



Smart but too cautious: How NATO can improve its fight against austerity

By Claudia Major, Christian Mölling and Tomas Valasek

★ At the Chicago summit, NATO countries are unveiling a number of multinational acquisitions such as a fleet of spying drones. While these are needed, expensive and technologically impressive, most new collaborative projects are far more trifling and cover areas such as military education and human resources.

★ Member-states remain afraid of defence collaboration: the dependencies it creates, its initial costs and the potential loss of jobs. The alliance's approach – waiting for NATO governments to propose mergers of military units and joint weapons purchases – has run out of steam.

★ The alliance needs to start offering incentives for the governments to collaborate. It needs to help them build the business cases, identify opportunities and offer assurances to allay their fears. This paper explains why and how.

On July 6th 2011, Italy withdrew its aircraft carrier, the Giuseppe Garibaldi, from NATO's operation in Libya. In doing so, it wrote military history: a NATO member-state sent home a key unit in the middle of war because the government had run out of money. Italy has not been the last: the UK has withdrawn ships from permanent service in NATO's anti-piracy mission in the Indian Ocean for financial reasons, while Spain is considering docking its only aircraft carrier indefinitely. Since the economic crisis started in earnest in 2008, NATO countries have eliminated tens of billions of euros from defence budgets and abolished entire categories of weapons, such as tanks or maritime patrol aircraft. In principle, the alliance's members aim to deploy their forces anywhere in the world. But they are gradually losing the capacity to act globally.

NATO's secretary-general, Anders Fogh Rasmussen, has suggested how the alliance's members can collectively save money and retain capacity: focus their dwindling defence money on priority projects, specialise in distinct military tasks, and seek savings in collaboration with one another. 'Smart defence', as

NATO calls its efficiency drive, makes sense: by getting rid of unneeded equipment, merging their defence colleges, sharing training grounds, or buying and maintaining future generations of weapons together, governments can buy more power for less money. Some countries such as the Netherlands, the Nordic countries and Belgium have been collaborating with partners for years. A few more, including major players such as Britain and France, have started since the onset of the crisis. But most NATO countries are dragging their feet.

This paper argues that to revitalise smart defence, NATO officials must give member-states incentives to co-operate, and address their fears about collaboration. NATO can do so in a variety of ways – by helping the countries identify opportunities for co-operation, or sharing evidence on which approaches work and which ones do not. This paper offers several such proposals, whose common denominator is that they change NATO's policy from that of waiting for allies to co-operate to actively enticing and assisting the member-states.

The economic case for collaboration

As NATO went into its Chicago summit in May 2012, the eurozone relapsed into crisis. Though European Central Bank intervention temporarily drove down distressed governments' borrowing costs in early 2012, by May they were rising again. On present trends, the eurozone's woes will get worse, possibly much worse, before they get better. EU governments have done too little to address the structural causes of the crisis. Worse, political turmoil has made the prospect of agreeing such politically difficult solutions as debt mutualisation more elusive than ever before. Eleven EU governments have lost power since the crisis has begun, and more seem certain to follow. The longer the economic malaise continues, the more solidarity between eurozone member-states weakens.

Public finances have been ravaged; the European Commission estimates that EU states will have to dedicate 1 per cent of their GDP for the next 20 years

¹ *European Commission, 'Annual Growth Survey', January 12th 2011.*

to loan repayments alone, if they are to reduce debts to pre-2008 levels.¹ That equates to €120 billion annually – or, for

comparison, half of the total annual defence spending of European NATO countries.

With some exceptions such as Poland or Norway, most European governments have reduced military spending to help cut budget deficits. Over the next few years, large states such as Germany and the UK will cut defence budgets by less than 8 per cent; most medium-sized states by 10 to 15 per cent

² *Christian Mölling and Sophie-Charlotte Brune, 'The impact of the financial crisis on European defence', Subcommittee on Security and Defence, European Parliament, Brussels, April 2011.*

