
The FSX Agreement

By

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Mr. Chairman, President Bush has completed his review of the agreement with Japan for codevelopment of the FSX, Japan's next-generation support fighter aircraft. The President has concluded that this agreement, with clarifications exchanged between the governments of the United States and Japan, clearly supports the best interests of the United States.

ORIGINS OF THE FSX

The Department of Defense strongly supported Japan's efforts to acquire a new fighter capable of meeting the expected threat in the geopolitically vital Northwest Pacific in the late 1990s and beyond. Japan had, and still has, a legitimate need for a new support fighter aircraft to replace its aging F-1 aircraft. For several months, General Dynamics, McDonnell-Douglas, and other builders vigorously tried to sell their aircraft off-the-shelf to meet Japan's need. The Department of Defense supported these efforts.

Japan, however, sought to build its own aircraft. Though this option was not the optimal one from our viewpoint, it was not unlike what the U.S. had encountered elsewhere. DOD found in its analysis of the Free World global fighter competition that many European nations and Israel were developing indigenous fighter aircraft: France was developing the Rafale, Sweden the Gripen, Israel the Lavi, and the UK, Germany, Spain, and Italy were developing the European fighter aircraft. DOD attempted to forestall these costly and duplicative programs by offering U.S. fighter aircraft technology and American industrial participation. All such efforts failed, with the exception of the Lavi, which was to be funded by the American taxpayer. Israel was ultimately persuaded to cancel the Lavi because of the high cost involved.

Given this background and the fact that DOD's assessment at the time was that Japan possessed the requisite money, skilled labor force, and manufacturing base to attempt indigenous development, it was understandable that Japan intended to do so. DOD argued that existing American aircraft met Japanese requirements. The Japanese responded that the anticipated future mission and design requirements of the aircraft were such that no existing off-the-shelf aircraft would suffice. While the Joint Chiefs of Staff did, for the most part, validate Japan's mission requirements, the U.S. government could not dictate to Japan the design criteria by which the FSX was to be judged.

DOD argued that American aircraft were the most cost-effective and most rapidly available solution to their aircraft needs. These points previously were raised at the highest levels of the Japanese government by then Secretaries of Defense Weinberger and Carlucci, and senior State Department and White House officials on several occasions.

But an off-the-shelf purchase of an American aircraft was never a likely choice for Japan. Japan never has bought aircraft off-the-shelf when significant numbers of planes are involved. The Japanese have always either attempted indigenous development, as with the F-1, or entered into a licensed production agreement, as in the cases of the F-4, F-15, and P-3. From both the

military and economic points of view, it makes sense to manufacture fighter aircraft in your own country in order to be able to provide sustainability of the force as well as to keep aerospace workers employed. This is the way we do business.

Finally, after quiet, high-level discussions, Japan agreed that some form of codevelopment/coproduction with the U.S. government should be seriously considered. I believe the Japanese took into account budgetary constraints, the advantage of interoperability with our forces, and the potentially adverse effect that unilateral development could have on Japan's long-term defense relationship with the U.S. The Senate Armed Services Committee, in its May 1988 report on the FY89 defense authorization bill, agreed that this alternative codevelopment based on an existing U.S. aircraft was the most workable approach at that point.

The Japanese decided to base their FSX on General Dynamic's F-16 in October 1987. After more than a year of four difficult, hard-nosed negotiations, the government of Japan and the government of the United States signed the memorandum of understanding for codevelopment of the FSX in November 1988. Following equally thorough negotiations, the principal Japanese and American companies involved, Mitsubishi Heavy Industries and General Dynamics, signed their company-to-company agreement in January of this year.

Due to Congressional concerns raised during confirmation hearings, the process was delayed. I think President Bush deserves credit for being attentive to the concerns of the 101st Congress. At the President's direction, both DOD and [the Department of] Commerce worked overtime to ensure that what was essentially a good deal for both the U.S. and Japan also met the standards of the new Congress, and the new administration. The President sought and received clarifications from Japan concerning production workshare and technology transfer, ensuring that these concerns would be fully satisfied.

FSX AGREEMENT

In May 1988, the Senate Armed Services Committee requested that any agreement to enter into codevelopment and coproduction include provisions to ensure that the U.S. receives meaningful workshares during both development and production phases and that Japan provide us, expeditiously and without charge, any technical improvements substantially derived from technology provided by the United States. The FSX agreement meets both these requirements.

