

# **Japan's Security Concerns on Strategic Industries and Critical Technologies**

**November 2017**

**Ministry of Economy, Trade and Industry (METI), Japan**

- 1. Current Security Environment**
2. The reform to Foreign Exchange and Foreign Trade Act
3. Towards more rigorous trade control

# Change of Security Environment (Overview)

- Non-state actors are rapidly expanding their presence, causing serious terrorism in many parts of the world. It has become a reality and threat that non-state actors use WMD by acquiring sensitive technologies.
- North Korea's nuclear tests and series of ballistic missile launches are serious threat in east Asia.

## [Europe]

- Terrorist attacks in Paris in Nov 2015. Truck attack in Nice in Jul 2016.
- Bombings in Brussels in Mar 2016.
- Terrorist attacks in Manchester in May 2017.
- Truck attack in Barcelona in Aug 2017.
- Terrorists seeking atomic materials (dirty bomb). Possible use of drones for CBW.

## [North Korea]

- 4<sup>th</sup> and 5<sup>th</sup> nuclear tests in Jan and Sep 2016
- 6<sup>th</sup> nuclear tests in Sep 2017
- Series of ballistic missiles launches including satellite launch and SLBM. (more than 20 times in 2016, 20 times in 2017 (until Sep))

## [South East Asia]

- Bombing in Bangkok in Aug 2015.
- Bombing in Jakarta in Jan and Jul 2016.
- Attack in Dhaka in Jul 2016.
- Assassination with VX nerve agent of Kim Jong-nam in Malaysia in Feb 2017.

## [Africa]

- Shopping mall attack in Nairobi in Sep 2013.
- Continuous terrorist attacks.

## [Middle East]

- Conflicts in Syria and Iraq. Actual use of chemical weapon (mustard gas, chlorine gas).
- Ballistic missiles launch by Iran in Mar 2016.
- Airport attack in Istanbul in Jul 2016.
- Continuous terrorist attacks

# Change of Security Environment (Overview)

- Civil technology becomes an important element of advanced defense equipment and the importance of civil technology in terms of security is increasing.

## <Carbon Fiber>



Golf shaft



Structural material  
for fighter

## <Power Semiconductor>

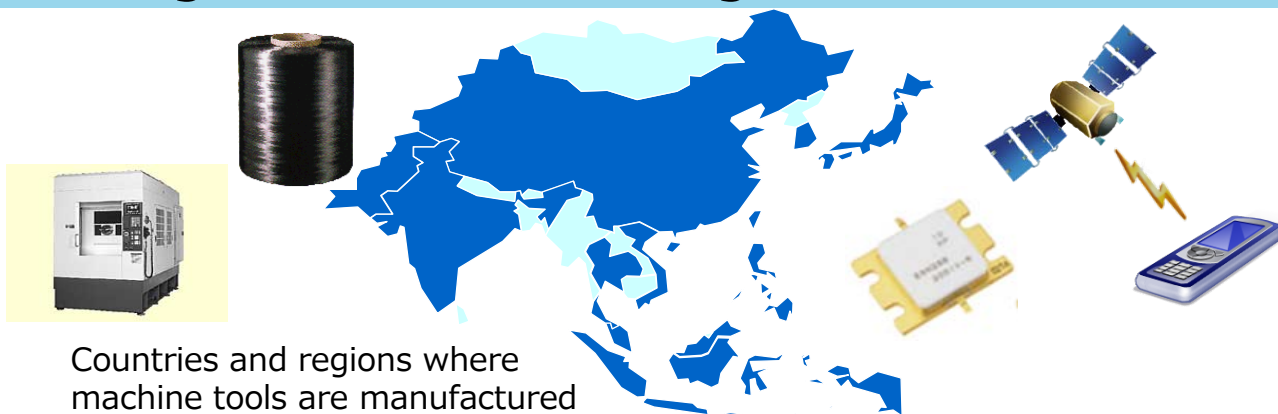


Power amplifier






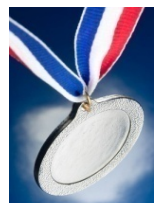




Radar for naval ship

- Asian countries are increasing their production capacity of sensitive dual use items. In addition, the importance of Asian ports as a hub for global and regional trade is rising.



