



Amphibious vehicle (AAV7)



Fixed-wing patrol aircraft (P-1)



New airborne early-warning aircraft (E-2D)

Section 3 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.

In FY2015, in light of the increasingly harsh security environment, defense-related expenditures were increased for the second consecutive year in a row in order to reinforce preparedness aimed at protecting the lives and property of the people and the nation's land, sea, and airspace.

In comparison with the previous fiscal year, when including expenses related to SACO (Special Action Committee on Okinawa) and the U.S. Forces realignment-related expenses (the portion allocated for reducing the burden on local communities and the expenses associated with the introduction of a new dedicated government aircraft), defense-related expenditures were increased

by 95.3 billion yen to 4.9801 trillion yen. If the SACO-related expenses and the U.S. Forces realignment-related expenses (the portion allocated for reducing the burden on local communities and the expenses associated with the introduction of a new dedicated government aircraft) are excluded from the above amount, defense-related expenditures were increased by 38.3 billion yen from the previous fiscal year to 4.8221 trillion yen.

Additionally the supplementary budget for FY2014 contains an appropriation of 211.0 billion yen for improving SDF's disaster response capabilities, securing stable operations of the SDF, and necessary expenses for SDF operations.

See Fig. III-1-3-1 (Comparison Between FY2014 Budget and FY2015 Budget)

See Appendix 4 (Trend in Defense-Related Expenditures Over the Past 15 Years)

Fig. III-1-3-1 Comparison Between FY2014 Budget and FY2015 Budget

Category	FY2014	FY2015	
			Fiscal YOY growth (▲indicates negative growth)
Annual expenditure (note)	47,838	48,221	383 (0.8%)
Personnel and food provisions Expenses Material expenses	20,930	21,121	192 (0.9%)
	26,909	27,100	192 (0.7%)
Future obligation (note)	33,594	39,530	5,936 (17.7%)
New contracts Existing contracts	19,465	22,998	3,534 (18.2%)
	14,129	16,532	2,403 (17.0%)

Notes: Does not include SACO-related expenses, U.S. Forces realignment-related expenses (portion meant to reduce the burden on the local community), or expenses associated with the acquisition of new government aircraft based on "The Policy Concerning Government Aircraft" (August 7, 2013 decision by the Review Committee on Government Aircraft). If these are included, the figures are 4,884.8 billion yen for FY2014 and 4,980.1 billion yen for FY2015; and for future obligation, 3,630.4 billion yen for FY2014 and 4,363.5 billion yen for FY2015.

2 Breakdown of Defense-Related Expenditures

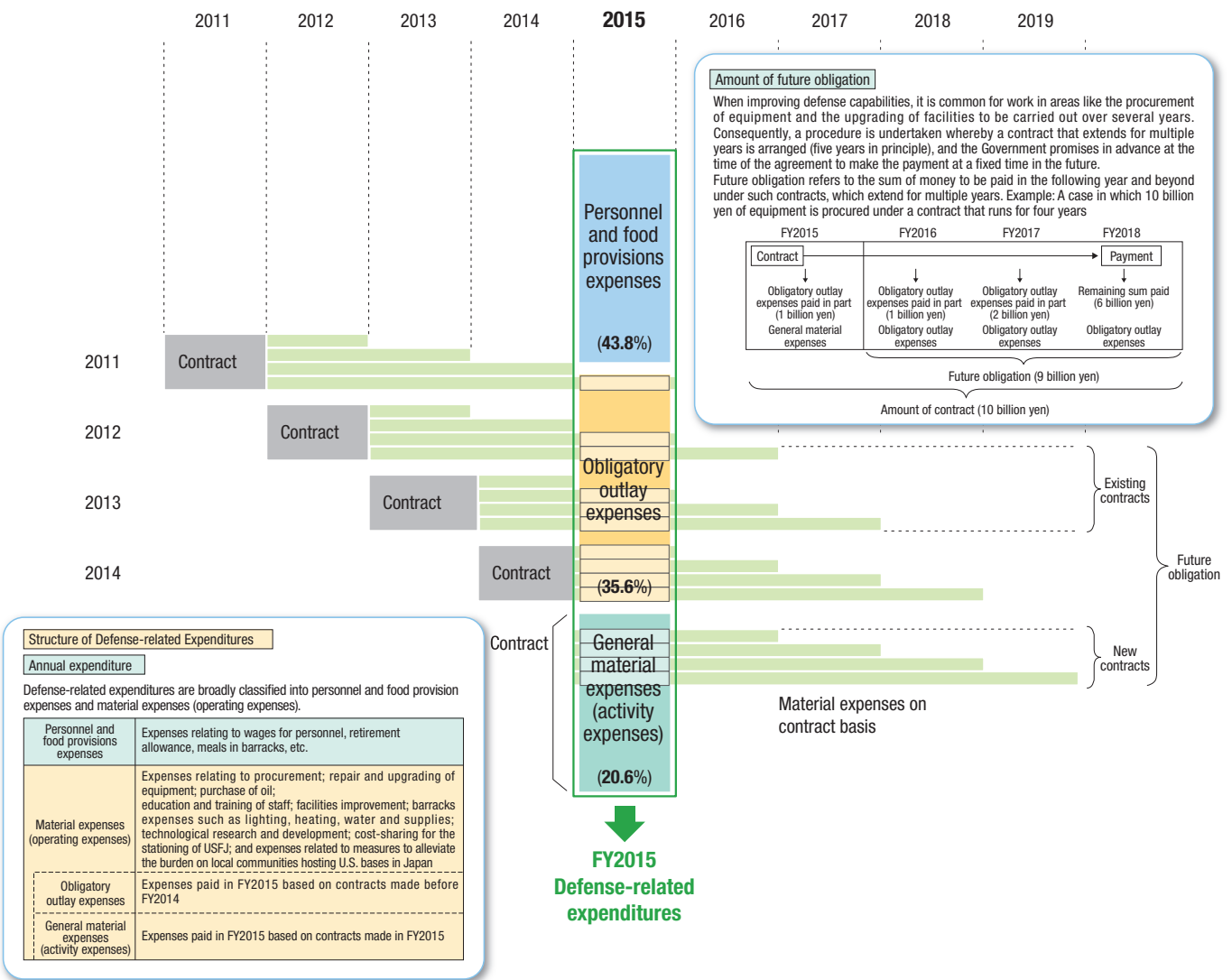
Personnel and food provision expenses as well as obligatory outlay expenses, both of which are mandatory expenses, account for 80% of the total defense-related budget. While general material expenses account for approximately 20% of the total budget, within that, mandatory costs, such as expenses related to measures to alleviate the burden on local communities hosting U.S. bases in Japan, account for over 40% of the total. As these figures show, the defense-related

