

**Prepared Statement
Before the House Committee on Ways and Means, Subcommittee on
Trade**

***“ENHANCING THE U.S.-EU TRADE RELATIONSHIP:
NATO’S CONTRIBUTIONS”***

by

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Prepared Statement

Mr. Chairman, Ranking Member, Members of the Subcommittee on Trade, I am pleased to appear before you today. My role in this hearing is a bit anomalous. I'm not a trade expert. My career has focused on transatlantic defense and security issues. The Chairman has asked me to discuss how U.S. engagement in the North Atlantic Treaty Organization (NATO) and the NATO Parliamentary Assembly (NPA) could be used to enhance transatlantic trade and economic collaboration.

I commend Chairman Tanner for raising these questions. NATO is never going to become a focal point for transatlantic consultations on trade and economic integration. It was designed for different missions and other transatlantic institutions and mechanisms have been developed for those purposes. However, as the Chairman notes, among NATO's founding principles, articulated in Article 2 of the North Atlantic Treaty, are: promotion of the stability and prosperity of its members, elimination of conflict in their international economic policies, and economic collaboration. In this era of globalization, hard security and economic security have become more closely intertwined. Many members of NATO and the EU are grappling with mounting debt and financial volatility that are leading to cuts in governmental spending including for defense and security. NATO Allies will need to be ever more mindful of the fiscal realities confronting member governments as they consider defense plans and ensure that NATO policies bolster the economic cooperation and integration that are foundational elements of the transatlantic relationship. Regional instability and the spread of technology have led to complex new challenges to the security of international commerce. NATO is making valuable contributions to global stability and the security of maritime commerce.

NATO Ensures the Secure Context for Transatlantic Economic Integration

NATO provided the security and political cohesion that was essential for Europe's post-war recovery under the Marshall Plan, the development of European integration, and the enormous growth in transatlantic trade and investment. As President Truman put it, the Marshall Plan and NATO were "two halves of the same walnut". The founding West European and North American countries created the Alliance to defend their common values, including commitments to democracy and free market principles, and mutual interests against the expansionist policies and methods of the USSR.

NATO is a political and military organization that provides indispensable mechanisms for collective self-defense, protection of other strategic interests, and political consultations on security issues. Articles 4 and 5 are generally seen as the heart of the North Atlantic Treaty. Under Article 4 the Parties are committed to consult together "whenever, in the opinion of any of them, the territorial integrity, political independence or security of any of the Parties is threatened." Under Article 5, Parties agree that "an armed attack against one or more of them in Europe or North America shall be considered an attack against them all and consequently they agree that, if such an armed attack occurs, each of them...will assist the Party or Parties so attacked by taking action...to restore and maintain the security of the North Atlantic area." These core

commitments—consultations and collective self-defense—are the foundation of the transatlantic security system.

The advisory for this hearing stated that “NATO offers interesting opportunities for dialogue on key trade issues, particularly in terms of promoting economic collaboration as envisioned under Article 2 of the North Atlantic Treaty.”

It is useful to recall the specific commitments NATO member states have under Article 2. Here is the actual text:

Article 2. The Parties will contribute toward the further development of peaceful and friendly international relations by strengthening their free institutions, by bringing about a better understanding of the principles upon which these institutions are founded, and by promoting conditions of stability and well being. They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them.

To parse this a bit, NATO nations have long seen efforts to strengthen their free institutions and to promote prosperity and wider understanding of the values upon which these institutions are founded as a contribution to peace in the Euro-Atlantic region and the wider world. Under the last sentence, NATO nations are committed to eliminating conflict in their international economic policies and to enhancing bilateral and multilateral economic cooperation. The principles of Article 2 have figured in the development of relations among NATO member nations, were used as an instrument of influence in the ideological struggles of the Cold War, and guided decisions on enlargement of Alliance membership and the development of its partnerships with other countries.

