

# 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 the operation to jointly build ships under the Account for Japan Railway Construction, Transportation and Technology Agency is to promote building of ships that meet the policy requirements, such as promoting the greening of coastal shipping, making physical distribution efficient, promoting regional development, strengthening business foundations, and implementing measures to secure the employment of ship crew members. By building ships jointly with shipping companies, JRRT provides long-term, low-interest-rate financial assistance. In addition, it provides technical assistance concerning shipbuilding, maintenance and repair.

## 2. Amount of lending under FY2021 FILP

(Unit: billion yen)

FY2021 FILP	Estimated outstanding amount of FILP lending at the end of FY2020
32.0	155.3

## 3. Estimated policy cost analysis of the project

### (1) Policy cost

(Unit: billion yen)

Category	FY2020	FY2021	Fluctuation
1. Government expenditure (subsidies, etc.)	-	-	-
2. Government revenue (payments to the government, etc.) <sup>*1</sup>	-	-	-
3. Opportunity cost of capital investments, etc.	-9.9	-3.4	+6.5
<b>Total (1+2+3=policy cost(A))</b>	<b>-9.9</b>	<b>-3.4</b>	<b>+6.5</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	FY2020	FY2021	Fluctuation
(A) Policy cost (previously cited)	-9.9	-3.4	+6.5
1) Opportunity cost of capital investments, etc. provided before the beginning of the analysis period	2.8	3.5	+0.7
2) Policy cost expected to be newly accrued during the analysis period	-12.7	-6.9	+5.8
Government expenditure (subsidies, etc.)	-	-	-
Government revenue (payments to the government, etc.) <sup>*1</sup>	-	-	-
Opportunity cost of surplus, etc.	-12.7	-6.9	+5.8
Opportunity cost of capital investments, etc.	-	-	-

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

(Computing any fluctuation from previous year)

(Unit: billion yen)

Policy cost	Comparison	FY2020	FY2021	Simple fluctuation
		Simple comparison (before adjustment)	-9.9	-3.4
Past year comparison (after adjustment)	1) Adjusting initial years (Analysis results after adjusting initial year to that for FY2021 analysis)	-9.4	-3.8	+5.6
	2) Adjusting assumed interest rates (Analysis results of re-estimation using assumed interest rate for FY2020)	-	-	Real fluctuation (2-1)

#### 【Real fluctuation factor analysis】

##### ○Factors behind policy cost increase

- Increase in cost due to a change in assumptions for FY2020 and 2021 ships (+4.0 billion yen)
- Increase in cost due to administrative expense rise (+1.6 billion yen)
- An increase in cost due to an increase in loan charge-offs and a decrease in reversals of allowances for doubtful receivables (+0.2 billion yen)
- Others (Revision in FY2019 ship estimate, etc.) (+0.4 billion yen)

##### ○Factors behind policy cost decrease

- Decrease in cost due to an interest rate gap for FY2021 ships (-0.6 billion yen)

### (4) Breakdown of policy cost by causative factor

(Unit: billion yen)

(A) Policy cost in FY2021 (previously cited)	Fluctuation
-3.4	-
1) Prepayments	-
2) Loan losses	-0.1
3) Others (including profit spread)	-3.3

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

(Unit: billion yen)

(A) Policy cost (previously cited)	Case before the negative interest rate policy <sup>*2</sup>	Fluctuation	Fluctuation		
			1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.) <sup>*1</sup>	3. Opportunity cost of capital investments, etc.
-3.4	-1.3	+2.1	-	-	+2.1

(A) Policy cost (previously cited)	Case of a 1% increase in loan charge-offs	Fluctuation	Fluctuation		
			1. Government expenditure (subsidies, etc.)	2. Government revenue (payments to the government, etc.) <sup>*1</sup>	3. Opportunity cost of capital investments, etc.
-3.4	-3.4	+0.0	-	-	+0.0

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

<sup>\*1</sup> 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.

<sup>\*2</sup> 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

- 1) All projects covered by the Maritime Affairs Account are subject to the estimation.
- 2) Under the project plan, 42.7 billion yen for FY2020 and 31.7 billion yen for FY2021 will be spent over three years (at a ratio of 3 to 6 to 1), and fiscal loan funds equivalent to 70% of the project size (cost of acquiring ships) will be borrowed.
- 3) As for ships financed in FY2020 and FY2021, the sharing period was set at 13 years for passenger boats and at 15 years for freighters. Depreciation will be conducted according to the sharing period through the fixed-amount method (residual value at 10%).
- 4) The analysis period is the 18 years to FY2038, when all ships financed in FY2021, in addition to existing shared ship assets, are scheduled to be retrieved.
- 5) The shared interest rate, which is calculated based on the portion of the vessel usage fee that corresponds to interest, is an interest rate calculated by adding the prescribed spread to the interest rate on fiscal loan funds and by making interest rate deductions according to policy requirements.

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

To perform the operations prescribed by the Japan Railway Construction, Transport and Technology Agency (Incorporated Administrative Agency) Act, JRRT receives capital investments from the Special Account for the Fiscal Loan and Investment Program and the General Account as necessary.

