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REDUCTION OF MILITARY BUDGETS

Report of the Secretary-General

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* A/32/150.

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INTRODUCTORY NOTE

The General Assembly, at its 98th plenary meeting on 14 December 1976, adopted resolution 31/87 entitled "Reduction of military budgets". In paragraph 4 of the resolution, the Assembly, inter alia, requested "the Secretary-General to prepare, with the assistance of an intergovernmental group of budgetary experts appointed by him, a report containing an analysis of the comments provided by States pursuant to paragraph 3 above, in the light of the suggestions contained in the report, 1/ as well as any further conclusions and recommendations". By paragraph 3, the Assembly invited "all States to communicate to the Secretary-General before 30 April 1977 their comments with regard to matters covered in the report and in particular:

"(a) Their views and suggestions on the proposed standardized reporting instrument contained in the report;

"(b) Any information they may wish to convey on their military expenditure accounting practices, including a description of methods currently in use;

"(c) Suggestions and recommendations concerning possible practical approaches for further development and operation of a standardized reporting system."

In pursuance of resolution 31/87, after consultation with Member States, the members of the intergovernmental group of budgetary experts were appointed. 2/ The group held two sessions at Geneva in the period between May and August 1977. On 19 August, the Chairman submitted the report of the group to the Secretary-General. This report, which the Secretary-General hereby transmits to the General Assembly for consideration, contains observations and recommendations of the experts. In this connexion, the Secretary-General wishes to refer to the comments concerning the preparation of such reports made in the introductory note to the previous reports on the subject of the reduction of military budgets. 3/

1/ A/31/222/Rev.1.

2/ For the names of the experts, see the letter of transmittal below.

3/ A/9770/Rev.1 (United Nations publication, Sales No. E.75.I.10) and A/31/222/Rev.1 (United Nations publication, Sales No. E.77.I.6).

LETTER OF TRANSMITTAL

19 August 1977

Sir,

I have the honour to submit herewith the report of the Intergovernmental Group of Budgetary Experts, appointed by you, which was requested by the General Assembly in paragraph 4 of its resolution 31/87 of 14 December 1976.

The experts appointed in accordance with the General Assembly resolution were the following:

Brigadier Francis Olorunfemi AISIDA
Ministry of Defence, Lagos
Nigeria

Mr. Karunakaran BRECKENRIDGE
Counsellor of the Permanent Mission
of Sri Lanka to the United Nations at Geneva

Mr. José A. ENCINAS DEL PANDO
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United Kingdom of Great Britain and Northern Ireland

Mr. John E. KOEHLER
Assistant Director
Congressional Budget Office
Washington, D.C.
United States of America

Mr. Kiyohiko KOIKE
Chief of Communication Division, Equipment Bureau
Japan Defence Agency, Tokyo
Japan

His Excellency Mr. Kurt Waldheim
Secretary-General of the United Nations
New York

/...

Mr. Miguel MARIN-BOSCH
Minister Counsellor of the Permanent Delegation
of Mexico to the Conference of the Committee on
Disarmament, Geneva

Mr. Karl-Erik STRAND
Head of Division
Ministry of Budget, Stockholm
Sweden

Mr. Klaus SUDERGATH
Head of Section
Ministry of Defence, Bonn
Federal Republic of Germany

At its first meeting, on 31 March 1977, the Group of Experts elected Mr. J. A. Encinas del Pando of Peru as its Chairman. Mr. P. Csillag, Chief of Information and Research Section of the Centre for Disarmament, served as Secretary of the Group.

The report was prepared between May and August 1977, during which period the Group held two sessions, from 31 May to 3 June and from 8 to 19 August 1977, at Geneva.

Brigadier F. O. Aisida of Nigeria, Mr. K. Breckenridge of Sri Lanka, Mr. M. Marin-Bosch of Mexico and Mr. K. Sudergath of the Federal Republic of Germany joined the Group at the beginning of its second session.

The report of the Group of Experts is submitted on the basis of consensus among its members. According to paragraph 4 of resolution 31/87, they were appointed as an "Intergovernmental Group of Budgetary Experts". The views expressed in the report do not, in any way, commit their respective Governments.

