

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 FY2012, amidst even more severe financial circumstances, excluding the reduction of burden on local communities in the expenditures related to SACO¹ and realignment of U.S. forces, there has been a decrease in budget expenditure compared to the previous fiscal year for the tenth consecutive year, at 4.6453 trillion yen, a reduction of 17.2 billion yen (0.4%)². However, activity expenses of the SDF (general non-personnel expenses) increased by 4.9 billion yen on the previous year. Thus, sufficient expenditures have been secured for the Ministry of Defense / the SDF to achieve the role which would meet the expectations of the citizens, under the notion of concentrating resources into the most crucial functions.

Including 8.6 billion yen in SACO-related expenses (decreased 1.5 billion yen (14.7%) from the preceding fiscal year) and 59.9 billion yen in expenses for reducing the burden on local communities (decreased 42.7 billion yen (41.6%) from the preceding fiscal year), which is a part of the U.S. forces' realignment-related costs, Japan's total defense-related expenditures for the FY2012 general account amount to 4.7138 trillion yen, representing a decrease of 1.3% or 61.4 billion yen from the preceding fiscal year. (See Figs. II-3-4-1 and 2)

In addition, regarding the budget for recovery and reconstruction from the Great East Japan Earthquake, supplementary budget was allocated in FY2011, and the MOD has ensured necessary expenditure in FY 2012. Specifically, as the necessary expenditure for the SDF to effectively engage in disaster relief activities and to restore the SDF facilities and equipment, 188.6 billion yen was allocated in the first supplementary budget for FY2011³ and 161.6 billion yen in the Third Supplementary Budget for FY2011. In addition, 113.6 billion yen was allocated in the budget for FY2012. This 113.6 billion yen was allocated separately from the General Account for FY2012, being allocated under the Special Account for Reconstruction from the Great East Japan Earthquake. Adding this to defense-related expenditures in the General Account for FY2012 (excluding SACO and restructuring-related expenses), the total amount becomes 4.7589 trillion yen (an increase of 96.4 billion yen, or 2.1% on the previous fiscal year).

Moreover, 28.1 billion yen was allocated under the Fourth Supplementary Budget for FY2011 as additional fuel expenses required to carry out operations such as anti-piracy activities off the coast of Somalia and in the Gulf of Aden and expenditure necessary for the transport of personnel and supplies required in the dispatch of the Self-Defense Forces to conduct peacekeeping operations.

Fig. II - 3 - 4 - 1 Comparison between FY2011 Budget and FY2012 Budget

(billion Yen)

Category	FY2011	FY2012	
			Fiscal YOY growth
Annual expenditure ¹	4,662.5	4,645.3	-17.2 (-0.4%)
Personnel and food provision expenses	2,091.6	2,070.1	-21.5 (-1.0%)
Material expenses	2,570.9	2,575.1	4.2 (0.2%)
Future Obligation	2,940.8	3,055.5	114.7 (3.9%)
New ContractsPrevious	1,654.0	1,789.5	135.6 (8.2%)
Contracts	1,286.8	1,266.0	-20.9 (-1.6%)

Notes: 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 4,775.2 billion yen for FY2011 and 4,713.8 billion yen for FY2012, and for future obligation, 3,021.5 billion yen for FY2011 and 3,158.3 billion yen for FY2012. In addition, the future obligation budget for FY2012 includes the cost of maintenance and operation of X-band SATCOM (122.4 billion yen).

See Chapter 3, Section 6-1.

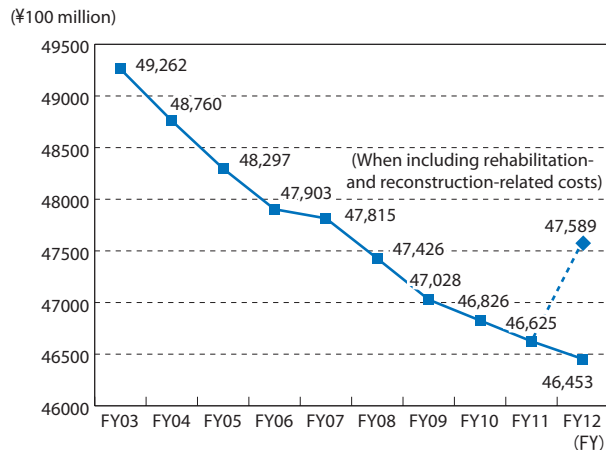
¹ See Part III, Chapter 2, Section 3-1

² "Personnel and food provisions expenses." A large factor is that the obligatory outlay expenses (discussed later) to be paid based on contracts concluded in earlier fiscal years have decreased compared with the previous fiscal year.

