

Section 4 Defense-Related Expenditures

1 Overview of Defense-Related Expenditures

Defense-related expenditures include expenses for improving defense capabilities and maintaining and managing the SDF, as well as expenses necessary for the implementation of measures against neighborhood affairs in the vicinity of defense facilities.

In comparison with the previous fiscal year, defense-related expenditures for FY2017 were increased by 38.9 billion yen to 4.8996 trillion yen. When including expenses related to Special Action Committee on Okinawa (SACO) 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 71 billion

yen from the previous fiscal year to 5.1251 trillion yen.

Additionally, the second supplementary budget for FY2017 contains an appropriation of 21.7 billion yen as necessary expenses for enhancing the warning and surveillance posture, the rapid deployment and response capabilities, and the response capability to ballistic missile attacks, etc. The third supplementary budget allocates 176.9 billion yen as necessary expenses for securing stable operations of the SDF, which includes responding to ballistic missile attacks.

Q See Fig. II-2-4-1 (Comparison Between FY2016 Budget and FY2017 Budget)
 Fig. II-2-4-2 (Trend in Defense-Related Expenditures Over the Past 15 Years)

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. The remaining 20% of the budget which is set aside for general material expenses includes spending for repairing equipment and for implementing measures to alleviate the burden on local communities hosting U.S. bases in Japan. As such, a high percentage of the budget is allocated for maintenance purposes. For this reason, the breakdown of the defense-related

expenditures cannot be easily altered in a significant manner on a single-year basis.

Q See Fig. II-2-4-3 (Relationship between Annual Expenditure and Future Obligation Due to New Contracts)

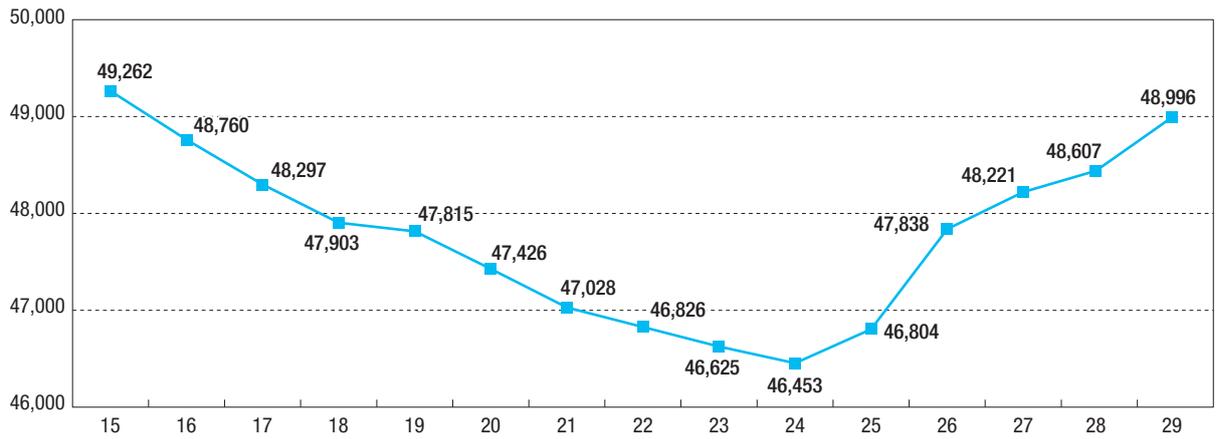
Personnel and food provision expenses were increased by 19.0 billion yen from the previous fiscal year due to the revision of the remuneration of civil servants based on the FY2016 recommendation by the National Personnel Authority and other factors. Obligatory outlay expenses for the year increased by 17.7 billion yen

Fig. II-2-4-1 Comparison Between FY2016 Budget and FY2017 Budget

Category	FY2016	FY2017	
			Fiscal YOY growth (△ indicates negative growth)
Annual expenditure (note)	48,607	48,996	389 (0.8%)
Personnel and food provisions	21,473	21,662	190 (0.9%)
Material expenses	27,135	27,334	199 (0.7%)
Future obligation (note)	43,070	46,589	3,520 (8.2%)
New contracts	20,800	19,700	△1,100 (△5.3%)
Existing contracts	22,270	26,889	4,620 (20.7%)

Note: 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 5,054.1 billion yen for FY2016 and 5,125.1 billion yen for FY2017; and for future obligation, 4,653.7 billion yen for FY2016 and 4,872.6 billion yen for FY2017. Figures may not add up to the total due to rounding.

Fig. II-2-4-2 Trend in Defense-Related Expenditures Over the Past 15 Years



Note: Does not include SACO-related expenses, portion meant to reduce the burden on the local community out of the U.S. forces realignment expenses, or expenses associated with the acquisition of a new government aircraft. The total defense expenditures when including these items 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, 4,713.8 billion yen for FY2012, 4,753.8 billion yen for FY2013, 4,884.8 billion yen for FY2014, and 4,980.1 billion yen for FY2015, 5,054.1 billion yen for FY2016, and 5,125.1 billion yen for FY2017.