The Group of Experts wishes to acknowledge with appreciation the assistance it received from the Centre for Disarmament, Department of Political and Security Council Affairs, the Statistical Office of the Department of Economic and Social Affairs of the United Nations Secretariat and from Mr. G. Mollet, who served as consultant to the Group.

I have been requested by the Group of Experts, as its Chairman, to submit this report to you on its behalf.

Respectfully yours,

(Signed) J. A. ENCINAS DEL PANDO
Chairman of the Group of Experts

/...

REPORT OF THE INTERGOVERNMENTAL GROUP OF BUDGETARY EXPERTS

CHAPTER I

INTRODUCTION

1. The present report continues the work begun pursuant to General Assembly resolution 3093 A and B (XXVIII) of 7 December 1973. This resolution called for the reduction of the military budgets of all States permanent members of the Security Council and of the major world military spenders, and the utilization of part of the resources thereby saved for assistance to developing countries. The resolution thus identified the goal as both the reduction of military expenditures and the increase of international development assistance.
2. The report 1/ (hereinafter referred to as "the 1974 report") of the group of consultant experts issued in pursuance of this resolution focused the attention of the General Assembly on this goal, and as a consequence, the Assembly, by resolution 3463 (XXX) of 11 December 1975, mandated a further report 2/ (hereinafter referred to as "the 1976 report") which dealt in depth with a number of technical issues relating to the measurement of military expenditures, and proposed a system for international reporting. The General Assembly, having considered the 1976 report, requested the Secretary-General, in its resolution 31/87 of 14 December 1976, to prepare, with the assistance of an intergovernmental group of budgetary experts appointed by him, a report containing an analysis of the comments of States in the light of the suggestions made in the 1976 report, as well as any further conclusions and recommendations.
3. The work set in motion by General Assembly resolution 3093 A and B (XXVIII) has reached a decisive stage. Successive reports have moved the whole exercise to a position where practical steps for making operational testing and refining the reporting instrument can be taken. For this reason, this Expert Group wishes firstly to reiterate the objectives of the exercise, namely an effort by the international community to achieve arms control and disarmament and the release of additional resources for social and economic development, particularly for assistance to developing countries. Secondly, the conclusions and recommendations contained in chapter IV below are intended to develop further the system for the comparison of military expenditures as a means of achieving these objectives.

A. Origin and background

4. Arms control and disarmament negotiations have concentrated in the past on measures to limit or reduce military forces and activities, rather than on measures

1/ A/9770/Rev.1 (United Nations publication, Sales No. E.75.I.10).

2/ A/31/222/Rev.1 (United Nations publication, Sales No. E.77.I.6).

to control military expenditures. The 1974 and 1976 reports, and the present report, by analysing the problems of and possible mechanisms for the reduction of military expenditures, constitute a new approach to international arms control and disarmament, leading to increases in international development assistance. The attractiveness of an expenditure-reduction approach to arms control lies in its comprehensiveness, that is, in its potential for application across the whole spectrum of factors contributing to military capability. Such an approach, by virtue of the fact that it includes, among other items, research and development outlays, could serve to constrain qualitative improvements as well as quantitative enlargements of armed forces. Hence, military expenditure reduction is regarded as a worth-while approach to arms control and disarmament.

5. The reduction of military expenditures assumes added importance in view of the global volume of resources devoted to military programmes in contrast to the inadequate resources devoted to alleviating the worsening economic and social problems of the developing countries; consequently, military expenditure reduction, and the utilization of part of the freed resources for economic and social needs, particularly of the developing countries, have been proposed on a number of occasions.

6. The reduction of military expenditures and the link between disarmament and development have a long history of discussion in the General Assembly and Economic and Social Council. An early example is provided by General Assembly resolution 380 (V) of 17 November 1950, which called upon nations to agree "to reduce to a minimum the diversion for armaments of ... human and economic resources and to strive towards the development of such resources for the general welfare, with due regard to the needs of the underdeveloped areas of the world".