expenditures are based on a structure, the breakdown of which cannot be easily altered in a significant manner on a single-year basis.

See Fig. III-1-3-2 (Relationship between Annual Expenditure and Future Obligation Due to New Contracts)

Personnel and food provision expenses were increased by 19.2 billion yen from the previous fiscal year due to the revision of the remuneration of civil servants based on

Fig. III-1-3-2 Relationship between Annual Expenditure and Future Obligation Due to New Contracts



the FY2014 recommendation by the National Personnel Authority and other factors. Obligatory outlay expenses for the year increased by 800 million yen from the previous year, while general material expenses increased by 18.1 billion yen from the previous year¹.

See Fig. III-1-3-3 (Breakdown of Defense-Related Expenditures (FY2015))

See Reference 40 (Changes in Composition of Defense-Related Expenditures (Original Budget Basis))

In addition to the budget expenditure, the amount of new future obligation also indicates payments for the following year and beyond. In the build-up 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 fiscal

year. Consequently, for items that 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 fiscal year and beyond, based on such contracts that extend for multiple years, is called the “future obligation.” The amount of new future obligation arising in FY2015 (future obligation concerning new contracts) increased from the previous fiscal year by 353.4 billion yen (18.2%), partly due to the impact of the introduction of integrated procurement associated with long-term contracts for over five years.

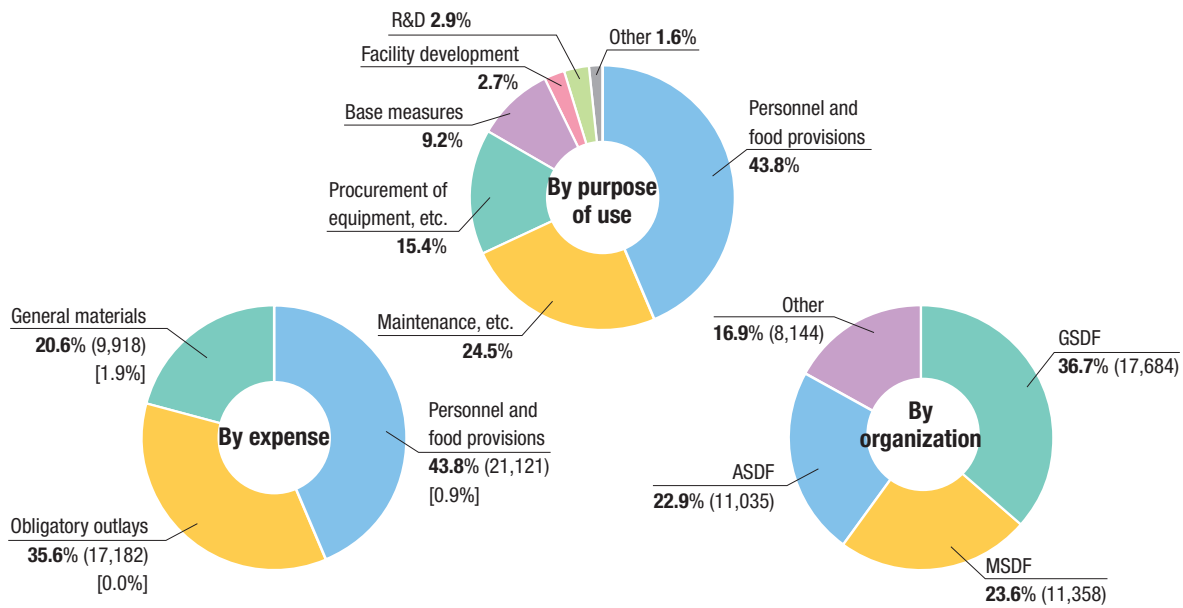
Furthermore, if looked at on a contract basis², which shows the scale of operations, there is an increase from the previous fiscal year of 371.8 billion yen (12.7%).

