

Section
4

Defense-Related Expenditures (First Increase in 11 Years)

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.

In FY2013, defense-related expenditures, which had been declining continuously since FY2003, were increased in real terms for the first time in 11 years, in order to reinforce preparedness aimed at protecting the lives and property of the populace and the nation's land, sea, and airspace, in light of the increasingly harsh security environment.

In comparison with the expenditures related to SACO (Special Action Committee on Okinawa) and the realignment of the U.S. military including their reduction of burden on local communities, defense-related expenditures increased by 40 billion yen from the previous fiscal year to 4.7358 trillion yen. If the reduction of burden on local communities in the expenditures related to SACO and the realignment of the U.S. military is excluded from the above amount, defense-related expenditures increased by 35.1 billion yen from the previous fiscal year to 4.6804 trillion yen.

The aforementioned policy forming the basis for the drafting of the FY2013 defense budget noted:

- The fact that North Korea continues to be a severe destabilizing factor in the region, as it is still promoting the development of nuclear and ballistic missiles, and that surrounding countries are continuing to modernize their military forces and escalating military activities;
- The fact that adequate consideration needs to be given to the recent escalation of activities by China in the waters and airspace around Japan, including incursions into Japanese territorial waters and airspace; and
- The fact that the nation has had the experience of a major disaster without precedent in Japanese history, in the form of the Great East Japan Earthquake, and that there is a renewed awareness of the importance of preparations to deal with a major disaster.

In light of these observations, the projects necessary for the Ministry of Defense and SDF to fulfill the roles expected of them by the populace have been secured, along with the money required to implement them, including an increase in provision for maintenance and repair costs in order to improve the readiness of equipment to deal with all kinds of situation. (See Figs. II-2-4-1, II-2-4-2)

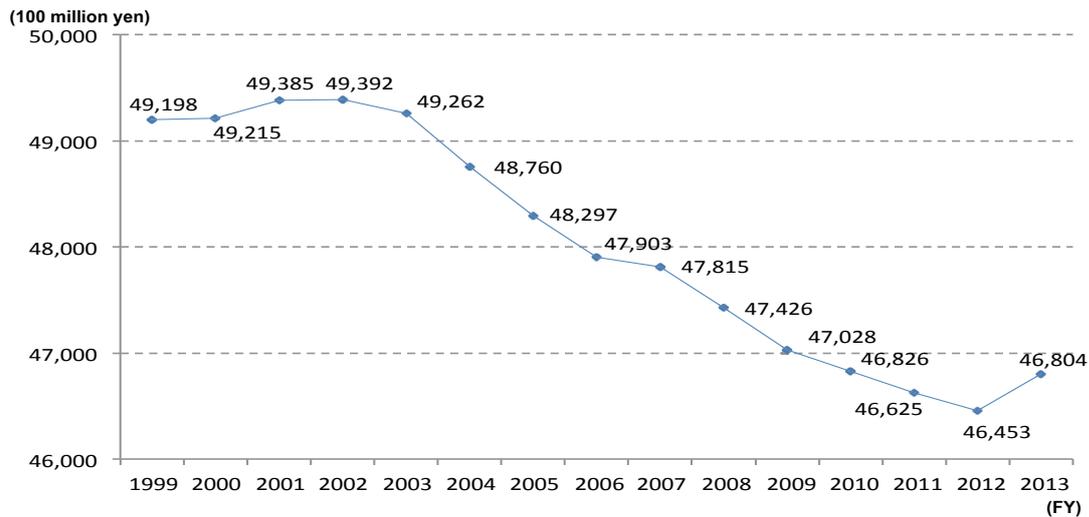
Fig. II-2-4-1 Comparison Between FY2012 Budget and FY2013 Budget

(100 million)

Category	FY2012	FY2013	
			Fiscal YOY growth (▲ indicates negative growth)
Annual expenditure (note)	46,453	46,804	351 (0.8%)
Personnel and food provisions expenses	20,701	19,896	▲ 806 (▲ 3.9%)
Material expenses	25,751	26,908	1,157 (4.5%)
Future obligation (note)	29,331	31,100	1,769 (6.0%)
New contracts	16,672	16,517	▲ 155 (▲ 0.9%)
Existing contracts	12,660	14,583	1,924 (15.2%)

Notes: Does not include SACO-related expenses, nor U.S. forces realignment-related expenses (portion meant to reduce the burden on the local community). If these are included, the figures are 4,713.8 billion yen for FY2012 and 4,753.8 billion yen for FY2013, and for future obligation, 3,035.9 billion yen for FY2012 and 3,230.8 billion yen for FY2013. In addition, the future obligation budget for new contracts in FY2012 excludes the cost of the maintenance and operation of X-band SATCOM (122.4 billion yen).