³ Reduction of 29.4 billion yen after the correction in the third supplementary budget for FY 2011.

Fig. II-3-4-2

Trend of Defense-Related Expenditures over the Past Ten Years



Notes: Does not include SACO-related expenses, or U.S. forces realignment-related expenses (portion meant to reduce the burden on the local community). Total sum of defense expenditures including these are 4,952.7 billion yen for FY2003, 4,902.6 billion yen for FY2004, 4,856.0 billion yen for FY2005, 4,813.6 billion yen for FY2006, 4,801.3 billion yen for FY2007, 4,779.6 billion yen for FY2008, 4,774.1 billion yen for FY2009, 4,790.3 billion yen for FY2010, 4,775.2 billion yen for FY2011 and 4,713.8 billion yen for FY2012.

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 expenses¹,” which are 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 Figs. II-3-4-3 and 4)

Personnel and food provisions expenses and obligatory outlay expenses, both of which are mandatory expenses, account for 80% 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 Japan².

Personnel and food provisions expenses decreased by 21.5 billion yen (1.0%) from the previous fiscal year. Obligatory outlay expenses for the year decreased by 0.6 billion yen or 0.0% from the previous year while general material expenses increased by 4.9 billion yen or 0.5% from the previous year³.

The breakdown of FY2012 defense-related expenditures classified by organization, such as the GSDF, MSDF, and ASDF, and also by use, such as maintenance costs and equipment and

¹ In the improvement of defense capabilities, some things span multiple years. In these cases, the fiscal year in which the contract is concluded is different from the fiscal year in which the payment to the contractor is made. Therefore, first of all, the maximum future payment amount is appropriated in the budget as an act of bearing liabilities with national treasury funds (budget authority only to incur obligations is granted, i.e., the Ministry of Defense is able to conclude a contract but not to make payment). Then, based on such budgeting, in principle, in the fiscal year that construction is completed or that equipment is procured, expenses necessary for payment are allocated as budget expenditure (budget authority to incur obligations and make payment is granted, i.e., the Ministry of Defense is able to conclude contracts and allocate budget expenditure). Budget expenditure for payments incurred under contracts concluded in previous fiscal years is called “obligatory outlay expenses,” while expenditure for which the payment period has yet to come is termed “future obligation.”

² A typical cost under this category is expenses for installation of a soundproof system in residences. (See Part III, Chapter 4, Section 3-3).

³ The comparison with the previous year does not account for SACO-related expenses and the U.S. forces realignment-related expenses (portion meant to reduce the burden on the local community).

material purchase expenses is shown in Fig. II-3-4-5.

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 such contracts as extend for multiple years, is called future obligation. The amount of future obligation that newly came to be borne in FY2012 (future obligation concerning new contracts) increased from FY2011 by 135.6 billion yen⁴ or 8.2 %.

Furthermore, if looked at on a contract basis which shows the scale of operations, then there is a reduction from FY2011 of 140.5 billion yen or 05.4%⁵.

Also, in the supplementary budget for FY20011 that reflected the incidence of the Great East Japan Earthquake, 54.1 billion yen has been allocated for the future obligation in the first supplementary budget, and 248.5 billion yen in the third supplementary budget.