(from the pre-crisis, 2009 level).² Because virtually all European countries spent too little on defence over the past two decades, few have any spare capacity. To help to make a relatively modest reduction of 7.5 per cent in its budget, the UK took its only remaining

aircraft carrier out of service practically overnight and scrapped new patrol aircraft that had just gone into service. The Netherlands mothballed its newly upgraded battle tanks; Denmark gave up submarines. These are wealthy, well-armed countries by European standards. The most dramatic cuts of up to 30 per cent occurred in the smaller, poorer – and primarily newer – NATO and EU countries, such as Lithuania and Bulgaria. Many of these countries have chosen to preserve the structure of their armed forces, eschewing the radical realignment seen in the UK or Denmark. But this has only made matters worse: they have effectively hollowed out their armed forces, leaving units under-strength and armed with old equipment. In theory, NATO militaries cover a broad spectrum of capabilities. In practice, many NATO countries have been reduced to possessing tiny 'bonsai' armies: just big enough to preserve the illusion of

sovereignty, but incapable of offering serious contributions to joint EU or NATO operations.

NATO countries say that they want the alliance to be able to fight two big wars and six minor ones simultaneously, but they would have trouble doing half that. The alliance is fighting a major war in Afghanistan and has smaller missions in place in Africa, the Mediterranean and the Balkans, yet in 2011 the allies had trouble projecting substantial military power to Libya. A number of NATO countries ran out of precision munitions and Italy ran out of money. European allies showed particular weakness. While politically, the operation has been a success for Europe – the UK and France led it and conducted many of the bombing runs – NATO insiders say that 90 per cent of operations needed US military help in one form or another, with communications, reconnaissance, targeting, air-to-air refuelling and precision munitions being particularly in demand. And European allies ought not to take such help for granted: the US 'pivot' to Asia makes it probable that Washington will ask Europe to lead 'discretionary' wars in the future – those fought not in defence of territory but for human rights. The United States has made similar demands before, without

much consequence. But Washington, worried about the rise of China and struggling with budget cuts of its own, is more determined than ever that European allies should take on more military responsibility, particularly in their backyard and where American interests are not directly at stake.³

³ *See Kori Schake, 'US retrenchment is right and overdue', in: François Heisbourg, Wolfgang Ischinger, George Robertson, Kori Schake and Tomas Valasek, 'All alone? What US retrenchment means for Europe and NATO', CER report, March 2012.*

Smart, but too cautious

Ideally, NATO's European allies should be increasing or at least maintaining military strength to respond to US retrenchment. Instead, they are cutting furiously to cope with the economic crisis. With low growth projected in many states, NATO and EU defence ministries need to seek greater efficiencies. Cross-border collaboration – or 'pooling and sharing' – is one of the most promising solutions. Although European militaries fight together, most of them develop and produce weapons nationally, often in complete isolation from one another. In doing so, they forgo possible economies of scale, produce equipment that is often incompatible with that of other NATO forces and subsidise too many inefficient companies. By aligning the use of their fixed military infrastructure, sharing facilities and services, or buying and maintaining the next generation of weapons together, countries can preserve capability which would otherwise be lost to budget cuts. The Dutch and Belgian navies, for example, have pooled the training and maintenance of some of their ships, thus negating the need for multiple schools and repair facilities. The Baltic countries built a joint defence

college instead of three separate ones. NATO's internal documents show that by agreeing jointly to supply their troops in Afghanistan, allies spent 15 to 70 per cent less than they would have, had they tried to do it individually.

To encourage allies to collaborate, NATO has deployed a combination of peer pressure and deadlines. It appointed two 'smart defence envoys' to urge capitals to announce new collaborative programmes at the Chicago summit in May 2012. The Allied Command Transformation, NATO's in-house think-tank, has been soliciting proposals from allies on which weapons can be procured together, and which existing capabilities can be merged. And the alliance's defence planners, who check that countries are observing their military commitments to NATO, have been touring member-states to advise on how collaboration can help address the most urgent capability shortfalls. However, the alliance's approach has been mostly 'bottom-up': it has relied on the member-states to propose and identify possible collaborative projects themselves, with officials from the headquarters merely nudging and advising the capitals.

