

Japan Railway Construction, Transport and Technology Agency
(Incorporated Administrative Agency) (Maritime Affairs Account)

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1. Summary of operations implemented using FILP funds

The purpose of building a ship jointly by Japan Railway Construction, Transportation and Technology Agency (Incorporated Administrative Agency) is to promote building ships which contribute policy issues related to shipping. For example, to promote the introduction of environment-friendly coasters such as SES, to strengthen industrial competition, to promote modal shift, to make physical distribution efficient, and maintenance and securing of solitary islands ship service.

Coastal shipping makes up about 40% of domestic shipping freight traffic, and about 80 % of industrial basic materials, such as steel, petroleum, cement. Coastal shipping is an important means of transportation supporting economy and the life of people in Japan. In passenger business, coastal shipping is an indispensable means of public transportation. Islands ship services supports local peoples' life as life service.

Thus, coastal shipping is indispensable to the transport of people and goods, and very public. Companies in coastal shipping industry and solitary islands ship service are small and medium-sized enterprises. Most of them have no assets except for ships and little technical know-how about building a ship.

This is why Japan Railway Construction, Transportation and Technology Agency finances an entrepreneur at low interest over a long period without his ship on collateral in principle by building a ship jointly (Japan Railway Construction, Transportation and Technology Agency and an entrepreneur share a ship after building.). In addition, Japan Railway Construction, Transportation and Technology Agency provides an entrepreneur with know-how necessary to building, maintenance and repair of ships.

2. Amount of lending under FY2019 FILP

(Unit: billion yen)

FY2019 FILP	Estimated outstanding amount of FILP lending at the end of FY2018
24.5	140.8

3. Estimated policy cost analysis of the project

(1) Policy cost (Unit: billion yen)

Category	FY2018	FY2019	Fluctuation
1. Government expenditure (subsidies, etc.)	-	-	-
2. Government revenue (payments to the government, etc.)*	-	-	-
3. Opportunity cost of capital investments, etc.	-10.3	-10.9	-0.6
Total (1+2+3=policy cost(A))	-10.3	-10.9	-0.6
Analysis period (years)	16 years	18 years	+2 years

(2) Breakdown of policy cost by the time of the provision of funds (Unit: billion yen)

Category	FY2018	FY2019	Fluctuation
(A) Policy cost (previously cited)	-10.3	-10.9	-0.6
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	3.1	4.9	+1.8
2) Policy cost expected to be newly accrued during the analysis period	-13.4	-15.8	-2.3
Government expenditure (subsidies, etc.)	-	-	-
Government revenue (payments to the government, etc.)*	-	-	-
Opportunity cost of surplus, etc.	-13.4	-15.8	-2.3
Opportunity cost of capital investments, etc.	-	-	-

(3) Year-to-Year comparison analysis

(Computing any fluctuation from previous year)

(Unit: billion yen)

		FY2018	FY2019	Simple fluctuation
Policy cost	Simple comparison (before adjustment)	-10.3	-10.9	-0.6
	Past year comparison (after adjustment)	-9.6	-11.1	-1.5
	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2019 analysis)		2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2018)	Real fluctuation (2-1)

[Real fluctuation factor analysis]

○Factors behind policy cost increase

- Increase in administrative cost due to increase in ship assets, etc. (+2.6 billion yen)

○Factors behind policy cost decrease

- Decrease in cost due to increase in ships for new contracts in FY2019 (-4.0 billion yen)

- Decrease in cost due to decrease in loan losses (-0.1 billion yen)

(4) Breakdown of policy cost by causative factor (Unit: billion yen)

(A) Policy cost in FY2019 (previously cited)	-10.9
1) Prepayments	-
2) Loan losses	-0.9
3) Others (including profit spread)	-10.0

(5) Sensitivity analysis (cases where assumptions change)

(Unit: billion yen)

(A) Policy cost (previously cited)	Case for raising lending and fundraising rates by 1 %	Fluctuation	1. Government expenditure (subsidies, etc.)			2. Government revenue (payments to the government, etc.)*			3. Opportunity cost of capital investments, etc.		
			-	-	-	-	-	-	-	-	-
-10.9	-2.4	+8.4	-	-	-	-	-	-	-	-	+8.4

(A) Policy cost (previously cited)	Case for raising the bad loan write-off by 10 %	Fluctuation	1. Government expenditure (subsidies, etc.)			2. Government revenue (payments to the government, etc.)*			3. Opportunity cost of capital investments, etc.		
			-	-	-	-	-	-	-	-	-
-10.9	-10.8	+0.1	-	-	-	-	-	-	-	-	+0.1

(Note) Components in each column may not add up to the total because of rounding.

