayered collaboration with like-minded countries**, the Government should ensure **effectiveness and a level-playing field through international collaboration** and without unduly inhibiting **promotion of joint research** or **efforts to build and strengthen supply chains**.
- ③ The Government should continue enhancing effectiveness, transparency, and predictability of the export control system and its operation by strengthening **information sharing, dialogue, etc. between the public and private sectors**.

(1) Review the complementary approach to the list control <small>Note: (1) and (2) are the review and utilization of the so-called catch-all control.</small>	(2) Establish a new dialogue framework on technology transfer between public and private sectors	(3) Explore multilayered international collaboration for agile and effective export control	(4) Streamline and prioritize export control systems and operations in accordance with the respective levels of security concerns, etc.
(5) Secure further transparency for domestic and overseas stakeholders			
(6) Enhance intelligence capacity and utilize external human resources			

3. Issues to be considered in the medium to long term, etc.

- The above-mentioned **measures should be promptly implemented** based on the recommendations of this report. At the same time, from the perspective of maintaining and strengthening Japan's national security, the effectiveness of the traditional export control framework should be examined frankly in responding to the current international environment, and **a fundamental restructuring of the framework** should be considered, as necessary.
- While monitoring regulatory trends of other countries closely, new forms of export control in line with the international environment, etc., should be considered. The subcommittee pointed out, for example, **a need for new technology control initiatives** including countermeasures against technology leakage caused by human factors, and a need to consider **the purpose and desirable structure of the security export control system** under the Foreign Exchange and Foreign Trade Act including dissolution of **the complexity of its legal structure**.

(1) Review the complementary approach to the list control

1. Current situation

- In responding to **the growing potential for diversion to military use of dual-use items and technologies**, the complementary approach to the list control should be revised in a manner consistent with fairness among companies.



2. Policy recommendation

① Complementary Export Control

on Conventional Weapons for General Countries

- Control **specific non-listed items that are destined for general countries** (except for Group A countries) appropriately **if the items have high security risks and likely to be used for the development, etc., of conventional weapons**.
- Provide **information on end-users of concern and criteria for transactions of concern ("Red Flags"), etc** for exporters.

② Preventing circumvention via Group A countries

- **Inform** exporters in case there are concerns about circumvention to countries of concern, etc., so they should submit the export application even if the goods or technologies are destined for **Group A countries**.

*Group A countries are not subject to the current complementary approach to the list control.

(2) Establish a new dialogue framework on technology transfer between public and private sectors

1. Current situation

- Fierce competition for technological superiority increases risks for technology leakage, and it is necessary **to take countermeasures as technology is difficult to manage once it leaks out**.
- The Government should introduce **a new dialogue framework on technology transfer between public and private sectors** under the Foreign Exchange and Foreign Trade Act (FEFTA).



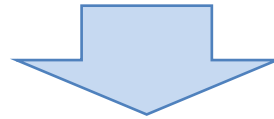
2. Policy recommendation

- Identify technologies and modes of technology transfer with consideration to military diversion and the risk of technology leakage. Exporters must notify the government before the transaction.
Note: This measure **does not apply to export of goods**.
- Organize **a series of dialogues with exporters** to exchange information about the transaction and, if necessary, provide sensitive or risk related information about the counterparty to the transaction.
- Request exporters to apply for export licenses in accordance with the FEFTA if the risk still remains.

(3) Explore multilayered international collaboration for agile and effective export control

1. Current situation

- Fast-growing technological progress and other factors necessitate export control to be more agile.
 - If each country applies unilateral control measures without any coordination, the effectiveness and predictability of export control will diminish.
- International collaboration in coordinating rules and implementation should be explored later.**



2. Policy recommendation

- Initiate **controls on items for which technical discussions have matured** in Multilateral Export Control Regimes (MECR).
- **Collaboration among technology-holder countries** may also be effective, depending on the level of concerns and urgency.
- **Licensing coordination** on items subject to MECR control.
- Strengthen **cooperation with non-MECR participating countries**.

(4) Streamline and prioritize export control systems and operations in accordance with the respective levels of security concerns, etc.

Policy recommendation

- ① **Specific parts used in manufacturing semiconductors** should be subject to **a Special Bulk License**.
- ② **Machine tools that are destined for allies and partner countries in the Indo-Pacific region** should be subject to **a Special Bulk License** under certain conditions.
- ③ **The procedures for applying for licenses for defense equipment** by the armed forces of like-minded countries should be simplified.
- ④ **On-site inspections** pursuant to the FEFTA **should focus on specific exporters**, considering their internal export control systems, sensitive technologies in their possession, and actual export records.