Fig. II-2-4-3 Relationship between Annual Expenditure and Future Obligation Due to New Contracts

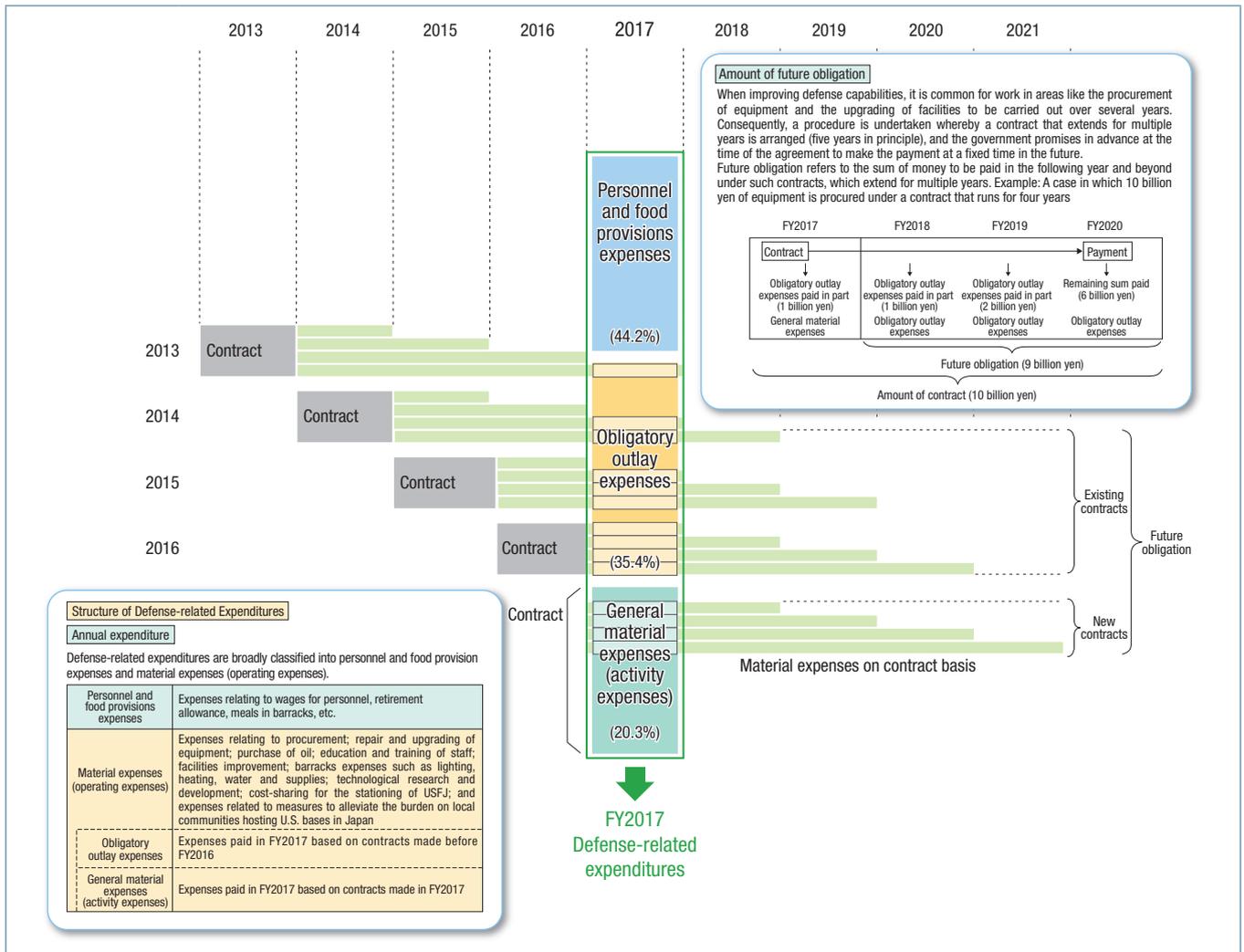
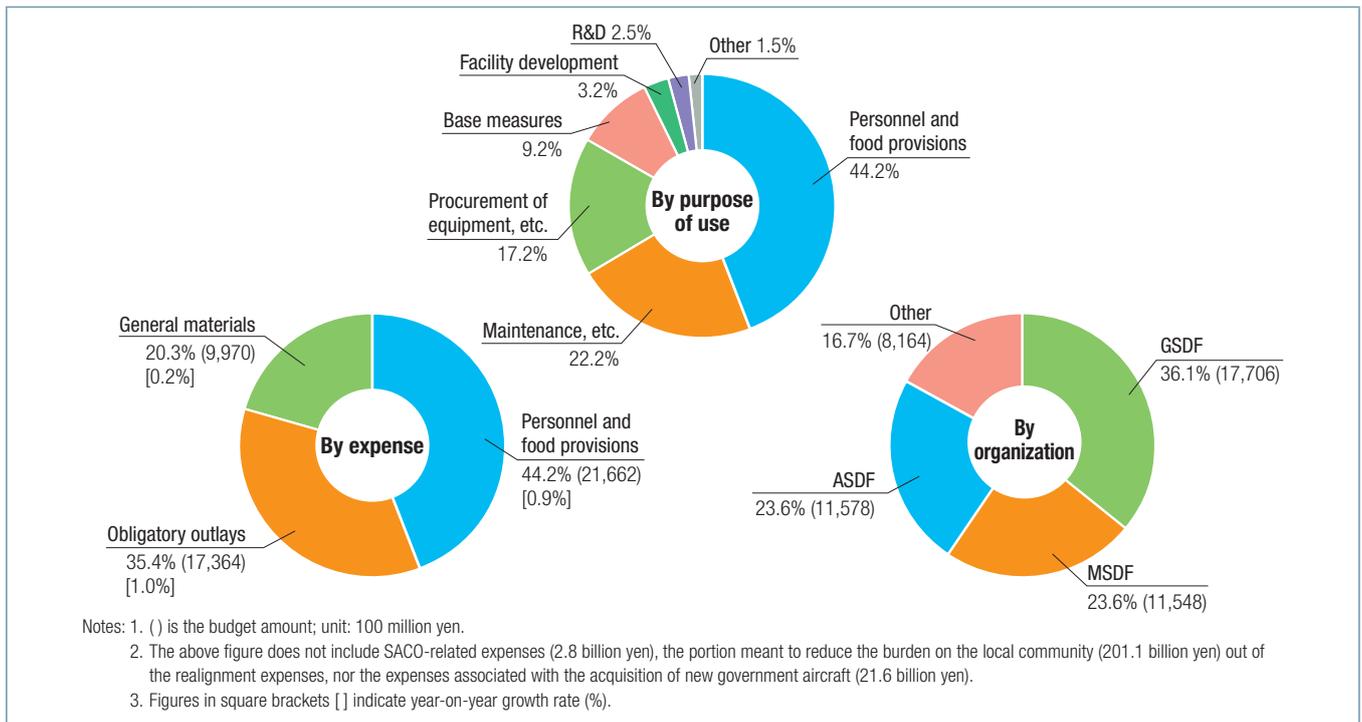


