



NATO Parliamentary Assembly

DEFENCE AND SECURITY
COMMITTEE

BURDEN SHARING: REFOCUSING THE
DEBATE

DRAFT REPORT*

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* Until this document has been adopted by the Defence and Security Committee, it represents only the views of the Rapporteur.

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I. INTRODUCTION

1. NATO is implementing ambitious new adaptations to its defence and deterrence posture in response to a rapidly evolving international security environment. In parallel there is a rising expectation all NATO Allies must do more to invest in the success of these initiatives. The most vocal proponent of increased spending is coming from the US executive.
2. United States' expectations of its Allies to do more is increasing the pressure on the already substantive shift in the burden sharing debate made at the 2014 Wales Summit, when Allies committed to moving toward dedicating 2% of their GDP toward defence spending by 2024 – 20% of this increased spending, it was also stipulated, should be dedicated to new equipment purchasing and research and development (R&D).
3. Among Allies, the burden sharing debate intensified due to the persistent fall off of NATO Europe and Canada's defence spending in the wake of the Cold War, even while the United States took the opposite course after the 9/11 attacks. Increased pressures on the United States globally and the perception of some Allies' decisions to opt out of NATO operations or tasks in recent years has only increased the temperature of the debate surrounding Allied contributions.
4. Despite the criticism of the 2% guideline due to its definitional and conceptual shortcomings, the Wales defence spending commitment has more-or-less anchored the Alliance to the benchmark.
5. This report will briefly highlight the history of the burden sharing debate in the Alliance and the main criticisms of the 2% guideline. It will then highlight the levels of new defence investments across the Alliance by region. It will conclude with an attempt to highlight the value in focusing on effective new defence investments by all Allies, as well as highlight several steps forward NATO parliamentarians can take to increase their inputs as the burden sharing discussion continues to gather political importance over the year.

II. BURDEN SHARING DEFINED AND IN CONTEXT

6. For the purposes of this report, **burden sharing** is defined as *the relative weight of the distribution of costs and risks across Allies in pursuit of common goals*.
7. Burden sharing in NATO is subject to the political-military nature of the organisation – the Alliance's core identity is defined by efforts to guarantee the safety and security of Allied populations and territories. Ultimately NATO is a consensus-based organisation meaning, any operation, adaptation, or other kind of collective action is *de facto* a common political goal to which Allied resources must be committed.
8. Allied peace and security is the central goal of the alliance. Throughout the history of the Alliance, the pursuit of this goal has inevitably produced a debate about a) the necessary means to achieve it; and, b) the ways in which these means will be employed.
9. In the case of NATO, the burden sharing argument has perennially revolved around just how much of any appropriate military asset each Ally is able to deliver to accomplish any task. When taken together, these tasks will hopefully maintain peace and security within the Alliance and even project stability abroad. To achieve this broad-based goal, NATO defines three core tasks: collective defence, crisis management, and cooperative security.

Burden Sharing as defined by NATO

10. Presently, NATO defence planners utilise metrics measuring financial input and military output as well as percentages of deployable armed forces, airframes and vessels, staff positions in NATO's Command and Force Structures and filling the requirements of the Response Force (Mattelaer, 2016).

11. Presently, NATO uses seven metrics for assessing individual countries' defence contributions, including the 2% of GDP formula, the 20% target of national defence budgets dedicated to equipment purchases and R&D, the percentage of deployable armed forces and the actual contributions deployed to NATO in terms of land forces, aircraft, ships and dedicated personnel to the NATO Command Structure (NATO, 2017a).

III. BURDEN SHARING AS PERENNIAL CHALLENGE IN NATO

12. The burden sharing question has challenged Alliance political leaders since NATO's founding in 1949. At the time, the relative power balance between post-war Europe and the United States clearly indicated the United States would play the dominant role in shaping the Alliance. US political leaders anticipated their agreement to any form of treaty-bound collective security alliance with its post-WWII allies would lead to a burden-sharing dilemma. As Secretary of State Dean Acheson told the US Congress during the NATO ratification hearings in 1949, the newly forming Alliance must guarantee "nobody is getting a meal ticket from anybody else so far as their capacity to resist is concerned" (Czulda and Madej, 2015).

13. To pre-empt the problem, therefore, Article 3 was inserted in the Washington Treaty, which underscored Allies' obligations to invest in their own forces to make the whole of the Alliance stronger as well as to bolster each nation's capacity for self-help.

14. In drafting the Washington Treaty, the Alliance's founding fathers knew all too well the credibility of collective defence ultimately depends on the political will of all NATO allies to sustain it. As such, expectations of Allied defence spending proportionate to the necessity of maintaining capable forces was understood to be a fair price for every Ally to pay for the increased security guaranteed by NATO membership. The principle of self-help attempted to ensure no Ally would become a weak link in allied efforts to defend their populations and territory.