Fig. II-2-4-2 Trend in Defense-Related Expenditures Over the Past 15 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 sum of defense expenditures including these are 4,931.9 billion yen for FY1999, 4,935.5 billion yen for FY2000, 4,955.0 billion yen for FY2001, 4,955.7 billion yen for FY2002, 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, 4,713.8 billion yen for FY2012, and 4,753.8 billion yen for FY2013.

In addition, expenditure associated with the repair of damaged SDF facilities and equipment in relation to recovery and reconstruction in the aftermath of the Great East Japan Earthquake and other expenditures have been calculated separately from the General Account for FY2013, with 125.2 billion yen allocated under the Special Account for Reconstruction from the Great East Japan Earthquake.

Moreover, 212.4 billion yen has been allocated in the FY2012

supplementary budget drafted in combination with the FY2013 budget, including 180.5 billion yen furnished in relation to emergency economic measures, such as strengthening the communication functions of units, upgrading military camps and bases that would serve as hubs for dealing with various contingencies, updating and modernizing equipment that supports transport and reconnaissance functions and the activities of troops, and adapting to the changing security environment.

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-2-4-3, II-2-4-4)

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.”

Fig. II-2-4-3 Structure of Defense-Related Expenditures

Structure of Defense-Related Expenditures

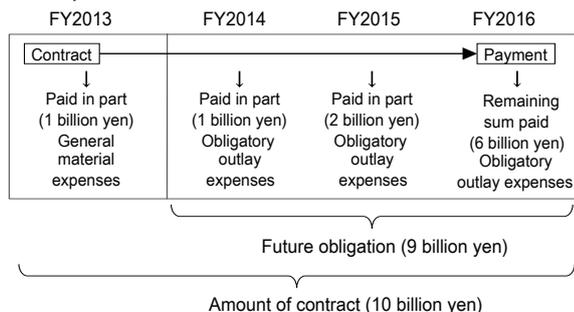
Annual expenditure

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 provisions 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 FY2013 based on contracts made before FY2012
General material expenses (activity expenses)	Expenses paid in FY2013 based on contracts made in FY2013

Amount of future obligation

In the improvement of defense capabilities, it is common for work in areas like the procurement of equipment and the upgrading of facilities to be carried out over several years. 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



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 80.6 billion yen (3.9%) from the previous fiscal year. Obligatory outlay expenses for the year increased by 29.8 billion yen (1.8%) from the previous year, while general material expenses increased by 85.9 billion yen or (9.1%) from the previous year³.

The breakdown of FY2013 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-2-4-5.

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 gain Diet 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 that extend for multiple years, is called the “future obligation.” The amount of new future obligation arising in FY2013 (future obligation concerning new contracts) decreased from the previous fiscal year by 15.5 billion yen or (0.9%). Furthermore, if looked at on a contract basis⁴, which shows the scale of operations, then there is an increase from the previous fiscal year of 70.4 billion yen (2.7%).

In addition, in the FY2012 supplementary budget for emergency economic measures, 112.6 billion yen has been allocated as future obligation.

- 2 A typical cost under this category is expenses for installation of soundproofing in residences.
- 3 The comparison with the previous year does not account for SACO-related expenses and that portion of the expenses related to the realignment of the U.S. military that is intended to be used to reduce the burden on the local community. The same applies hereinafter in regard to this item. Moreover, in FY2012, the comparison excludes the 122.4 billion yen cost of the X-band SATCOM development and operation project. The same applies hereinafter in regard to this item.
- 4 The sum total of general material expenses and future obligation concerning new contracts. 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 is 2.6813 trillion yen in FY2013.

Fig. II-2-4-4 Relationship Between Annual Expenditure and Future Obligation Due to New Contracts

