

Section 5. Defense-Related Expenditures

1. Defense-Related Expenditures and Changes

Defense-related expenditures include spending for maintaining and managing the SDF, improving living conditions in the neighborhoods of defense facilities, and supporting U.S. forces in Japan.

Regarding defense-related expenditures in FY2010, in the guidelines which form the basis of the FY2010 defense budget given Cabinet approval in December 2009, it is stated that “based on the necessity of defense, one of the most fundamental policies of our country, and taking into consideration today’s increasingly severe financial circumstances, we will endeavor to curtail the amount of annual expenditure and new future obligation.” As a result, excluding the reduction of burden on local communities in the expenditures related to SACO²⁰ and realignment of U.S. forces, there has been a decrease in budget expenditure compared to the previous fiscal year for the eighth consecutive year, at 4.6826 trillion yen, a reduction of 20.2 billion yen (0.4%).

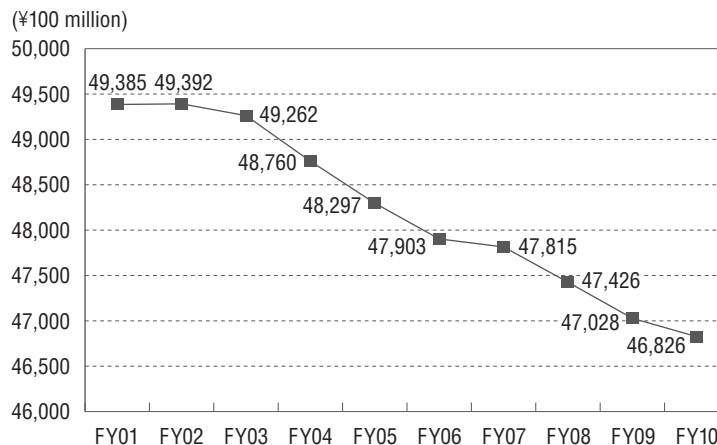
Including 16.9 billion yen in SACO-related expenses (increased 5.7 billion yen (50.9%) from the preceding fiscal year) and 90.9 billion yen in expenses for reducing the burden on local communities (increased 30.7 billion yen (50.9%) from the preceding fiscal year), which is a part of the U.S. forces realignment-related costs, Japan’s

Fig. II-2-5-1 Comparison between FY2009 Budget and FY2010 Budget

(billion Yen)			
Category	FY2009	FY2010	Fiscal YOY growth
Annual expenditure ¹	¥4,702.8 billion	¥4,682.6 billion	-20.2 (-0.4%)
Personnel and food provision expenses	¥2,077.3 billion	¥2,085.0 billion	7.8 (0.4%)
Material expenses	¥2,625.5 billion	¥2,597.5 billion	-27.9 (-1.1%)
Future Obligation	¥2,994.3 billion	¥2,944.3 billion	-50.0 (-1.7%)
New Contracts	¥1,699.0 billion	¥1,662.3 billion	-36.7 (-2.2%)
Previous Contracts	¥1,295.2 billion	¥1,282.0 billion	-13.2 (-1.0%)

Note 1: Does not include SACO-related expense, nor U.S. forces realignment-related expenses (portion meant to reduce the burden on the local community). If these are included, the figures are 4,774.1 billion yen for FY2009 and 4,790.3 billion yen for FY2010.

Fig. II-2-5-2 Trend of Defense-Related Expenditures over the Past Ten Years



Note: Does not include SACO-related expenses, or U.S. forces realignment-related expenses (portion meant to reduce the burden on the local community).

total defense-related expenditures for FY2010 amount to 4.7903 trillion yen, representing an increase of 0.3% or 16.2 billion yen from the preceding fiscal year.
(See Fig. II-2-5-1 and 2) (See Reference 19–20)

2. Breakdown of Defense-Related Expenditures

Defense-related expenditures are broadly classified into “personnel and food provisions expenses,” which cover such items as pay and meals for SDF personnel, and “material expenses,” which finance the repair and maintenance of equipment, purchase of fuel, education and training of SDF personnel, procurement of equipment, and others. Material expenses are further classified into “obligatory outlay expenses²¹,” which are

Fig. II-2-5-3 Structure of Defense-Related Expenditures

Structure of Defense-Related Expenditures	
Annual expenditure	
Defense-related expenditures are broadly classified into personnel and food provision expenses and material expenses (operating expenses). Material expenses (operating expenses) are further classified into obligatory outlay expenses and general material expenses (activity expenses).	
Personnel and food provision expenses	Expenses relating to wages for personnel, retirement allowance, meals in barracks, etc.
Material expenses (operating expenses)	Expenses relating to procurement; repair and upgrading of equipment; purchase of oil; education and training of staff; facilities improvement; barracks expenses such as lighting, heating, water and supplies; technology research and development; cost-sharing for the stationing of USFJ; and expenses related to measures to alleviate the burden on local communities hosting U.S. bases in Japan
Obligatory outlay expenses	Expenses paid in FY2010 based on contracts made before FY2009
General material expenses (activity expenses)	Expenses paid in FY2010 based on contracts made in FY2010

Amount of future obligation

In the improvement of defense capabilities, it is common for multiple years to be required in areas like the procurement of equipment, and upgrading of facilities. Consequently, a procedure is undertaken whereby a contract that extends for multiple years is arranged (five years in principle), and the government promises in advance at the time of the agreement, to make payment at a fixed time in the future.