15. Despite various forms of political pressure on Allies to increase their defence spending by the United States, defence investment clearly remains a national prerogative. Throughout the history of the Alliance, a tacit understanding always existed acknowledging each Ally would inevitably have ebbs and flows in their domestic political and economic circumstances, which may preclude a steady or even increased defence investment at any given time. The essential, therefore, was to encourage a steady increase over time and to not call out individual members for 'failing' to live up to these expectations at any given time. The reason for this was clear – the maintenance of alliance solidarity always overrode any momentary shortcoming (Lunn and Williams, 2017).

A. WHY THEN THE 2% GUIDELINE?

16. Prior to its initial endorsement at a NATO Defence Ministerial in 2006, a benchmark of 2% GDP defence spending for aspirants emerged as a logical and feasible goal for incoming member states who at the time were spending approximately 1.7% GDP on defence (Lunn and Williams, 2017). In parallel, as Allies were taking the lead in Afghanistan in 2003, median defence spending among European NATO Allies and Canada had fallen to 1.7% GDP. 2% became, therefore, a guideline for aspirational Allied defence investments as a means of backstopping continued 'peace dividend' defence spending cuts and as a goalpost for incoming members.

17. Unfortunately, the 2% defence spending guideline for Allies surfaced only just before the 2008 financial crisis, during which defence budgets became prime targets for cash-strapped governments across the Alliance. To make matters worse, a growing divergence in transatlantic defence spending was well underway in parallel.

18. After the 2001 terrorist attacks, defence spending by the United States increased dramatically. The United States assumed a global war footing as it sought to defend and deter against terrorism – the most obvious and burdensome were its commitments in both Afghanistan and Iraq. NATO member states invoked Article 5 for the first time in the history of the Alliance in defence of the United States and soon took the lead in Afghanistan. As the Alliance's expeditionary operations and missions continued, however, a growing number of Allies began to reduce their commitment or even reject partnering in Washington's conception of broader Atlantic security – the starkest example being NATO's Libya operation, which appeared more as a coalition of the willing than a whole-of-alliance effort.

19. In parallel, instead of an increase in the necessary defence expenditures to continue assisting in Atlantic security tasks, declines in NATO Europe and Canada continued. By 2011, median NATO Europe and Canada spending had declined to 1.52% GDP. The transatlantic gap in defence investments had grown to approximately 70%, as the United States now accounted for \$712bn of the \$1.012trn total Allied defence spending. In light of the ever-widening transatlantic defence spending gap and the waning political will to commit to US-defined Atlantic security interests, what had previously been confined to grumblings in Washington grew to sharp public rebukes and chastisements by 2011. Robert Gates, then US Secretary of Defense, openly questioned the future of the Alliance in the absence of stronger political will and renewed defence investments from European Allies to participate in NATO missions and operations more capably (Shanker, 2011).

20. Secretary Gates' remarks reflected the strain the United States was facing at the time as it was bogged down in 'forever' wars in the broader Middle East and beyond. Still, the comments reflected the dire reality – the transatlantic gap had become a chasm, and, as Gates bluntly stated, "[...] there will be dwindling appetite and patience in the US Congress – and in the American body politic writ large – to expend increasingly precious funds on behalf of nations that are apparently unwilling to devote the necessary resources [...] to be serious and capable partners in their own defense" (Shanker, 2011).

21. Mr Gates continued with a stark depiction of the strain the burden-sharing dilemma had wrought upon the Alliance as he lamented the growing divide "between those willing and able to pay the price and bear the burden of commitments, and those who enjoy the benefits of NATO membership but don't want to share the risks and costs" (Shanker, 2011).

B. TOWARD THE WALES 2014 JOINT 2% COMMITMENT

22. The rapidly deteriorating security environment of 2014 brought the burden sharing debate front and centre as a swift set of political decisions by the North Atlantic Council (NAC) sought to bring about the most significant adaptation of Alliance posture and structure since the end of the Cold War. As NATO looked to make its deterrent posture more mobile and dynamic to face a range of conventional and non-conventional threats from the east and south, attention necessarily returned to ensuring member states were investing in the required means to achieve this new deterrence posture and subsequent force readiness.

23. As the Defence and Security Committee (DSC) General Report on Alliance deterrence demonstrates in greater detail [063 DSC 18 E], the new forces and structures needed to support the Readiness Action Plan (RAP) and the Very High Readiness Joint Task Force (VJTF) required significant quality defence outputs from all Allies. Given the perceived range of threats from the conventional to the asymmetrical emphasis on both increased spending as well as a focus on new equipment acquisition and research and development (R&D) made its way into the defence

investment commitment at the Wales Summit by September 2014. NATO Heads of State and Government for the first time made a public statement confirming their intentions to move their defence spending toward 2% GDP, at least 20% of which would be focused on equipment purchases and R&D¹. Such a joint commitment was a radical departure from previous efforts to address burden-sharing concerns.

