

**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 security 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 FY2020 FILP**

(Unit: billion yen)

FY2020 FILP	Estimated outstanding amount of FILP lending at the end of FY2019
28.0	148.0

**3. Estimated policy cost analysis of the project**

**(1) Policy cost (Unit: billion yen)**

Category	FY2019	FY2020	Fluctuation
1. Government expenditure (subsidies, etc.)	-	-	-
2. Government revenue (payments to the government, etc.)*1	-	-	-
3. Opportunity cost of capital investments, etc.	-10.9	-9.9	+1.0
<b>Total (1+2+3=policy cost(A))</b>	<b>-10.9</b>	<b>-9.9</b>	<b>+1.0</b>
Analysis period (years)	18 years	18 years	-

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

Category	FY2019	FY2020	Fluctuation
(A) Policy cost (previously cited)	-10.9	-9.9	+1.0
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	4.9	2.8	-2.1
2) Policy cost expected to be newly accrued during the analysis period	-15.8	-12.7	+3.1
Government expenditure (subsidies, etc.)	-	-	-
Government revenue (payments to the government, etc.)*1	-	-	-
Opportunity cost of surplus, etc.	-15.8	-12.7	+3.1
Opportunity cost of capital investments, etc.	-	-	-

**(3) Year-to-Year comparison analysis**

(Computing any fluctuation from previous year)

(Unit: billion yen)

Policy cost		FY2019	FY2020	Simple fluctuation
		Simple comparison (before adjustment)	-10.9	-9.9
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2020 analysis)	-9.8	-8.8	Real fluctuation (2-1)
	2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2019)	-9.8	-8.8	+1.0

**[Real fluctuation factor analysis]**

**○Factors behind policy cost increase**

- Increase in cost due mainly to administrative expense rise accompanying growth in shared vessel assets (+1.0 billion yen)

**○Factors behind policy cost decrease**

- None

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

(A) Policy cost in FY2020 (previously cited)	-9.9
1) Prepayments	-
2) Loan losses	-0.3
3) Others (including profit spread)	-9.6

**(5) Sensitivity analysis (cases where assumptions change)**

(Unit: billion yen)

(A) Policy cost (previously cited)	Case before the negative interest rate policy*2	Fluctuation	Fluctuation		
			1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.)*1	3. Opportunity cost of capital investments, etc.
-9.9	-6.7	+3.2	-	-	+3.2

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

\*1 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.

\*2 Assumed interest rates (discount factor and future interest rate) are based on the market yield on Japanese government bonds on January 28, 2016, before the introduction of the negative interest rate policy.

#### 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 195.1 billion yen (as of the end of FY2018), the project plans for FY2019 (31.7 billion yen) and FY2020 (42.7 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 FY2020 are to be collected.

[Project prospect]

- 1) An interest rate of 2.314% is applied to the FY2020 loan projects in the "shared vessel building" program.
- 2) Loan loss provisions as of the end of FY2019 based on private standard business accounting practices totaled 0.9 billion yen. Based on this, it is estimated that the reversal of loan loss provisions with reinforced collection measures will be 0.3 billion yen and the loans charged off will be 0.6 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 proviso 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: 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 (FY2018)

Vessels built:        29 units        29.7 billion yen

- The number of vessels built and loans implemented (accumulated total from FY1959 to FY2018)

Vessels built:                                4,029 units    1,785.5 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 FY2018)

Vessels built:                                323 units    195.1 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 FY2018)                                36.3%                32.7%

### 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

55.7 billion yen × 2.593424 × discount factor

Social discount factor : 4%                                About 136.3 billion yen

Discount factor is the same as policy cost analysis result:    About 144.5 billion yen

Ship construction amount:                                55.7 billion yen

(Total vessel prices including expenses borne by establishments)

Economic repercussions count:                                2.593424

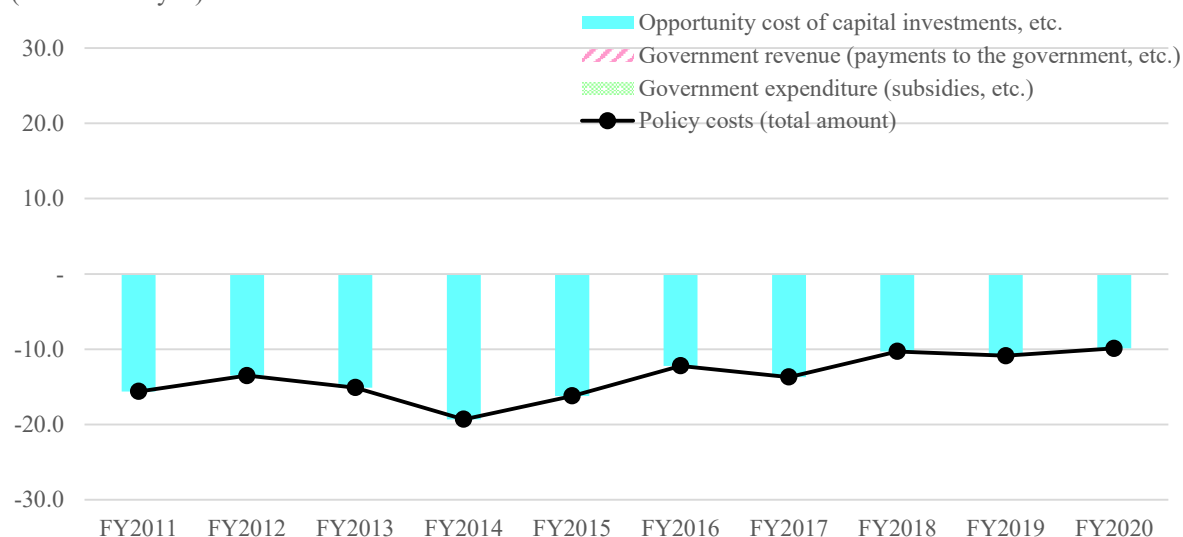
(Based on input-output table, centering on the transportation sector)