Fig. II-2-4-4 Breakdown of Defense-Related Expenditures (FY2017)



from the previous year, while general material expenses increased by 2.2 billion yen from the previous year.¹

Q See Fig. II-2-4-4 (Breakdown of Defense-Related Expenditures (FY2017)) Reference 14 (Changes in Composition of Defense-Related Expenditures (Original Budget Basis))

In addition to the annual budget expenditure, the amount of new future obligation also indicates payments for the following year and beyond (the amount of future obligation arising in the applicable fiscal year). In the build-up of defense capabilities, it is common to take multiple years 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.

Consequently, for such items, a procedure is undertaken whereby a multi-year contract is arranged, and it is promised in advance at the time of the contract that payments will be made in the following fiscal year and beyond (within five years, in principle). The sum of money to be paid in the following fiscal year and beyond, based on such a multi-year contract, is called the “future obligation.” The amount of new future obligation arising in FY2017 decreased from the previous fiscal year by 110.0 billion yen (5.3%).

Furthermore, if looked at on a contract basis,² which shows the scale of operations, there is a decline from the previous fiscal year of 107.8 billion yen (3.5%).

Q See Part III, Chapter 4, Section 3 (Efforts toward Project Management, etc.)

3 Initiatives for Increasing the Efficiency of Procurement

In light of the increasingly severe fiscal conditions, the MTDP specifies securing approximately 700 billion yen based on a policy to achieve further streamlining and rationalization in the defense capability buildup.

For this purpose, the Ministry of Defense is currently carrying out reviews to achieve efficiency, and has sought a reduction of approximately 369 billion yen from

FY2014 to FY2016 through the following measures: 1) utilize long-term contracts (Part III, Chapter 4, Section 3); 2) review maintenance methods; 3) use of civilian goods and review of specifications; 4) bulk purchase of equipment; and in addition to 1) to 4), 5) promote efforts such as prime cost scrutiny. Furthermore, approximately 204 billion yen of cost reduction is expected in the

¹ The comparison with the previous year is concerning 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 2.9670 trillion yen in FY2017.