IV. THE 2% DEBATE: LIMITATIONS AND BENEFITS

24. This Assembly discusses and debates the question of burden sharing in NATO with regular frequency. The question of the necessity of allocating 2% GDP to defence spending is always a central part of the discussion. In addition to the complaints of the arbitrary nature of the 2% figure, as discussed above, according to both our debates as well as the broader policy world there are four principal points of disagreement: 1) A lack of consensus about the definition of defence spending; 2) The appropriateness of a blanket 2% expectation for all Allies; 3) Should defence investment expectations be broadened to incorporate risk; and, perhaps most relevantly, 4) Is the 2% benchmark too focused on inputs rather than outputs?

A. DEFENCE SPENDING DEFINED AND CRITICISED

25. NATO defines defence expenditures as including defence ministry budgets, pensions, peacekeeping or humanitarian operations, research and development costs², financial assistance by one Ally to another, and expenditure on NATO infrastructure. Benefits to veterans or war damage repairs, as well as civil defence expenditures are excluded (NATO(b), 2017).

26. The argument put forward in Assembly debate and in academic writings about the lack of clear definition of defence spending rests on the notion that reported figures from individual members across a range of organisations varies too much to make a clear assessment of who is spending what and how. For example, reports of national defence spending by NATO and the UN on the same member state vary significantly – in 2013 the United Kingdom reported \$62.3bn to NATO and \$57.7bn to the UN (IISS, 2017). In addition, even within a reporting structure such as NATO's, Allies do not have consistent measures for reporting – as the Defence and Security Committee learned on a visit to Turkey in 2013, funding is reported from both the Defence Ministry as well as the Under-Secretariat for Defence Industries, something not done by any other Ally and less than straightforward about what such a budget entails. The United States currently allocates approximately \$60 billion additional funds into the Overseas Contingency Operations budget; European Deterrence Initiative (EDI) funding is drawn from this sum. This funding is not found in US declared defence spending when calculating along the above parameters.

27. Further complicating the issue is the fact there is no consistent measure of GDP either – from the IMF to the World Bank to varying national measures, they all differ somewhat.

B. IS 2% VALID FOR ALL?

28. The crux of the criticism surrounding the blanket application of a 2% benchmark is straightforward. Some Allies have global security interests extending beyond NATO Euro-Atlantic security responsibilities: The United States and, to some extent, France and the United Kingdom, dedicate a portion of their defence spending to goals extending beyond the remit of NATO's Euro-Atlantic responsibilities. For example, the United States allocates approximately 3.6% GDP to defence spending, but how much of this is purposed exclusively to its Pacific interests? By contrast, it can be argued all of Estonia's 2.14% benefits NATO-related security interests (Dobbs, 2017).

¹ It should be noted, however, that Germany and Canada joined forces during the Wales Summit to ensure the 2% guideline was not going to become a legal commitment, but rather a non-binding benchmark instead (Driver, 2016).

² 'including those for projects that do not successfully lead to production of equipment'

C. WHAT ABOUT RISK?

29. Including a measure of risk in Allied activities is also a valid criticism; while two allies may deploy forces to any particular operation, one may not allow for their forces to be in the line of fire while the other does. Good examples of Allies consistently willing to assume greater operational risks are Denmark and Norway – from counter-ISIS training and precision-strike missions to active combat roles in Afghanistan. Still, both nations fall relatively far below the 2% GDP benchmark, contributing 1.17% and 1.59% GDP in 2017 respectively.

30. Should the weight of such contributions be greater given the value of their outputs? This argument leads directly into the most often cited criticism of the 2% benchmark – too much emphasis on inputs, rather than the quality of outputs.

D. INPUTS, OUTPUTS OR BOTH?

31. Many critics contend that simply measuring inputs neglects the core issue at hand in this era of adaptation. The real focus should rather be on those capabilities and contributions that most effectively reinforce NATO's deterrence and collective defence. What good, for example, is 2% if over 70% of that sum is dedicated to personnel costs? Further, if new equipment purchases focus on items such as tanks, how fit for purpose would such acquisitions be for the Alliance (Braw, 2017)?

32. The *input versus output* argument is clearly the most valid criticism of the 2% benchmark. It has spurred on the current persistent buzz rhetoric from NATO HQ seeking to get Allies to focus on *cash, commitments, and capabilities*. The alliteration is a means of driving home three key ideas: 1) Inputs are a de facto necessity to have outputs; 2) Political commitment is necessary to make increased defence funding available, and 3) The combination of the two should be focused on the acquisition of the capabilities necessary to address the security challenges to the Alliance.

33. Critics of the 2% benchmark also note the NATO definition of defence expenditures (as outlined above) do not address some of the broader, and ultimately more nuanced and difficult to calculate, challenges to security today. This extends from the range of political, economic, and social disruptions caused by hybrid tactics to dealing with the root causes of terrorism and climate change through such channels as development assistance and new regulations.