Future obligation refers to the sum of money to be paid in the following year and beyond based on contracts like this which extend for multiple years.

Example:

Case in which 10 billion yen of equipment is procured under a contract to run for four years

FY2010	FY2011	FY2012	FY2013
Contract ↓ Paid in part (1 billion yen) General material expenses	↓ Paid in part (1 billion yen) Obligatory outlay expenses	↓ Paid in part (2 billion yen) Obligatory outlay expenses	→ Payment ↓ Remaining sum paid (6 billion yen) Obligatory outlay expenses
Future obligation (9 billion yen)			
Amount of contract (10 billion yen)			

paid under contracts concluded in previous fiscal years, and “general material expenses,” which are paid under current-year contracts. Material expenses are also referred to as “operating expenses,” and since general material expenses include repair costs for equipment, education and training expenses for personnel, and the purchase of oil, they are referred to also as “activity expenses.” The Ministry of Defense terms this classification method as “classification by expenses.”

(See Fig. II-2-5-3 and 4)

Personnel and food provisions expenses and obligatory outlay expenses, both of which are mandatory expenses, account for 80% or more of the total defense-related budget. A breakdown of general material expenses shows that mandatory costs account for a significant portion of the total, including cost-sharing for the stationing of U.S. forces in Japan, and expenses related to measures to alleviate the burden on local communities hosting U.S. bases in Japan²².

Personnel and food provisions expenses increased by 7.8 billion yen (0.4%) from the previous fiscal year. Obligatory outlay expenses for the year decreased by 16.0 billion yen or 0.9% from the previous year while general material expenses decreased by 11.9 billion yen or 1.3% from the previous year²³.

The breakdown of FY2010 defense-related expenditures classified by organization, such as the GSDF, MSDF, and ASDF, and also by use, such as maintenance costs and equipment and material purchase expenses is shown in Fig. II-2-5-5.

In addition to the budget expenditure, the amount of new future obligation also indicates payments for the following year and beyond. In the improvement of defense capabilities, it is common for multiple years to be required from contract to delivery or completion, in areas such as the procurement of vessels, aircraft, and other primary equipment, as well as the construction of buildings such as aircraft hangars and barracks. However, the budget of Japan must meet with Cabinet approval each fiscal year, and therefore, as a general rule, the spending of national expenditures prescribed in the budget is limited to the applicable year. Consequently, for the things which require multiple years between contract and delivery or completion, a procedure is undertaken whereby a contract that extends for multiple years is arranged, and it is promised in advance at the time of the agreement that payment will be made at a fixed time in the future (within five years in principle). The sum of money to be paid in the following year and beyond based on contracts such as this which extend for multiple years, is called future obligation. The amount of future obligation that newly came to be