Countries and regions where  
machine tools are manufactured

# Example of diversion for Concerned Purpose

	Concerned Purpose	Civil-use
<b>Machine tool</b>	Manufacturing of Centrifuge 	Manufacturing of Car 
<b>Sodium cyanide</b>	Manufacturing of Chemical Weapon 	Metal Plating 
<b>Filter</b>	Manufacturing of Bacteriological Weapon 	Desalting 
<b>CFRP</b>	Missile 	Airplane 

# Diversified Procurement Activities

- Though many countries have introduced export control regulation, entities of concern have diversified procurement methods with circumventing trade, using third country, front company or falsifying information, etc.



- In addition, entities of concern have acquired sensitive technology through intangible technology transfer (ITT)
  - (A) Academic activities and research project - access to and exchange of information and data
  - (B) Direct investment - direct acquisition of R&D capability, access to novel technologies

(Ref) Japan is addressing to increase effectiveness of enforcement and investment control.

[http://www.meti.go.jp/english/press/2017/0303\\_003.html](http://www.meti.go.jp/english/press/2017/0303_003.html)

1. Change of Security Environment
- 2. The reform to Foreign Exchange and Foreign Trade Act**
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# Regulations on critical goods and technologies in the Foreign Exchange and Foreign Trade Act (FEFTA)

Carbon fiber

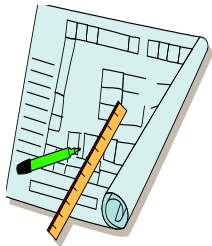


Goods Export



Permission

Design drawing



Technology Transfer



Permission

Japanese firm



Inward Investment



Prior notification to the GOJ  
to receive an examination

(It is possible to recommend or  
order for change or discontinuance)

international peace  
and security

national security /  
public order / public  
safety

- All exports / imports are banned for a specific country (cf. North Korea) as an economic sanction.



# Amendment of the FEFTA (October, 2017)

- Because of expansion of business globalization, **controls of outflow of critical goods and technologies** is getting more important and much more difficult.
- To effectively control outflows of critical goods and techs, the GOJ decided to take the following measures:

## (1) Strengthening punishments

e.g.) Max. fine for the company illegally exporting WMD related goods

10M JPY or

5times of the export price



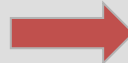
1B JPY or

5 times of the export price

## (2) Strengthening administrative penalty

e.g.) Max. penalty duration for the company illegally exporting to North Korea

1 year



3 years

## (3) Expanding the coverage of inward investment regulation

Limited coverage of  
the sensitive goods & techs



Full coverage of the listed goods & techs  
in int'l export control regimes

# (1) Strengthening punishments against violations of export / import regulations

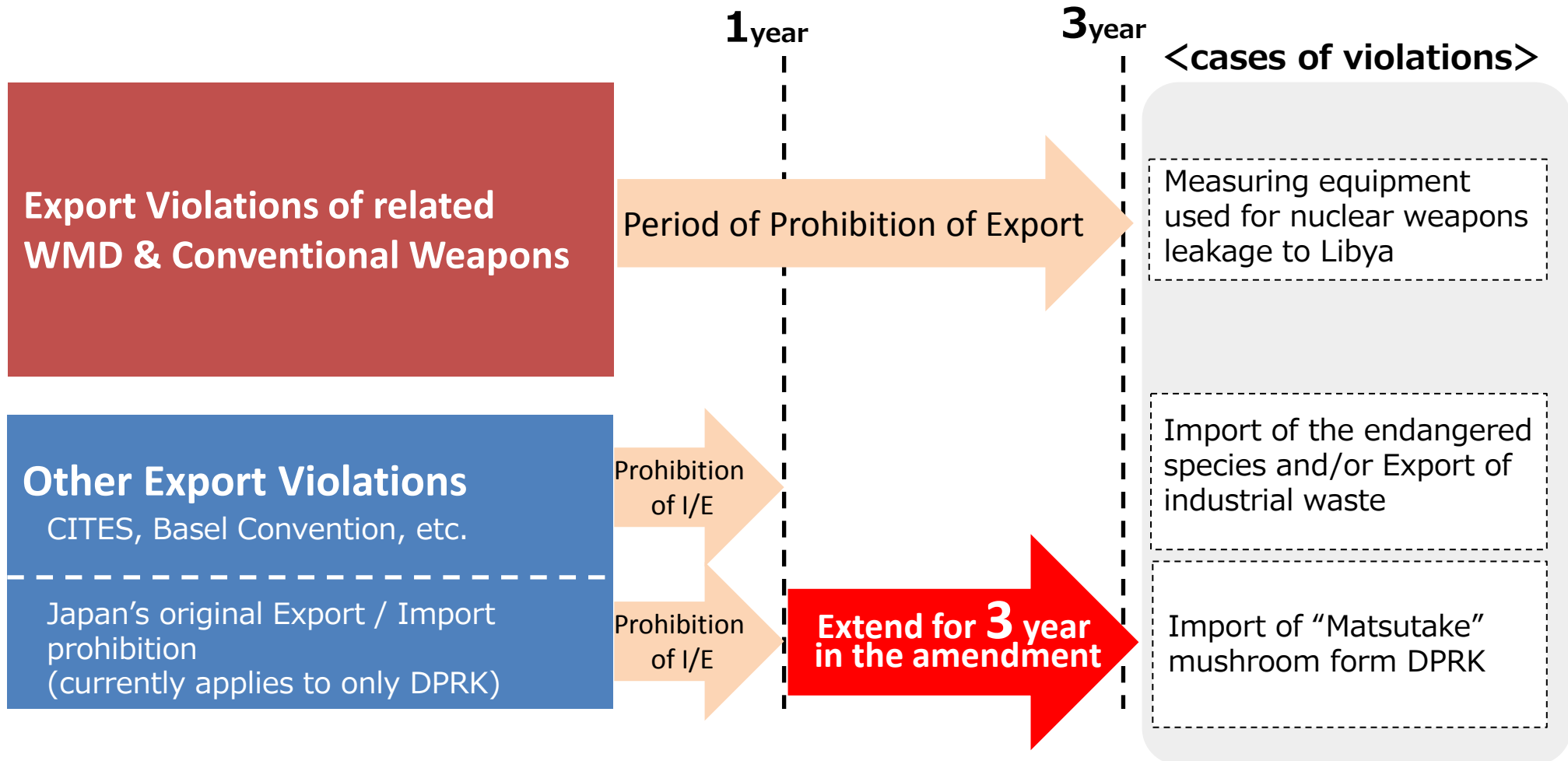
- The amendment is to **raise the amount of fines applied to illegal conducts of exports or imports** (The maximum fines are increased).
- Also, **punishment** (Imprisonment and fine) **is to be applied against violations of license conditions** such as prior consent re-export with METI (Currently, non criminal fines).

	target	illegal conduct of import/export		
		WMD	Conventional Arms	others
Present System	Individual and Company	10 million yen or 5 times of the export price	7 million yen or 5 times of the export price	5 million yen or 5 times of the export price

Amendment	Individual	<b>30 million yen</b> or 5 times of the export price	<b>20 million yen</b> or 5 times of the export price	<b>10 million yen</b> or 5 times of the export price
	Company	<b>1 billion yen</b> or 5 times of the export price	<b>700 million yen</b> or 5 times of the export price	<b>500 million yen</b> or 5 times of the export price