Fig. II-3-4-3 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 FY2012 based on contracts made before FY2011
General material expenses (activity expenses)	Expenses paid in FY2012 based on contracts made in FY2012

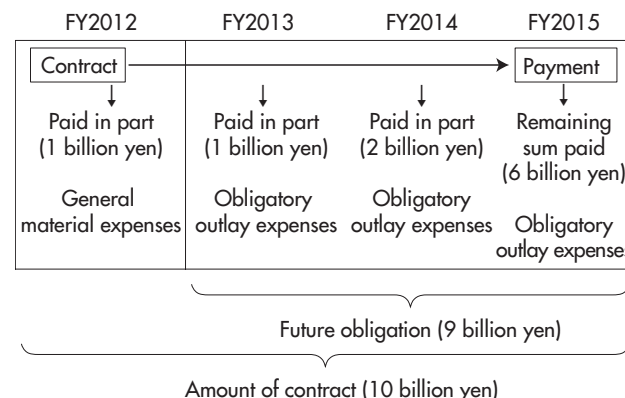
Amount of future obligation

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 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



⁴ The amount includes the costs of developing and operating X-band SATCOM (122.4 billion yen). See Chapter 3, Section 6-1.

⁵ The sum total of general material expenses and future obligation concerning new contracts based on the act of bearing liabilities with national treasury funds. The contract is concluded in the applicable year. It is the scale of the material expenses (operating expenses) that are to be contracted in particular fiscal year and, to be paid in the same fiscal year and the following year. The amount was 2.7332 Trillion yen in FY2012.

Fig. II - 3 - 4 - 4 Relation between Annual Expenditure and New Future Obligation

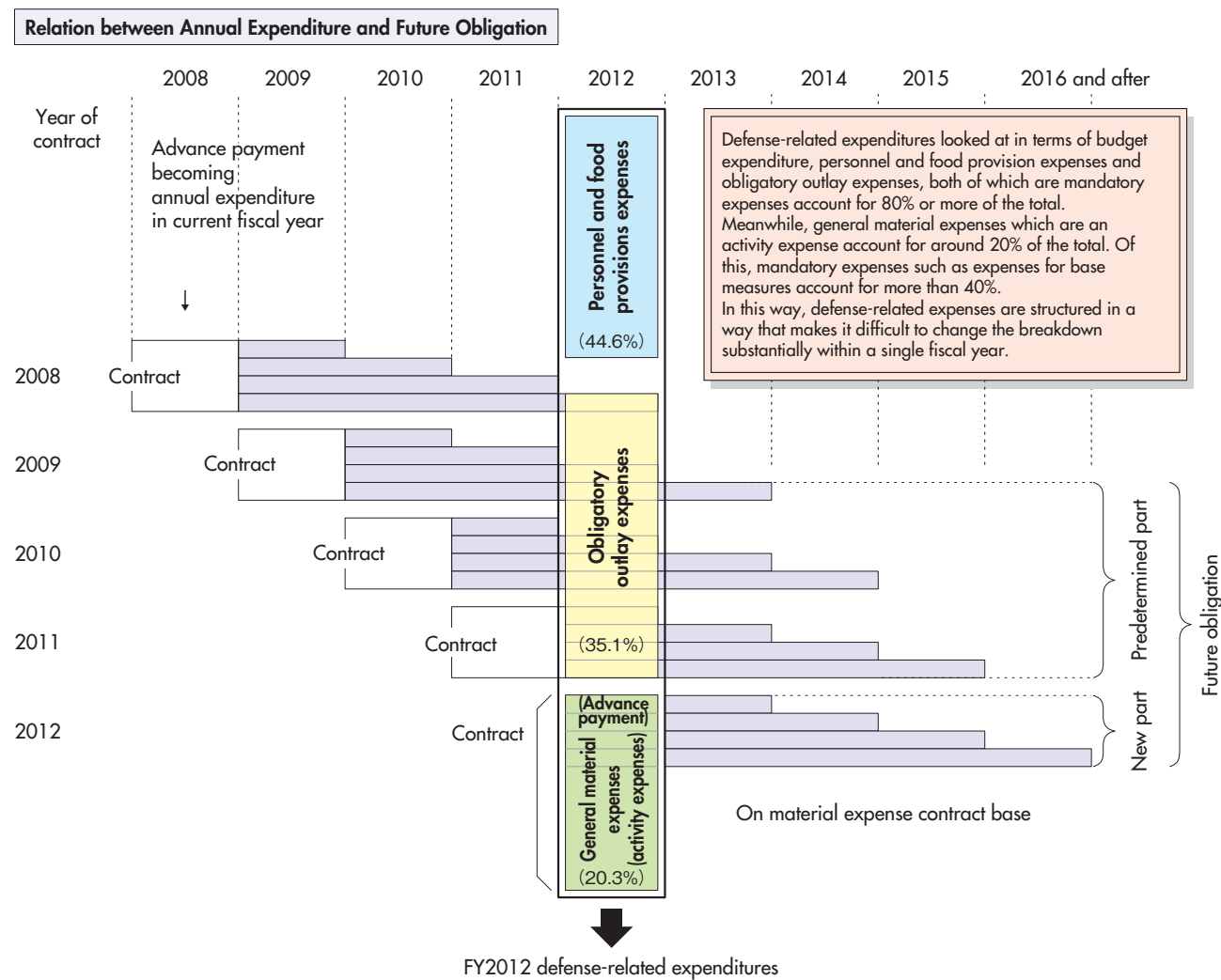
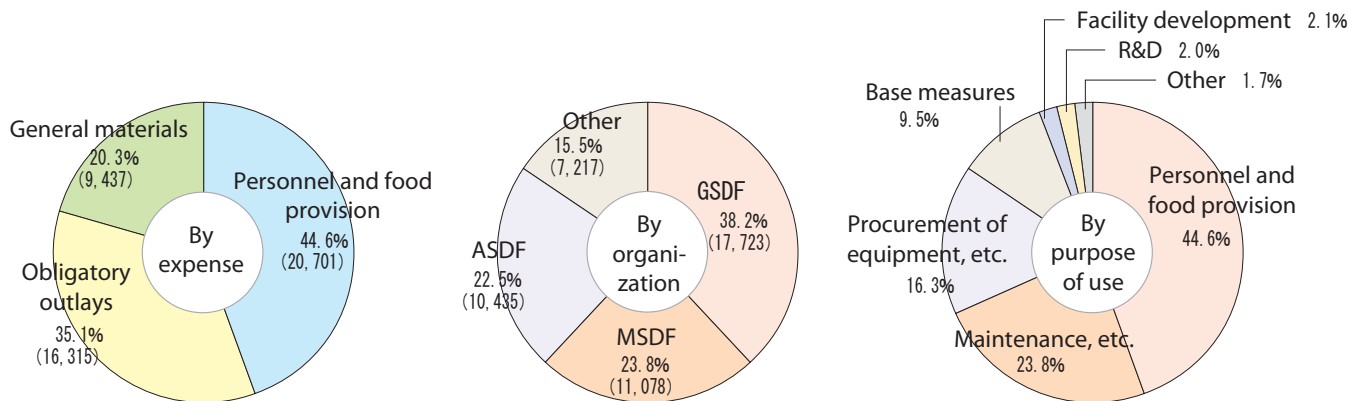


