

May 1998

NATO

History of Common Budget Cost Shares



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May 22, 1998

The Honorable Ted Stevens
Chairman
The Honorable Daniel K. Inouye
Ranking Minority Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

The debate regarding the enlargement of the North Atlantic Treaty Organization (NATO) raised questions about how NATO apportions costs among its members for expenditures the organization has agreed to commonly fund. This report responds to your request that we provide information on how the apportionment of those shares has changed over the years and identify how NATO determines what the members' cost shares will be for its three common budgets.

Background

NATO member states provide resources to support the alliance in two ways. First, countries, at their own expense, maintain forces and assets that they pledge to NATO through a defense planning process. Second, countries make contributions to NATO's three commonly funded budgets. These three budgets are the civil budget, which primarily funds the civilian headquarters and personnel in Brussels, Belgium, for NATO's political structure (about \$164 million planned for 1999); NATO's military budget, which primarily funds operations and maintenance for its military headquarters and activities (about \$720 million planned for 1999); and the NATO Security Investment Program (NSIP) budget,¹ which primarily funds infrastructure improvements (about \$734 million planned for 1999). Each member contributes an established percentage of each budget. Changes to the cost share require alliance consensus, as do all decisions in NATO. Appendix I identifies the apportionment of current cost shares to NATO members for each of the common budgets.

Results in Brief

NATO does not routinely evaluate members' cost shares for any of its three commonly funded budgets. Rather, NATO has adjusted the shares based on comprehensive reviews occurring at no specific interval and/or in response to discrete events, such as entry of a new member. Cost shares

¹Prior to December 1994, the NSIP budget was known as the Common Infrastructure Program. For ease of publication, this report will refer to the NSIP and its predecessor programs as the NSIP or infrastructure budget.

for the NSIP budget, most recently reviewed in 1990, have been subject to comprehensive reviews more frequently than the civil budget—last reviewed in 1955, or the military budget—last reviewed in 1966. NATO has adjusted cost shares due to discrete events infrequently—in 1966, when France withdrew from NATO’s military structure; in 1982, when Spain joined NATO; and in 1994, when Canada sought to decrease its NSIP share.

NATO has used various methods to adjust cost shares. For example, in 1955, NATO used expenditures to comprehensively review and adjust shares for its civil and military budgets. In contrast, changes to NSIP cost shares in 1990 were based on negotiations among members that considered factors such as each nation’s capacity to pay and the expected benefits from NSIP-funded projects. NATO has also relied on negotiations to adjust cost shares in response to discrete events. For example, when Spain joined NATO in 1982, its share was determined through high-level negotiations and the other members’ shares were adjusted on a prorated basis. In 1997, the United States’ actual cost-share across all the common budgets was 28.45 percent.²

Comprehensive Reviews of Cost Shares

NATO’s review of cost shares related to the civil and military budgets have similar histories from 1950 to 1965.³ In 1951, NATO used a grouping method whereby countries of similar economic strength or potential were assigned identical cost shares derived from country contributions to the United Nations and the predecessor to the Organization for Economic Cooperation and Development. When the budget shares were reexamined in 1952, the three largest countries (the United States, the United Kingdom, and France) remained grouped and were assigned identical cost shares of 22.5 percent. However, the other countries’ cost shares were based on their capacity to pay, that is, the relative size of their gross national products (GNP). When NATO adjusted civil and military budget cost shares in 1955, it used an expenditure-based method and agreed not to continue reviewing cost shares annually. Under the expenditure method, NATO determined each country’s actual expenditures for civil and military budget expenses from 1950 to 1955 and then assigned each country a cost share equal to its percentage of NATO’s total expenditures. Since 1955, the civil budget has not been comprehensively reviewed and has remained essentially unchanged; the military budget cost shares have been modified once since then.

²Effective U.S. cost shares for each commonly funded budget are shown in detail in appendix I.

³Originally the civil budget had operating and capital elements with differing cost shares. The 1955 review resulted in assigning a single cost share per country for all elements of this budget.