* Government revenue (payments to the government, etc.) is booked as a negative amount. Example: -10 b. yen for 10 b. yen in payments to government, etc.

4. Outline of estimation and project prospect employed in the analysis

[Outline of estimation]

- 1) All projects covered by the Maritime Affairs Account are subject to the estimation.
- 2) In addition to the remaining project assets of 191.2 billion yen (as of the end of FY2017), the project plans for FY2018 (31.0 billion yen) and FY2019 (31.7 billion yen) were taken into consideration when the estimation was made for the implementation of the shared vessel building program.
- 3) The length of analysis period is 18 years, during which all the existing project assets and also the project assets based on the project plan for FY2019 are to be collected.

[Project prospect]

- 1) An interest rate of 2.112% is applied to the FY2019 loan projects in the "shared vessel building" program.
- 2) Loan loss provisions as of the end of FY2018 based on private standard business accounting practices totaled 1.8 billion yen (In FY2018, 0.1 billion yen was transferred.). Based on this, it is estimated that the reversal of loan loss provisions with reinforced collection measures will be 0.9 billion yen and the loans charged off will be 0.9 billion yen.

5. Reasons for granting of subsidies, mechanism and underlying laws

When shipbuilding companies engage in shared vessel building for environmentally-friendly and economical ships Super Eco-Ship (vessel utilizing electrical propulsion system, new ship form, etc.) or those which meet certain requirements such as environmental functions, economic support (reduction of vessel usage fees for jointly constructed vessel that are paid by the companies to the Agency, etc.) is provided with results obtained from investment of capital from the General Account.

(Underlying laws and regulations)

Capital investments are received based on the following legal provisions.

- Capital investments are received under Paragraph 2 and Paragraph 3 of Article 6 of the Japan Railway Construction, Transport and Technology Agency (Incorporated Administrative Agency) Act.

[Provisions on capital]

“Japan Railway Construction, Transport and Technology Agency (Incorporated Administrative Agency) Act”

Article 6: The stated capital of the Agency shall be the total amount of the contributions considered to have been made by the government pursuant to the provisions of Article 2, paragraph (4), and Article 3, paragraphs (4) and (5) of the Supplementary Provisions, and the contributions considered to have been made by the Development Bank of Japan prior to its dissolution under Article 15, paragraph (1) of the Supplementary Provisions of the Development Bank of Japan Act (Act No. 85 of 2007) (hereinafter referred to as the "Old Development Bank of Japan") pursuant to the provisions of Article 3, paragraph (4) of the Supplementary Provisions.

2. The government may grant the Agency additional funding if deemed to be necessary within the scope provided for in the budget.
3. In the event that the Agency receives funds from the government as provided for in the foregoing paragraph, it shall increase its capital by that amount.

[Provisions on payments to the Government]

“Japan Railway Construction, Transport and Technology Agency (Incorporated Administrative Agency) Act”

Article 18: The Agency may apply funds approved by the Minister of Land, Infrastructure, Transport and Tourism equivalent to the amount of reserves (if such exist) provided for in Article 44, Paragraph 1, of the Act for development implemented as provided for in Article 44, Paragraph 1 or 2, relevant to the final project year of the medium-term target period) provided for in Article 29, Paragraph 2, Item 1, of the Act ("medium-term target period" in this and the following paragraph) in Grant Account, to the financing of operations provided for in Article 13 (including transfers provided for in the foregoing article, Paragraph 3, and supplementary provisions, Article 3, Paragraph 11) based on the stipulations of the approved medium-term plan of Article 30, Paragraph 1, of the Act (the plan subsequent to revision in the event that revision has been authorized as provided for in the latter section of the Paragraph 1) for the medium-term target period subsequent to said medium-term target period.