7. In its resolution 914 (X) of 16 December 1955, the General Assembly called upon States to study a proposal for the allocation of funds resulting from disarmament for improving the standards of living throughout the world and, in particular, in the less developed countries. 3/

3/ That proposal, advanced by the Prime Minister of France at the opening meeting of the Geneva Conference, on 21 July 1955, read in part as follows:

"... a first condition for ensuring a lasting peace [is] progress toward disarmament. A second condition is assistance to the peoples of underdeveloped territories in improving their general living conditions.

"The French Government believes that these two forms of activity should be carried out side by side and that consideration should be given to establishing an organic link between them. Such a link should make possible at least a partial solution of the problem of supervision and sanctions in regard to disarmament.

"The French Government proposes that States should agree to a reduction in the amount of their military expenditure and that the financial resources thus made available should be allocated in whole or in part to international expenditure for development and mutual assistance.

"The essentially financial aspect of these proposals must be stressed, for it will make possible a comprehensive view of military problems at a high

8. In 1960, the General Assembly, in resolution 1516 (XV) of 15 December 1960, recommended that the Secretary-General should appoint a group of expert consultants to assist him in conducting a study of the economic and social consequences of disarmament. The expert group's report 4/ was submitted in 1962, and concluded that "all the problems and difficulties of transition connected with disarmament could be met by appropriate national and international measures. There should thus be no doubt that the diversion to peaceful purposes of the resources now in military use could be accomplished to the benefit of all countries and lead to the improvement of world economic and social conditions."

9. In 1962, the General Assembly, by resolution 1837 (XVII) of 18 December 1962, asked the Secretary-General to consider all relevant aspects of the conversion to peaceful needs of the resources released by disarmament, and studies were carried out in 1964 and 1965 by an Inter-Agency Committee.

10. At the twenty-fourth session a link between disarmament and development reappeared in resolution 2602 E (XXIV) of 16 December 1969, by which the General Assembly declared the decade of the 1970s as a Disarmament Decade, requested the Conference of the Committee on Disarmament to work out a comprehensive programme, dealing with all aspects of the problem of general and complete disarmament under effective international control, and recommended that consideration should be given to channelling a substantial part of the resources freed by measures in the field of disarmament to promote the economic development of developing countries and, in particular, their scientific and technological progress.

11. In October 1971, a report (A/8469 and Add.1) entitled "Economic and social consequences of the arms race and of military expenditures" was submitted in response to General Assembly resolution 2667 (XXV) of 7 December 1970. The report noted that the military budgets of the aid donors were approximately 30 times greater than the official development assistance they provided to the developing countries. The General Assembly welcomed the report in resolution 2831 (XXVI) of 16 December 1971, and recommended that its conclusions should be taken into account in future disarmament negotiations. Among these conclusions is the recommendation that "a substantial reduction in the military expenditures of all countries, particularly of those whose military expenditures are highest, should be brought about as soon as possible".

12. In pursuance of General Assembly resolution 2685 (XXV) of 11 December 1970, the Secretary-General appointed a group of experts on the economic and social consequences of disarmament. Their report 5/ entitled "Disarmament and Development"

(continued)

level and will facilitate on an international level the transfer of military expenditure to productive purposes which exceed the resources of any particular country." (See United Nations document DC/SC.1/27.)

4/ United Nations publication, Sales No. 62.IX.1.

5/ United Nations publication, Sales No. E.73.IX.1.

was submitted to the Economic and Social Council in May 1973. The experts stated that "disarmament and development are of the greatest importance to the world community. But fundamentally they stand separately from one another ... However, disarmament and development can be linked to each other because the enormous amount of resources wasted in the arms race might be utilized to facilitate development and progress" and that "the blatant contrast between this waste of resources and the unfilled needs of development can be used to help rouse public opinion in favour of effective disarmament, and in favour of the achievement of further progress in development, particularly of the developing countries."