From the outset, member countries have utilized the Alliance primarily for coordinating their security policies and enhancing their collective defense capabilities. As the post-war order unfolded, NATO members were involved in establishing other international organizations and mechanisms specifically concerned with economic cooperation where the purposes and principles of Article 2 of the North Atlantic Treaty could be more effectively advanced. That said, Allies have long recognized that the economic vitality of member countries is a key underpinning of NATO’s influence in world affairs and ability to maintain effective collective defenses, and thus to the deterrence of intimidation or aggression by any hostile forces. NATO has been used as a forum for examination of interrelated aspects of political, military, and economic questions and to undertake assessments and promote collaboration on economic issues with security and defense implications. It also provides a means whereby specific actions in the economic field can be initiated to safeguard common Alliance interests.

The Treaty did not establish any mechanisms to address economic issues. Article 9 created the North Atlantic Council (NAC), with authority to address implementation of all elements of the Treaty and create subsidiary bodies, but only mandated the immediate

establishment of a Defence Committee charged with developing the measures required for collective defense.

NATO has about 40 principal committees and hundreds of subsidiary bodies, but only a few of these have mandates to work on defense economics and related trade issues:

- The **Economic Committee** is the only Alliance body concerned exclusively with consultations on economic developments. The Economic Committee's activities are limited to economic issues that have direct implications for security and defense policy. A small directorate of the NATO International Staff supports the Committee's work as well as aspects of Alliance defense planning and operations by preparing studies of security-related economic issues. For example, the International Staff undertakes analyses of military spending, developments in defense industry, and the availability of financial resources for implementation of defense plans. The directorate staff also maintains contacts and information sharing with national experts and international economic organizations, including on such matters as terrorist financing and energy security.
- The **NATO Conference of National Armaments Directors (CNAD)**, comprised of the top national officials responsible for defense procurement in NATO member and partner countries, considers the political, economic, and technical aspects of the development and procurement of equipment for NATO forces. The CNAD has a mandate to identify opportunities for collaborative research, development, and production of military equipment and weapons systems and to promote transatlantic defense industrial cooperation. It is responsible for a number of cooperative armaments projects and plays a key role in ensuring interoperability of national military systems and in the harmonization of military requirements.
- The **NATO Standardization Organization (NSO)**, including the Committee for Standardization and its subsidiary bodies, promotes common standards that enhance the interoperability of member and partner military forces and of the systems that support them, which also ensures the most efficient use of available defense resources. NSO also maintain liaison and cooperation agreements with various civil standards working groups such as the European Committee for Standardization, the American National Standards Institute, the European Telecommunication Standards Institute, and the Society of Automotive Engineers. NATO standardization activities contribute to the elimination of trade barriers in the defense sector and help disseminate technological advances.

While there is scope for expanding discussion of selected trade issues, primarily with respect to defense items, and of certain economic and energy issues that impact transatlantic security, neither the U.S. nor EU governments would be inclined to utilize these NATO bodies or the North Atlantic Council as a locus for routine discussion of trade issues. Other bilateral and multilateral mechanisms, including the U.S.-EU summits, the Transatlantic Economic Cooperation (TEC), and the WTO, will clearly remain the main venues for addressing trade and other economic issues.

On a national basis, there are several steps that could be taken to enhance transatlantic defense trade and cooperation. The Senate should ratify, as President Obama recently urged, the Defense Trade Cooperation Treaty with the United Kingdom (and a similar treaty with Australia), which would modernize outdated export controls and reduce other barriers to defense-related trade. This step would also help advance the Obama administration's commitment to a comprehensive overhaul of antiquated defense export control procedures, which is urgently needed to help strengthen the military capabilities of key allies to work with U.S. forces, and would boost U.S. defense exports to these important markets.

The private sector can also make contributions to enhancing transatlantic defense trade. Here I would commend a little-noticed memorandum of understanding signed June 24th between the U.S. National Defense Industrial Association and its Belgian counterpart, the Agoria/Belgian Security and Defense Industry. This agreement, signed at a time of budgetary constraints and industrial consolidation, will help facilitate both healthy competition and cooperation between U.S. and Belgian defense firms to ensure the armed forces of both countries are provided with the best equipment.