# Overview of policy cost analysis results

## [Changes in policy costs]

### <<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.

(Unit: billion yen)

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Policy costs (total amount)	-15.6	-13.5	-15.1	-19.3	-16.2	-12.2	-13.7	-10.3	-10.9	-9.9
Government expenditure (subsidies, etc.)	-	-	-	-	-	-	-	-	-	-
Government revenue (payments to the government, etc.)	-	-	-	-	-	-	-	-	-	-
Opportunity cost of capital investments, etc.	-15.6	-13.5	-15.1	-19.3	-16.2	-12.2	-13.7	-10.3	-10.9	-9.9

### 【Explanation of policy cost trends】

- 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.

### 【FILP agency's self-assessment of policy cost analysis results (FY2020)】

- As financial soundness apparently improved due to a fall in a loss carried forward amid smooth progress in the shared vessel building program, the policy cost in the FY2020 analysis came to a negative 9.9 billion yen.
- In the sensitivity analysis, the policy cost increased by 3.2 billion yen from the basic case due to a change in the discount factor, exerting little impact on financial soundness.

## (Reference) Financial Statements

## Balance Sheet (Maritime Affairs Account)

(Unit: million yen)

Item	End of FY2018 (Result)	End of FY2019 (Estimated)	End of FY2020 (Planned)	Item	End of FY2018 (Result)	End of FY2019 (Estimated)	End of FY2020 (Planned)
<b>(Assets)</b>				<b>(Liabilities and equity)</b>			
Current assets	15,501	12,697	11,959	Current liabilities	23,031	60,100	29,120
Cash and bank deposits	7,469	4,249	3,784	Japan Railway Construction, Transport and Technology Agency bonds to be redeemed within one year	-	37,000	3,500
Notes receivable	3,327	3,734	3,944	JRTT bonds to be repaid within one year	-	-	0
Electronically recorded monetary claims	250	277	292	Long-term loans to be repaid within a year	17,268	18,699	20,764
Vessel accounts due	4,839	4,807	4,304	Accrued payments	1,975	170	158
Reserve for possible loan loss	-453	-438	-434	Accrued expenses	171	170	412
Loans	56	38	20	Deposit notes	3,327	3,734	3,944
Reserve for possible loan loss	-38	-20	-2	Deposit of electronically recorded monetary claims	250	277	292
Other current assets	51	51	51	Reserves			
Fixed assets	206,958	219,310	234,133	Reserve for bonuses	35	44	45
Tangible fixed assets	206,928	219,286	234,114	Other current liabilities	5	5	5
Buildings	1	1	0	Fixed liabilities	161,626	133,005	177,593
Shared vessels	195,075	209,485	223,283	Asset collateral liabilities			
Tools furniture and fixtures	8	6	5	Asset collateral subsidies	0	0	0
Construction in progress	11,845	9,794	10,826	Japan Railway Construction Transport and Technology Agency bonds	42,500	8,500	9,000
Intangible fixed assets	25	20	15	Discount on bond	0	0	-
Copyright	0	0	0	Long-term loans payable	117,830	123,631	167,867
Software	24	19	14	Reserves	1,296	874	726
Telephone subscription right	0	0	0	Reserves for retirement pensions	535	577	576
Investment and other assets	5	4	4	Reserve for loss on termination of vessel sharing contract	760	298	150
Bankruptcy or rehabilitation claims, etc.	368	139	135	(Total liabilities)	184,657	193,105	206,713
Reserve for possible loan loss	-363	-135	-130	Capital			
				Financing by the Government	63,567	63,567	63,567
				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	-25,765	-24,665	-24,188
				(Of this, gross profit)	1,818	1,100	477
				(Total equity)	37,802	38,902	39,379
Total assets	222,459	232,007	246,092	Total liabilities and equity	222,459	232,007	246,092

(Note) 1. Components may not add up to the total because of rounding.

2. Results at the end of FY2018 are adjusted for comparison with estimated results at the end of FY2019 and planned results at the end of FY2020.

## Income Statement (Maritime Affairs Account)

(Unit: million yen)

Item	FY2018 (Result)	FY2019 (Estimated)	FY2020 (Planned)
Ordinary income	25,631	26,297	26,922
Revenue from vessel usage fees	24,727	25,374	26,367
Reversal of allowance for doubtful receivables	301	59	27
Reversal of reserve for loss on termination of vessel sharing contract	-	463	147
Reversal of asset collateral subsidies	0	0	0
Financial revenues	0	0	0
Miscellaneous income	602	401	380
Ordinary expenses	23,813	25,197	26,444
Maritime operation expenses	22,273	23,581	24,359
General and administrative expenses	865	1,015	1,024
Finance expenses	674	601	1,061
Temporary losses	0	-	-
Loss on disposal of fixed assets	0	-	-
Net profit	1,818	1,100	477
Gross profit	1,818	1,100	477

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