

**Section 3**

**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 FY2019 were increased by 68.2 billion yen to 5.007 trillion yen, rising for the seventh consecutive year. When including expenses related to SACO and the U.S. Forces realignment-related expenses (the portion allocated for mitigating the impact on local communities), expenses for the introduction of new government aircraft, and expenses for the three-year emergency measures for disaster prevention/reduction, and national resilience, defense-related expenditures

were increased by 66.3 billion yen from the previous fiscal year to 5.2574 trillion yen.

Additionally, the first supplementary budget for FY2018 contains an appropriation of 54.7 billion yen as necessary expenses for the SDF’s disaster relief and necessary expenses for restoration of SDF facilities, in response to the heavy rain in July 2018. Meanwhile, the second supplementary budget contains an appropriation of 399.8 billion yen as expenses, including those for securing stable operations of the SDF in order to deal with the security environment surrounding Japan and frequent natural disasters.

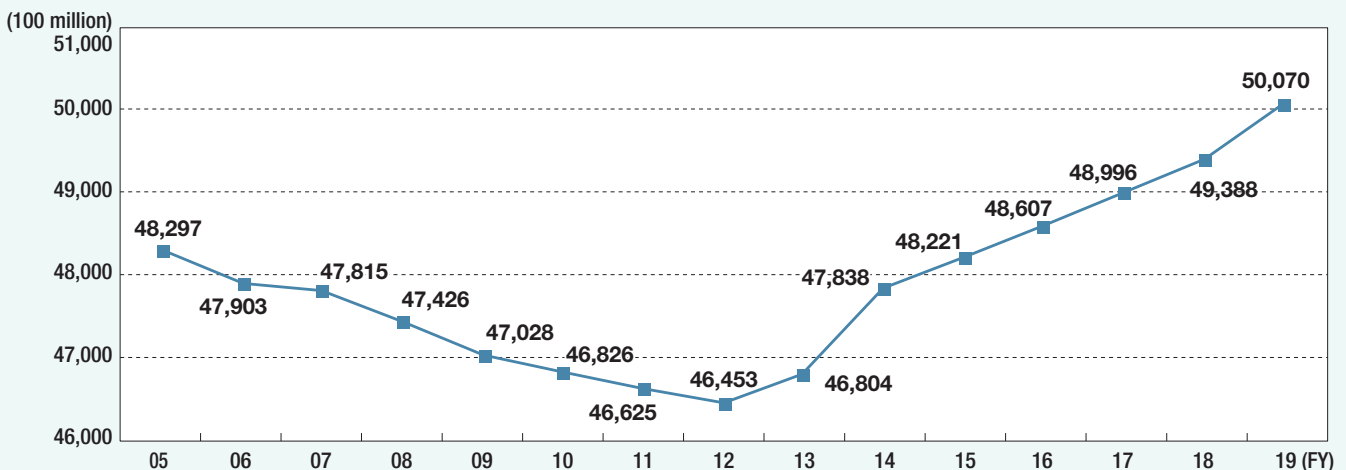
**Q See** Fig. II-4-3-1 (Comparison Between FY2018 Budget and FY2019 Budget) Fig. II-4-3-2 (Trend in Defense-Related Expenditures [Initial Budget] Over the Past 15 Years)

**Fig. II-4-3-1 Comparison Between FY2018 Budget and FY2019 Budget**

Category	FY2018	FY2019	
			Fiscal YOY growth (▲ indicates negative growth)
Annual expenditure (note)	49,388	50,070	682 (1.4%)
Personnel and food provisions	21,850	21,831	△19 (△0.1%)
Material expenses	27,538	28,239	701 (2.5%)
Future obligation (note)	49,221	51,627	2,406 (4.9%)
New contracts	19,938	24,013	4,074 (20.4%)
Existing contracts	29,283	27,615	△1,668 (△5.7%)

Note: Does not include SACO-related expenses, U.S. Forces realignment-related expenses (the portion allocated for mitigating the impact on local communities), 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), and expenses for the three-year emergency measures for disaster prevention/reduction and national resilience. If these are included, the figures are 5,191.1 billion yen for FY2018 and 5,257.4 billion yen for FY2019; and for future obligation, 5,076.8 billion yen for FY2018 and 5,361.3 billion yen for FY2019. Figures may not add up to the total due to rounding.

