



NATO PARLIAMENTARY ASSEMBLY

# DEFENCE AND SECURITY COMMITTEE (DSC)

Sub-Committee on Transatlantic Defence  
and Security Cooperation (DSCTC)

## BURDEN SHARING: NEW COMMITMENTS IN A NEW ERA

Report

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## I. INTRODUCTION

1. NATO is implementing ambitious new initiatives to adapt its defence and deterrence posture in response to a rapidly evolving complex 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. The 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 purchasing new equipment 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 have only increased the temperature of the debate surrounding Allied contributions.
4. Despite criticism of the 2% guideline due to its definitional and conceptual shortcomings, the Wales defence spending commitment has 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 underscore the value in focusing on effective new defence investments by all Allies, as well as suggest several steps forward NATO parliamentarians can take to increase their inputs as the burden sharing discussion continues to gather political importance over the coming years.

## 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 which implies that 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 NATO's history, the pursuit of this goal has inevitably produced a debate about the necessary means to achieve it and 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 ultimately seek to maintain peace and security within the Alliance and even to 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. 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, as well as the requirements of the Response Force to have a clear assessment of contributions by each individual member state across the Alliance (Mattelaer, 2016).

11. 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 personnel dedicated to the NATO Command Structure (NATO, 2017a).

### **III. BURDEN SHARING AS A PERENNIAL CHALLENGE IN NATO**

12. The burden sharing question has been central to Allied political leaders' discussions since NATO's founding in 1949. At the time, the relative power balance between post-war Europe and the United States clearly indicated the latter would play the dominant role in shaping the Alliance. US political leaders did, however, anticipate their agreement to any form of treaty-bound collective security alliance with their 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 burden sharing problem, Article 3 was inserted in the Washington Treaty, which underscored the 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 were 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 Allied solidarity always overrode any momentary shortcoming (Lunn and Williams, 2017).

#### **A. WHY THEN THE 2% GUIDELINE?**

16. Prior to its initial endorsement at a 2006 NATO Defence Ministerial, 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. Therefore, 2% became 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 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 to reject partnering in Washington's conception of broader Atlantic security – the starkest example being NATO's Libya operation, which functioned more as a coalition of the willing than a whole-of-alliance effort.

19. In parallel, instead of an increase in the defence expenditures necessary to continue assisting in Atlantic security tasks, declines in NATO Europe and Canada continued. By 2011, median NATO European and Canadian 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 USD 712 billion of the USD 1.012 trillion 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 Mr 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 the 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's (DSC) general report [[168 DSC 18 E fin](#)] on NATO deterrence demonstrates in greater detail, 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, an emphasis on increased spending as well as a focus on new

equipment acquisition and research and development made their 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 increase their defence spending toward 2% GDP, at least 20% of which would be focused on equipment purchases and R&D<sup>1</sup>. 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. According to both NATO PA Defence Committee discussions and the broader policy world, there are four principal points of debate: 1) The lack of consensus about the definition of defence spending; 2) The appropriateness of a blanket 2% expectation for all Allies; 3) The question of broadening defence investment expectations to incorporate risk; and, perhaps most relevantly, 4) The concern the 2% benchmark is 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 costs<sup>2</sup>, 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, 2017b).

26. The argument put forward in Assembly debates 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 vary 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 can vary significantly – in 2013 the United Kingdom reported USD 62.3 billion to NATO and USD 57.7 billion to the UN (IISS, 2017). (The United States currently allocates approximately USD 60 billion additional funds to the Overseas Contingency Operations budget; European Deterrence Initiative (EDI) funding is drawn from this sum. This finding 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, all broad-based GDP calculations differ from one another slightly.

##### **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).

##### **C. WHAT ABOUT RISK?**

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<sup>1</sup> 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 (Driver, 2016).

<sup>2</sup> "Including those for projects that do not successfully lead to production of equipment."