Impact of the Financial Crisis on Transatlantic Defense Capabilities

The persistent global economic recession and the subsequent European debt crisis have forced many U.S. European allies and partners to undertake austerity measures to reduce public expenditures across the board. Even the most reliable and capable European allies are considering drastic cuts in public expenditures. In its 2010 evaluation of government finance, the *Cour des Comptes* (France's top audit body) warned that the government must urgently cut its public debt and deficit level. French Prime Minister Fillon has announced a freeze in central government spending from 2011-13. In Germany, the *Bundeswehr* may face reductions of up to €1 billion per year over the next three years and German Defense Minister zu Guttenberg has announced that he plans to "suspend the draft for an unspecified period of time" which could "save up to 400 million euros per year." British Prime Minister Cameron recently announced new austerity measures that would reduce the UK deficit by \$171 billion a year by 2014-15, cutting all departments, with the exception of overseas development aid and the National Health Service, by 25 percent over the next four years. The UK Strategic Defence Review could result in a reduction of the core defense budget by 15-20 percent over the next four years.

During this time of great economic uncertainty, there are enormous political pressures on European leaders to maintain social safety nets, health care, and other entitlement programs to ensure social cohesion while targeting discretionary spending for ever closer scrutiny. Even in more prosperous economic times, overall European defense spending has been in decline over the past decade. Further real reductions over the next five years will slow long-term defense modernization plans and joint procurements, as well as efforts to recapitalize after recent operations. This trend could widen the capability and "useability" gaps between U.S. and European forces unless European governments are

able to spread reduced resources across a smaller number of forces, which would enable an increase in the quality and flexibility of residual forces.

It remains unclear whether European governments will respond by spending their diminished defense resources more wisely, or continue to reduce both force structure and capabilities. Some hope that this will galvanize efforts to spend limited resources more efficiently and effectively through collaborative European and transatlantic procurement and R&D programs, multinational force formations, informal pooling arrangements, and coordinated national specialization and niche capabilities. Absent these steps we are likely to see further diminishment of European military capabilities and commitments to current operations.

NATO's own spending and operations are also coming under increasing scrutiny. The Alliance is undertaking a review of its military command structure that could see a reduction in headquarters staffs by nearly forty percent thereby reducing costs and enhancing force flexibility and deployability. Allies are also considering sweeping proposals developed by Secretary General Rasmussen to reform NATO headquarters, agencies, and committees. At the same time, Allies have been hesitant to embrace U.S. proposals to enhance certain critical defense capabilities given their uncertain defense budgets. So NATO is seeing very clearly how the financial health of its members is essential to maintaining a robust transatlantic defense establishment.

Current NATO Operations that Safeguard Global Trade

Globalization has made Europe and the United States much more dependent on stable access to the lifelines that sustain modern commerce—at sea, in the air, and in cyberspace. At the same time, some of these lines of communication have become more vulnerable to disruption by various national and sub-national actors. Growing threats to these “global commons” include terrorism, piracy, and cyber attacks. NATO is engaged in several naval operations with partner countries that are contributing to the security of international trade.

Counter-Terrorism

Operation Active Endeavour (OAE) is NATO's only current collective defense operation under Article 5. It was launched following the September 11, 2001 terrorist attacks, as one of the 8 measures taken by the Alliance in support of the United States and to safeguard this vital sea line of communication. The Operation's principal mission is to deter and detect terrorist threats through a NATO naval presence in the Mediterranean. Its mandate was extended in March 2004 to cover not only the Eastern Mediterranean but also the entire international waters of the Mediterranean Sea. The Operation has performed a number of additional counterterrorist tasks, such as escorting merchant ships through the Strait of Gibraltar between March 2003 and May 2004. The rules of engagement for this operation were augmented in April 2003 to include compliant boarding of suspicious vessels (i.e. the ability to board ships with the consent of the ship's master and of the flag state). Since October 2004, the operation has been

reconfigured from continuous patrols to targeting specific vessels of interest based on information and intelligence sharing among participating NATO and partner states.

Active Endeavour has fostered information-sharing between NATO and various European and Mediterranean government agencies charged with homeland security and law enforcement, as well as with commercial shipping companies. While focused on potential terrorist threats, the ongoing presence of NATO ships in the Mediterranean and the data collected have also helped national authorities deal with other criminal activities at sea, including illegal trafficking in drugs, people, and arms.

