

GAO

March 1998

# NATO ENLARGEMENT

## NATO's Requirements and Costs for Commonly Funded Projects



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United States  
General Accounting Office  
Washington, D.C. 20548

National Security and  
International Affairs Division

B-279394

March 6, 1998

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

On October 23, 1997, we testified before your Committee on a cost study that had been developed independently by the Department of Defense (DOD) regarding the enlargement of the North Atlantic Treaty Organization (NATO).<sup>1</sup> We also provided you with NATO's schedule for preparing its own studies regarding the requirements and costs associated with the alliance's enlargement. This report responds to your request that we evaluate the basis for NATO's cost estimate for enlarging its membership. You also asked for our views on DOD's assessment of NATO's estimate.

## Background

At the Madrid Summit in July 1997, NATO invited three countries, Poland, Hungary, and the Czech Republic, to enter into negotiations to become NATO members. At the summit, the NATO heads of state and government also directed NATO's managing body, the North Atlantic Council (NAC), to prepare an analysis of the commonly funded costs of enlargement.

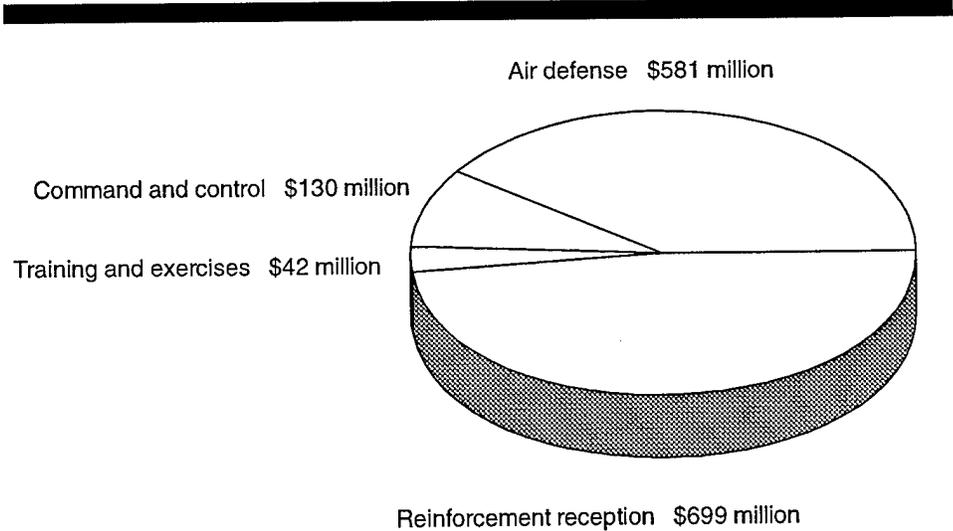
NATO member states provide resources to support the alliance in two ways. First, countries, at their own expense, maintain forces and assets which they pledge to NATO through the defense planning process. Second, countries make contributions to NATO's three commonly funded budgets. The three budgets are the military budget, which primarily funds operations and maintenance for NATO's military headquarters and activities (about \$720 million planned for 1999); the NATO security investment program (NSIP), which primarily funds infrastructure improvements (about \$734 million planned for 1999); and NATO's civil budget, which primarily funds the civilian headquarters and personnel in Brussels, Belgium, for NATO's political structure (about \$164 million planned for 1999).

<sup>1</sup>In our testimony, NATO Enlargement: Cost Implications for the United States Remain Unclear (GAO/T-NSIAD-98-56, Oct. 23, 1997), we reported that we had assessed the DOD study and found its key assumptions were generally reasonable, but DOD's cost estimate was speculative and lacked supporting documentation.

At the direction of the NAC, the major NATO commanders prepared a study of the military requirements. NATO's Senior Resource Board then developed cost estimates for those requirements eligible for common funding.<sup>2</sup> In addition, the Civil Budget Committee prepared a study on the effects of enlargement for NATO's civilian personnel and facilities. These reports were agreed to by all NATO members<sup>3</sup> at the December 1997 ministerial meetings.

NATO estimated that \$1.5 billion would be needed to meet commonly funded military requirements. Figure 1 shows a breakdown of the four major cost categories: (1) command and control, which reflects an extension of NATO's communications links to the new members; (2) air defense, which reflects the integration of new members into NATO's air defense systems; (3) reinforcement reception facilities, which reflect upgrades to infrastructure, particularly airfields to receive NATO forces; and (4) training and exercises.

**Figure 1. Cost Breakout of NATO Enlargement Estimate**



Source: DOD.

<sup>2</sup>The Senior Resource Board is composed of senior national representatives and is tasked with military resource allocation and identification of priorities.

<sup>3</sup>NATO operates on a consensus basis. NATO cannot take action as an alliance without the concurrence of all members.