34. The most often cited example of an alternative approach is the 3% proposal made by Wolfgang Ischinger at the February 2017 Munich Security Conference. Ischinger's proposal would include 3% to deal with 'crisis prevention, development assistance, and defence': The 2% defence spending metric would be coupled with the UN goal of nations dedication of .7% GDP to development aid, etc.

V. WARSAW DOUBLES DOWN ON ADAPTATION INCREASING PRESSURE ON THE 2%

35. In the wake of the Wales commitment decisions to expand the breadth and depth of NATO adaptation at the 2016 Warsaw Summit only further reinforced the sentiment Allies needed to accelerate defence investments to meet the 2&20 pledge and, for those member states not already meeting the standard, a credible plan to achieve the benchmark was expected to get there by 2024.

36. A key milestone achieved at the Warsaw Summit is the Joint Declaration formalising NATO-EU cooperation. The statement identified seven concrete areas of cooperation, namely hybrid threats, maritime security, cyber security, defence capabilities, defence industry and research, joint exercises and building resilience in Europe's East and South. The current security environment likely grants the statement more weight than it would in a different geopolitical context. The declaration offers the 22 members NATO shares with the EU unprecedented opportunities for increased cooperation, joint

capability development, cost-effective platforms for enhanced complementarity and duplication elimination.

37. The remaining post-Warsaw challenges relate to the Alliance's ability to show continued solidarity and credibility in the face of unpredictable security challenges such as Russia's reactions to NATO's new posture and the ability to maintain unity in circumstances of continued refugee and migrant flows and conflict in regions along NATO's Southern and Eastern flanks.

38. Although the Alliance is witnessing an overall convergence of threat perception in terms of a NATO-wide agreement on the severity of the various geographical and resilience challenges, geography still dictates the security perceptions of all member states. For example, southern European NATO states perceive the challenges in the Middle East and North Africa (MENA) region to be of more immediate concern than the Central-Eastern European and Baltic states. Such a divergence of perspective still challenges the Alliance's ability for collective action.

39. There is an imperative today for all Allies to understand the dichotomy between Eastern and Southern flank challenges is false; threats to any Ally's security will inherently affect the entire Alliance.

A. US VIEWS ON BURDEN SHARING IN THE RUN-UP TO THE 2018 BRUSSELS SUMMIT

40. Donald Trump's November 2016 election is dramatically accelerating the burden sharing debate. Rhetoric out of Washington is increasingly presenting US contributions to the Alliance as a quid pro quo transactional relationship. During his campaign, candidate Trump called NATO 'obsolete', asserted that European countries "owe massive amounts of money" to NATO and pointed out the unfairness of 'free-riding' towards US taxpayers (Rohac, 2017), sharpening previous American leaders' criticism. During his reassurance of American commitment to NATO Allies, US Secretary of Defence James Mattis also warned the United States might "moderate its commitment" if Allies do not shoulder more of the burden (MacAskill, 2018).

41. US policymakers also delivered a loud and clear message to a delegation from the DSC of the NATO Parliamentary Assembly (NATO PA): The United States is increasing its commitment to NATO, and it expects increased investments in parallel from its Allies. Officials told the delegation the Trump Administration would make burden sharing among Allies one of its principal goals when it comes to Brussels July 2018 for the NATO summit. The other main priorities, deterrence and defence as well as counterterrorism, officials stressed, go hand in hand with Allies' responsibility to meet their defence spending commitments.

42. Michael Murphy, Director of the Office of Security and Political-Military Affairs at the Bureau of European Affairs, told the delegation, "the Wales Pledge is at the forefront of US officials' minds in the run-up to Brussels." Mr Murphy insisted all allies must be able to present credible plans to get there, to which he added only approximately 13 were currently on track to do so. "If these numbers are still present at the summit, this will be problematic – please carry this message back to your governments and constituencies," he added.

B. RHETORIC VERSUS REALITY – THE RENEWED US COMMITMENT TO EUROPEAN SECURITY

43. The Trump Administration's December 2017 National Security Strategy (NSS) defines the current international security environment as one of global competition at all levels, as the administration views both China and Russia seeking peer rival status vis-à-vis the United States. An important line of effort to counter this, the document contends, is to build stronger alliances. The NSS underscores Washington's desire to remain active in Europe: "A strong and free Europe is of vital importance to the United States." (NSS, 2017). The NSS also says the United States 'expects'

allies to fulfil their defense spending commitments but stops short of making US support conditional (Brattberg, 2018).

44. US Policymakers also attempted to lay to rest any lingering doubts in delegation members' minds about the United States's Article 5 commitment during the Defence and Security Committee's most recent visit. As Thomas Goffus, Deputy Assistant Secretary of Defense (DASD) for European and NATO Policy, confirmed: "The United States's Article 5 guarantee is iron clad." Goffus continued by stating the United States would focus on the European Deterrence Initiative (EDI) during the upcoming summit in Brussels: "Deterrence is what we do together, rather than the US-focused European Reassurance Initiative, as the EDI was previously known."