**Fig. II-4-3-2 Trend in Defense-Related Expenditures [Initial Budget] Over the Past 15 Years**



Note: The figures above do not include SACO-related expenses, the U.S. Forces realignment-related expenses (the portion allocated for mitigating the impact on local communities), expenses for the introduction of new government aircraft, and expenses for the three-year emergency measures for disaster prevention/reduction and national resilience. Including these expenses, total defense-related expenditures were as follows: 4,856.0 billion yen in FY2005, 4,813.6 billion yen in FY2006, 4,801.3 billion yen in FY2007, 4,779.6 billion yen in FY2008, 4,774.1 billion yen in FY2009, 4,790.3 billion yen in FY2010, 4,775.2 billion yen in FY2011, 4,713.8 billion yen in FY2012, 4,753.8 billion yen in FY2013, 4,884.8 billion yen in FY2014, 4,980.1 billion yen in FY2015, 5,054.1 billion yen in FY2016, 5,125.1 billion yen in FY2017, 5,191.1 billion yen in FY2018, and 5,257.4 billion yen in FY 2019.

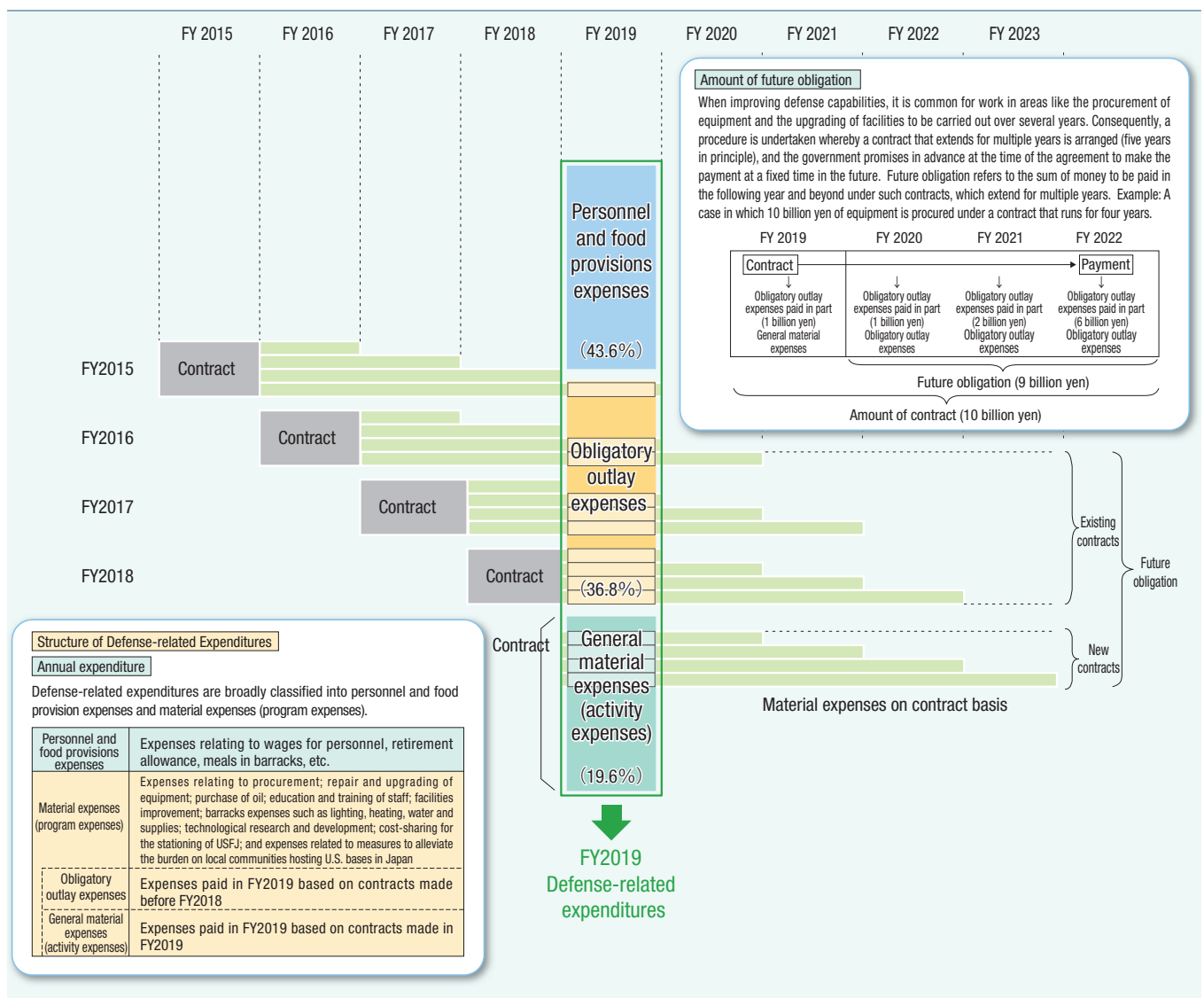
## 2 Breakdown of Defense-Related Expenditures

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 others. Material expenses are further classified into “obligatory outlay expenses,”<sup>1</sup> 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 personnel, and the purchase of fuel, they are referred to also as “activity expenses.” The MOD terms this classification method as “classification by expenses.”