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, while both nations have increased their investments from 1.17% to 1.21% GDP and from 1.5% to 1.61% GDP respectively over the past four years, they fall relatively far below the 2% benchmark (NATO, 2018).

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 on 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 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 disproportionately 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 security challenges to the Alliance.

33. Critics of the 2% benchmark also note the NATO definition of defence expenditures (as outlined above) does 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. Actions to bolster whole-of-government resilience in the face of potential non-conventional hybrid tactics do not figure in the above-mentioned criteria for Allied defence spending reporting.

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 dedicating 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 by 2024 was expected.

36. A key milestone achieved at the Warsaw Summit is the Joint Declaration formalising NATO-EU cooperation. The statement identifies 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. RECENT US VIEWS ON BURDEN SHARING**

40. President Donald Trump is dramatically accelerating the burden sharing debate. During his campaign, candidate Trump called NATO "obsolete", claimed European countries "owe massive amounts of money" to NATO and pointed out the unfairness of "free-riding" towards US taxpayers (Rohac, 2017). President Trump's statements only served to sharpen previous US leaders' criticism of the burden-sharing dilemma in the Alliance. US Secretary of Defence James Mattis has also warned the United States might "moderate its commitment" if Allies do not shoulder more of the burden (MacAskill, 2018).

41. During the 2018 annual NATO PA Defence Committee visit to Washington, US policymakers also delivered a loud and clear message: 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 at the July 2018 NATO summit in Brussels. 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. The Director of the Office of European Security and Political-Military Affairs at the Bureau of European and Eurasian Affairs, Michael Murphy, 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 warned.

42. Burden sharing was indeed a key element of the NATO Brussels summit. The myriad variables driving increased investment in domestic defence programmes and Allied tasks have had a clear impact across the Alliance. In Brussels, Allies again pledged their commitment to the 2014 Wales Defence Investment Pledge, with promises "to submit credible national plans on its implementation, including the spending guidelines for 2024, planned capabilities, and contributions" (Brussels Summit Declaration, 2018).

#### **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 as 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 defence 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' 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' Article 5 guarantee is iron clad." Mr Goffus also stated the United States would continue to focus on the European Deterrence Initiative (EDI): "Deterrence is what we do together, rather than the US-focused European Reassurance Initiative (ERI), as the EDI was previously known."

45. The United States recently announced a planned allocation of USD 6.5 billion to the EDI in 2019, a USD 1.7 billion increase from last year and USD 3.1 billion more than allocated in 2017. As the DSC's 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 USD 10+ billion already spent or planned to reinforce Allied defence and deterrence in Europe.

46. The United States' recent increased investments come on top of an already substantial existing commitment by Washington to guarantee the security of all Allies, particularly those in Europe. For example, the United States maintains about 68,000 active military personnel and an additional 16,000 Department of Defense civilian personnel in its own as well as shared facilities across Europe. The 2018 US defence budget allocates USD 24.4 billion to cover the expenses of US military assets in Europe. Further, as noted in the Committee's [\[161 DSC 17 E\]](#) report on NATO's ballistic missile defence initiative, the backbone of NATO's current ballistic missile defence system is funded directly by the US Missile Defence Agency's budget. The United States also funds approximately 22% of NATO common funding to support and maintain facilities, common procurement of new equipment, as well as an increasing pace of training, exercises, and operations. The United States also maintains a relatively small amount of direct bilateral military assistance to individual Allies and partners in Europe.

## VI. TRENDS IN DEFENCE SPENDING

47. 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.