At the request of the United Kingdom, in 1965, NATO reviewed the cost shares for the military budget. The United Kingdom believed that economic changes in member countries in the previous decade, particularly the uneven growth of GNP, would for reasons of equity warrant a review of cost shares. Further, the United Kingdom asked that NATO take into account member countries' per capita GNP trends and global defense efforts that could be regarded as serving the general interest of the alliance. This review and the resulting negotiations were concluded in January 1966, but very few changes in cost shares were made; for example, the United Kingdom's share was reduced by 1.28 percentage points, from 19.5 percent to 18.22 percent. To allow for this change, smaller adjustments were made in other countries' shares. (See app. II for historic cost-share tables for the civil and military budgets.)

While the members' cost shares for NATO's civil and military budgets were infrequently reexamined, the shares for its infrastructure budget were looked at more often. The actual changes in cost shares resulting from these reviews are documented, but the reasoning behind them is not.

In the early 1950s, sharing the costs of NATO's infrastructure requirements was the subject of annual negotiations; however, to avoid overly frequent discussions of cost shares, NATO opted to review cost shares every few years. According to officials at NATO, the last review of the infrastructure cost shares occurred about 1990.

From NATO's inception, the basic principle applied to infrastructure cost sharing was to achieve as equitable a distribution as possible of the entire NATO defense burden—including commonly funded infrastructure—among members of the alliance. The main factors that underlie the negotiations for an infrastructure cost-sharing arrangement are: (1) the capacity of the member countries to contribute, (2) the advantage each country would gain as a user of the facilities to be financed, (3) the net economic benefits that would accrue to a host country from the construction of the facilities on its soil, (4) the services each country renders to the common defense interests of the alliance in ways other than infrastructure, and (5) various political and economic factors. Since these guidelines for cost sharing are broad and subject to wide interpretation, the setting of cost shares is essentially accomplished through negotiations. Attempts have been made from time to time to determine a cost-sharing formula on the basis of an objective factor such as GNP or a combination of several such factors. However, NATO has been unable to develop consensus on this issue. (See

app. III for historic information on the NSIP and app. IV for current gross domestic products (GDP) of alliance members.)

Event-Driven Cost-Share Changes

Members' cost shares for all of NATO's common budgets have been affected by specific events. For example, in 1966, France withdrew from the alliance's military structure; in 1982, Spain joined NATO;⁴ in 1994, Canada unilaterally decided to reduce its participation in the NSIP by 50 percent; and in 1999, the Czech Republic, Poland, and Hungary are expected to join NATO.

Cost shares for the NATO budgets were adjusted in different ways in response to these events. For example, when the French withdrew from the military structure, France's shares in the military and infrastructure budgets were prorated among the remaining 14 nations.⁵ When Spain joined the alliance in 1982, other members wanted to base Spain's contribution on GDP and capacity to pay, which would have made its cost share about 5 percent, more than the shares of Belgium or the Netherlands. Spain believed, however, that since its GDP per capita was lower than that of Belgium or the Netherlands, it should pay less than 5 percent. Through negotiations, it was determined that Spain's share of the civil and military budgets would be 3.5 percent.

In 1994, Canada unilaterally decided to reduce its contribution to the NSIP budget by 50 percent. Canada did not formally request a renegotiation of its cost share but, instead, negotiated separately with other members⁶ to assume a portion of its share and presented the results to the alliance. NATO officials noted, however, that had Canada not been successful in convincing other countries to assume that portion of Canada's cost share, Canada would have had to either maintain its contribution level or withdraw from the alliance. No agreement has yet been reached on how cost shares for existing members will change with the anticipated accession of the Czech Republic, Hungary, and Poland to NATO in 1999. These countries have agreed to cost shares of 0.9 percent, 0.65 percent, and 2.48 percent, respectively.

⁴Spain's participation in the common budgets has evolved since joining the alliance in 1982. It has always participated fully in the civil budget, and partially in the military budget. It had no participation in the infrastructure program until 1994, and has indicated it will fully participate in the NSIP in 1999.

⁵France did not withdraw from the alliance, and it continues to share in NATO's civil budget. It also continues to participate in some infrastructure projects and part of the military structure funded by the military budget.

⁶The United States, the United Kingdom, and Germany were not among these countries.

