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. Defense-related expenditures have been on a hike for 6 years in a row since FY2014, including the duration of the current MTDP under which defense expenditures are set to increase by 0.8% in real average over the course of five years.

In comparison with the previous fiscal year, defense-related expenditures for FY2018 were increased by 39.2 billion yen to 4.9388 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 mitigating the impact on local communities) and expense for the introduction of new government aircraft, defense-related expenditures were increased by 66 billion yen from the previous fiscal year to 5.1911 trillion yen.

Additionally, the supplementary budget for FY2018 contains an appropriation of 234.5 billion yen as necessary expenses for securing stable operations of the SDF, which includes responding to ballistic missile attacks.

2 Breakdown of Defense-Related Expenditures

Defense-related expenditures are broadly classified into “personnel and food provision expenses,” which covers items such as wages and meals for SDF personnel, and “material expenses,” which finance the repair and maintenance of equipment, the purchase of fuel, the education and training of SDF personnel and the procurement of equipment and the others. Material expenses are further classified into “obligatory outlay expenses,” which are paid based on contracts concluded in previous fiscal years, and “general material expenses,” which are paid under current-year contracts. Material expenses are also referred to as “program expenses,” and since general material expenses include repair costs for equipment, education and training expenses for personal,

### Fig. II-2-4-1 Comparison Between FY2017 Budget and FY2018 Budget

<table>
<thead>
<tr>
<th>Category</th>
<th>FY2017</th>
<th>FY2018</th>
<th>Fiscal YOY growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual expenditure</td>
<td>48,996</td>
<td>49,388</td>
<td>392 (0.8%)</td>
</tr>
<tr>
<td>Personnel and food</td>
<td>21,662</td>
<td>21,850</td>
<td>187 (0.9%)</td>
</tr>
<tr>
<td>provisions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Material expenses</td>
<td>27,334</td>
<td>27,538</td>
<td>205 (0.7%)</td>
</tr>
<tr>
<td>Future obligation</td>
<td>46,589</td>
<td>49,221</td>
<td>2,632 (5.6%)</td>
</tr>
<tr>
<td>New contracts</td>
<td>19,700</td>
<td>19,938</td>
<td>238 (1.2%)</td>
</tr>
<tr>
<td>Existing contracts</td>
<td>26,889</td>
<td>29,283</td>
<td>2,393 (8.9%)</td>
</tr>
</tbody>
</table>

Note: Does not include SACO-related expenses, U.S. Forces realignment-related expenses (the portion allocated for mitigating the impact on local communities), and expense for the introduction 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 5,125.1 billion yen for FY2017 and 5,191.1 billion yen for FY2018; and for future obligation, 4,572.8 billion yen for FY2017 and 5,076.8 billion yen for FY2018. Figures may not add up to the total due to rounding.

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1 In the build-up of defense capabilities, there are things that 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, the future maximum obligation is allocated to the budget as a contract resulting in Treasury obligation (type of budget that only grant an authority to incur obligations. The contracts can be concluded, although the payment cannot be made). Based on such budgeting, in principle, in the fiscal year the construction is completed or the equipment is procured, expenses necessary for payment are allocated as budget expenditure (type of budget that grant authorities to incur obligations and make payment. The contracts can be concluded and the payment can be made). Budget expenditure for payments incurred under contracts concluded in previous fiscal years is called “obligatory outlay expenses,” while expenditure for the future fiscal years is termed “future obligation concerning new contracts.”
and the purchase of fuel, they are referred to also as “activity expenses.” The MOD terms this classification method as “classification by expenses.”

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 includes spending for repairing equipment and for implementing measures to alleviate the impact 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.

Personnel and food provision expenses were increased by 18.7 billion yen from the previous fiscal year, while obligatory outlay expenses for the year increased by 22.6 billion yen. General material expenses decreased by 2.1 billion yen from the previous fiscal year.\(^2\)

In addition to the annual budget expenditure, the amount of future obligations concerning new contracts 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 future obligation concerning new contracts arising in FY2018 increased from the previous fiscal year by 23.8 billion yen (1.2%).

Furthermore, if looked at on a contract basis,\(^3\) which shows the scale of operations, there is an increase from the previous fiscal year of 21.7 billion yen (0.7%).

### 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 MOD is currently carrying out reviews to achieve efficiency, and has sought a reduction of approximately 573 billion yen from FY2014 to FY2017 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; 5) scrutiny of the prime cost. Furthermore, approximately 197 billion yen of cost reduction is expected in the FY2018 budget. Concrete initiatives introduced in the FY2018 budget are as follows.

- A reduction of approximately 5 billion yen by making an over five-years long-term contract of Performance Based Logistics (PBL) (Part III, Chap.) for maintenance equipment of the F110 engine (fighter (F-2)).
- A reduction of approximately 68.5 billion yen through a review of maintenance methods including extending regular maintenance intervals for the engine of F7-10 (fixed-wing patrol aircraft (P-1)).
- A reduction of approximately 16.6 billion yen by pursuing cost savings through the use of civilian goods and review of specifications of equipment such as the maintenance of the tactical network control system (TNCS).
- A reduction of approximately 37.1 yen through bulk procurement of equipment in a single fiscal year that could lead to a reduction in expenses.

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 parity\(^4\) 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).

Fig. II-2-4-7 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 FY2008 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 price levels of each country, it is very difficult to draw a comparison of defense budgets among 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.

\(^4\) A gauge that measures each country’s ability to purchase goods and services by taking into account their respective price levels.