(Underlying laws and regulations)

##### 【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 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.
- 2) Based on 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, by the Ministry of Land, Infrastructure, Transport and Tourism and JRRT), JRRT is making efforts such as preventing the occurrence of accounts due and strengthening debt management and debt collection measures.
- 3) In light of the “Basic Policy on Reform of the Incorporated Administrative Agencies” (Cabinet decision on December 24, 2013), JRRT is attempting to reduce losses carried forward by formulating a plan for reducing such losses during the medium target period.

(Reference) Outcome and social and economic benefits of operations

1) Track records of joint building of ships

• Cumulative value of ships built in FY1959 to FY2019	1,853.3 billion yen
• Outstanding value in FY2019	192.9 billion yen
• The planned project value in FY2020	42.7 billion yen
• The planned project value in FY2021	31.7 billion yen

2) Main policy purposes and social and economic benefits

Policy inducements through financial and technical assistance

- Promoting building of super eco-ships that contributes to the greening of coastal shipping, LNG fuel ships, ships with reduced CO2 emissions, and ships capable of preventing maritime pollution
- Promoting building of modal shift ships which contribute to efficiency improvement of physical distribution
- Maintaining and securing remote island ship services that contribute to regional development, promoting barrier-free measures for domestic and foreign passenger boats, and promoting building of domestic cruise ships
- Promoting the use of ship management companies that contributes to the strengthening of business foundations
- Promoting the employment of young crew members and building of ships with an improved working environment that contribute to measures to secure ship crew members

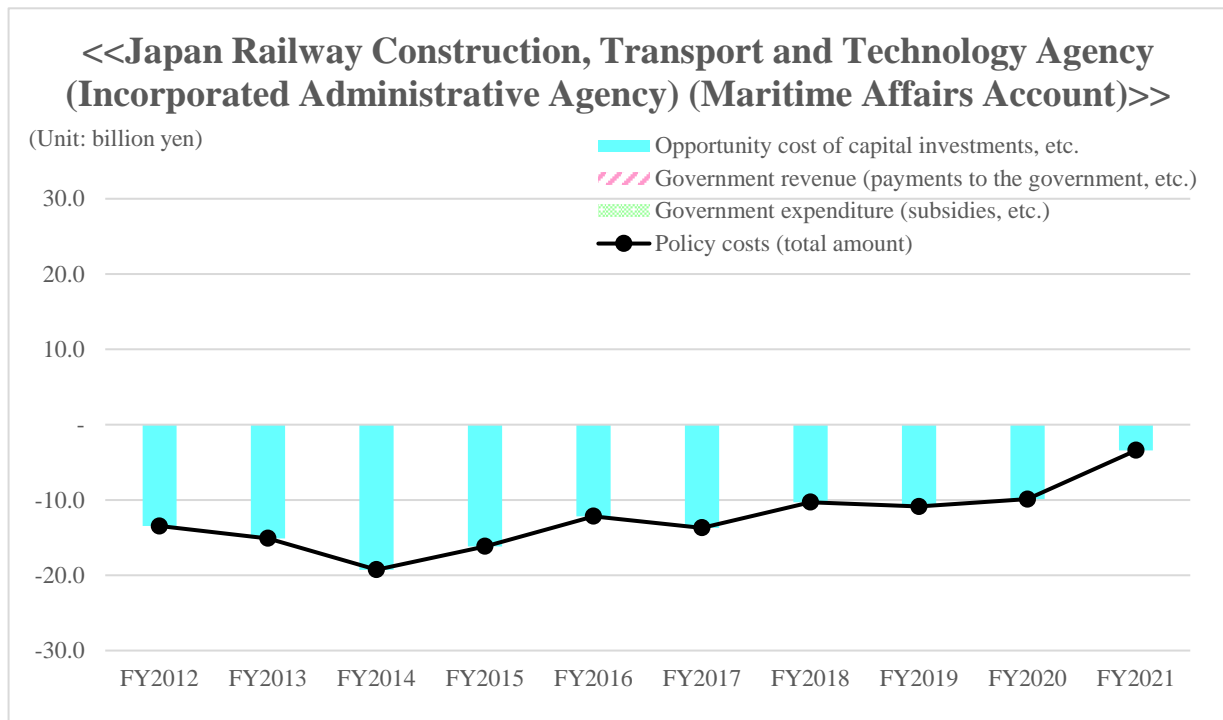
3) Qualitative benefits

The economic spillover effects of building ships valued at 41.6 billion yen, of which 31.7 billion yen is to be shouldered by JR TT under the FY2021 project plan

• Social discount factor: 4%	104.6 billion yen
• Discount factor is the same as policy cost analysis result:	107.9 billion yen

# Overview of policy cost analysis results

## 【Changes in policy costs】



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

(Unit: billion yen)

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Policy costs (total amount)	-13.5	-15.1	-19.3	-16.2	-12.2	-13.7	-10.3	-10.9	-9.9	-3.4
Government expenditure (subsidies, etc.)	-	-	-	-	-	-	-	-	-	-
Government revenue (payments to the government, etc.)	-	-	-	-	-	-	-	-	-	-
Opportunity cost of capital investments, etc.	-13.5	-15.1	-19.3	-16.2	-12.2	-13.7	-10.3	-10.9	-9.9	-3.4

## 【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. As the retained loss at the beginning of the analysis period declined over the course of the analysis period due to the booking of gross profits, the policy cost became negative.
- As for the trend in recent years, since FY2015, the negative margin of the policy cost has been narrowing due to the shrinkage of the margin of decrease in retained losses during the analysis period as a result of a decrease in reversals of reserves during period caused by a decline in reserves at the beginning of the period and a decline in revenues associated with the narrowing of the spread after interest rate reduction.

