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## EU-Japan cooperation on defence capabilities: possibilities?

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### Theme

Europe and Japan have an interest in developing defence capabilities and research but there are challenges and cooperation is conditioned by a shifting geopolitical landscape.

### Summary<sup>2</sup>

European countries and Japan both possess advanced defence technologies and they can bring to bear a range of civilian or dual-use technologies for defence procurement and defence research. At the same time, both players recognise that it is increasingly difficult for individual countries to manage defence equipment projects without cooperation. Therefore, it is clear that both Japan and Europe have a vested interest in cooperating with each other on capabilities and industrial defence issues.

Within this context, there is scope to assess the current level of cooperation between Europe and Japan on defence capability development and equipment procurement. In the particular context of the [EU-Japanese economic \(EPA\)](#) and [strategic \(SPA\) partnerships](#), this paper asks what the current scope is for closer cooperation between the two partners and whether there are any avenues that could be explored to improve cooperation. It first looks at the strategic rationale for closer European-Japanese cooperation on defence capabilities, and later analyses the hurdles to improving and promoting a higher level of cooperation between Tokyo and Brussels.

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## Analysis

### Introduction

European countries and Japan both possess advanced defence technologies and can bring to bear a range of civilian or dual-use technologies during defence procurement and defence research. These countries account for a large share of technological innovation in the global economy. At the same time, both actors recognise that it is increasingly difficult for individual countries to manage defence equipment projects without cooperation: therefore, there is a need for more European and Japanese cooperation on defence capabilities and defence research. The need for such cooperation is increasingly seen against a backdrop of transatlantic tensions and the rise of China.<sup>3</sup> Both Europe and Japan buy a large amount of defence equipment such as jet fighters and advanced systems from the US, but there is increasing frustration with the way the US deals with allies in its joint R&D and arms transfer initiatives (Foreign Military Sales, FMS) despite the importance of the relationship with Washington. If Japan and Europe's relationship with the US is to be put on a sustainable footing to meet growing strategic challenges, a sensitive but much needed conversation about defence capability development and the allied defence industries is needed sooner rather than later.

Indeed, in Europe countries such as France are increasingly determined to emphasise the importance of 'strategic autonomy' for Europe. This is principally a national discussion but one that is having a wider resonance in Europe, especially with reference to the need to ensure a minimum level of 'technological sovereignty' for European critical technology areas. Despite the fact that countries such as Belgium and Poland have recently procured the F35 fighter (and Finland is yet to take a decision on its next fighter acquisition), Europeans increasingly understand that simply buying from the US may have a detrimental effect on their national and European industrial bases. It is, therefore, natural that Europeans want to invest more in Europe's own defence industry as a precondition for more strategic autonomy in the world, particularly given the fact that many European countries are increasing their defence expenditure.

In Japan, as the Abe government has substantially increased the volume of procurement of expensive US equipment (most notably F-35 fighters, V-22 Osprey transport aircraft and Aegis Ashore missile defence system –all through the FMS–), Tokyo's desire to be more autonomous in its defence procurement looks less clear than it is in Europe. However, or more precisely, because of the increasing FMS imports from the US, the crowding out of Japan's own defence suppliers means that the challenge of maintaining the country's own defence industrial infrastructure and technology base becomes more acute. Joint R&D with European partners (and resultant joint manufacturing and arms exports to third countries) is seen as a new way to maintain Japan's declining defence industry. What is more, Tokyo's interest in pursuing defence equipment cooperation with Europe can be located in a broader drive to strengthen European-Japanese political and

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<sup>3</sup> M. Tsuruoka (2018), 'The Donald J. Trump Administration as seen from Tokyo: will the US-Japan alliance remain unique?', IAI Papers, nr 18/02, Istituto Affari Internazionali, January.

security cooperation, be it with the EU, NATO or individual European countries such as the UK, France and Germany.<sup>4</sup>

Therefore, it is clear that both Japan and Europe have a vested interest in cooperating with each other on capabilities and industrial defence issues. Brussels continues to value its international partnerships with key global players such as Japan. In fact, the Union has become adept at integrating security into its trade and economic partnerships and Japan is a core like-minded player in buttressing the multilateral order against the vagaries of states that no longer seem to value and openly question the rules-based order. Whether regional organisations like the EU and countries like Japan, Canada, Australia and others can be called the upholders of the 'liberal order' remains to be seen. What is clear, however, is that the EU sees the need to take on a security and defence perspective to its foreign policy and opportunities to partner up with countries like Japan on issues such as maritime security and crisis management is genuinely valued.