Type 99 155mm self-propelled howitzer



Escort vessel /se at its launch ceremony



Modernized and improved F-15 Eagle

Fig. II-2-5-4 Relation between Annual Expenditure and New Future Obligation

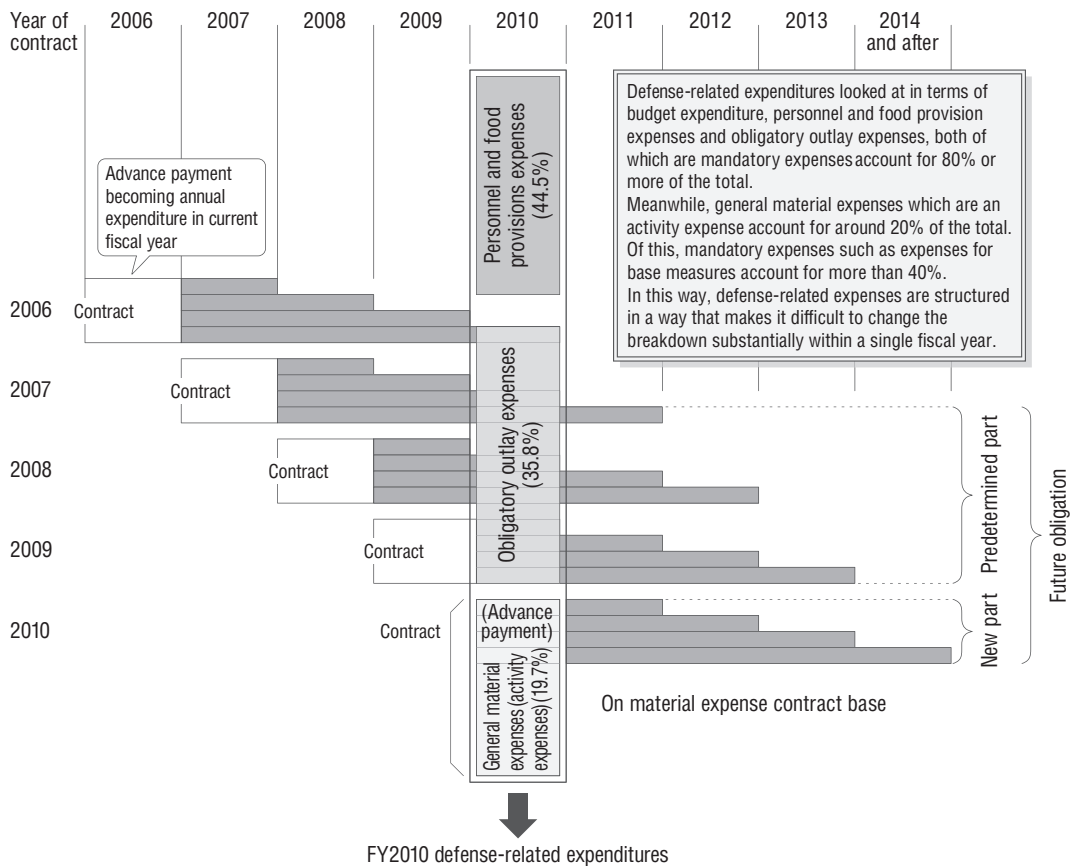
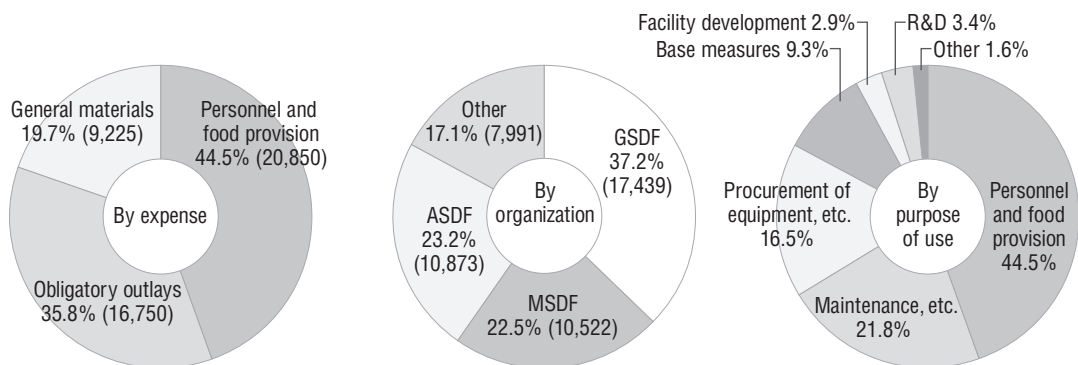


Fig. II-2-5-5 Breakdown of Defense-Related Expenditures



Notes: 1. () is budget amount, unit: ¥100 million.

2. In addition to this, there are 16.9 billion yen of SACO-related expenses, and 90.9 billion yen of U.S. forces realignment-related expenses (portion meant to reduce the burden on the local community).

3. For example of use breakdown, refer to Reference 21.

borne in FY2010 (amount of new future obligation) was reduced from FY2009 by 36.7 billion yen or 202%.

Furthermore, if looked at on a contract basis which shows the scale of operations, then there is a reduction from FY2009 of 48.6 billion yen or 1.8%²⁴.

(See Reference 21)

3. Comparison with Other Countries

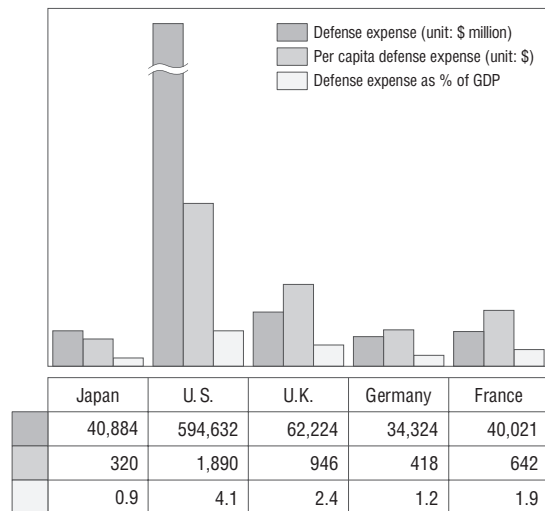
Understanding the defense expenditures of each country using a single standard is not possible in view of differences in the socioeconomic and budgetary systems. There is not an internationally unified definition of defense expenditures, and breakdowns of defense expenditures are often unclear even in many countries where such data is publicly disclosed.