See Part III, Chapter 2, Section 2 (Initiatives for Improving the Contract System and Other Related Matters)

1 The comparison with the previous year is made by expenditure excluding the SACO-related expenses and the U.S. Forces realignment-related expenses (the portion for the reduction of the burden on local communities and the expenses associated with the introduction of a new dedicated government aircraft). The same applies hereinafter in regard to this section.

2 The sum total of general material expenses and future obligation concerning new contracts, which shows the amount of the material expenses (operating expenses) that are to be contracted in the applicable fiscal year and to be paid in the same fiscal year and beyond. The amount is 3.2917 trillion yen in FY2015.

Fig. III-1-3-3 Breakdown of Defense-Related Expenditures (FY2015)



Notes: 1. () is the budget amount; unit: 100 million yen.
 2. The above figure does not include SACO-related expenses (4.6 billion yen), excluding the portion meant to reduce the burden on the local community (142.6 billion yen) out of the U.S. Forces realignment expenses and expenses associated with the acquisition of new government aircraft.
 3. Figures in square brackets [] indicate year on year growth rate (%)

3 Comparison with Other Countries

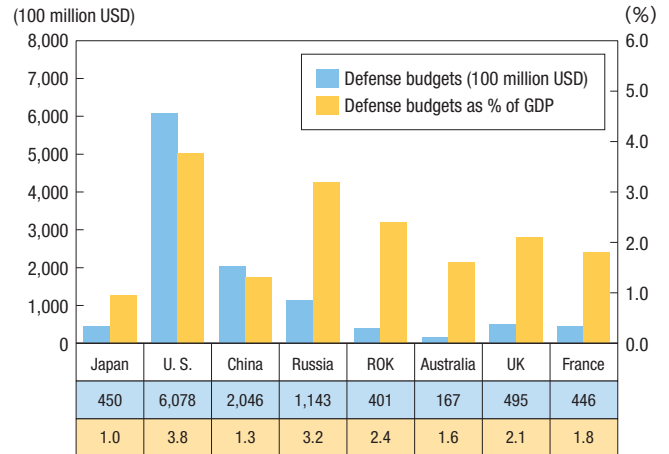
Understanding the defense expenditures of each country using a single standard is not possible in view of differences in the socioeconomic and budgetary systems. There is not an internationally unified definition of defense expenditures, and breakdowns of defense expenditures are unclear in some countries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

Furthermore, in comparing the defense expenditures of each country, though there exists the method of converting their defense expenditures into dollar amounts for comparison by foreign exchange rate, their dollar-based defense spending calculated by this method does not necessarily reflect the precise value based on each country's price levels. Therefore, the results of converting Japan's defense-related expenditures and the official defense expenditures published by other countries into dollar amounts, using the purchasing power parity³ of each country as published by the Organisation for Economic Co-operation and Development (OECD), are shown in Figure III-1-3-4 (The Defense Budgets of Major Countries (FY2013)).

See Part I, Chapter 1 (Defense Policies of Countries), Reference 41 (Trend of Defense Expenditures of Major Countries)

In addition, Fig. III-1-3-5 (Changes in Defense Budgets in Surrounding Countries Over the Past Ten Years) shows the changes in defense expenditures of Japan's neighboring countries over the past ten years.