## (2) Strengthening administrative penalty against violations of export / import regulations (1/2)

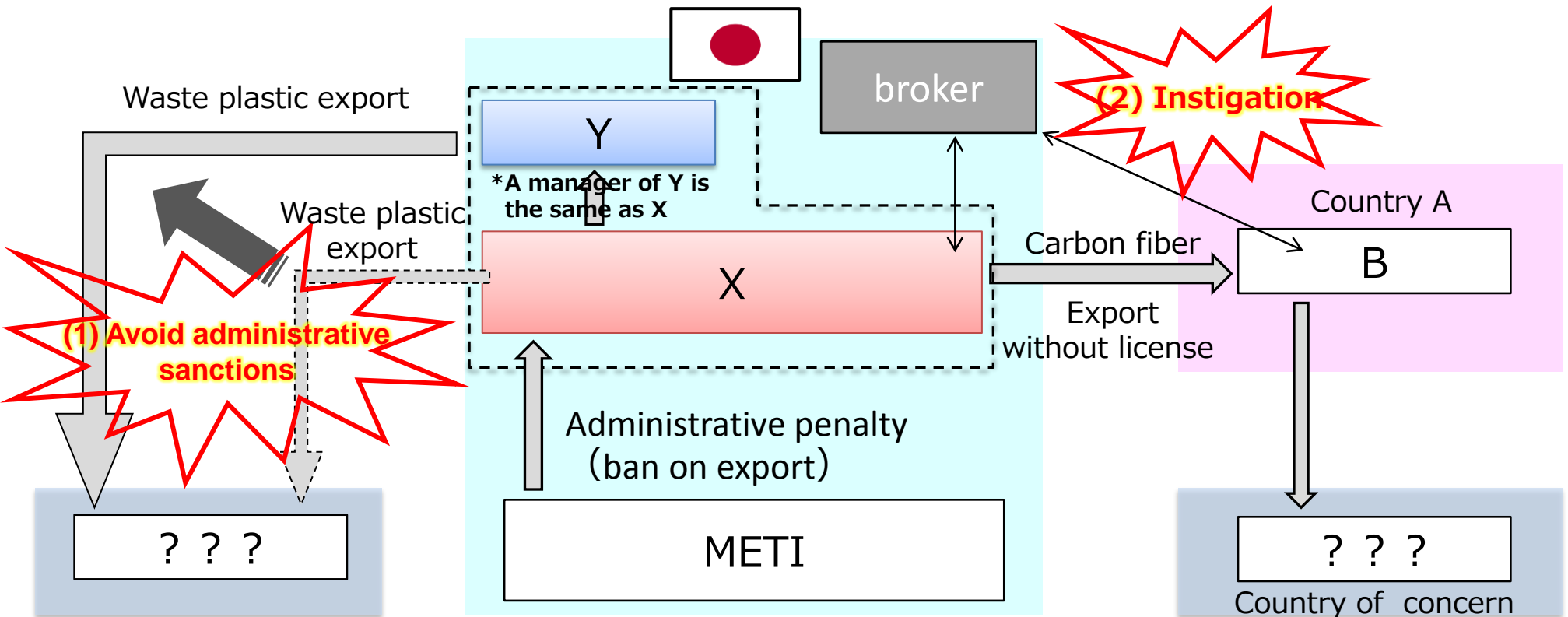
- Extension of the upper limit of the period of administrative penalties imposed on violators who received export/import bans.



## (2) Prohibiting escapes for administrative penalty (2/2)

(1) Introduction of **new regulations to persons**, who received administrative penalty, **to prohibit taking a new position in another company to keep their trades, and so on.**

**(2) Adding brokers** related to a skeptical trade **to the subject of on-site inspections.**



# (3) Improving the regulations on inward direct investment related national security

**Foreign Investor**

**Minister of Finance and Ministers in charge**

In case of acquire:

- (1) 10% or more of total shares of a listed company; or
- (2) a unlisted corporation, etc.

**New measure introduced by the 2017 amended FEFTA**

**<Post-investment monitoring>**

**Administrative measures**

e.g.) Order to sell stocks

**In case where an investor carries out investment without notification.**

**In case where an investor violates the content of the prior-notification submitted.**

**In case where an investor violates the condition imposed.**

**Post-Investment notification**

**Prior notification**

**Screening**

**Investment to carry out**

**<No concern observed>**

**<Concerns raised>**

**Licensing**

**Recommendation/  
Order to change or  
stop the investment**

- 1) Sectoral expansion of prior-notification;
- 2) Expansion of the scope to the transfer of shares of non-listed firms between foreign investors; and
- 3) Improving transparency by making the screening criteria on public.