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On February 23, 1998, DOD submitted to the Congress a report on the requirements and costs of NATO enlargement.<sup>4</sup> This report included an analysis of the NATO studies and presented DOD's explanation for the differences between NATO's results and DOD's February 1997 cost estimate. For example, NATO's study concluded that the infrastructure in the invitee countries was in considerably better condition than assumed by DOD. DOD concurred with the conclusions of the NATO studies.

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## Results in Brief

The approach used by NATO in determining its estimated direct enlargement cost of \$1.5 billion for commonly funded requirements is reasonable.<sup>5</sup> We found that NATO's assessment was based on site visits, historic data, and extensive dialogue with invitee officials. A key assumption of the NATO cost estimate is that the current low threat environment will continue for the foreseeable future. Any changes in the threat environment could affect enlargement-related military requirements and costs.

Based on our work at NATO and our prior analysis of enlargement estimates, we concur with DOD's we conclude that DOD's assessment of the NATO cost report was reasonable. According to DOD, the U.S. Joint Staff validated the requirements on which these costs were based as militarily sound. Moreover, DOD emphasized that the NATO study was a more accurate reflection of commonly funded costs than DOD's 1997 study.<sup>6</sup>

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## NATO's Requirement and Cost Studies

As a result of direction received at the July 1997 Madrid Summit, NATO military and civil officials prepared several requirement and cost studies to address NATO enlargement issues. Reports on these studies were addressed by the members' defense ministers at their December 1997 meeting in Brussels. The studies produced included (1) an assessment of military requirements, (2) an estimate of the costs of meeting those commonly funded requirements, and (3) a study of what additional forces existing members would need to pledge to NATO. NATO's military commanders addressed the military requirements issues surrounding enlargement; the

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<sup>4</sup>This report was required by the fiscal year 1998 DOD Authorization and Appropriations Acts and the fiscal year 1998 Military Construction Appropriations Act.

<sup>5</sup>Commonly funded means the payment will come from NATO's budgets, which are funded by contributions assessed each member on a predetermined percentage basis. For example, the United States pays about 25 percent of NATO's common budget costs.

<sup>6</sup>For our assessment of DOD's study, see our report NATO Enlargement: Cost Estimates Developed to Date Are Notional (GAO/NSIAD-97-209, Aug. 18, 1997).

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international military and civilian staff developed cost estimates for the commonly funded military requirements and other associated enlargement costs; and the Defense Review Committee, the senior defense planning body in NATO, reported on whether additional forces need to be pledged by existing members.

The fundamental principle on which all military requirements were based—both commonly funded and nationally funded—was NATO's ability to fulfill Article V of the treaty in the new member countries as of the accession date.<sup>7</sup> NATO's military commanders' requirements study determined what alliance capabilities were needed upon accession of the invitees and also determined what military upgrades were needed. Using a model that scores force capabilities, NATO determined that the capability of reinforcing NATO forces, combined with invitee forces was adequate to meet current and projected future threats.<sup>8</sup> The threat to the invitees was assessed to be low and is expected to remain low. NATO also determined the number of squadrons needed to provide combat air patrol over the territory of new invitees to determine the number of collocated operating bases needed, necessary communications links, and minimal air defense requirements. The study also concluded that current NATO exercise schedules could accommodate invitees at some small incremental expense. NATO's military commanders conducted site visits of the invitees in developing their assessments.

At the direction of the Senior Resource Board, NATO's international staff then developed the cost estimates for the commonly funded requirements that NATO's military commanders had developed and determined eligibility for common funding by applying standard NATO practices and procedures, including NATO's "over-and-above" principle.<sup>9</sup> NATO's engineers conducted site visits of the invitees' facilities that NATO expects to use and used cost data from NATO projects to develop cost estimates for projects that would need to be done in the invitees' countries. According to officials at NATO, some of the costs of enlargement may be absorbed in existing budgets, for example, through the reprioritization of existing projects. NATO is expected to complete a study detailing the budget implications of the enlargement's

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<sup>7</sup>Article V of the treaty is the collective defense provision, which states that an attack on one member is an attack on all.

<sup>8</sup>This model assigns values to specific weapons systems and units to estimate combat capability, permitting comparisons to be made of various forces.

<sup>9</sup>Under this principle NATO will only pay for projects over and above the country's own defense needs. For example, it is a country's responsibility to maintain the runway up to the standard needed for its own aircraft; however, NATO will pay for modifications to the runway to accommodate reinforcing NATO aircraft.

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cost, including an analysis of how much of the cost will be absorbed within existing budgets, in the spring of 1998.