Scope and Methodology

To obtain information about how NATO member costs shares have changed over the years, we interviewed officials from the Department of State; the Office of the Secretary of Defense; and the U.S. Mission to NATO in Brussels, Belgium. We also interviewed NATO international staff and reviewed NATO documents. We collected and analyzed historical U.S. and NATO documents and tables related to cost shares for each of the three commonly funded budgets from 1951 to the present. We examined the effects of various events, such as new accessions, on members' cost shares to explain these changes where possible. We reviewed Department of State and U.S. Mission to NATO reporting cables, program and briefing documents, and correspondence.

To identify how NATO determines what the members' cost shares will be for its three commonly funded budgets, we interviewed officials from the Department of State, the Office of the Secretary of Defense, and the U.S. Mission to NATO. We reviewed the various methods used to determine cost shares from the inception of the alliance to the present and were briefed by NATO international staff on the history and logic of those methods. We collected and analyzed data on member countries economic indicators, such as GDP and per capita GDP as expressed by purchasing power parity, to understand the basis for some cost-share methods. We reviewed State Department and U.S. Mission to NATO reporting cables that detailed the negotiations for the invitation and accession of the Czech Republic, Hungary, and Poland. In addition, this work built upon our prior work on NATO enlargement issues.

We conducted our review between March and April 1998 in accordance with generally accepted government auditing standards.

Agency Comments

The Departments of State and Defense provided oral comments on a draft of this report and concurred with our findings and conclusions. Department officials indicated that the report provides a documented record of the changes that occurred in how NATO costs have been shared over the years, a history that had not been previously compiled.

We plan no further distribution of this report until 30 days after its issue date. At that time, we will send copies of this report to the Secretaries of State and Defense and appropriate congressional committees. Copies will be made available to other interested parties upon request.

Please contact me on (202) 512-4128 if you or your staff have any questions concerning this report. The major contributors to this report were Jim Shafer, Muriel Forster, and Hynek Kalkus.

A handwritten signature in cursive script that reads "Harold J. Johnson".

Harold J. Johnson, Associate Director
International Relations and Trade Issues

Contents

Letter	1
Appendix I Current North Atlantic Treaty Organization Common Budget Cost Shares	10
Appendix II Historic Information About NATO's Civil and Military Budgets	12
Appendix III Historic Information About NATO's Infrastructure Budget	14
Appendix IV Current Gross Domestic Product for NATO Members	15
Tables	
Table I.1: Current Cost Shares for NATO's Common Budgets	11
Table II.1: Historic Cost-Share Changes to the NATO Civil Budget	12
Table II.2: Historic Cost-Share Changes to the NATO Military Budget	13
Table IV.1: NATO Nations' Estimated GDPs, Adjusted by PPP	15

Abbreviations

NATO	North Atlantic Treaty Organization
PPP	purchasing power parity
AWACS	Airborne Warning and Control System
NSIP	NATO Security Investment Program
GDP	gross domestic product
GNP	gross national product

Current North Atlantic Treaty Organization Common Budget Cost Shares

Not all North Atlantic Treaty Organization (NATO) members participate in all aspects of the commonly funded budgets.¹ Although all 16 members participate fully in the civil budget, Spain and France do not participate in all aspects of the military budget or the NATO Security Investment Program (NSIP). Further, the NATO Airborne Warning and Control System (AWACS) program, funded through the military budget but with its own negotiated cost shares, does not include France, Spain, and Iceland, and the United Kingdom only partially participates in it. Finally, although Iceland is counted as a participant in the NSIP, its cost share is zero. Table I.1 shows the current cost shares for each member at each level of participation. In 1997, the actual cost shares for the United States were 23.35 percent for the civil budget, since all 16 nations participate fully in this budget; 28.08 percent for the military budget, exclusive of the AWACS program; 41.48 percent for the AWACS program; and 26.46 percent of the NSIP budget. The total U.S. cost share is 28.45 percent across all the budgets.

¹When a nation does not participate in some aspect of a budget, its cost share is apportioned among those participating.