## 【FILP agency's self-assessment of policy cost analysis results (FY2021)】

- The results of the policy cost analysis in FY2021 showed an increase of 6.5 billion from the previous year in the policy cost to minus 3.4 billion yen, as the accuracy of the projection of interest rate deduction was improved to match the actual situation through changes in some assumptions. As retained losses are expected to continue decreasing during the analysis period, financial soundness has been secured.
- The results of the sensitivity analysis (case before the negative interest rate policy) showed an increase of 2.1 billion yen in the policy cost compared with the basic case. This is attributable to an increase in opportunity cost of capital investments, etc. due to a decline in the discount factor. Therefore, the impact on the actual financial conditions is minimal.
- The results of the sensitivity analysis (case of a 1% increase in loan charge-offs) showed a miniscule increase in the policy cost compared with the basic case, and therefore, the impact on financial conditions is minimal.

## (Reference) Financial Statements

## Balance Sheet (Maritime Affairs Account)

(Unit: million yen)

Item	End of FY2019 (Result)	End of FY2020 (Estimated)	End of FY2021 (Planned)	Item	End of FY2019 (Result)	End of FY2020 (Estimated)	End of FY2021 (Planned)
<b>(Assets)</b>				<b>(Liabilities and equity)</b>			
Current assets	16,513	16,798	12,230	Current liabilities	59,631	26,512	29,133
Cash and bank deposits	9,334	8,823	4,284	Japan Railway Construction, Transport and Technology Agency bonds to be redeemed within one year	37,000	3,500	-
Notes receivable	2,677	2,643	2,804	JRTT bonds to be repaid within one year	-	0	-
Electronically recorded monetary claims	229	233	247	Long-term loans to be repaid within a year	18,699	19,864	25,699
Vessel accounts due	4,405	5,296	5,072	Accrued payments	838	94	90
Reserve for possible loan loss	-200	-264	-229	Accrued expenses	136	126	236
Loans	38	20	2	Deposit notes	2,677	2,643	2,804
Reserve for possible loan loss	-20	-2	0	Deposit of electronically recorded monetary claims	229	233	247
Other current assets	49	49	49	Reserves			
Fixed assets	208,506	223,806	244,733	Reserve for bonuses	45	48	51
Tangible fixed assets	208,398	223,779	244,718	Other current liabilities	6	6	6
Buildings	2	2	1	Fixed liabilities	125,878	173,487	186,781
Shared vessels	192,921	208,661	228,756	Asset collateral liabilities			
Tools furniture and fixtures	7	11	9	Asset collateral subsidies	0	0	0
Construction in progress	15,468	15,106	15,952	Japan Railway Construction Transport and Technology Agency bonds	5,500	6,000	6,000
Intangible fixed assets	20	15	10	Discount on bond	0	-	-
Copyright	0	0	0	Long-term loans payable	119,531	166,767	180,068
Software	19	14	9	Reserves	847	720	713
Telephone subscription right	0	0	0	Reserves for retirement pensions	576	589	639
Investment and other assets	88	12	4	Reserve for loss on termination of vessel sharing contract	271	132	74
Bankruptcy or rehabilitation claims, etc.	636	384	130	(Total liabilities)	185,509	199,999	215,915
Reserve for possible loan loss	-556	-380	-126	Capital			
Deposited subsidies for scrapping, etc.	8	8	-	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	-24,057	-22,963	-22,519
				(Of this, gross profit)	1,708	1,094	444
				(Total equity)	39,510	40,604	41,048
Total assets	225,019	240,603	256,963	Total liabilities and equity	225,019	240,603	256,963

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

## Income Statement (Maritime Affairs Account)

(Unit: million yen)

Item	FY2019 (Result)	FY2020 (Estimated)	FY2021 (Planned)
Ordinary income	26,317	26,787	26,872
Revenue from vessel usage fees	25,402	25,954	26,255
Reversal of allowance for doubtful receivables	-	129	42
Reversal of reserve for loss on termination of vessel sharing contract	489	140	58
Reversal of asset collateral subsidies	0	0	0
Financial revenues	0	0	0
Miscellaneous income	425	564	517
Ordinary expenses	24,609	25,693	26,428
Maritime operation expenses	23,206	24,070	24,315
General and administrative expenses	848	1,048	1,051
Finance expenses	554	576	1,061
Temporary profit			
Gain on sales of fixed assets	0	-	-
Temporary losses			
Loss on disposal of fixed assets	0	-	-
Loss on sales of fixed assets	0	-	-
Net profit	1,708	1,094	444
Gross profit	1,708	1,094	444

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