Counter-Piracy Missions off Somalia

Attempted attacks by Somali pirates in the Gulf of Aden have grown dramatically over the past five years. The 217 attempted attacks in 2009 are double the number of attacks in 2008. These attacks are an increasing threat to international commerce in an important sea line of communication that carries almost 4 percent of the daily global oil supply. NATO has worked well with the European Union and countries to diminish the number of successful pirate attacks in this region.

In October 2008, in response to a request from the UN Secretary General, NATO governments agreed to deploy three ships as a contribution to counter-piracy operations off the coast of Somalia. Codenamed ***Allied Provider***, NATO ships escorted World Food Programme and African Union convoys delivering relief supplies and conducted deterrence patrols. The Operation was terminated in December 2008 when NATO handed over to the EU operation *Atalanta*. In March 2009, NATO Allies decided to make a second contribution to counter-piracy efforts in Somalia. Operation ***Allied Protector*** was conducted from April to August 2009.

In August 2009, the North Atlantic Council adopted an enhanced mandate and launched the new operation ***Ocean Shield***. Ocean Shield is providing a longer-term NATO contribution to counter-piracy efforts. Like NATO's previous operations, ***Ocean Shield*** is mandated to deter, defend against, and disrupt pirate activities in the Gulf of Aden. However, ***Ocean Shield***'s mandate includes more robust rules of engagement, as well as authority to assist regional governments in developing their own counter-piracy capabilities. NATO governments agreed in February 2010 to extend this operation until the end of 2012.

Cooperation among NATO, EU, and naval forces from many other countries contributing to counter-piracy operations off Somalia has gone remarkably well. This has included the development of the Contact Group on Piracy off the Coast of Somalia, which seeks to synchronize and deconflict operations by the roughly 30 naval vessels seeking to deter rampant piracy off the coast of Somalia.

Cyber Threats

NATO's networks have not been spared the relentless cyber probes that plague government and commercial networks. This situation and the extensive denial-of-service attacks directed at websites in Estonia during an April 2007 political dispute with Russia gave impetus to expanded NATO efforts to address the cyber threat. It became clear that large-scale attacks on NATO's command and control systems or energy grids could be highly disruptive and might under certain circumstances even be considered an "armed attack" under Article 5. NATO now appreciates just protecting its own assets, not to mention support of broader efforts to defend its member countries and their citizens, will require forging new partnerships with many international, national, and commercial entities. NATO has taken preliminary steps to deal with the cyber threat, including creation of a Cyber Defense Management Agency, a Cooperative Cyber Defense Center of Excellence in Estonia, and a Computer Incident Response Capability. But much more needs to be done to develop cyber defense capabilities to enhance NATO's role in protecting this critical enabler of transatlantic and global commerce.

Energy Security

Disruption of vital energy transit routes as a result of conflict or piracy, as well as efforts by a supplier state to suspend energy flows to an importing country as an instrument of political intimidation, can impose enormous hardships and economic dislocation. The issue of what role NATO should play in enhancing energy security has gained considerable attention in recent years. At its 2008 Summit in Bucharest, Allies agreed to take additional steps to share intelligence, advance regional cooperation, protect critical infrastructure, and support consequence management operations with regard to energy disruptions. NATO's role in energy security was addressed by the NATO Group of Experts, led by former Secretary of State Madeleine Albright, in their May 2010 report on the future NATO Strategic Concept. The Albright report concluded that while NATO has a role in protecting maritime supply routes and critical energy infrastructure, institutions such as the EU and the International Energy Agency are better suited to deal with economic aspects of energy disruptions, and that national efforts to maintain reserve stockpiles and diversify supply are the first line of defense. The Albright report did recommend that Allies consider additional steps to enhance NATO's ability to deal with energy supply disruptions and mitigate their damaging consequences on members and partners.

Thank you Mr. Chairman and members of the subcommittee for this opportunity to offer my perspectives on how NATO can and is contributing to transatlantic commerce and economic cooperation.

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