2. (omitted)
3. The Agency shall pay the remaining balance (if such exists) to the National Treasury derived by deducting the amount approved as provided for in the preceding two paragraphs from an amount equivalent to reserves as provided for in Paragraph 1.
4. In regard to the application of the provision of Article 44, Paragraph 1, of the Act in the account relating to operations described in Paragraph 1, Items 1 to 3, of the foregoing article, the text "in the event of allocation to uses of Paragraph 3 as provided for in the same paragraph" in said paragraph shall read "in the event of the payment to the National Treasury of an amount calculated as stipulated by government ordinance or allocation to uses of Paragraph 3 as provided for in the same paragraph."
5. The stipulations of Paragraphs 1 and 3 shall apply correspondingly to the accounts of the foregoing paragraph. In such event, "Article 44, Paragraph 1, of the Act" shall read "Article 44, Paragraph 1, of the Act upon revision as provided for in Paragraph 4."
6. In addition to the stipulations of the foregoing paragraphs, items required for payment procedures for payments and the disposal of other reserves shall be stipulated by government ordinance.

“Act on General Rules for Incorporated Administrative Agencies”

Article 44 (1) For each business year, when profits have accrued as a result of the calculation of profits and losses, an Incorporated Administrative Agency must offset any losses carried forward from the preceding business year, and if there is a remainder, it must record the amount of the remainder as reserve funds; provided, however, that this does not apply if it appropriates the amount of the remainder for the use referred to in paragraph (3) pursuant to the provisions of the paragraph.

(2) For each business year, an Incorporated Administrative Agency must, when losses have occurred as a result of the calculation of profits and losses, record the losses by reducing the amount of the reserve funds under the provisions of the preceding paragraph, and if there is still a shortfall, it must dispose of the amount of the shortfall as a loss carried forward.

(3) When there is a remainder provided for in paragraph (1), an Agency Managed under the Medium-term Objectives and a National Research and Development Agency may appropriate all or a part of the amount of the remainder for the use of a surplus referred to in Article 30, paragraph (2), item (vii) for a Medium-term Plan (meaning a Medium-term Plan referred to in Article 30, paragraph (1) as authorized under same paragraph (or a revised plan if the agency obtains authorization for revision under the provisions of the second sentence of same paragraph); the same applies hereinafter) or the use of a surplus referred to in Article 35-5, paragraph (2), item (vii) for a Medium to Long-term Plan (meaning a Medium to Long-term Plan referred to in Article 35-5, paragraph (1) as authorized under the paragraph (or a revised plan if the agency obtains authorization for revision under the provisions of the second sentence of the paragraph); the same applies hereinafter), by obtaining the approval of the competent minister.

(4) The disposal of reserve funds under the provisions of paragraph (1) is specified by the relevant Individual Act.

6. Special remarks

- 1) The policy cost of the Agency is to provide long-term, low-rate financing to shipbuilding companies whose business base is too weak for loans from private financial institutions through its "shared vessel building" program. From this, the Agency aims to provide high-quality ships with new technology including economical and environmentally friendly ships (Super Eco-Ship), facilitate commodity distribution, decrease environmental burden, and sustain and ensure the countermeasures for aging population combined with the diminishing number of children through promoting barrier-free ships and maritime transportation to remote islands.
- 2) The Corporation for Advanced Transport and Technology was integrated with the Japan Railway Construction Public Corporation on October 1, 2003, and subsequently reestablished as the Japan Railway Construction, Transport and Technology Agency (Incorporated Administrative Agency) based on the Reorganization and Rationalization Plan for Special Public Corporations.
- 3) Through the "Guidelines for Review of the Japan Railway Construction, Transport and Technology Agency's Marine Vessel Account toward Activation of Domestic Shipping" (established on December 20, 2004), the Agency is focusing its efforts on debt management and debt collection measures.
- 4) In analyzing policy cost, it is important to bear in mind that policy cost is being lowered because retained loss at the beginning of the analysis term is viewed as negative earned reserve, and because declines in retained loss during the analysis term are treated the same as increases in earned reserve.

(Reference) Outcome and social and economic benefits of operations

1) Track records

- The number of vessels built and loans implemented (FY2017)
Vessels built: 20 units 26.2 billion yen
- The number of vessels built and loans implemented (accumulated total from FY1959 to FY2017)
Vessels built: 4,000 units 1,755.8 billion yen
Loans for vessel Remodeling and other works: 913 cases 18.3 billion yen
- The balance of vessel building/loan accounts (at the end of FY2017)
Vessels built: 318 units 191.2 billion yen
Loans for vessel Remodeling and other works: 2 cases 0.1 billion yen

- 2) The ratio of Agency-funded vessel building projects to all domestic vessel building projects Passenger boat Freighters
(Average from FY2012 to FY2017) 38.2% 36.9%

3) Leading of policy through stable supply of long-term and low interest loans (examples)