Within this context, there is scope to assess the current level of cooperation between Europe and Japan on defence capability development and equipment procurement. In the particular context of the EU-Japan Economic Partnership Agreement (EPA) and Strategic Partnership Agreement (SPA),<sup>5</sup> it is worth asking what scope there is for closer cooperation between the two partners and whether there are any avenues that could be explored to advance cooperation. In this respect, it is necessary to acknowledge that Japan already maintains close bilateral ties with key European countries such as the UK and France on defence, but we should not neglect the growing importance of the EU as a defence actor too. This paper first looks at the strategic rationale for closer European-Japanese cooperation on defence capabilities, and then analyses the hurdles to improve and promote better cooperation between Tokyo and Brussels. The paper ends with some concrete policy recommendations.

### Two peas in a pod? Analysing the basis for cooperation

In Europe, and specifically the EU, there is currently a profound strategic discussion about the future of European defence. Not only have tensions in the transatlantic relationship raised questions about the future of NATO and the US security guarantee, but Europe is increasingly aware of the need to safeguard critical technologies as a way to ensure its political autonomy vis-à-vis the US and China. As those two countries head towards greater conflict, Europe and Japan need to think about their alliances and what more they can do for their own security and defence. In this respect, Europe increasingly recognises that defence is a pillar –among other areas– designed to ensure the Union's technological sovereignty.

For Japan and others states wishing to nurture their defence industrial bases, the case of the EU –not a state but an organisation– is interesting because it highlights to what extent powers traditionally dependent on Washington for defence can support their own firms and technology development. Europe still maintains globally competitive defence

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<sup>4</sup> M. Tsuruoka (2016), 'Tokyo wants a stronger European foreign policy', *The International Spectator*, vol. 51, nr 3; and C. Pajon (2018), 'A new Japan-France strategic partnership: a view from Paris', *Lettre du Centre Asie*, nr 74, 16/XI/2018.

<sup>5</sup> See EU-Japan SPA, <https://www.mofa.go.jp/files/000381942.pdf>.

firms,<sup>6</sup> but this is set to be tested not only by competition from the US but, increasingly, from China as it starts to export sophisticated defence equipment globally.<sup>7</sup> It is for this reason that large markets in Europe –principally France and Germany, but also Spain– are launching ambitious capability programmes such as the sixth-generation Future Combat Aircraft System (FCAS) and the Main Ground Combat System (MGCS) tank.

European governments and EU institutions have long-held that maintaining individual national defence markets is unsustainable and financially costly. EU institutions have also argued that the duplication of defence systems not only imperils the long-term health of Europe's defence market but it also raises strategic questions such as a lower level of interoperability and standardised components, equipment and technologies. Historically, institutions such as the European Commission have sought to manage the European defence market through a dual process of market liberalisation (lowering barriers between EU member states on procurement and equipment transfers) and pushing defence industrial regulation to the EU level. This process was managed by two EU laws adopted in 2009 on a Union-wide basis.

While Europe already possesses some world-class companies that produce leading defence technologies (in missiles, aircraft and space), European producers face competition on a global and intra-EU basis. Recent discussions in the EU have focused on improving the competitiveness of Europe's defence industries and enhancing the Union's strategic autonomy. US moves to continue to corner the European defence market have been met with rejection by some member states, even though a number of European governments still want to maintain a strong security relationship with Washington. Here, we should note a nuance between the security interests of European governments (maintaining the US security guarantee) and their industrial interests (nurturing their own defence industrial and technological bases).

In recent years, however, this historically regulatory approach has been enhanced by a foray in defence investment by the Commission.<sup>8</sup> Indeed, a European Defence Fund announced in 2016 will now seek to stimulate defence research and capability development between EU member state governments. This new course of cooperation has not only raised the suspicions of the US but it has spiked the interest of close EU partners such as Japan. There is at present some question about the total amount of the Fund. Under the current negotiations for the EU's next multi-annual financial framework (MFF), the Commission asked for €13 billion over the 2021-27 period for defence investments. However, under Finland's Presidency of the Council of the EU in 2019, member states agreed on half the amount: €6 billion over the same seven-year period. We shall have to wait and see how the EDF and the broader MFF might be affected by the COVID-19 crisis.

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<sup>6</sup> D. Fiott (2019), 'What does it mean to be a European defence company today?', *Editoriaux de l'Ifri*, Institut français des relations internationales, Paris.