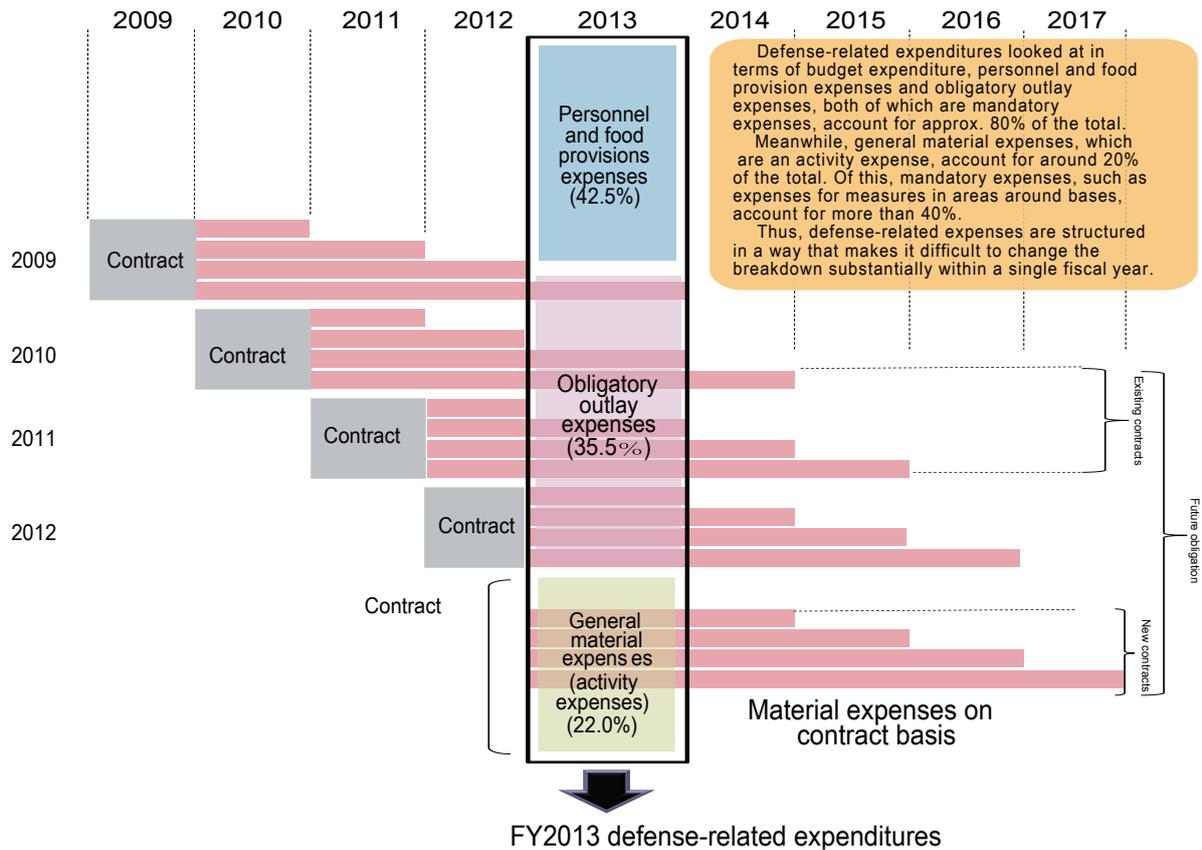
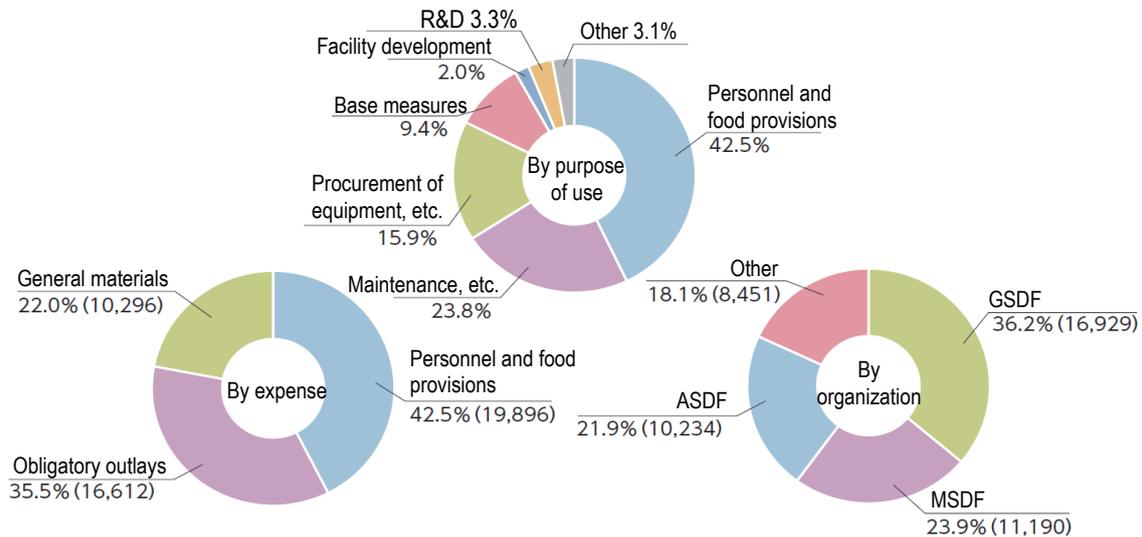


Fig. II-2-4-5 Breakdown of Defense-Related Expenditures (FY2013)



- Notes: 1. () is the budget amount, unit: 100 million yen.
 2. The above figure shows SACO-related expenses (8.8 billion yen), excluding the portion meant to reduce the burden of local community (64.6 billion yen) out of the U.S. forces realignment expenses.
 3. For an example of usage breakdown, see Reference 18.