45. The United States recently announced a planned allocation of \$6.5bn to the EDI in 2019, a \$1.7bn increase from last year, and \$3.1bn more than allocated in 2017. As the DSC General Report highlights more thoroughly, the ERI/EDI has funded a significant increase in US presence in Eastern Europe, which supports more exercising, infrastructure, equipment prepositioning, and partner capacity development efforts. In many ways, the proof of US commitment is in the \$10+bn already spent or planned to reinforce Allied defence and deterrence in Europe.

VI. TRENDS IN DEFENCE SPENDING

46. Relatively stable economies and the steady growth of European member states make it no longer possible to hide behind the pretext of lingering effects of the financial crisis. The EU bloc is the globe's second largest economy when measured as a collective GDP. According to Eurostat, the EU's statistical office, Eurozone GDP is growing 2.5% on a yearly basis and 2017 represented the fifth consecutive year of growth.

47. To be fair, Europe is investing in defence again. This represents a sharp contrast with the pre-2014 period, when the Euro-Atlantic region was the sole region exempted from global defence expenditure growth (IISS, 2015).

48. Defence spending is driven by both increased threat perception and regional economic growth, but total spending continues to decline when compared to most countries' GDP growth rates (Jane's Defence, 2018a).

A. NORTH AMERICA

1. United States

49. In the United States, President Trump has put considerable emphasis on defence spending. The Department of Defence's proposed FY2018 budget is \$677.1bn, an increase of 4.7% from \$642.9bn spent in 2017 (IISS, 2018) and a total of \$70bn more since 2014. As noted above, this figure does not include the billions being spent, for example, on the European Deterrence Initiative, which falls in the Overseas Contingency Operations budget. Defence spending in the U.S. is witnessing its fastest increase rate in a decade (Jane's Defence, 2018a).

50. The Third Offset Strategy has also played a role in budget allocations in terms of raising awareness of the US's eroding technological edge and the imperative of sustaining US advantage through innovation in equipment and military doctrine.

2. Canada

51. Prime Minister Justin Trudeau has expressed a commitment to reverse the decline in Canada's defence spending and enhance its role in NATO. Indeed, Canada's recent defence policy review, 'Strong, Secure, Engaged', includes a renewed emphasis on hard power and the will to decrease

reliance on the United States on defence matters through substantial investments (IISS, 2018). The defence review promises a rise of 70% in spending over a decade, increasing from \$13.2bn in 2016-2017 to \$18.6 billion by 2026-2027.

52. Defence spending only rose by \$1.1bn over three years from 2014 to 2017, however, leading some to question how Canada will fulfil its above-stated ambitions.

B. EUROPE

53. Defence spending continued to increase on aggregate across European NATO member states in 2016, from \$255.7 to \$256.5bn from 2015 to 2016 and showing a 0.3% increase (Béraud-Sudreau and Giegerich, 2017). In terms of defence expenditure as share of GDP in European NATO Allies, a steady decrease can be seen from 2009 when the spending was 1.69% on average, reaching 1.45% in 2013 only to go as low as 1.40% in 2015, only to rebound slightly in the past two years to 1.45% in 2017.

54. Overall, in real terms, NATO Europe has steadily increased total defence spending, moving up by 3.6% in 2017, and representing a total increase by \$45.8bn since 2014.

1. EASTERN EUROPE

55. Defence spending in Eastern European states has witnessed a 24% increase in real terms between 2014 and 2017, clearly motivated by Russia's illegal annexation of Crimea, on-going conflict in eastern Ukraine, and Russia's large-scale 'snap' military exercises in the region. Budgetary projections indicate Eastern Europe will deliver the fastest growth in defence spending, rising to an average of 1.6% of GDP in 2017 from 1.3% in 2013 and predicted to reach 1.8% by 2020 (Jane's Defence, 2018a).

a. Poland

56. As the largest frontline state in Europe's Eastern Flank, Poland's key strategic position makes it particularly vulnerable to Russian aggression. With regards to burden sharing, Poland has been meeting the 2% target in recent years. The Polish defence budget grew from \$9.09bn in 2013 to \$10.2bn in 2017 (IISS, 2015; 2018). Poland is poised to complete construction for the land-based Aegis Ashore ballistic missile defence system this year and plans to acquire new F-35 Lightning II jets and used F-16 fighter jets from the United States and the 3D mobile surveillance radar NUR-15M (Adamowski, 2017a).

57. The Polish government is maintaining a commitment to maintain the level of defence investment at 2% of GDP (Anderson, 2017) and even intends to increase it to 2.5% by 2030 (IISS, 2018).

b. Romania

58. Romania has increased its defence budget from \$2.6bn to \$4bn from 2014 to 2017 (IISS, 2018). The figures make Romania set to meet the NATO spending guideline at 2.03% of GDP dedicated to military expenditure. The government's plan is to reach \$5bn by 2020.