**Appendix I
Current North Atlantic Treaty Organization
Common Budget Cost Shares**

Table I.1: Current Cost Shares for NATO's Common Budgets

Numbers in percent

Country	Civil budget		Military budget					NATO Security Investment Program			
	At 16 ^a	At 16 ^a	At 15 ^b France	At 15 ^c Spain	At 14 ^d	AWACS		At 16 ^a	At 15 ^b France	At 15 ^c Spain	At 14 ^d
						At 13 ^e	At 12 ^f				
United States	23.35	24.12	25.00	28.89	30.16	32.62	41.53	23.27	24.06	26.77	27.82
Belgium	2.76	2.85	2.95	3.41	3.56	2.66	3.39	4.13	4.26	4.76	4.96
Canada	5.60	5.60	5.80	6.71	6.99	7.40	9.43	2.75	2.80	3.00	3.20
Denmark	1.59	1.68	1.74	2.01	2.10	1.57	2.00	3.33	3.42	3.79	3.94
France	16.50	16.50	17.10	^g	^g	^g	^g	12.90	13.34	^g	^g
Germany	15.54	15.54	16.10	18.61	19.42	22.10	28.14	22.40	23.16	25.74	26.76
Greece	0.38	0.38	0.39	0.46	0.47	0.49	0.62	1.00	1.01	1.05	1.07
Iceland	0.05	0.04	0.05	0.05	0.06	^g	^g	0	0	0	0
Italy	5.75	5.91	6.12	7.08	7.38	5.71	7.26	7.75	8.09	9.10	9.40
Luxembourg	0.08	0.08	0.09	0.10	0.11	0.08	0.11	0.20	0.21	0.23	0.24
Netherlands	2.75	2.84	2.94	3.40	3.55	2.94	3.75	4.58	4.72	5.27	5.48
Norway	1.11	1.16	1.20	1.39	1.45	1.15	1.46	2.83	2.94	3.27	3.38
Portugal	0.63	0.63	0.65	0.75	0.78	0.55	0.70	0.35	0.37	0.39	0.41
Spain	3.50	3.50	^g	4.19	^g	^g	^g	3.29	^g	3.78	^g
Turkey	1.59	1.59	1.65	1.90	1.99	1.28	1.63	1.04	1.08	1.13	1.17
United Kingdom	18.82	17.58	18.22	21.05	21.98	21.45	^g	10.19	10.54	11.72	12.18
Total	100	100	100	100	100	100	100	100	100	100	100

Legend

AWACS = Airborne Warning and Control System

Note: Totals may not add due to rounding.

^aCost share when all 16 members of the alliance participate.

^bCost share when France participates and Spain does not.

^cCost share when Spain participates and France does not.

^dCost share when both Spain and France do not participate.

^eCost share for AWACS when Spain, France, and Iceland do not participate but the United Kingdom does participate.

^fCost share for AWACS when the United Kingdom, Spain, France, and Iceland do not participate.

^gCountry does not participate.

Source: NATO.

Historic Information About NATO's Civil and Military Budgets

Table II.1 provides information on the methods used and the cost shares agreed to for the civil budget. Initially, NATO attempted to revise these shares annually; however, from 1952 through 1954, the alliance was unable to agree on any changes. The 1955 cost-sharing formula was permanently adopted, barring the intervention of new factors.

Table II.1: Historic Cost-Share Changes to the NATO Civil Budget

Numbers in percent

Country	1951		1952		1955	1982
	Grouping		Grouping and capacity to pay		Expenditure and addition of Germany	Spain negotiated and others prorated
	Current	Capital	Current	Capital		
United States	22.50	40.00	22.50	45.00	24.20	23.35
United Kingdom	22.50	22.50	22.50	22.50	19.50	18.82
France	22.50	17.00	22.50	10.73	17.10	16.50
Germany					16.10	15.54
Canada	8.00	5.10	10.00	6.70	5.80	5.60
Italy	8.00	5.10	7.65	5.36	5.96	5.75
Spain						3.50
Belgium	5.00	3.10	4.00	2.68	2.86	2.76
Netherlands	5.00	3.10	3.50	2.18	2.85	2.75
Denmark	2.00	1.30	2.25	1.51	1.65	1.59
Turkey			2.12	1.42	1.65	1.59
Norway	2.00	1.30	1.30	0.84	1.15	1.11
Portugal	2.00	1.30	1.00	0.64	0.65	0.63
Greece			0.50	0.33	0.39	0.38
Luxembourg	0.25	0.10	0.13	0.08	0.09	0.08
Iceland	0.25	0.10	0.05	0.03	0.05	0.05
Total	100	100	100	100	100	100

Source: NATO.