Fig. II - 3 - 4 - 5 Breakdown of Defense-Related Expenditures (FY2012)



- Notes: 1. () is budget amount, unit: ¥100 million.
2. The above figure is SACO-related expenses (8.6 billion yen), excluding the portion meant to reduce the burden of local community (59.9 billion yen) out of the U.S. forces realignment expenses.
3. For an example of usage breakdown, see Reference 18.



C-130R Acquisition

During the Great East Japan Earthquake, the YS-11 transport aircraft of the Maritime Self-Defense Force carried relief supplies with all effort from across Japan to those afflicted by the disaster, and their flying hours increased sharply. As a result, the schedule for the decommissioning of these aircraft has been brought forward and is imminent, so in FY2011, the Ministry of Defense decided to acquire six KC-130R aircraft maintained in storage by the US Navy, and restore them to operational status as C-130R (refurbished aircraft), in order to avoid deficiencies in the transportation capability.

As well as having the flight performance required for operations under normal circumstances, the C-130R (refurbished aircraft) also have a high transport capacity for large-scale disasters. Possessing six such aircraft makes it possible to land at disaster-stricken airports, carrying the Maritime Self-Defense Force Mobile Construction Group troops required for the restoration of the airport, and to build a base for the storage of supplies as soon as possible. Moreover, it will be possible for the refurbished aircraft to operate for at least another 20 years, so the cost of acquiring them is cheaper than buying new aircraft.