59. An active NATO member, host of the Aegis Ashore missile defence system and of several multinational NATO forces, Romania is only 200 miles away from Crimea. After the inauguration of the Aegis Ashore in 2016, President Vladimir Putin warned Romania and Poland they are in Moscow's 'crosshairs' (Hope, 2017). In response, Romania set out plans to purchase the US-made Patriot missile and air defence system.

60. Furthermore, Romania is also an enthusiastic participant in the EU's Permanent Structured Cooperation (PESCO) and related defence integration initiatives. As the EU's fastest growing economy, Romania's procurement list includes fast corvettes, armoured troop carriers, multiple-launch rocket systems and Intelligence, Surveillance and Reconnaissance (ISR) systems (McLeary, 2017).

c. The Baltics

61. Directly bordered by Russia, including its Kaliningrad exclave, Lithuania, Latvia, and Estonia see NATO membership vital to their security strategies. Due to their perceived vulnerability, the three states make up a key strategic area to NATO's Enhanced Forward Presence battalion deployments. In parallel, all three states have dramatically increased their defence spending.

62. Overall military spending in the Baltic is poised to double in real terms compared to 2014 (Jane's Defence, 2018a). Estonia's defence budget has been steadily growing from \$480m in 2013 to \$539m in 2017. Latvia's defence budget more than doubled from 2013-2017, from \$205m to \$506m. Lithuania followed suit by increasing spending from \$359m to 816m over the same period. (IISS, 2015 ; 2018)

63. All three have ambitious procurement goals both independently and jointly, including a plan for an air defence covering all three territories. Estonia's procurement plans include 11,000 automatic firearms during 2018-2021, infantry fighting vehicles, K9 howitzers, communication systems, Unmanned Aerial Vehicles (UAVs) and long-range anti-tank missile systems. The Latvian government also plans purchases of combat vehicles and M109 self-propelled howitzers (Adamowski, 2017b).

64. With a vast spurge in defence spending, Lithuania plans to acquire PzH 2000 self-propelled howitzers, the Norwegian Advanced Surface-to-Air Missile System (NASAMS), transport and combat helicopters. Additionally, Riga's and Vilnius' defence procurements are to be synchronised for both armed forces following a recent agreement (Adamowski, 2017b).

65. In tandem with Eastern Europe becoming the fastest growing defence spender, these states are all forecast to meet the 2% of GDP target, together with the United States, the United Kingdom, Turkey and Greece.

2. SOUTHERN EUROPE

a. Italy

66. Although Italy recognises the threat posed by Russian aggression, Rome's principal defence concerns focus across the Mediterranean. Italy's defence spending trends are slightly volatile, but still in decline, moving from \$26.6bn in 2013 to \$22.1bn in 2017 (NATO, 2017b). The Eurozone crisis has exposed significant structural economic weaknesses in the country, which have contributed to the decline in spending.

67. A defence white paper and parallel defence plan were released by the Italian government in 2017 outlining goals to increase personnel, expand joint exercising, and upgrade equipment. Despite sector volatility, Italy retains a strong defence industry, remains an active member in NATO exercises, air-policing missions and operations while also leading the EU's Operation Sophia in the Mediterranean (IISS, 2018). As such, Italy is expected to maintain a line of continuity in defence as it is deepening involvement in key European defence projects and military operations (Marrone, 2018).

b. Greece

68. Before the Eurozone crisis and economic difficulties, Greek armed forces have traditionally been well-funded. Although in recent years major procurement has been halted and military exercises reduced, Greece is now strengthening maritime-patrol and anti-submarine-warfare capabilities, bolstering surveillance in the Mediterranean, enhancing rotary-wing transport capability and upgrading its F-16 fleet (IISS, 2018).

69. In 2013 Greece spent \$5.68bn on defence. It declined steadily in ensuing years, though 2017 did witness a small growth from \$4.75bn from \$4.64bn when compared to 2016. In 2009 Greece allocated 3.08% of its GDP to defence, 2017 it had fallen to 2.32% (NATO, 2017b). While Greece still technically makes the 2% GDP commitment, this has only been possible due to the severe contraction of the Greek economy in recent years.

70. Greece is often an example highlighted by critics of the 2% guideline as almost 70% of the country's total defence spending goes to personnel costs, including pensions, rather than concrete investments in armed forces and readiness (Deni, 2015). The Greek example demonstrates the above criticism of the 2% benchmark, as its above-2% spending does not guarantee strong capabilities able to contribute to NATO's current defence posture aspirations.