- Promotion of building Super Eco-Ship to reduce global warming concerns
- More efficient distribution and building of more advanced vessels
- Promotion of barrier free features for domestic passenger vessels in response to lower birthrate and aging
- Maintenance and security of marine transportation to remote islands

4) Technical assistance

- Modernization of vessels and improvement in vessel safety

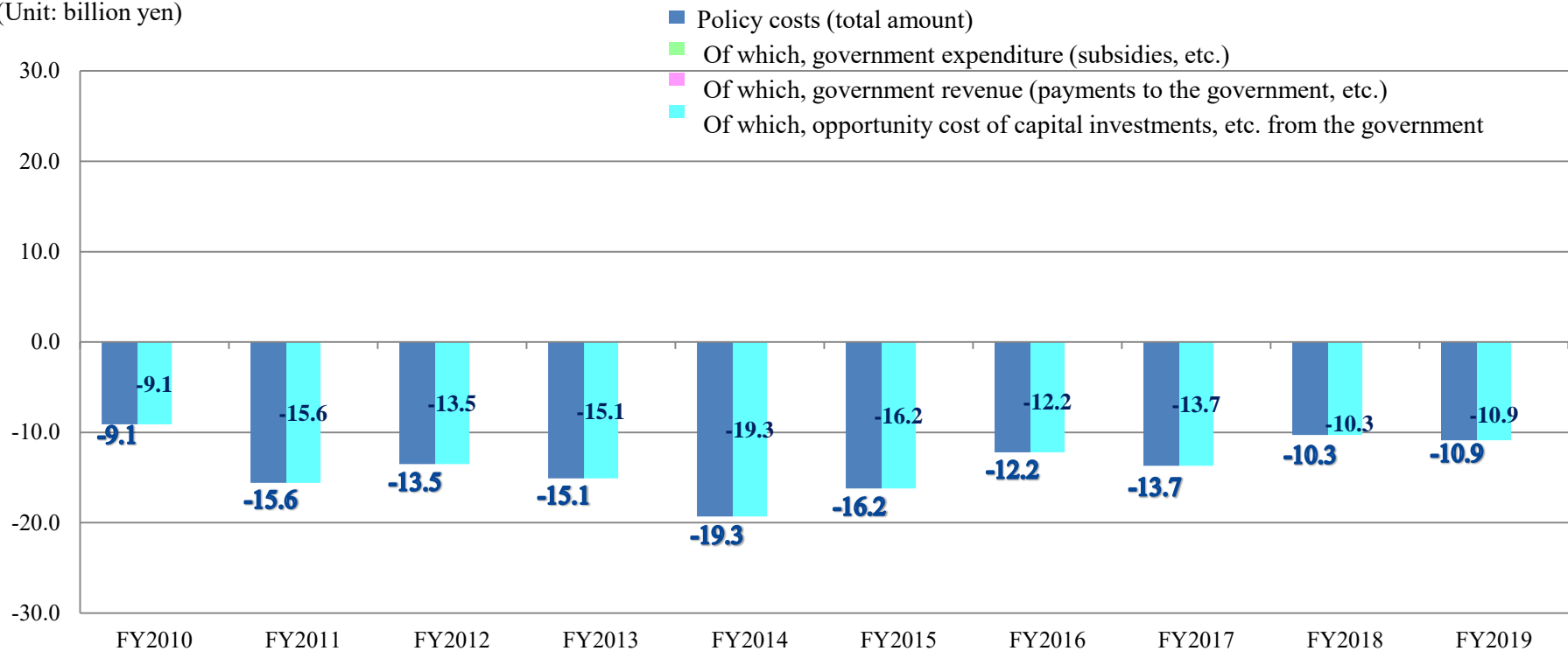
5) Economic repercussion effect

- 42.3 billion yen × 2.593424 × discount factor
- Social discount factor : 4% About 102.3 billion yen
- Discount factor is the same as policy cost analysis result: About 109.7 billion yen
- Ship construction amount: 42.3 billion yen
(Total vessel prices including expenses borne by establishments)
- Economic repercussions count: 2.593424
(Based on input-output table, centering on the transportation sector)

(Reference) Changes in Policy Costs by Component

<Japan Railway Construction, Transport and Technology Agency (Incorporated Administrative Agency) (Maritime Affairs Account)>

(Unit: billion yen)



Note: Policy costs for each fiscal year differ in assumptions including interest rates applied to estimates.