Fig. II-2-4-5 Amount of Reduction Achieved Through Past Streamlining Efforts

Example	FY2014	FY2015	FY2016	FY2017	FY2018
Procurement of equipment, etc. and services using long-term contracts	—	¥41.7 billion	¥14.8 billion	¥11.0 billion	Amount of required cost reduction approx. ¥130.0 billion
Review of maintenance methods (Logistics reform)	¥8.1 billion	¥33.6 billion	¥43.2 billion	¥54.0 billion	
Use of civilian goods and review of specification	¥25.0 billion	¥42.3 billion	¥45.5 billion	¥58.2 billion	
Bulk purchase of equipment	¥33.1 billion	¥35.0 billion	¥46.5 billion	¥46.7 billion	
Prime cost scrutiny, etc.	—	—	—	¥34.5 billion	
Single-year total	¥66.0 billion	¥153.0 billion	¥150.0 billion	¥204.0 billion ^(Note 1)	Amount of required cost reduction approx. ¥130.0 billion
Total	¥66.0 billion	¥219.0 billion	¥369.0 billion	¥573.0 billion	

Notes: 1. The 61.6 billion yen reduction from introducing the Patriot system capable of carrying and operating PAC-3MSE missiles, which was appropriated in the third supplementary budget for FY2016, is included in the reduction amount for FY2017.
 2. Figures may not add up to the total due to rounding.

FY2017 budget. Concrete initiatives introduced in the FY2017 budget are as follows.

- A reduction of approximately 11 billion yen by procuring six transport helicopters (CH-47JA) in bulk under a long-term contract over five fiscal years and making a long-term contract of Performance Based Logistics (PBL) (Part III, Chapter 4, Section 3) for transport aircraft (C-130R).
- A reduction of approximately 54 billion yen through a review of maintenance methods including the modification of existing engines to be used in the transport helicopters.

- A reduction of approximately 58.2 billion yen by pursuing cost savings through the use of civilian goods and review of specifications of equipment such as the development of a new ship-to-air missile based on a similar domestically-developed missile.
- A reduction of approximately 46.7 billion yen through bulk procurement of equipment in a single fiscal year that could lead to a reduction in expenses.
- A reduction of approximately 34.5 billion yen through initiatives such as scrutinizing the unit cost and related expenses of major equipment, etc.

[Q See](#) Fig. II-2-4-5 (Amount of Reduction Achieved Through Past Streamlining Efforts)

4 Comparison with Other Countries

Monolithic understanding of the defense expenditures of each country 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 at respective currency rates, their dollar-based defense expenses calculated in this way do not necessarily reflect the precise value based on each country's price levels. Therefore, the results of converting Japan's defense-

related expenditures and those of other countries officially published by each government into dollar amounts, using the purchasing power parity³ of each country reported by the Organisation for Economic Co-operation and Development (OECD), are shown in Fig. II-2-4-6 (The Defense Budgets of Major Countries (FY2015)).

[Q See](#) Part I, Chapter 2 (Defense Policies of Countries) Reference 15 (Trend of Defense Expenditures of Major Countries)

In addition, Fig. II-2-4-7 (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.

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

Fig. II-2-4-6 The Defense Budgets of Major Countries (FY2015)

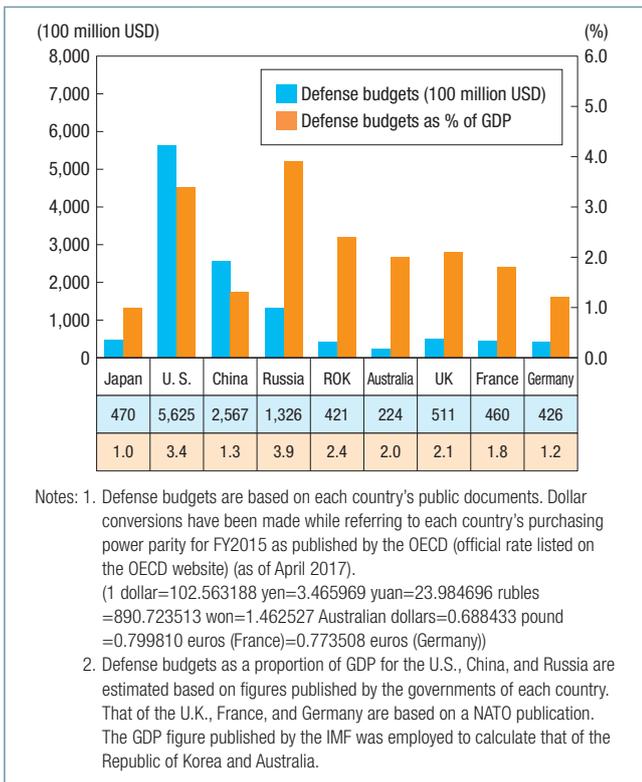


Fig. II-2-4-7 Changes in Defense Budgets in Surrounding Countries Over the Past Ten Years