48. It is clear 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). Additionally, the most recent report from NATO shows that defence spending by European countries and Canada has risen from USD 256 billion in 2016 to a projected USD 312 billion in 2018 (NATO, 2018). As the NATO Secretary General, Jens Stoltenberg, said quite succinctly about the changing dynamics in NATO Allied defence spending this past June: "We now have four consecutive years of real increases in defence spending. All Allies have stopped the cuts. All Allies are increasing defence spending. More Allies are spending 2% of GDP on defence and the majority of Allies now have plans to do so by 2024. Across European Allies and Canada, we expect a real increase this year of 3.8%. This means that, since 2014, European Allies and Canada

will have spent an additional USD 87 billion on defence. When it comes to capabilities Allies have committed to investing 20% on their defence spending on major equipment. This year, 15 Allies are expected to meet the guideline, and I count on more to do so in the coming years” (NATO, 2018).

49. 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 Weekly, 2018a).

## **A. NORTH AMERICA**

### **1. United States**

50. The United States is putting considerable emphasis on increased defence spending. The 2019 National Defense Authorization Act, passed by Congress and signed by President Trump in August 2018, allocates USD 716 billion to defence spending and investment – an increase from President Trump’s earlier request of USD 686 billion (US DoD, 2018). If all of the authorised spending allocations are funded, this will represent an approximately USD 76 billion increase in defence spending by the United States since 2015. 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 United States is witnessing its fastest increase rate in a decade (Jane’s Defence Weekly, 2018a).

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

### **2. Canada**

52. The Canadian 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” (SSE), 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 Government of Canada released figures in May 2018 showing that capital spending fell short in the SSE’s first year by USD 2.3 billion. Figures predict further shortfalls, with the SSE promising USD 24.3 billion in spending for the 2020-2021 fiscal year while the Department of National Defence’s 2018-2019 Departmental plan is forecasting total spending at USD 20.1 billion for the same period, a USD 4.2 billion shortfall (CGAI, January 2018; Canadian Department of National Defence, 2018).

53. Defence spending only rose by USD 1.1 billion over three years from 2014 to 2017, however, leading some to question how Canada will fulfil its above-stated ambitions. The Canadian Global Affairs Institute has attributed the underspending to “a dysfunctional defence procurement system at Canada’s Department of National Defence” (CGAI, May 2018).

## **B. EUROPE**

54. Defence spending continued to increase on aggregate across European NATO member states in 2016, from USD 255.7 billion to USD 256.5 billion 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 and going as low as 1.40% in 2015, only to rebound slightly in the past three years to 1.5% in 2018.

55. Overall, in real terms, NATO Europe has steadily increased total defence spending by about USD 40.5 billion since 2015 (NATO, 2018).

## 1. EASTERN EUROPE

56. 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, ongoing 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, which rose to an average of 1.6% GDP in 2017 from 1.3% in 2013 and is predicted to reach 1.8% by 2020 (Jane's Defence Weekly, 2018a).

### a. Poland

57. As the largest frontline state in Europe's Eastern Flank, Poland's key strategic position makes it particularly vulnerable to Russian interference and potential aggression. With regards to burden sharing, Poland surged over the 2% threshold in 2015, only to waver and decline from 2016 to 2017. According to the most recent reporting by NATO, Poland's budget is to grow to USD 12.08 billion in 2018 to bring total defence spending to 1.98% GDP (NATO, 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).

58. The Polish government says it is committed to reattain a defence investment level equalling 2% in the near future and even intends to increase it to 2.5% by 2030 (IISS, 2018).

### b. Romania

59. Romania has increased its defence budget from USD 2.6 billion to USD 3.6 billion from 2014 to 2017 (NATO, 2018). Romanian defence spending is estimated to reach 1.93% GDP in 2018. The government's plan is to reach USD 5 billion by 2020, which would push it above the 2% benchmark.

60. 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.

61. 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

62. Directly bordered by Russia, including its Kaliningrad exclave, Lithuania, Latvia, and Estonia see NATO membership as 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.

63. Overall military spending in the Baltic is poised to double in real terms compared to 2014 (Jane's Defence Weekly, 2018a). Estonia's defence budget has been steadily growing from USD 480 million in 2013 to USD 637 million in 2018. Latvia's defence budget more than doubled from 2013 to 2018, going from USD 281 million to USD 701 million. Lithuania followed suit by increasing spending from USD 355 million to USD 1.06 billion over the same period (NATO, 2018).