<sup>7</sup> D. Fiott (2019), 'Strategic investment: making geopolitical sense of the EU's defence industrial policy', *Chaillot Paper*, nr 156, EU Institute for Security Studies.

<sup>8</sup> D. Fiott (2019), *Defence Industrial Cooperation in the EU: the State, the Firm and Europe*, Routledge, Oxford/New York.

The European Defence Fund should not be taken in isolation from other initiatives designed to improve the Union's defence capabilities and strategic autonomy. In 2017, 25 EU member state governments (minus Denmark, Malta and the UK, at the time an EU member) agreed to embark on Permanent Structured Cooperation. This form of cooperation binds governments to 20 defence-related commitments and engages a number of them in 47 capability programmes. The budget lines and development of each of these projects is unknown at present but progress is subject to a yearly review by the HR/VP with the support of the European External Action Service and the European Defence Agency. All of this is to say that the focus on EU defence capability development has intensified since 2016 and recent steps are likely to generate further European cooperation in the future at a time when the transatlantic relationship (not only in defence, but even in areas like trade) is likely to become even more bumpy in the future.

In Japan the Abe government introduced the 'Three Principles on Transfer of Defence Equipment and Technology' in April 2014, paving the way for defence equipment cooperation with other countries such as joint R&D and joint manufacturing including arms exports. Until the introduction of the new three principles, there was a blanket ban ('Three Principles on Arms Export etc.'), which effectively precluded all arms exports including joint R&D and production with other countries (with individual exemptions mainly *vis-à-vis* the US) for decades. Following the introduction of this new policy, Tokyo has so far concluded 'Agreements on the Transfer of Defence Equipment and Technology' with the UK (July 2013), France (March 2015), Germany (July 2017) and Italy (January 2019), and specific projects are being developed with the UK and France.

Defence equipment and technology cooperation has thus rapidly become a new pillar of Tokyo's strategic partnerships with an increasing number of countries, particularly those in Europe like the UK and France, expanding the horizon of Japan's political and security engagement. While Tokyo did not have a clear vision about what it wanted to achieve at the outset, the level of expectations on the part of Tokyo's partners were always high on the European side. Thus, the process started as something driven by Europe, to which Japan cautiously responded: Japan –both the government and defence companies– had no expertise and experience in exporting arms or joint R&D with other countries, because of the ban that had been in place for decades.

That said, there is a growing realisation that the ways in which Japan has been developing and producing defence equipment in the domestic market is becoming ever more unsustainable not least because of the rising cost of developing new technologies and equipment. Furthermore, Tokyo's domestic defence procurement budget has not increased over the past decade, which has forced Japanese defence companies to seek a new way to sustain their business.

### A rock and a hard place? Assessing the hurdles to cooperation

Nonetheless, there remain a number of serious obstacles to Japan becoming an effective international arms producer and exporter. Recently, a lot of attention has been paid to Japan's big arms export ideas including Australia's submarine bid and the export of the US-2 amphibious aircraft to India, none of which has materialised so far, disappointing those who wrongly thought it would not be too difficult to export Japan's state-of-the-art

defence equipment on global markets. They should have known how competitive and already crowded the international defence market is. Japanese equipment is not competitive in terms of price and has not been tested in combat, which raises doubts about its performance. These export efforts have largely been led by the government. Within the defence industry, the level of eagerness for export varies a lot from one company to another –generally speaking, big companies are less eager to expand their defence business than smaller ones (because the latter are more vulnerable and recognise that they need to try new business to survive)–.

Furthermore, another remaining problem on the Japanese side has to do with the lack of the government's clarity on its policy priorities, which makes it difficult for private companies to invest more in the defence sector, in anticipation of more international R&D and arms export. Japanese companies are still wondering how serious the government is regarding arms exports (including joint R&D with other countries). In particular, Japanese companies do not know what the government will be able to approve as every project needs the go-ahead from the National Security Council and most probably also needs to undergo parliamentary scrutiny. Experts argue that the establishment of ATLA (Acquisition, Technology and Logistics Agency) within the Japanese MOD in October 2015 does not help much in this regard. Without an assured prospect of being able to sell products to international markets and third countries, it would be difficult for European defence companies to cooperate with their Japanese counterparts beyond R&D. It might be possible to engage in R&D without knowing whether the resulting products will be sold to third countries, but the hurdle for joint production would be higher.<sup>9</sup>

In short, Japan still lacks a proper national defence industrial policy. The government emphasises the importance of maintaining and strengthening the domestic defence industrial base, but at the same time, the amount of FMS imported from the US has skyrocketed in recent years, making the volume of domestic procurement even smaller. For Japan, there is a trilemma between the need to (1) procure the most capable equipment (often resulting in FMS imports from the US); (2) ensure value for money (thus reducing the unit cost); and (3) maintain (and preferably strengthen) the domestic industrial defence base. The government does not seem to have a coherent idea about how to prioritise and reconcile between those different and conflicting aims.