(See Reference 20–21)

Furthermore, though there exists the method of converting defense expenditures into a dollar-termed value for comparison, defense spending based on this method does not necessarily reflect the precise value resulted from counting each country's price levels.

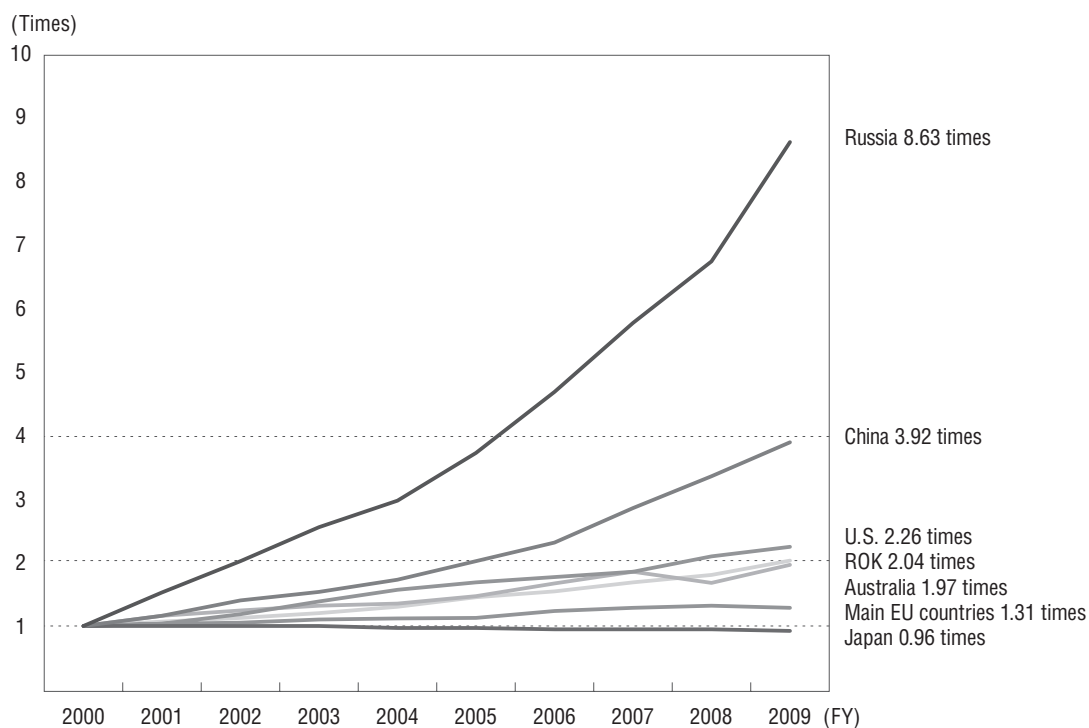
Thus, there are limits to how far a comparison can be significant simply by comparing Japan's defense-related expenditures with those of other countries in dollar terms. For reference, Fig. II-2-5-6 displays the defense expenditures of each country shown in dollar terms using the purchasing power parity²⁵ of each country as published by the Organization for Economic Cooperation and Development (OECD)²⁶.

Fig. II-2-5-6 Defense Expenses of Major Countries (FY2008)



- Notes: 1. Defense expenses are from each country's public documents. The dollar exchange rate uses purchasing power parity (OECD publication): US\$1 = 116 yen = 0.662 pounds = 0.858 euros (Germany) = 0.919 euros (France).
 2. Populations are from the *State of World Population*, GDP figures are from the Japanese Ministry of Foreign Affairs *Major Economic Indicators*, etc. Japan's population is from the *Monthly Report of Current Population Estimates* (Ministry of International Affairs and Communications publication).
 3. U.S. defense expenses are the narrow definition of expenditures, according to the FY2009 Historical Tables.

Fig. II-2-5-7 Changes in Defense Expenditures Over the Past Ten Years



Notes: 1. Created based on the defense expenditures published by each country.

2. These are numerical values obtained by simple calculation of the ratio between the defense expenditures each year, with the FY2000 value as 1 (times) (truncated to two decimal places).

3. The definition and breakdown of the defense expenditures of each country is not necessarily clear. As we must take into account various factors such as foreign exchange fluctuations and price levels of each country, it is very difficult to draw a comparison of defense budgets or expenditures among the countries.

4. The figures for main EU countries were calculated based on the sum total of the defense expenditures of the United Kingdom, France, and Germany. (Since France and Germany converted to the euro in 2002, it was newly calculated with 2002 as 1).

5. See Reference 22.