The alliance's efforts have yielded some successes – at Chicago the allies are announcing dozens of new collaborative projects, including the acquisition of a fleet of air-to-ground surveillance drones, which are both expensive and much needed. But most other proposals that the member-states have put forth have been disappointing. In lieu of new precision bombs, transport helicopters and encrypted communication systems that NATO commanders and defence planners had asked for, the allies offered co-operation on helicopter repair, mine clearance and human resources. And, if the past is any guide, many of their proposals will never materialise. "There are very few joint purchases of new equipment among the proposals; most are about maintaining and rationalising existing assets", one NATO official complained. "From the beginning, smart defence was about letting the states choose what projects to undertake," he added, "and they have chosen to do very little".⁴

⁴ *Phone interview with authors, April 2012.*

Who is worried and why

To understand why so few countries have systematically agreed to collaborate, one has to view pooling and sharing through governments' eyes. While most European states lost the capacity to fight significant wars by themselves decades ago, they cherish the power to decide independently on when and how to use their armed forces. Governments do not entirely trust their partners: if they build joint units with another country, it may deny them access in times of trouble. Conversely, capitals fear being dragged into an unwanted conflict by their partners in collaboration. The creation of joint units often costs extra money in the initial stages, before delivering

savings later, and defence ministers are reluctant to invest, given that their finance ministers are demanding cuts immediately. If and when collaborative projects take root, defence ministers have no assurance that they will benefit from the saving; treasuries usually take the spoils. And ministers may fear a political backlash if mergers lead to layoffs – the unions are certain to be displeased, while the potential savings of such move are hard to quantify. So, unsurprisingly, many countries choose inaction over collaboration.

To this, allied officials usually retort that governments cannot assume that NATO will protect them while, at the same time, denying it the means to do so. The alliance is nothing but the sum of the member-states' militaries, who are virtually all cutting defence budgets. Without collaboration, the alliance will gradually lose the capacity to act. Besides, European allies gave up some of their sovereignty in military affairs long ago. In operations from the Balkans to Afghanistan and Libya, they operate as one bloc, depending on one another on matters such as logistics, intelligence and protection. To make these multi-national missions work, allies have agreed to come under unified command and co-ordinate (sometimes under peer pressure) such sensitive decisions as the timing of their withdrawal from operations. Why not also build military units together, NATO officials argue, especially if collaboration is the best way to offset the impact of spending cuts?

This argument has found too few takers; the defence ministers are politicians who think in short timelines, see considerable difficulty and little short-term reward in collaboration, and worry that they may be unable to make the case for pooling and sharing to sceptical publics and parliaments. And they are unlikely to be swayed by the argument that without collaboration, NATO's military power will atrophy. If and when it happens, they will have long departed the office – their interests, timelines and thinking are more parochial and myopic than those of NATO officials. And crucially, most countries see no immediate threat on the horizon to test NATO's defences. Unless supporters of pooling and sharing start to understand the thinking of defence ministers, and directly address their fears of collaboration, little will change.

A new approach to smart defence

The alliance needs a new approach to pooling and sharing; one that relies less on peer pressure, deadlines and guilt. The list below offers some ideas, whose feasibility the allies should explore in the months and years after the Chicago summit. They are meant as a complement to, not a replacement for, NATO's existing measures to promote smart defence. Their common denominator is that NATO should take up the role of easing the governments' fears of

collaboration, giving them more incentives to pool and share. NATO can never dispel all of the defence ministers' concerns, but it does not need to: the strategic argument for collaboration is strong, and NATO should merely address enough concerns so that the collective pressure for ministers to act outweighs their fears of collaboration.

★ **A reinvestment pool:** NATO defence ministers and their treasuries should agree that those resources that defence ministers save through collaborative projects should remain in a special NATO-wide 'reinvestment pool'. This money would subsidise future joint purchases of defence equipment. Countries would compete for subsidy from the fund, with priority given to those purchases that address NATO's most pressing capability needs. Governments bidding to make use of money in the fund would need to match the contribution out of their own pocket. To launch the pool, countries would contribute an amount based on their size and economic power. Bigger countries would contribute more to the fund under such a formula than smaller ones. But the bigger allies would benefit too: if a big country proposes a better collaborative project than others, it potentially stands to receive more from the fund than it contributes. And even if subsidies mostly went to the smaller states, the bigger ones would benefit because their investment would allow smaller NATO countries to fight alongside the big ones in future operations. The reverse is also true – without collaboration, the smaller countries will lose some of their capacity to contribute to collective defence, leaving the bigger allies such as France and the UK bearing a disproportionate burden for the security of NATO countries.