Under the agreement, Japan will completely fund the FSX program and the U.S. will receive approximately 40 percent of the development workshare and a similar share of the production work. The Congress has been notified of the development phase of this agreement. In this agreement, the workshare will be based on 40 percent of the total FSX development budget, as determined by exchange rates at the time the contracts are let. Based on the present estimated FSX budget, this amounts to about \$480 million. This agreement includes substantial work for the American subcontractor, including airframe and software development in partnership with the Japanese.

The U.S. will have access to all technology brought to the program by Japan. Additionally, the agreement provides that technological improvements based on U.S. information will flow back to the U.S. expeditiously and free of charge. Technologies that are solely developed by Japan can also be acquired by the U.S.

Unique to the FSX agreement is the provision for a technical steering committee to oversee the development program and monitor the two-way transfer of technology and the allocation of workshares. The committee is co-chaired by general officers of the U.S. Air Force and the Japan Air Self-Defense Force. The Commerce Department will also be represented on this committee.

IMPACT

The U.S. forward-deployed defense strategy in Northeast Asia is based on a division of roles and missions between U.S. and Japanese forces. The U.S. is pledged to provide the protective nuclear umbrella and conventional offensive forces as necessary in the Northwest Pacific. Japan is responsible for the defense of its territory and, in conjunction with U.S. forces, the air and sea lanes out to 1,000 nautical miles. Japan also provides rent-free bases and substantial financial support to U.S. forces. Japan's ability to blunt an attack, defend itself and, in doing so, allow U.S. forces the time and protection necessary to conduct decisive defensive counterstrikes is crucial to the security of both the United States and Japan. This Administration, its predecessor, and the Congress have all supported Japan's assumption of these roles and missions. Collectively, we have encouraged Japan to develop the military capabilities and force structure necessary to meet its commitments.

The FSX program will ensure that Japan has a first-rate support fighter to meet legitimate military requirements in support of Japan's security responsibilities. The improved anti-invasion and ground-support capability provided by the FSX will add a new and improved dimension to Japan's defense. The enhanced capability provided by the FSX will, in turn, increase the deterrent effect of Japan's self-defense forces and thus contribute to greater stability in this volatile region.

Because the FSX will be based on the F-16, interoperability benefits will accrue to U.S. forces. Fueling and some ground-support equipment will be compatible, as will certain maintenance functions. The U.S. will maintain direct involvement in the Japanese military aircraft industry and gain access to the technological improvements, including cocured whole-wing process and miniaturized, active, phased-array radar manufacturing capabilities, all of which could have significant potential for future U.S. aircraft development.

Disapproval of the FSX by the Congress would most likely result in Japan modifying an existing aircraft to meet the immediate military need and then attempting to develop indigenously a follow-on aircraft, possibly with European assistance. We believe that in such a circumstance we would probably see a significant increase in Japan's R&D budget and increased domestic pressure for indigenous development of other military systems that are now, or would have been, purchased or licensed-produced from the U.S.

As an example, we anticipate that U.S.-built AWACS and tanker aircraft are being considered by Japan for its next defense plan. Additionally, we could expect future technological flowback from Japan to become more difficult. The most damaging impact, in my view, would be on the relationship as a whole, with Japan pursuing increasingly independent security policies, raising potential consequences in economic and financial policy areas that no one can foresee.

IMPACT ON U.S. INDUSTRIAL BASE

We expect that U.S. industry will receive about \$2.5 billion of work during the life of the program. There will be about \$480 million for the U.S. in the development program. In the follow-on production program, there will be significant workshares for U.S. industry totaling approximately 40 percent of the nominal production budget of \$5 to \$6 billion. This represents, at a minimum, \$2 billion of workshares during production for American workers and more than 22,000 man-years of labor over the life of both the development and production programs. If I may say so, I think some critics of this initiative have done American workers a disservice by underestimating the benefits and overestimating the costs to U.S. industry.

Among the benefits is the prospect that the U.S. will have access to significant technology from the FSX. DOD, however, did not enter into the FSX agreement for the purpose of seeking technology from Japan. It entered into the agreement because close integration with Japan in the

defense area benefits our own national security. In the past, technology flow has been primarily in one direction—to Japan. The FSX agreement reverses this pattern by providing a framework which will allow significant U.S. access to Japanese technology.

While some, or even most, of the technologies that DOD is interested in exist in some form in this country, U.S. industry has not successfully developed them into usable technologies on the scale involved with the FSX. The Japanese are prepared to fund research on these new technologies and will provide us access to their developments. Suggestions that the Japanese have nothing in which we would be interested underestimates Japanese technological capabilities, in my view, and denies our own defense industry the synergistic benefits of technological cooperation.