64. All three states 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, communications 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).

65. 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), as well as 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).

66. 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**

67. 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 USD 26.6 billion in 2013 to USD 25.78 billion in 2018 (NATO, 2018). The Eurozone crisis has exposed significant structural economic weaknesses in the country, which have contributed to the decline in spending.

68. A defence white paper and a 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 and 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**

69. 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).

70. In 2013, Greece spent USD 5.31 billion on defence. It declined steadily in ensuing years, though 2017 did witness a small growth from USD 4.64 billion to USD 4.75 billion when compared to 2016. Greece is estimated to spend USD 5 billion in 2018. In 2013 Greece allocated 3.08% of its GDP to defence, in 2017 it had fallen to 2.38% (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.

71. Greece is often an example highlighted by critics of the 2% guideline, as over 70% of the country's total defence spending goes to personnel costs, including pensions, rather than concrete investments in armed forces and readiness (NATO, 2018). In 2018, however, Greece is expected to spend 12.4% on equipment and another 24% on functional expenditures.

### 3. WESTERN EUROPE

72. Western Europe averaged only a 2% increase in 2017 (Jane's Defence Weekly, 2018a). While Eastern Europe is prioritising military modernisation and procurement, the larger Western European powers such as France and the United Kingdom struggle to sustain and develop capabilities proportional with the size and scale of their global ambitions.

#### a. France

73. The French President, Emmanuel Macron, has announced simultaneous cuts and increases: almost USD 1 billion in cuts to the 2017 defence budget to limit public deficit coupled with an increase of USD 2 billion to the 2018 budget. The French defence budget declined from USD 52.3 billion to USD 46.1 billion from 2013 to 2017 (IISS, 2015, 2018). The 2018 defence budget, however, increased to bring French defence spending as a percentage of GDP up to 1.82 from 1.77 in 2017, equalling a total of USD 52 billion. The 2018 budget also confirmed the will of the French government to reach the 2% GDP spending objective by 2025. On July 13 2018, the military programming law for 2019-2025 – passed by both chambers of the representative government – noted the intention to invest EUR 295 billion in defence from 2019 to 2025 (Ministère des Armées, 2018). France has made it clear it seeks to maintain full spectrum capabilities to meet global security challenges to French and Allied interests. The increased investments outlined in the new military programming law will be crucial for it to be able to do so.

#### b. The United Kingdom

74. As Europe's largest defence spender, the United Kingdom's defence budget decreased to USD 50.7 billion in 2017 from USD 52.6 billion in 2016, far below the 2014 USD 65.6 billion figures (IISS, 2018; NATO, 2017b). In 2018, however, it is expected to increase to USD 61.5 billion. 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 British capabilities are able to meet its foreign policy targets (Jane's Defence Weekly, 2018b).

75. 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 British commitments to NATO, as the terms of third country participation in the EU's new defence pact, PESCO and the European Defence Fund (EDF) scheme have yet to be determined.

#### c. Germany

76. 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, Germany's 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.

77. After a sharp decline in 2014-15 from USD 46.1 to 39.8 billion, Germany's defence investments have been steadily increasing, reaching USD 44.6 billion in 2017 (IISS, 2015, 2018). Defence is high on the current German government's agenda, with Minister Ursula von der Leyen announcing an intention to increase the defence budget by USD 4-5 billion annually until 2030 (Moelling, 2016). Consequently, Germany is expected to spend USD 51 billion in 2018 (NATO, 2018).

78. 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 USD 70 billion additional funding needed to reach this goal.

79. 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).