★ **A revamped security investment fund:** If NATO countries cannot agree on the creation of a reinvestment pool, there is one less attractive, though still useful, alternative: that of using NATO's existing 'security investment' programme to fund collaborative projects. The alliance has long recognised that if its member-states are to build truly interconnected militaries, they need help covering the costs directly related to building physical links. So the alliance created a centralised pool of money, into which all allies pay depending on their gross national income. The fund, in turn, reimburses governments for costs that are directly related to NATO membership and are above and beyond what the country would normally pay for national defence. In the past, the fund paid for such things as the fuel pipeline system that connects airports across NATO countries. The alliance's smart defence plans also carry one-off networking costs, which can be prohibitive – the UK recently abandoned its plans to refit aircraft carriers to accommodate French planes because it found the cost too high. Ideally, allies would expand the

security investment fund (by increasing contributions to it), and agree that it could be used to partly fund such bilateral collaborative projects. As with the reinvestment pool, NATO countries should compete for the funding; projects that address NATO's most urgent capability shortfalls should be given priority over other proposals. Unlike the reinvestment pool, this funding model provides no guarantees that savings generated through collaboration will remain available for future modernisation. But a revamped security investment fund would make collaboration easier by partly offsetting the 'networking' costs of pooling and sharing.

★ **The business case for collaboration:** Governments would have more reasons to collaborate if they understood the savings that pooling and sharing can generate, and thus the opportunity cost of going it alone. NATO has taken the first steps towards providing such price signals by publishing a list of savings secured through logistical co-operation. The alliance's experts should go further: they should price the most common types of military equipment and services in all militaries of the member-states. And on request, they should identify the savings that a particular form of co-operation would generate, in effect building the business case for such collaboration. While some member-states have sporadically made cost assessments of parts of their forces, a comprehensive overview from an independent third party would be helpful. The types of goods and services that NATO should first put a price on are those that have close civilian counterparts such as logistics and maintenance – here, existing civilian expertise could be used to establish costs.

★ **A market place for surplus military equipment:** Many Central European allies struggle to modernise their ageing, Soviet-era equipment, while West European allies have ordered too many A400M transport planes, NH-90 helicopters, and Eurofighter Typhoon jets. Allies with surplus equipment usually hope to export them for cash to Asia or the Middle East but, because budgets everywhere in NATO have shrunk, too many countries now compete for the same export markets, depressing prices. Instead of selling their equipment outside NATO at knock-down rates, countries should consider transferring it to poorer allies, and in exchange the receiving country should agree to contract service, training and upgrades from the donor country, where possible. NATO's defence planning and defence investment divisions have a good overview of the supply of, and demand for, surplus equipment in NATO countries: they should set up a virtual bulletin board to highlight possible matches and facilitate transfers. By using identical equipment, the allies' 'inter-operability' – their capacity to work together seamlessly on operations – would improve, and the donor

country would benefit from maintenance and training contracts. Both donor and recipient countries could seek additional efficiencies by creating joint units around their common equipment, and share the related costs such as those of training, exercises or command. When Germany gave Poland 128 tanks in 2002, the two countries also formed a joint tank force, along with Denmark – this unit serves as a model to other countries sharing equipment and similar strategic outlooks. In the long run, such ‘modernisation through donation’ would reduce the number of different types of military equipment in European armies, and encourage the defence manufacturers to consolidate.

★ **Improved defence planning:** NATO’s defence planners continuously review the allies’ holdings of military hardware. They should use their regular visits to capitals to identify opportunities for regional collaboration. They should come armed with data not only on the host country’s defences but also those of its neighbours, and be ready to identify where the countries’ equipment needs overlap, and where common procurement would make sense. These on-site visits between NATO planners and national defence officials should be expanded to include defence experts from countries with which the host government has close defence ties. For example, the NATO defence planners’ consultations with Slovakia should include defence officials from other ‘Visegrad’ countries (the Czech Republic, Poland and Hungary), with which Slovakia signed a declaration on defence co-operation. Moreover, NATO defence planners should also systematically collect evidence about what forms of co-operation work better than others and why. And when conducting on-site visits, they should share this data with countries that want to enter into collaborative projects. For example, NATO defence planners could tell governments that fear the erosion of sovereignty what strategies other governments have employed to minimise the loss of national control. When the Dutch and the Belgian navies agreed to pool the maintenance of ships and training of crews, they kept the actual fleets under separate national ownership – might this model be replicated elsewhere in NATO?