3. WESTERN EUROPE

71. Western Europe averaged only a 2% increase in 2017 (Jane's Defence, 2018a). While Eastern Europe is prioritising military modernisation and procurement, former great powers such as France and the UK struggle to sustain and develop capabilities proportional with their global ambitions.

a. France

72. French President Emmanuel Macron's has announced simultaneous cuts and increases; almost \$1bn in cuts to the 2017 defence budget to limit public deficit coupled with an increase of \$2bn to the 2018 budget. The French defence budget declined from \$52.3bn to \$46.1bn from 2013-2017 (IISS, 2015; 2018). With the objective of reaching the 2% NATO goal by 2025, the government has pledged to add €1.7bn annually until 2022 and €3bn thereafter (Chassany, 2018). This move comes as President Macron's support of recent European defence integration initiatives and as a reaffirmation that France's interests are also at risk if threats to the East and South escalate.

b. The United Kingdom

73. As Europe's largest defence spender United Kingdom's defence budget decreased to \$50.7bn in 2017 from \$52.6bn in 2016, far below the 2014 \$65.6bn figures (IISS, 2018; NATO, 2017b). In January, the British government disclosed the initiation of its third defence review which will assess the UK's security posture and set spending priorities. After the Brexit referendum, the government launched the National Security Capability Review to ensure that Britain's capabilities are able to meet its foreign policy targets (Jane's Defence, 2018b).

74. Britain's defence review is said to formulate an industrial strategy, to adapt procurement to current requirements, and to aim to integrate cyber and electronic warfare as well as artificial intelligence considerations when enhancing defence capabilities. Brexit is likely to increase the UK's commitments to NATO as it still remains to be seen the terms of third country participation in the EU's new defence pact, PESCO and the European Defence Fund scheme.

c. Germany

75. Defence has traditionally been a politically sensitive issue in Germany for clear historical reasons. Recently however, the motor of Franco-German cooperation on defence has been driving

the European Union's unprecedented cooperation on security matters. As a staunch promoter of European integration, German hopes are that instruments such as PESCO, the EDF and Coordinated Annual Review on Defence (CARD) will not only boost European capabilities and strengthen the EU pillar in NATO, but also deepen European integration. The development of the EU's Common Security and Defence Policy (CSDP) has been a key focus of German foreign policy.

76. After a sharp decline from 2014-15 from \$46.1 to 39.8bn, Germany's defence investments have been steadily increasing since, reaching \$44.6bn in 2017 (IISS, 2015, 2018). Defence is high on the current German government's agenda, with Minister von der Leyen announcing an intention to increase the defence budget by \$4-5bn annually until 2030 (Moelling, 2016).

77. Germany's contribution to NATO burden sharing by meeting the 2% target has been widely present in the debate, as Minister von der Leyen reaffirmed this goal – though it is highly unlikely given the pledged increases come nowhere near the approximately \$70bn additional funding needed to reach this goal.

78. A slate of recent reports about the lamentable state of the land, air, and sea forces show the energy to renew defence investments is sorely needed in Germany. At present, reports indicate not a single one of Germany's 212A-type submarines is able to leave port. This is part of a broader trend wherein entire German weapons systems are unusable due to lack of funding for spare parts and proper maintenance (Buck, 2018).

VII. INTRA-EUROPEAN GAP

79. Although European military spending increased on aggregate by 5.7% between 2007 and 2016, the trend differs across regions of Europe. When broken down by region over the same period: Western European spending decreased by 6.2%; Central European increased by 4.2%; and, Eastern European spending increased by a stunning 78% (SIPRI, 2015).

80. A closer look upon member's defence spending reveals underlying problems preventing a clear-cut assessment of proportional inputs and outputs. While a full harmonisation of defence planning among nations is far-fetched, solutions for greater congruity are needed in order to identify metrics for ensuring defence spending is converted into concrete outputs beneficial for the Alliance's post-2014 adaptation.

81. Lack of defence cooperation between European countries is estimated to cost anywhere from €25 to €100 billion every year in needless duplications of effort or extra subsidisation needed to make up for the lack of economies of scale. As such, the current state of the European defence market is characterised by protectionism, duplication, and fragmentation. Recent approximations place 80% of procurement and over 90% of research and technology projects in the hands of national authorities (European Commission, 2017a, b). The EU's landmark defence projects such as PESCO and its financial stimulus for joint capability development and research, the European Defence Fund, aim to remedy the current fragmentation.

82. Bowing to pressure from Washington last spring, NATO demanded Allies submit defence spending plans by the end of 2017 which should outline means of achieving the 2% target by 2024. The exercise proved less useful than intended; several countries submitted three-year plans while others' extend beyond 2024, and many failed outright to plan to reach the 2% target. 14 out of 29 countries currently have announced clear plans of reaching the target: the United States, Greece, Poland, Latvia, Estonia, Romania, Lithuania, France, Turkey, Hungary, Slovakia, Bulgaria and Montenegro.