3 Comparison with Other Countries

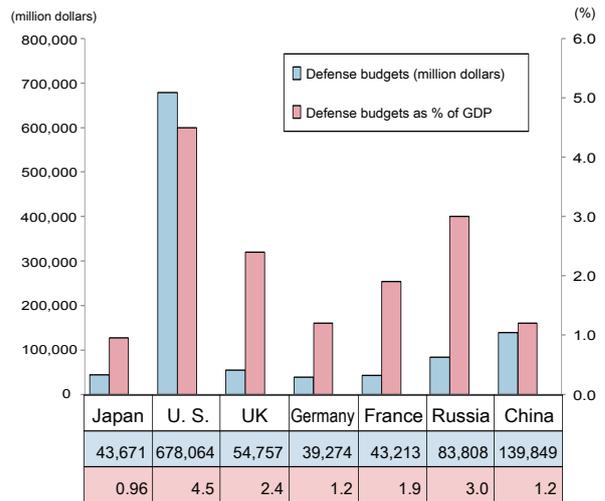
Understanding the defense expenditures of each country using a single standard is not possible in view of differences in the socioeconomic and budgetary systems. There is not an internationally unified definition of defense expenditures, and breakdowns of defense expenditures are often unclear even in 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. Consequently, there are limits to the comparisons that can be made simply by comparing Japan's defense-related expenditures with those of other countries in dollar terms. Nevertheless, for reference, the defense expenditures disclosed by each country in dollar terms, using the purchasing power parity¹ of each country as published by the Organization for Economic Co-operation and Development (OECD), are shown in Figure II-2-4-6².

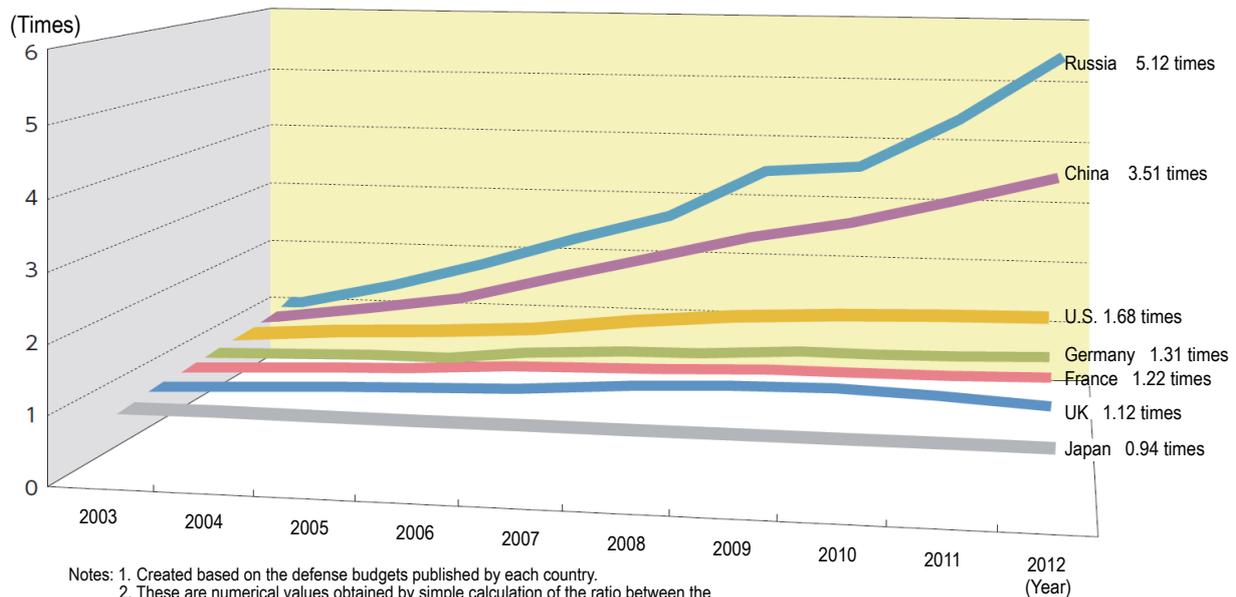
(See Fig. III-2-4-7)

Fig. II-2-4-6 Defense Budgets of Major Countries (FY2011)



Notes: 1. Defense budgets are from each country's public documents. The dollar exchange rate is the purchasing power parity rate (OECD publication).
 1 U.S. dollar = 106.765082 yen = 0.678797 pound = 0.803298 euro (Germany) = 0.865689 euro (France) = 18.102078 ruble = 4.173 yuan
 2. Defense budgets as a proportion of GDP have been estimated based on figures published by the governments of each country.

Fig. II-2-4-7 Changes in Defense Budgets Over the Past Ten Years



Notes: 1. Created based on the defense budgets published by each country.
 2. These are numerical values obtained by simple calculation of the ratio between the defense budgets each year, with the FY2003 value as 1 (times) (rounded off two decimal places).
 3. The definition and breakdown of the defense budgets of each country are 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 among countries.
 4. See Reference 19.

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