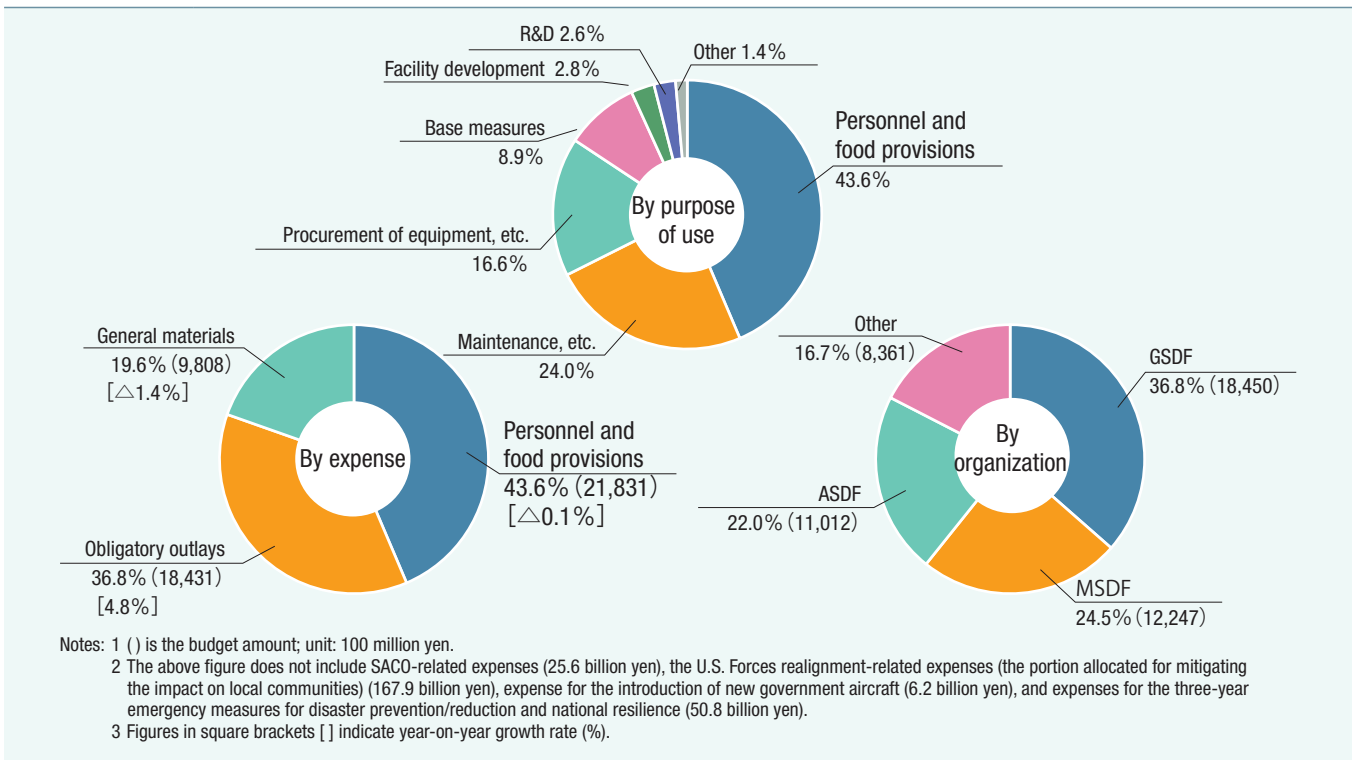
Personnel and food provision expenses as well as obligatory outlay expenses, both of which are mandatory expenses, account for 80% of the total defense-related budget. The remaining 20% of the budget includes spending for repairing equipment and for implementing measures to alleviate the impact on local communities hosting U.S. bases

Fig. II-4-3-3 Relationship between Annual Expenditure and Future Obligation Concerning New Contracts



<sup>1</sup> Some projects for build-up of defense capabilities extend over 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 a Treasury obligation (type of budget that only grants an authority to incur obligations; the contracts can be concluded, but the payment cannot be made). Based on such budgeting, in the fiscal year in which the construction is completed or the equipment is procured, expenses necessary for payment are allocated as budget expenditure, in principle (type of budget that grants 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 future fiscal years is termed “future obligation”. For cases where a continued project over multiple years is necessary, there is also a system of continuing expenditure as a means to grant the authority to incur obligations and make payment over multiple years by obtaining a resolution of the Diet integrally for the total cost and the amounts of yearly installments for the project in advance.