### ***Trends in European Equipment and R&D Investments***

80. European defence spending on major equipment and research and development for future weapons systems is increasing across the board but focuses on priorities defined by differing threat perspectives. Total defence investments reached USD 58.7 billion in 2017, with northern and central European states outpacing their southern and western neighbours in terms of rate of increased investment. Broadly speaking, the kinds of investments can be divided into two principal categories: defence acquisition for power projection or for territorial defence – with the geographic divide between the two again falling around divergent poles of threat perception. Accordingly, Western and Southern European Allies are acquiring more ISR systems and naval and air assets, while central and northern European Allies are acquiring more combined heavy arms systems such as armoured vehicles, artillery systems, and air defences (Béraud-Sudreau and Giegerich, 2018).

## **VII. INTRA-EUROPEAN GAP**

81. European military spending has sustained four consecutive years of real growth. NATO's European member states on aggregate have sustained between 3-5% defence budget increases over the past three years. In 2017 the largest increases in real-term defence spending growth were in the Baltic States, Germany, and Romania (NATO, 2018). Yet, there is some variation across regions, as spending in northern and central Europe grew by 5.5%, while southern and western Europe only saw an increase of about 2.5% (Béraud-Sudreau and Giegerich, 2018).

82. 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.

83. Lack of defence cooperation between European countries is estimated to cost anywhere from EUR 25 to EUR 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.

84. To assess progress across the Alliance, NATO Allies agreed to 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 planned beyond 2024, and many failed outright to plan to reach the 2% target. Currently, 15 out of 29 countries have announced clear plans of reaching the target.

## VIII. CONCLUSIONS

85. 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 expected to publish annual defence spending plans detailing three key elements – cash, capabilities, and commitments: a) how much they are spending and how they intend to reach the defence spending pledge goal if they have not already; b) how they are investing in NATO-required capabilities; and, c) what contributions are made to and planned for NATO's current operations and missions.

86. The results have been mixed, as some plans do not go far enough while 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 continue to be an Alliance priority.

87. Still, as this draft report highlights, the Alliance's relatively radical shift on the burden sharing debate at the 2014 Wales Summit imposes upon Allies a criterion to which they have now all committed. 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 emphasise the quality and effectiveness of outputs, etc.

88. 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 USD 10+ billion already spent or planned to reinforce its already significant commitment to Allied defence and deterrence in Europe.

89. Another clear message coming from Washington is the bipartisan Congressional support for a strong Alliance. As the US delegation to the NATO PA has noted on several occasions, the increased efforts by the United States to bolster European security is strongly supported by the United States Congress – in both houses, by both parties. The political will to sustain and reinforce the transatlantic link is evidenced by the high levels of support for European security in the 2019 National Defence Authorization Act (NDAA), reported by the House Armed Services Committee this past May. The 2019 NDAA passed the US House of Representatives in a 359-54 vote in July, while it passed the US Senate 87-10 in early August. Further, the United States Senate has recently expanded the breadth and depth of its support for NATO via the re-establishment of the Senate NATO Observer Group this past July. The strong role the US Congress plays in shaping US foreign and security policy should not be overlooked, and the signals are clear – the United States is doing its part to meet the challenges facing the transatlantic security environment and it expects its Allies to step up and do the same in the interest of transatlantic collective security.

90. 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. To stave off the challenges of potential near peer competitors, it will not only boost its domestic defence investment efforts, 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.

91. NATO Europe and Canada clearly now feel the pressure of the changing security environment both in the Euro-Atlantic area and globally. This is 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 realise 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**

92. 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.

93. 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 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.

94. NATO parliamentarians can and should also familiarise themselves with the breadth and depth of NATO adaptation decisions made at Wales, Warsaw, and Brussels. 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**

95. It is clear from recent ministerial meetings and briefings the United States expects NATO European Allies to do more in the fight against terrorism. The United States will likely continue to take the lead in the denial of safe operating space for terrorist groups across the globe – but it will certainly look to its Allies for assistance when addressing the more long-term challenges of investing in the broader security measures needed to address the root causes of violent extremism.

96. 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.

97. 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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