**Appendix II
Historic Information About NATO's Civil
and Military Budgets**

Table II.2 details methods used and the cost shares agreed to for the military budget, with all members participating. These shares were identical to the civil budget until 1966, when new cost shares resulted from a request by the United Kingdom to renegotiate military budget cost shares. The United Kingdom based its argument on its weaker gross national product (GNP) growth over the preceding decade compared to most other member countries.

Table II.2: Historic Cost-Share Changes to the NATO Military Budget

Numbers in percent

Country	1951	1952	1955	1966	1982
	Grouping	Grouping and capacity to pay	Expenditure and addition of Germany	Renegotiation	Spain negotiated and others prorated
United States	22.50	22.50	24.20	25.00	24.12
United Kingdom	22.50	22.50	19.50	18.22	17.58
France	22.50	22.50	17.10	17.10	16.50
Germany			16.10	16.10	15.54
Canada	8.00	10.00	5.80	5.80	5.60
Italy	8.00	7.65	5.96	6.12	5.91
Spain					3.50
Belgium	5.00	4.00	2.86	2.95	2.85
Netherlands	5.00	3.50	2.85	2.94	2.84
Denmark	2.00	2.25	1.65	1.74	1.68
Turkey		2.12	1.65	1.65	1.59
Norway	2.00	1.30	1.15	1.20	1.16
Portugal	2.00	1.00	0.65	0.65	0.63
Greece		0.50	0.39	0.39	0.38
Luxembourg	0.25	0.13	0.09	0.09	0.08
Iceland	0.25	0.05	0.05	0.05	0.04
Total	100	100	100	100	100

Source: NATO.

Historic Information About NATO's Infrastructure Budget

In 1951, NATO inherited its infrastructure program from the Western Union Defense Organization. Initially the program's cost shares were negotiated annually for groups of projects; however, to manage the financing of these projects more efficiently, cost shares for multiyear programs were adopted. According to officials at NATO, from the mid-1950s until 1990, NATO reviewed infrastructure cost shares about every 5 years.

The effective U.S. cost share for infrastructure projects has been reduced from over 43 percent in 1960 to under 27 percent in 1997. The U.S. share in percentage terms has been affected by both permanent reductions in the established U.S. cost share and by other means. Due to the nature of the program, effective costs for a member can be changed without permanently adjusting the cost share. For example, between 1971 and 1975, NATO implemented the European Defense Improvement Plan. This plan funded infrastructure projects to improve physical protection installations for aircraft on NATO airfields. It was financed by a one-time special European contribution from member nations except Canada, France, Portugal, and the United States. Between 1975 and 1979, NATO implemented the United States Special Program, which was designed to reduce to 20 percent the effective U.S. cost share by the allocation of a small portion of infrastructure funds to special U.S. projects. These projects were generally not eligible for infrastructure funding. This group of projects was funded by all members except Turkey. The effective U.S. cost share will also decrease due to the greater participation in the military aspects of the alliance and infrastructure projects by Spain and possibly France.

Current Gross Domestic Product for NATO Members

Table IV.1 presents all NATO nations' gross domestic products (GDP) converted into dollars through the use of purchasing power parity (PPP). PPP is a technique using standardized international dollar price weights applied to the quantities of goods and services produced in an economy, rather than using exchange rates to compare economies. We are presenting this information because GDP is an economic indicator that has been considered when assessing a nation's capacity to pay in alliance cost-share negotiations. For example, GDP was used in negotiations on cost shares with Spain in 1982.

Table IV.1: NATO Nations' Estimated GDPs, Adjusted by PPP (1996)

Dollars in billions		
Country	PPP GDP	Percent of total NATO PPP GDP
United States	\$7,610	48.99
Germany	1,700	10.94
France	1,220	7.85
United Kingdom	1,190	7.66
Italy	1,120	7.21
Canada	721	4.64
Spain	593	3.82
Turkey	379	2.44
Netherlands	318	2.05
Belgium	205	1.32
Portugal	122	0.79
Denmark	118	0.76
Norway	114	0.73
Greece	107	0.69
Luxembourg ^a	10	0.06
Iceland	5	0.03
Total	\$15,532	100

Note: Totals may not add due to rounding.

^aLuxembourg's GDP is based on a 1995 estimate.

Source: The World Factbook 1997.