Fig. II-4-3-4 Breakdown of Defense-Related Expenditures (FY2019)



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-4-3-3 (Relationship between Annual Expenditure and Future Obligation Concerning New Contracts)

Personnel and food provision expenses were decreased by 1.9 billion yen from the previous fiscal year, while obligatory outlay expenses for the year increased by 84.1 billion yen. General material expenses decreased by 14.1 billion yen from the previous fiscal year.<sup>2</sup>

Q See Fig. II-4-3-4 (Breakdown of Defense-Related Expenditures (FY2019) Reference 12 (Changes in Composition of Defense-Related Expenditures [Original Budget Basis])

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 amount of future obligation. The amount of future obligation concerning new contracts arising in FY2019 increased from the previous fiscal year by 407.4 billion yen (20.4%).

Furthermore, if looked at on a contract basis,<sup>3</sup> which shows the scale of operations, there is an increase from the previous fiscal year of 393.4 billion yen (13.2%).

Q See Part IV, Chapter 2, Section 3-1 (Project Management Throughout Its Life-Cycle)

<sup>2</sup> The comparison with the previous year concerns expenditure excluding the SACO-related expenses, the U.S. Forces realignment-related expenses (the portion allocated for mitigating the impact on local communities), expense for the introduction of a new dedicated government aircraft, and expenses for the three-year emergency measure for disaster prevention/reduction, and national resilience. The same applies hereinafter in regard to this section.  
<sup>3</sup> The sum total of general material expenses and future obligation concerning new contracts, which shows the amount of the material expenses (program 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 3.3821 trillion yen in FY2019.

### 3 Initiatives for Increasing the Efficiency of Procurement

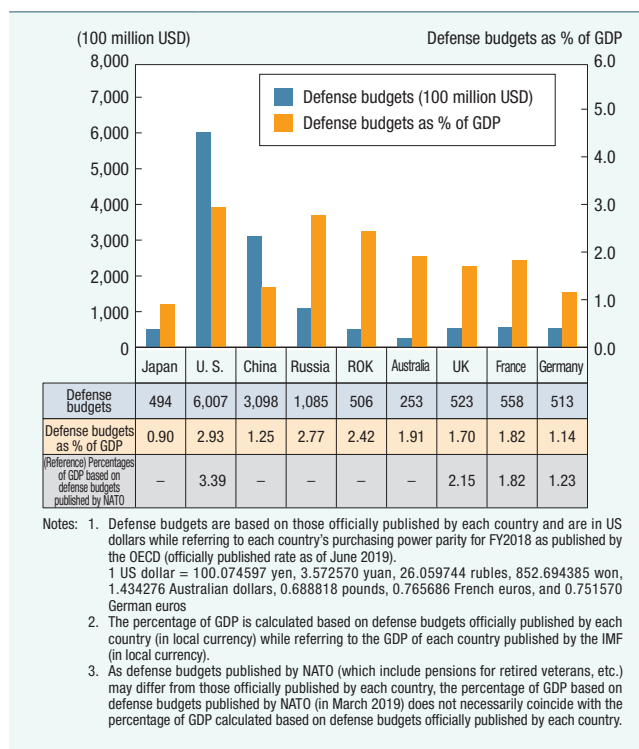
Under the former MTDP, the MOD achieved cost reduction of approximately 771 billion yen from FY2014 to FY2018 through the following measures: (1) utilization of long-term contracts; (2) review of maintenance methods; (3) use of civilian goods and review of specifications; (4) bulk purchase of equipment; and (5) scrutiny of the prime cost.

In order to achieve further streamlining and rationalization in the build-up of defense capability, the current MTDP sets forth that the MOD will also carry out (6) suspension of the use of equipment whose importance has decreased and review of projects of low cost-effectiveness, in addition to the five measures above.

In the FY2019 budget, the MOD aims to realize a cost reduction of approximately 415.9 billion yen by implementing the aforementioned streamlining measures. Concrete initiatives introduced in the FY2019 budget are as follows.