Some have expressed concern that Japan will someday become a weapons exporter. We think it very unlikely that made-in-Japan fighters, tanks, warships, ammunition, artillery—in short, weapons—will be exported. Japan's long-standing official government policy prohibits the export of weapons to any country and allows the export of military technology to only one country—the United States.

This policy—adopted by Japan at our request—enjoys strong public support in Japan across the political spectrum, and while there are some in Japan who would like to see the policy changed, I believe that such a change would precipitate a major rupture in Japan's security relationship with the U.S. Clearly, such a development is unlikely so long as we continue to demonstrate to Japan our reliability as an ally in a partnership requiring trust and cooperation.

In the specific case of FSX, there are provisions in the agreement which prohibit the sale or transfer of the FSX without the consent of the U.S. government.

IMPACT ON AEROSPACE INDUSTRY

Some have suggested that going ahead with FSX will result in the U.S. giving up its lead in aerospace to Japan in the late 1990s. Our view is that the agreement is well-structured to protect American advanced technologies while providing access to Japanese technology and building on the advantages that international coproduction and codevelopment provides. Recognition of this fact has led *Aviation Week*, *The Wall Street Journal*, *The Economist*, *The Aerospace Industries of America*, and others in the aviation industry, including McDonnell-Douglas and Boeing, to support the FSX agreement. In the 1990s and as far as we can see into the next century, international coproduction and codevelopment will make good business sense as well as good strategic sense.

We have not forgotten about technology transfer concerns with the FSX. These concerns center on the four major areas of the aircraft—the airframe, the avionics, the engine, and the software.

The airframe technology to be provided is essentially 15 to 20 years old. The U.S. Air Force and General Dynamics are both interested in what the Japanese might do to improve on it. Otherwise, there is nothing new or significant in this area.

The avionics will be developed by Japan, and no technology will be provided by the U.S. However, again, the Air Force is interested in Japanese improvements. Japan will be developing the active phased-array radar, inertial navigation system, electronics countermeasures system, and mission computer hardware system without U.S. participation—but the results of these Japanese developmental efforts will be available to the U.S.

The engines for the development phase will be bought off-the-shelf from one of two American manufacturers, and there will be no U.S. engine technology transferred to Japan. In the production phase, there may be some licensed production in Japan of an American engine, as there

is under the current F-15 program, but this will be determined during negotiations for the production phase memorandum of understanding.

The remaining area, software, is the one in which DOD had the most concern and the area which will have the most strict supervision under the provisions of the agreements. The software technology to be transferred will not assist Japan to become a competitor in the aerospace industry. Source codes for the mission-control [fire-control] computer will be released to Japan only to the extent which allows Japan to integrate its own avionics systems. Source codes for the digital flight-control systems will be developed either solely by the U.S. manufacturer or solely by Japan. The releasability of the software has been thoroughly discussed by DOD and the Department of Commerce, and we are in agreement as to what will and will not be transferred.

The Defense Technology Security Agency has been actively engaged in the process. In addition to the oversight provided by the Office of the Secretary of Defense and the Department of Commerce through the technical steering committee, the Air Force will ensure that the technology-transfer issues are carefully monitored. From a national security standpoint, therefore, I am satisfied with the FSX agreement.

CONCLUSION

The FSX agreement will provide for the development of a very capable aircraft to help meet Japan's defense needs in the late 1990s and early 21st century, enhancing the security of the United States as well as Japan. The agreement protects American technology, provides for U.S. access to advanced Japanese technology, and will result in thousands of man-years of quality work and more than \$2 billion for American industry. The program will be completely funded by the government of Japan.

Neither the Congress nor the American people should be under any illusions as to the choices available here: the alternative to this agreement is not off-the-shelf purchase of an American aircraft by Japan; rather, it is the real possibility of Japan going it alone in the military aerospace industry, a prospect that we believe would not be in the national interest of either the United States or Japan.

It remains in our interest, for both military and economic reasons, for the United States to continue its long tradition as a reliable supplier of military equipment to Japan. Currently, the Japanese spend less than 3 percent of their budget for research and development. Last year, they purchased about as much military equipment from the U.S. as the United Kingdom, West Germany, France, and Italy combined. They now have one of the largest defense budgets in the world and for years have been the cornerstone of our defense policy in the Pacific. As America comes to grips with the economic challenges it faces, we must proceed wisely and with our eyes open, so as to preserve, enhance, and continue to benefit from this most important mutual security relationship.