Thus, not only is this the first instance in which refurbished aircraft have been acquired, but it can also be said to be a groundbreaking example of equipment acquisition, in which a high level of transport capacity was put in place in a very cost-effective manner.



KC-130R

Comparison of Transport Capacity

	YS-11	C-130R (refurbished aircraft)
Weight on board	Approximately 5 tons	Approximately 20 tons
Range	Approx. 2,200km (with a load of 1.5 tons)	Approx. 4,000km (with a load of 5 tons)
Rough terrain takeoff & landing ability	×	○

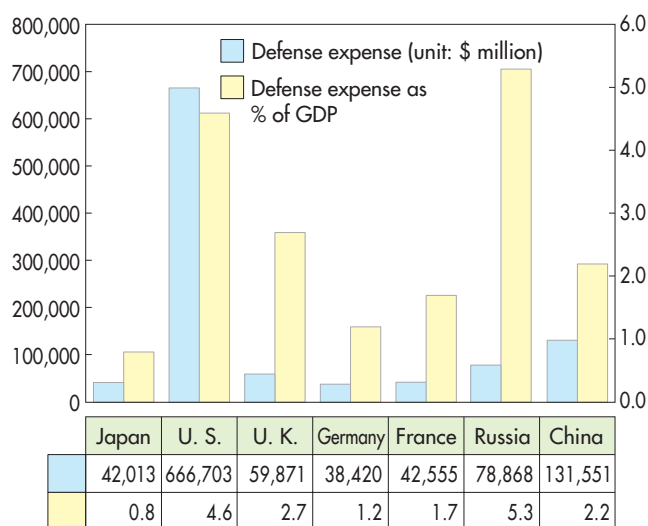
3 Comparison with Other Countries

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 19

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.

Fig. II—3—4—6 Defense Expenses of Major Countries (FY2010)

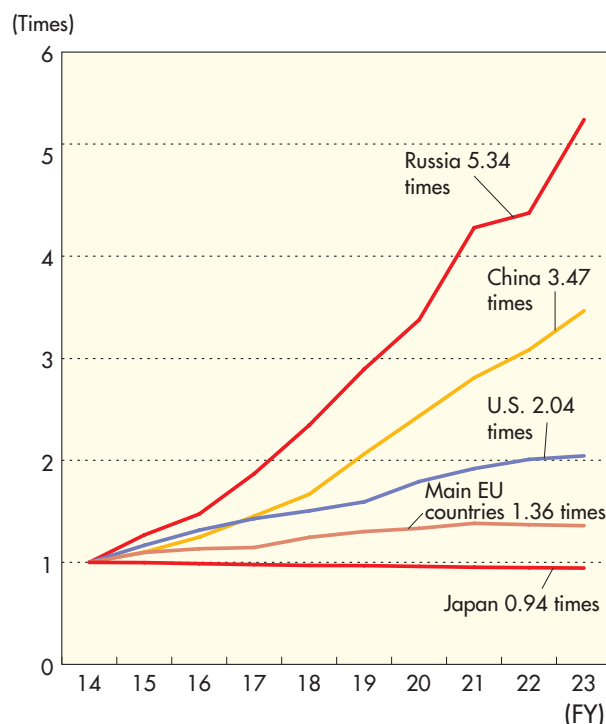


- Notes: 1. Defense expenses are from each country's public documents. The dollar exchange rate uses purchasing power parity (OECD publication).
 "1 U.S. dollar = 111.454739 yen = 0.659095 pound = 0.809770 euro (Germany) = 0.872873 euro (France) = 15.938135 ruble = 3.946 yuan"
 2. GDP values were obtained from "key leading indicators" of the Ministry of Finance and other sources.
 3. U. S. defense expenses are the narrow sense of expenditures, according to the FY2013 Historical Tables.

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—3—4—6 displays the defense expenditures of each country shown in dollar terms using the purchasing power parity¹ of each country as published by the Organization for Economic Co-operation and Development (OECD)².

Fig. II—3—4—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 FY2002 value as 1 (times) (rounded off 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.
 5. See Reference 22.

¹ For changes in defense expenditures of each country in its local currency, see Part I, Chapter 1, Fig. II-3-4-7, and Reference 19.

² A gauge that measures each country's ability to purchase assets or services by taking into account their respective price levels.