**(ref.) Expanded sectoral coverage required for prior-notification**

Manufacturer of goods, Machine repairing & Software services for  Weapons, Airplanes Space development, Nuclear	Electricity, Gas, Heat & Water suppliers
Metal mining for  Nuclear source materials	The following service suppliers  Telecommunication, Broadcasting Rail transport, Air transport, Maritime transport, Carriage, Security
Manufacturer of All dual-use goods listed in intl. export control regimes  e.g. machine tools, carbon fiber, power semiconductors	Pharmaceuticals
Suppliers of  All dual-use technologies listed in intl. export control regimes	Agriculture, Forestry and Fisheries
	Petroleum
	Leather industry

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# Security Export Control in academia

- As dual-used technology has been widely spread, university obtaining critical technology is required to implement security export control.  
(The Wall Street Journal, Sep 6<sup>th</sup>, “Behind North Korea’s Nuclear Advance: Scientists Who Bring Technology Home”)
- Control in studying flow, i.e. from admission to graduation, more and more matters and both government and university should take respective roles in each stage of flow.

**METI’s “Guidance” to instruct university to take due care of foreign students/researchers.**

## Actions taken by University

➤ **Admission review**

Before admission

➤ **Visa screening**

- **Access control**
- **Internal check system**
- **Compliance with rules/regulations**

At university

- **Export control**
- **ITT control**
- **Protection of confidential info**

- **Signing a written pledge**
- **Monitoring career afterwards**

After graduation

- **Export control**
- **ITT control**

**Government rules/regulations**

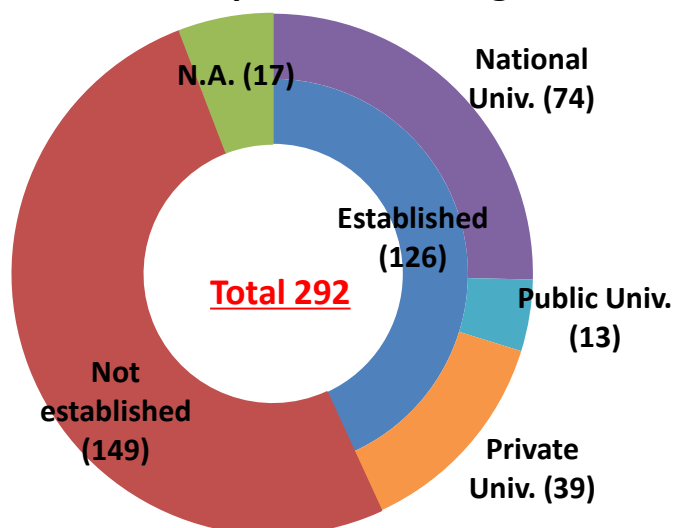


# Importance of outreach to academia

- (1) Hold export control seminars for academic institutions and industry. (100 seminars in 2016FY)
- (2) Revise the supportive documents of export control such as guidance and FAQs.
- (3) Dispatch export control advisors to academic institutions in order to support establishment of internal export control system and raising awareness of researchers. (start from 2017FY)

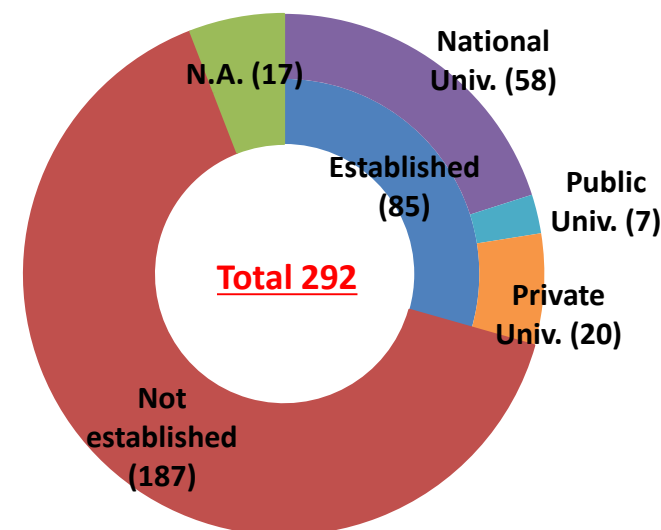
## Survey to national university, public and private university which have medical and/or engineering dept.