(Point)

- Retained loss is booked at the beginning of the analysis period due to the fact that large reserves are booked on balance sheets due to changes in accounting procedures in accordance with JRJT becoming an incorporated administrative agency. However, retained loss during the analysis period decreases due to reversal of reserves for loss by strengthening collection, resulting in negative policy costs.
- Since FY2015, negative costs have followed a downward trend due to a shrinking decline in losses carried forward during the analysis period.

(Reference) Financial Statements

Balance Sheet (Maritime Affairs Account)

(Unit: million yen)

Item	End of FY2017 (Result)	End of FY2018 (Estimated)	End of FY2019 (Planned)	Item	End of FY2017 (Result)	End of FY2018 (Estimated)	End of FY2019 (Planned)
(Assets)				(Liabilities and equity)			
Current assets	20,727	12,922	12,275	Current liabilities	23,112	21,848	61,156
Cash and bank deposits	11,562	4,473	4,180	Japan Railway Construction, Transport and Technology Agency bonds to be redeemed within one year	1,000	-	37,000
Notes receivable	3,996	3,986	4,207	Long-term loans to be repaid within a year	16,826	17,268	19,289
Electronically recorded monetary claims	205	205	216	Accrued payments	816	135	101
Vessel accounts due	5,243	4,707	4,105	Accrued expenses	208	203	284
Reserve for possible loan loss	-512	-516	-501	Deposit notes	3,996	3,986	4,207
Accrued revenues	0	-	-	Deposit of electronically recorded monetary claims	205	205	216
Loans	73	56	38	Reserves			
Reserve for possible loan loss	-50	-38	-20	Reserve for bonuses	39	44	52
Other current assets	210	49	49	Other current liabilities	21	7	7
Fixed assets	196,513	209,218	221,000	Fixed liabilities	158,145	163,672	134,442
Tangible fixed assets	196,496	209,215	220,998	Asset collateral liabilities			
Buildings	1	1	1	Asset collateral subsidies	1	0	0
Shared vessels	191,231	195,513	206,431	Japan Railway Construction Transport and Technology Agency bonds	40,500	44,500	10,500
Tools furniture and fixtures	9	8	6	Discount on bond	0	0	0
Construction in progress	5,255	13,693	14,560	Long-term loans payable	116,404	117,830	123,041
Intangible fixed assets	3	2	2	Reserves	1,240	1,342	901
Copyright	0	0	0	Reserves for retirement pensions	578	539	565
Software	3	2	1	Reserve for loss on termination of vessel sharing contract	662	803	335
Telephone subscription right	0	0	0	(Total liabilities)	181,257	185,520	195,599
Investment and other assets	14	-	-	Capital			
Bankruptcy or rehabilitation claims, etc.	3,730	394	379	Financing by the Government	63,567	63,567	63,567
Reserve for possible loan loss	-3,717	-394	-379	Capital surplus	-	-	-
				Capital surplus	301	301	301
				Other accumulated administrative costs			
				Amount equivalent to accumulated net gains or losses on sale or disposal	-301	-301	-301
				Deficit carried forward			
				Unappropriated loss for the current year	-27,583	-26,948	-25,890
				(Of this, gross profit)	4,150	635	1,057
				(Total equity)	35,984	36,619	37,677
Total assets	217,241	222,140	233,275	Total liabilities and equity	217,241	222,140	233,275

Notes 1. Components may not add up to the total because of rounding.

2. Results at the end of FY2017 and projections at the end of FY2018 are adjusted for comparison with planned results at the end of FY2019.

Income Statement (Maritime Affairs Account)

(Unit: million yen)

Item	FY2017 (Result)	FY2018 (Estimated)	FY2019 (Planned)
Ordinary income	28,274	25,131	26,068
Revenue from vessel usage fees	25,362	24,500	25,175
Reversal of allowance for doubtful receivables	2,523	207	47
Reversal of reserve for loss on termination of vessel sharing contract	89	-	468
Reversal of asset collateral subsidies	0	0	0
Financial revenues	0	0	0
Miscellaneous income	299	423	378
Temporary profits	4	-	-
Gain on sales of fixed assets	4	-	-
Revenue due to resignation from acting for the Employees' Pension Fund	0	-	-
Ordinary expenses	24,128	24,496	25,011
Maritime operation expenses	22,495	22,795	23,121
General and administrative expenses	808	990	998
Finance expenses	824	710	892
Temporary losses	0	0	-
Loss on disposal of fixed assets	0	0	-
Net profit	4,150	635	1,057
Gross profit	4,150	635	1,057

Note: Components may not add up to the total because of rounding.