A similar trilemma afflicts Europe, with many governments seeking to develop their national industrial bases while also keeping the US 'sweet' through FMS. In basic terms, European governments are worried that the US may increasingly pull-back from European security and so purchases of US equipment are desirable for the maintenance of the alliance (while being somewhat detrimental to the objective of supporting domestic industry). What is more, in the context of defence planning requirements in NATO (eg, the NATO Defence Planning Process) the idea that Europeans should fill capability shortfalls is valid, but there is some question whether filling these requirements simply supports US defence contractors. As the French Defence Minister Florence Parly

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<sup>9</sup> T. Taylor (2015), 'The prospects for Japan-UK collaboration in defence equipment', in J. Eyal, M. Tsuruoka & E. Schwarck (Eds.), *Partners for Global Security: New Directions for the UK-Japan Defence and Security Relationships*, RUSI Whitehall Papers, 11/VIII/2015, <https://rusi.org/publication/whitehall-reports/partners-global-security-new-directions-uk-japan-defence-and-security>.

recently observed, 'NATO is about Article 5 and not about Article F35' –meaning that the alliance should go beyond a sort of club to support the US defence industrial base—. <sup>10</sup>

It is for this reason that attention to defence capability development within the EU has increased over the past few years. Although the EU has come a long way in developing its defence industrial policy, the Union cannot really show much for its efforts in the way of capabilities. So far, EU initiatives have led to relatively more internal market openness and a handful of defence research projects related to advanced camouflage, maritime surveillance, etc. For the EU to become a serious player in defence, the European Defence Fund must be endowed with sufficient financial assets and lead to a tangible difference in the way European's organise their defence (harmonised military requirements, identification of relevant capabilities, etc). There is still no overall accord on some sensitive issues such as export and third-party access. On exports, the Commission has stayed away from the question of whether the EU should have a say over EU-funded defence capabilities and instead it is up to governments to decide on a common approach to selling defence equipment abroad (France and Germany have historically maintained different arms export policies).

The European Defence Fund understandably comes with certain restrictions for non-EU states/companies seeking to participate in programmes. The Union wishes to safeguard the interests of the EU even though the proposed regulation does not rule out a 'non-associated third country entity' from participating should this participation be 'necessary for achieving the objectives of the action' (see Article 10.2). However, as the proposed regulation goes on to state (see Article 25.2), 'the results of actions receiving support from the Fund shall not be subject to any control or restriction by non-associated third countries or by non-associated third country entities, directly or indirectly through one or more intermediate legal entities, including in terms of technology transfer'. Thus, non-EU entities have a scope to cooperate but under special circumstances.

Finally, much like Japan, the EU does not have a proper defence industrial policy *per se*, but, unlike Tokyo, the Union faces the difficulty of forging a coherent defence policy. Whereas Japan as a sovereign state is engaged in the development of its national defence policy, the EU finds it difficult to find a common defence policy and to properly define what it means by terms such as strategic autonomy. Under the leadership of the new HR/VP and European Commission, there will be a process underway in 2020 to better define what the Union's defence policy should look like. Such a process (called for now the 'strategic compass') should guide the Union in deciding what it wants from its defence policy and what type of military actor it should become.

### Turtle or hare? Moving forward together

Given the similarities in both the objectives of the EU and Japan, and the common hurdles they both have, it is not necessarily easy to come up with specific recommendations to improve cooperation in defence capabilities. For the foreseeable future, as a general observation, Europeans should take their bilateral cooperation with

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<sup>10</sup> D. Fiott (2019), 'Defence industry, industrial cooperation and military mobility', in G. Lindstrom & T. Tardy (Eds.), *The EU and NATO: The Essential Partners*, EU Institute for Security Studies, Paris, p. 44-51.

Japan seriously and see whether bilateral defence capability projects and R&D programmes can be enhanced with a more pan-European and/or EU focus. Both Europe and Japan need to give a better account of what type of defence actors they are (and want to be) given the rapidly shifting geopolitical tectonic plates. Joint capability development and R&D investments are not feasible with only an industrial rationale, important as it is. In this respect, high-level political guidance is needed to ensure that any capability initiatives respond to the broader defence objectives of the EU and Japan.