- A reduction of approximately 35.6 billion yen by making over five-years long-term contracts of bulk-purchase of PAC-3 missile components (procured over ten fiscal years) and bulk-procurement of nine E-2D airborne early warning aircraft (procured over seven fiscal years).
- A reduction of approximately 15.3 billion yen through review of maintenance methods, such as consolidating hardware and software.
- A reduction of approximately 33.8 billion yen by using civilian goods and reviewing specifications of equipment from the viewpoint of cost-effectiveness, such as developing digital learning materials for education to be used in place of learning materials using actual equipment.
- A reduction of approximately 16.3 billion yen through bulk purchase of equipment in a single fiscal year, which could

Fig. II-4-3-5 The Defense Budgets of Major Countries (2018)



- lead to a reduction in the total expenses.
- A reduction of approximately 112.9 billion yen by pursuing cost reduction through initiatives such as scrutinizing the cost of major equipment, etc. by verifying the appropriateness of the material costs and man-hours involved.
- A reduction of approximately 202 billion yen through review of acquisition methods, such as importing completed F-35A aircraft.

### 4 Comparison with Other Countries

It is not possible to accurately compare the amounts of defense expenditures of countries due to a number of factors: there is no internationally unified definition of defense expenditures in the first place; even if defense expenditures were publicly disclosed, their overall amount or their breakdown is sometimes unclear; and the budget system varies by country.

On such basis, if Japan's defense-related expenditures and those of other countries officially published by each government were converted into dollar amounts, using the purchasing power parity<sup>4</sup> of each country reported by the Organisation for Economic Co-operation and Development (OECD), the results would be as shown in Fig. II-4-3-5 (The

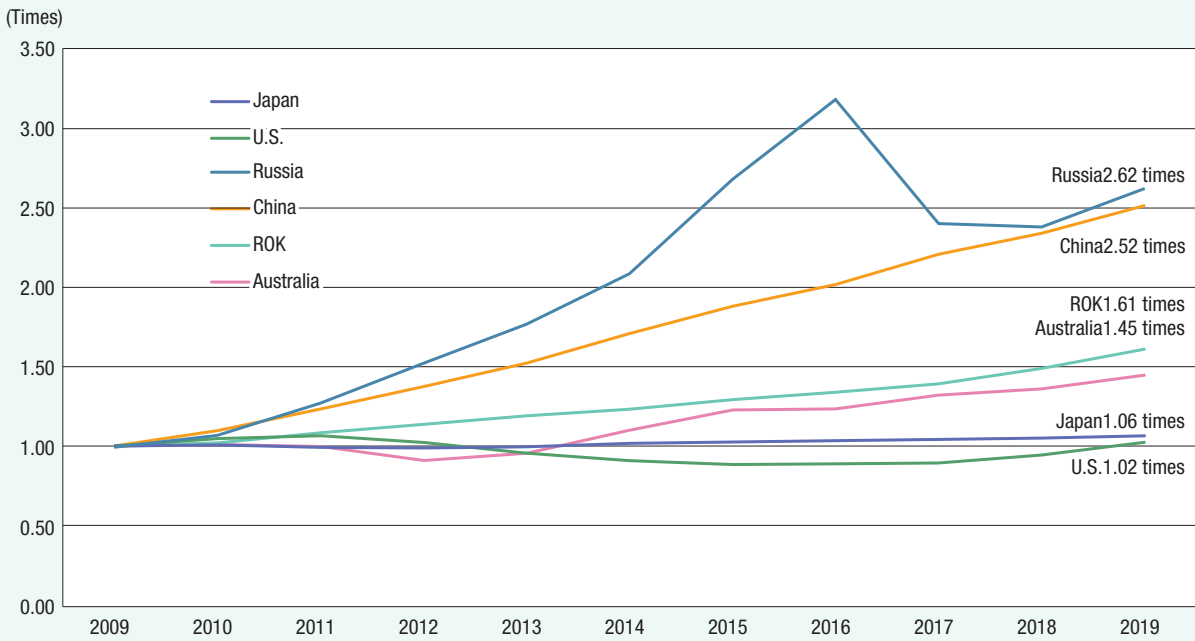
Defense Budgets of Major Countries).

**Q See** Part I, Chapter 2 (Defense Policies of Countries)  
 Reference 13 (Trend of Defense Expenditures of Major Countries)

In addition, Fig. II-4-3-6 (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.

<sup>4</sup> A gauge that measures each country's ability to purchase goods and services by taking into account their respective price levels. Although there also exists a 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.

Fig. II-4-3-6 Changes in Defense Budgets in Major Countries Over the Past Ten Years



Notes: The ratios (rounded to two decimal places) of respective countries' officially publicized defense budgets for FY2010 onward when considering their defense budgets for FY2009 as 1