VIII. INTERIM CONCLUSIONS

83. Aware most NATO member states are now increasing their defence spending, the Alliance is seeking to find the means to maintain momentum towards the spending pledge goal. As a result, an effort is being made to paint a clearer picture of what increased defence spending efforts by Allies are producing. As of March 2017, Allies are to publish annual defence spending plans detailing three key elements – cash, capabilities, and commitments: a) how much are they spending and how they intend to reach the defence spending pledge goal if they have not already; b) how are they investing in NATO-required capabilities; and, c) what contributions are made to and planned for NATO's current operations and missions.

84. The results have been mixed as some plans only go out three years, others surpass the 2024 goal set out in the Defence Spending commitment of 2014. Some Allies have yet to submit them. Clearly the ability to produce feasible and acceptable plans will preoccupy the thinking of at least the United States' delegation this summer in Brussels.

85. Still, as this report highlights, the Alliance's relatively radical shift on the burden sharing debate at the 2014 Wales Summit imposes upon Allies somewhat misguided criteria to which they are all now supposed to adhere. Much of the debate surrounding burden sharing today centres on the shortcomings of the 2% guideline: it lacks clear definition; US defence funding serves global interests, while most Allies' serves Euro-Atlantic security interests; it does not calculate risk; it fails to measure outputs, which are more important, etc. Many Allies find the United States' new insistence on the issue troublesome for these reasons and more.

86. The relatively myopic focus the Trump Administration seems to be bringing to the 2% GDP spending debate in NATO today is part and parcel of a feeling that US interactions with its Allies are increasingly quid pro quo transactional ones. Despite the rhetoric and challenges laid down by both Candidate and President Trump, however, the United States has in fact doubled-down on its commitment to European security – the EDI is funding a significant increase in US presence in Eastern Europe, supporting more exercising, infrastructure, equipment prepositioning, and partner capacity development efforts. In many ways, the proof of US commitment is in the \$10+bn already spent or planned to reinforce Allied defence and deterrence in Europe.

87. As is made clear by the recent publications of the US National Security Strategy and the National Defense Strategy – the United States feels the pressure of a changing international security environment and to stave off the challenges of potential near peer competitors, it will not only boost its domestic defence investment efforts, but it also views strong alliances as key to taking on the challenge. In fact, the NSS even underscores the vital nature of European security to the United States – a key reminder of the importance of the transatlantic link.

88. NATO Europe and Canada clearly now feel the pressure of the changing security environment both in the Euro-Atlantic area and globally. This is clearly driving new investments in defence – particularly in Eastern Europe. Still, many Allies remain far from achieving the expectations of the 2&20 pledge on defence investments. And, while arguments against the limitations of the 2% guideline are certainly valid, inputs are certainly needed for quality outputs, which all Allies now realize are vital to build and sustain the mobile and dynamic defence and deterrence posture outlined at the last two summits.

IX. STEPS FORWARD FOR NATO PARLIAMENTARIANS

89. NATO has a relatively well-established means for identifying Allied defence sector shortcomings – the NATO Defence Planning Process (NDPP). The NDPP runs on a four-year cycle to align NATO military staff needs to fulfil their missions with what Allies are actually bringing to the table. Member state parliamentarians can familiarise themselves with the NDPP and their country's level of coordination and synchronisation in their defence planning and procurement processes to meet the needs set forth by Alliance military leaders.

90. NATO parliamentarians can also solicit information from their respective defence establishments about how their nations are not only responding to NATO requirements, but also working to streamline spending to make their current contributions more effective. In addition, as all Allies are likely to seek to channel new spending into their defence sectors, it is imperative that such spending is well allocated – more focus on new effective equipment, research and development, or exercising over top-heavy personnel costs should be a priority.

91. NATO parliamentarians can and should also familiarise themselves with the breadth and depth of NATO adaptation decisions made at Wales and Warsaw. This will bring a greater understanding to the need for increased defence spending that will contribute effectively to the Alliance today.

X. EXPANDING THE DEBATE TO STRENGTHEN ALLIED SECURITY

92. It is clear from recent ministerial meetings and briefings the United States expects NATO European Allies to do more in the fight against terrorism. As the United States continues to move toward almost exclusively military diplomacy, it will certainly continue to take the lead on the priority of denial of safe operating space for terrorist groups – but it is clear (at least for now) it will not invest in the broader security measures needed to address the root causes of violent extremism.

93. Perhaps European Allies can thereby broaden the burden sharing debate accordingly and demonstrate their willingness to step up in this arena by expanding their commitment to development aid and democratic assistance programmes throughout the MENA region and beyond. Such a measure would expand the 2% debate on defence spending and make it more similar to the 3% criterion put forward at the last Munich Security Conference that is more focused on the broader issues of the complex causes of security challenges today.

94. The insistence on the new alliteration – cash, commitment, and capabilities – highlights the way to think about the needs for a unified Allied commitment to fulfilling the political goals they have set for themselves to tackle the new security environment and thereby continue to guarantee the peace and security of NATO populations and territory.

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