### 1. Establishment of export control organization



	Established
National Univ.	86%
Public and private Univ.	25%

### 2. Establishment of ICP for export control



	Established
National Univ.	67%
Public and private Univ.	13%

(Ref) Survey by Ministry of Education, Culture, Sports, Science and Technology (MEXT), etc.

# Outreach activities for University

- Conduct Outreach activities for various layers
- Disseminate the Guidance and share the best practice

Holistic Approach

## Issuance of the Guidance

- Publish the Guidance on METI HP

## Instruct the Guidance to Universities through MEXT

- Instruct Guidance to universities which require to implement export control management, through Ministry of Education, Science and Technology(MEXT)

## Establish Regional Network

- Seminars targeting administration staffs by different regions
- Establish gov.-uni./uni.-uni networks in each region

## Dispatch of Expert Advisors

- Dispatch expert advisors to assist university to support implementation of export control management by using Guidance
- ※designate 20 expert advisors .  
※for university, no fee to dispatch.

## On-site consultation services by METI

- METI individually visits and consults with executive officers and responsible personnel.
- ※visited about 40 universities since July 2016.

Specific Approach

- ✓ In order to address diversified procurement activities, establishment and development of comprehensive export control system in Asian region is important.
- ✓ For the purpose of effective export control, following elements are keys.
  - ✓ Capacity building of licensing staff
  - ✓ Effective enforcement and interagency cooperation
  - ✓ Outreach to industry and academia (ITT control)
- ✓ International cooperation for effective export control and enforcement is getting more and more important .

# METI's 6 Pillars of Outreach Activities in Asia

- Outreach to Asia much matter to enhance regional level of export control.

## Asian Export Control Seminar

- Annual conference since 1993. It aims to develop the cooperation and network among the Asian countries/regions, participating states of export control regimes and related organization through exchange of updated information.
- Around 200 participants in total from about 30 countries and regions, IOs and so on.

Asia: Japan, ROK, ASEAN countries, China, India, Pakistan, Hong Kong, Taiwan, etc.

Other regions: EU, France, Germany, Netherlands, UK, Switzerland, Australia, Canada, Mexico, USA, Turkey, UAE, Kazakhstan

IOs and Univ.: AG, MTRC, NSG, WA, UNSCR 1540 Committee, UNSCR 1874 Panel to DPRK, UNIDIR, King's College London, University of Georgia, etc.

- **The 25th Asian Export Control Seminar will be held on February 27-March 1, 2018 in Tokyo.**

## Industry Outreach Seminar

It aims to increase awareness of importance of export control and pursues to conduct effective compliance program in industries of Asian countries/regions.

## Expert visit program from METI

It aims to support the capacity building of export control officers licensing and enforcement in Asian countries/regions which have export control systems.

## Bilateral dialogues

It aims to share the information and experience of export control system and its effective implementation along with the exchange of views on security environment.

## Collaboration with other countries and International bodies

It aims to enhance capacity of licensing and enforcement officers of the Asian countries/regions through collaboration with foreign countries and international bodies such as co-organizing or participating in the seminars.

## Invitation Training Program

It aims to support the enactment and smooth implementation of the export control law in Asian countries/regions by sharing Japanese export control experience.

# Past Industry Outreach Seminar and Dispatch of Experts

## Viet Nam

**Joint Industry Outreach Seminar** : Apr. 2004, Apr, 2009 and Aug, 2012

**Joint Seminar for Government (EXBS)**: Jul. 2016 and Jul. 2017

## India

**Joint Industry Outreach Seminar** : Feb. 2008

## Thai

**Joint Industry Outreach Seminar** : Aug. 2004, Feb. 2007, Mar. 2010, Jun. 2012, Nov. 2015 and Mar. 2017

**Joint Seminar for Thai Government (EXBS)**: Sep. 2015

**Dispatch of Experts**: Mar. 2017

**Invitation Training Program**: Jul. 2017

## Malaysia

**Joint Industry Outreach Seminar** : Mar. 2008, Nov. 2010, Nov. 2011, Jan. 2014 and Mar. 2015

**Joint Seminar for Malaysia Government (EXBS)**: May. 2017

## Singapore

**Joint Industry Outreach Seminar (EXBS)** : Mar. 2005, Oct. 2009, Dec. 2013, Dec. 2014, Jan. 2016, Sep. 2016 and Jul. 2017