Because NATO officials used a conservative interpretation of the over-and-above principle, NATO's cost estimate for the commonly funded military requirements may be lower than the cost actually incurred. For example, the NATO study did not include the cost of repaving runways, although NATO staff acknowledged that the runways, while up to national standards, were not up to NATO standards. The staff said that they assumed that the invitees would eventually purchase western aircraft and therefore would have to bear the repaving costs themselves to meet necessary standards for the aircraft. However, historically, NATO has sometimes granted exemptions to its policies and procedures for items such as this that would otherwise be a national responsibility, particularly for less wealthy members. Such exemptions would add to the commonly funded costs but would require approval by all NATO members. We conclude that NATO's approach used to estimate the \$1.5 billion cost for commonly funded budgets is reasonable.<sup>10</sup>

NATO's study of nationally funded force commitments concluded that given the threat to and capabilities of the invitees, existing members need not undertake any increase to their existing force goals, that is, their agreed-upon contributions of military capability.<sup>11</sup> NATO is developing target force goals for the invitees and these should be finalized in the spring of 1998. NATO did not and will not estimate the cost of the nationally funded military commitments for existing members or the invitees.

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## DOD's Assessment of NATO's Studies

DOD's February 1998 report did not develop a new cost estimate for NATO enlargement; rather it assessed NATO's cost and requirements studies and provided some comparisons between NATO's estimate and DOD's February 1997 estimate. DOD concluded that NATO's cost estimates were sound and reliable and emphasized that because NATO's study had the benefit of site visits, historic NATO cost data, and knowledge of NATO common funding eligibility, it was a more accurate reflection of commonly funded enlargement costs than DOD's prior estimate.

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<sup>10</sup>In commenting on our report, DOD noted that as details of the implementation plan are finalized and more detailed engineering surveys are developed, final costs could increase or decrease.

<sup>11</sup>However, as we noted in our report NATO Enlargement (GAO/NSIAD-97-209, Aug. 18, 1997), NATO has long-standing shortfalls in meeting its force goals.

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DOD could not completely reconcile the differences between its 1997 estimate of \$27 billion to \$35 billion for enlargement and NATO's estimate of \$1.5 billion. Several factors explain most of the difference. The most prominent of these factors are that DOD's 1997 report

- included two categories, new member modernization costs and existing member reinforcement costs, that account for \$18 billion to \$23 billion of the difference and are not commonly funded and are thus not included in the NATO study;<sup>12</sup>
- assumed that more items in the direct enlargement category would be eligible for common funding;
- included four countries, whereas NATO included only the three invitees;
- assumed that the new members' infrastructure was in worse condition than NATO surveys showed them to be; and
- differed in some requirements, as well as pricing.

We could not validate all the specific cost differences detailed in the 1998 DOD report because the DOD data provided was insufficiently detailed. We conclude that DOD's assessment of the NATO cost report was reasonable.

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## Scope and Methodology

To address our objective, we interviewed officials and gathered and analyzed information from the Department of State; the Office of the Secretary of Defense; the U.S. Mission to NATO in Brussels, Belgium; and Supreme Headquarters Allied Powers Europe (SHAPE) in Mons, Belgium. We interviewed officials in Brussels during the Defense Ministerial meetings in December 1997. We also reviewed Department of State and U.S. Mission to NATO reporting cables, program and briefing documents, and correspondence. In addition, this work built upon our prior assessments of NATO enlargement cost studies.

To understand the basis for the NATO-developed military requirements, we held discussions with the Policy and Requirements Division staff of SHAPE and reviewed data on threat scenarios used and the analytical elements of developing a force to meet the scenarios. We examined the criteria for deciding on the number of airfields and reinforcement reception facilities required in each new members' country to receive reinforcing aircraft and troops.

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<sup>12</sup>DOD's February 1997 report indicated that the United States would not be responsible for bearing any of these costs.

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To understand the methodology for and to develop judgments on the soundness of the NATO cost estimate, we held discussions with the NATO engineers who had assessed the new members' capabilities and needs. We also examined the engineers' historical cost data on comparable projects. The engineers also presented their assessment methodology for each base and command, control, communication, and air defense needs. NATO officials presented, and we reviewed, the criteria used for determining what projects would qualify for common NATO funding.

In order to review the procedures NATO followed in developing its reports and to help us understand what the U.S. involvement in this process was, we interviewed U.S. and NATO officials and obtained documentation regarding the process involved in the development of NATO's reports. Finally, we discussed with, and obtained documentation from, DOD officials to understand how they assessed the NATO studies.

We did not independently validate the condition of infrastructure in the invitee states, NATO's historic cost data, or the force calculation model used by SHAPE.

We conducted our review between October 1997 and February 1998 in accordance with generally accepted government auditing standards.

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## Agency Comments

The Departments of State and Defense provided oral comments on a draft of this report. The State Department concurred with our report, and we have incorporated their recommended changes where appropriate. The Department of Defense generally concurred with our report.

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Unless you publicly announce its contents earlier, 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 other appropriate congressional committees. Copies will be made available to other interested parties upon request.

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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 James 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