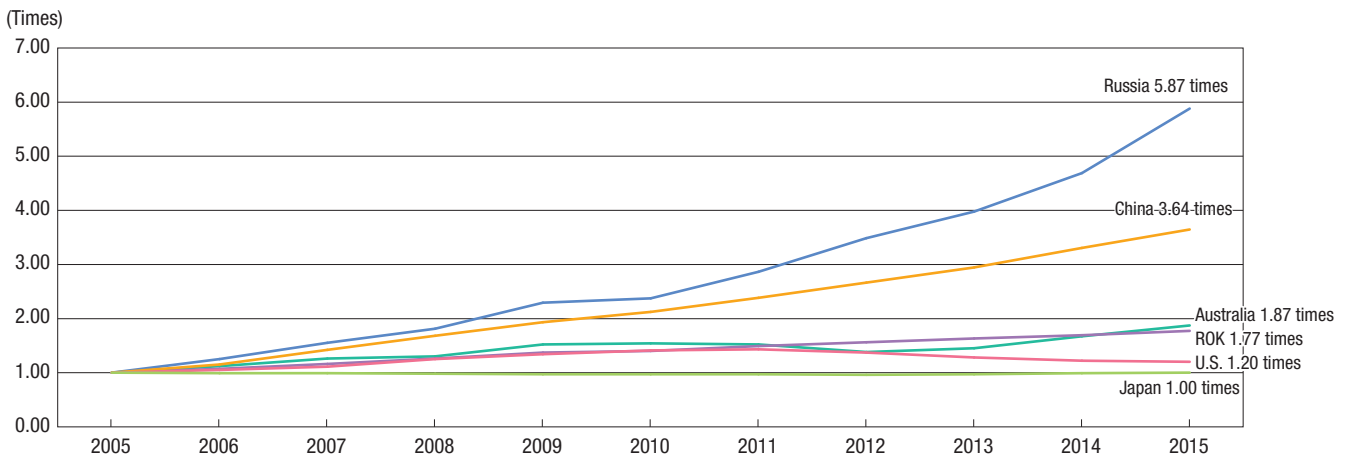
Fig. III-1-3-4 The Defense Budgets of Major Countries (FY2013)



Notes: 1. Defense budgets are based on each country's public documents. Dollar conversions have been made while referring to each country's purchasing power parity for FY2013 as published by the OECD (official rate listed on the OECD website) (as of April 2015). (1 dollar=104.0898517 yen=3.520582033 yuan=18.42503504 rubles=860.2190041 won= 1.522099936 Australian dollars=0.854056461 euros (France))
 2. Defense budgets as a proportion of GDP have been estimated based on figures published by the governments of each country.

³ A gauge that measures each country's ability to purchase assets or services by taking into account their respective price levels.

Fig. III-1-3-5 Changes in Defense Budgets in Surrounding Countries 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 FY2005 value as 1 (times) (rounded to 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.

Section 4 Human Foundation and Organization that Supports the Defense Force

In order to exert their defense capabilities with the maximum effectiveness, it is necessary that the MOD and the SDF enhance their human foundation as well as further

deepening mutual trust between local communities, the people, and the SDF.

1 Recruitment and Employment

1 Recruitment

Expectations from the public for the MOD and the SDF have continued to rise. In Japan, however, due to the declining birthrate and increasing university enrollments, the general recruitment climate for uniformed SDF personnel is anticipated to become increasingly severe. In light of these circumstances, it is necessary to recruit personnel with superior abilities and a strong desire to enlist, after carefully explaining to them the missions and duties as well as the working conditions of the SDF.

See Fig. III-1-4-1 (Changes in the Number of People Eligible to Join the SDF)

For this reason, the MOD and the SDF hold recruiting meetings at schools and also maintain Provincial Cooperation Offices in 50 locations throughout Japan to respond to the individual needs of applicants, with help in the form of understanding by educators and support from recruitment counselors. Moreover, local governments are also obliged to carry out some of the administrative activities regarding the recruitment of uniformed SDF personnel and candidates for uniformed SDF personnel, such as announcing the recruitment period and promoting the SDF as a workplace, for which the MOD allocates them the requisite budget.

2 Employment

(1) Uniformed SDF personnel

Under a voluntary system, which is based on individuals' free will, uniformed SDF personnel are recruited under various categories.

See Fig. III-1-4-2 (Overview of Appointment System for SDF Regular Personnel)

Due to its uniqueness as a career, personnel management of uniformed SDF personnel differs from that of general civilian government employees¹, including aspects such as an "Early Retirement System" for maintaining a powerful SDF, and "Fixed Term System." Upon employment, uniformed SDF personnel are assigned a job appropriate to their choice or aptitude in a training unit or at a school belonging to the respective branch of the SDF, followed by an appointment to units and positions all around the country.

See Reference 46 (Authorized and Actual Strength of Uniformed SDF Personnel), Reference 47 (Status of Recruiting and Employing Uniformed SDF Personnel (FY2014))

See Fig. III-1-4-3 (Rank and Retirement Age of SDF Regular Personnel)

¹ SDF personnel are designated as special national government employees under Article 2 of the National Civil Service Law.