## China

**Joint Industry Outreach Seminar**: Marr. 2004

## Chinese Taipei

**Joint Industry Outreach Seminar** : Mar. 2006, Jan. 2008, Sep. 2009, Oct. 2011, Oct. 2013 Oct. 2015 and Sep. 2017

## Hong Kong

**Joint Industry Outreach Seminar** : Sep. 2006, Dec. 2008, Sep. 2011 and Jan. 2015

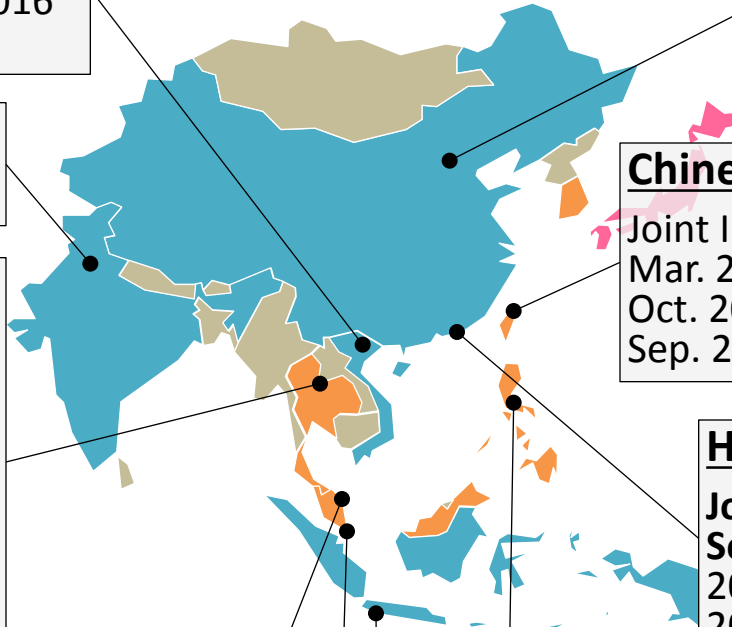
## Philippines

**Joint Industry Outreach Seminar** : Jul. 2004, Feb. 2007, Jan. 2011, Mar. 2012, Mar. 2014, Nov. 2014 and Jan. 2016

**Dispatch of Experts**: Oct. 2016

## Indonesia

**Joint Industry Outreach Seminar** : Jul. 2004, Aug. 2008, Nov. 2009, Mar 2011 and Mar. 2017



# The Asian Export Control Seminar

**The 24<sup>th</sup> Asian Export Control Seminar was held - February 21-23, 2017**

- **Organized by METI, MOFA, Center for Information on Security Trade Control (CISTEC)**
- **32 countries and regions, 190 participants in total**



✓ **Asian countries and regions**

Bangladesh, Cambodia, China, Hong Kong, India, Indonesia, The Republic of Korea, The Lao PDR, Malaysia, Mongolia, Myanmar, Pakistan, the Philippines, Singapore, Sri Lanka, Chinese Taipei, Thailand and Viet Nam

✓ **Other countries and regions**

Australia, Canada, EU, France, Germany, Kazakhstan Mexico, the Netherlands, Switzerland, Turkey, UAE, UK and USA

✓ **International Organization, etc.**

AG, MTCR, NSG, WA, WCO, Panel of Experts of UNSCR 1874, SIPRI, State University of New York, University of London, University of Georgia, etc.

<http://www.meti.go.jp/press/2016/03/20170302>

[004/20170302004.html](http://www.meti.go.jp/press/2016/03/20170302004.html)

[http://supportoffice.jp/outreach/2016/asian\\_ec/](http://supportoffice.jp/outreach/2016/asian_ec/)

**Thank you for your attention**

# Toward more rigorous trade control

## <Government>

- All countries should work together to fulfill **adequate trade control** and help one another develop capabilities of implementation and enforcement.

## <Private Sector>

- Suppliers of critical and innovative technologies should establish their own **comprehensive control framework** to prevent critical goods and technologies from being used for wrong purposes.