★ **Regional capability targets:** Currently, each ally agrees to maintain certain numbers and types of troops and weapons, and those national commitments are supposed to amount to a large enough force to fulfil NATO’s political ambitions. NATO could start assigning these ‘capability targets’ to clusters of countries rather than individual allies. For example, the Benelux countries, which have recently agreed to deepen defence collaboration, could be jointly asked to maintain a certain number of attack aircraft with precision bombs. And NATO would leave the countries to work out who provides what.

Regional targets would give the allies more reasons to merge parts of their militaries than the current model, which encourages governments to approach capability-building as a purely national exercise. However, as NATO cannot tell countries who to collaborate with, clusters of NATO allies would need to voluntarily agree to be assigned a regional capability target instead of several national ones.

★ **Help for specialising countries:** Some countries in NATO have chosen to specialise – to willingly abandon certain military tasks and agree that other allies take on those roles instead. In exchange, the specialising countries focus their resources on a particular skill, which they make available to others. For example, the Baltic countries accepted that they would rely on other countries’ supersonic aircraft to protect their airspace, but in exchange the Baltics invested in land forces and contributed a disproportionate number of soldiers to NATO’s mission in Afghanistan. Such specialisation, however, assumes that countries trust their allies to always provide the relevant capacity when needed. The Baltic model has worked because other countries have been willing to take turns to police the region’s airspace, and pledged such support for years to come. But in other cases, countries willing to surrender a certain capability will have little idea who, beyond their chosen partner, might step in to provide that particular weapon system should their partner let them down. NATO can help those countries identify their options – defence planners should, upon request, provide an overview of who in NATO possesses the given capability and could in theory help in times of emergency. The very knowledge that other allies are in theory available to help should give more reasons to specialise. The recourse to this form of defence planners’ assistance should be available only to those countries that specialise in full co-ordination with other NATO allies, and agree to boost at least one clearly identified skill, to compensate for abandoning another one. Those NATO countries that have simply surrendered certain capabilities without consulting others should not have the recourse to defence planners’ help in identifying possible replacements.

The list above is not meant to be exhaustive; there are many more ways in which NATO can assist its member-states in overcoming fears of collaboration, and help them understand their options and other countries’ experiences. All such promising ideas need to be explored, and the staff at NATO headquarters strengthened to better cope with these new tasks.

Conclusion

Smart defence sceptics argue that collaboration was never more than an excuse for cutting defence budgets

in the first place. That is unfair: countries are cutting military spending because they worry that if they do not reduce their deficits, the cost of debt servicing will increase, their economies will slow, and they will have to make even more cuts. Further budget reductions therefore seem inevitable, and defence spending will remain low for years (with France rumoured to be considering significant reductions this year). Given this trend, collaboration remains the allies' best bet for slowing the slide in their military power. It also needs to be pursued in conjunction with other steps, such as re-directing spending towards those capabilities that NATO most urgently needs. Contrary to what some exuberant NATO officials say, smart defence will not allow allies to do 'more with less' – the savings will not do a great deal to offset allies' cuts to defence budgets. But collaboration may permit NATO countries to preserve a bit more military power than they would otherwise have.

In order for pooling and sharing to spread beyond the narrow group of countries that are currently practising it, more governments will need to be convinced that the benefits are worth the political, economic and security risks. After the Chicago summit, the alliance's staff should do more to provide such assurances, and the list of measures proposed in this paper is a good place to start.

Claudia Major and Christian Mölling are, respectively, deputy head and associate at the international security division of the Stiftung Wissenschaft und Politik in Berlin. Tomas Valasek is director of foreign policy and defence at the CER.

May 2012

For further information, visit our website

www.cer.org.uk