For Japan, Tokyo needs to clarify what it is going to prioritise regarding its defence industrial policy –particularly regarding what is possible for joint manufacturing and export to third countries purely on a commercial basis–. The Japanese MOD (ATLA) needs to improve its ability to find cutting-edge civilian technologies available in Japan that can be applied to military use. Based on this, the Japanese and European authorities could get a better sense of what is available and what can be done together. For the moment, at least, Japan needs to focus on parts/components rather than trying to pursue large-scale projects. The kinds of technologies that Japanese companies are good at include electronic and radar as well as emerging areas such as neuroscience, brain science and artificial intelligence (AI). Tokyo (through the Mission of Japan to the EU in Brussels) needs to establish regular contact with the new DG on defence industry and space (DG DEFIS) at the European Commission, including the latter's new European Defence Fund.

The Union needs to give a better account of what type of defence player it actually is and wants to become given the rapidly evolving and deteriorating geopolitical dynamics. This discussion will have a great bearing on the military capabilities the Union develops and it will set the parameters of any international cooperation the Union may have with partners such as Japan. In particular, greater attention in EU defence planning could be given to geographical and thematic issues that are of mutual interest to the Union and partners such as Japan (what Union capabilities are required for maritime security?). Although the Union is still at an early stage of thinking about new technology areas such as AI and how they apply to defence, there is scope for more international discussion about how emerging technologies can be managed in the defence sector by actors such as the EU and Japan. Such discussions should not simply be limited to ethical and international regulatory measures, but how liberally-minded actors perceive and apply emerging technologies to their defence and to common global challenges.

The major vehicle through which to enhance EU-Japan relations in the area of defence capabilities is the EU-Japan Strategic Partnership Agreement (SPA). The SPA specifically calls for strategic and sectoral cooperation between the partners. An obvious place to start would be Article 4 on crisis management and the specific reference to cooperation 'on crisis management operations and other relevant programmes and projects'. Article 4.4 refers to the need to maintain and enhance dialogue, and steps to enhance official dialogues between EU institutions (EDA, EEAS, EUMS, EUMC and DG DEFIS) should be encouraged with Japanese partners.

Another avenue for enhanced dialogue on defence capabilities is Article 9 of the SPA, which refers to cooperation on CBRN threats –particularly salient in light of COVID-19–. The EU and Japan can exchange lessons learnt on capability development in this area,



especially given the prominence of CBRN as part of the PESCO projects. Another potential pathway for an initial dialogue on defence capabilities is through the issue of outer space, because both actors share a stake in the increasing militarisation of space and developing science and technology for space.

The EU and Japan need to find a suitable avenue to discuss the threats posed by emerging technologies and defence. The SPA calls for cooperation on Science, Technology and Innovation and it refers to the risks of proliferation too. As part of the regular EU-Japan Summits, leaders could support a joint EU-Japan expert group to discuss threat perceptions on technologies, as they pertain to defence and security matters. In particular, the EEAS' 'Global Tech Panel' could be broadened to include dialogue with close partners like Japan. Although the Panel is currently piloting projects in North Africa and does not have a specific remit for defence-related matters, issues such as proliferation and international regulation of new technologies such as AI could be a sound basis to expand EU-Japanese dialogue on defence capabilities. On AI, Japanese representatives could be invited to dialogue with the Commission's 'High-Level Expert Group on Artificial Intelligence'.

Finally, given Japan's low-level of industrial defence penetration in Europe and the importance of dual-use and civilian technologies to both markets, there is scope to enhance industrial dialogue between Japan and the EU (see Article 17 of the SPA too). Starting at a very basic level, Japanese representatives could be invited as observers to defence industry meeting days held in Europe –since such information and exchange meetings are held on a regular basis–. These concrete examples of cooperation are unlikely to fundamentally alter EU-Japan cooperation on defence capabilities without overarching political leadership from both sides.

## Conclusions

As a matter of urgency, opportunities at EU-Japan summits to organise strategic discussions on defence and capabilities should be seized, and one way to stimulate this debate is by focusing on the threats and opportunities posed by new technologies such as AI and quantum computing –both will lay the basis for future technological supremacy and the EU and Japan stand a chance of leap-frogging in these areas–. Mastery of these technology areas and improving their respective strategic autonomy is good for their economies and defence. They are also a good basis from which the EU and Japan can leverage their interests in the relationship with Washington and stave off the threat of being left behind in defence technology terms by China.