13. On several occasions the General Assembly has "noted that the ever-spiralling arms race is not compatible with the efforts aimed at establishing a new international economic order" and has "called upon Member States and the Secretary-General to intensify their efforts in support of the link between disarmament and development, so as to promote disarmament negotiations and to ensure that the human and material resources freed by disarmament are used to promote economic and social development, particularly in the developing countries". 6/

14. At the twenty-eighth session on 7 December 1973, a resolution in two parts on the question of the reduction of military budgets, and international development assistance, was adopted. Resolutions 3093 A and B (XXVIII) of 7 December 1973 recommended that all States permanent members of the Security Council should reduce their military budgets by 10 per cent from the 1973 level during the next financial year, and appealed to them to allocate 10 per cent of the funds thus released for the provision of assistance to developing countries. Part B of the resolution requested the Secretary-General to prepare, with the assistance of qualified consultant experts, a report on the reduction of the military budgets of the States permanent members of the Security Council, which should also cover other States with a major economic and military potential, and on the utilization of a part of the funds thus saved to provide international assistance to developing countries.

15. The expert report, 7/ (the 1974 report) entitled "Reduction of the military budgets of States permanent members of the Security Council by 10 per cent and utilization of part of the funds thus saved to provide assistance to developing countries", was transmitted to the General Assembly on 14 October 1974. The report distinguished the following sets of technical problems, namely, the definition, measurement and international comparison of military expenditures; the form of expenditure reductions and their possible effects on international security; the difficulty of verifying compliance; and the manner of use for international development of the resources released. The report noted that, if progress were to be made towards the successful implementation of agreements for the reduction of military expenditures, common standards of measurement and comparison between States, as well as measures for verification of compliance, would be required.

6/ See, for example, General Assembly resolutions 3462 (XXX) and 3470 (XXX) of 11 December 1975 and 31/68 of 10 December 1976.

7/ A/9770/Rev.1 (see foot-note 1 above).

16. In 1975, the General Assembly adopted resolution 3463 (XXX) whereby it reaffirmed its conviction that part of the resources released by reductions in military budgets should be utilized for social and economic development, particularly of the developing countries; appealed to all States, in particular the States permanent members of the Security Council as well as any other State with comparable military expenditures, to strive to reach agreed reductions in their military budgets; urged the two States with the highest levels of military expenditures in absolute terms, pending such agreement, to carry out reductions in their military budgets; and requested the Secretary-General, assisted by a group of qualified experts, to prepare a report in depth. This report, 8/ entitled "Reduction of military budgets: measurement and international reporting of military expenditures" (the 1976 report) was submitted to the General Assembly at its thirty-first session. It recommended for arms control purposes a particular definition and scope of the military sector and of military expenditures as well as a set of evaluation rules, and proposed the establishment of an international system for the measurement and reporting of military expenditures.

17. By its resolution 31/87 of 14 December 1976, which is the origin of the present report, the General Assembly invited all States to comment on the matters covered in the report mentioned in the previous paragraph, and requested the Secretary-General to prepare, with the assistance of an intergovernmental group of budgetary experts appointed by him, a report containing an analysis of comments by States and any further conclusions and recommendations.

18. The 1974 and 1976 reports were issued during a period of East-West political détente, of economic difficulty, and of increasing military expenditures. It was a period during which industrialized countries experienced economic recession with high levels of inflation and unemployment, while the economies of most developing countries stagnated or experienced reduced growth rates accompanied by acute trade and payments deficits and spiralling foreign debts. Throughout this period, the leading economic and social disparities separating the developed from the developing countries either grew or remained basically unchanged.

19. At the present time, annual military expenditures, estimated at nearly \$US 400 billion, are rising rapidly in the developed and developing world alike; these expenditures represent a major diversion of the human, technical and scientific resources which are so desperately needed for social and economic development.

20. Few contemporary problems reflect the preoccupations and goals of our times as forcefully as disarmament and development. Together they embody the universal abhorrence of war and the hopes for lasting peace and well-being. They are among the paramount aims of the Charter of the United Nations which the international community has striven since 1945 to advance.

21. The results achieved thus far in international disarmament negotiations are inadequate. The global expansion of arms and military forces continues, and the

8/ A/31/222/Rev.1 (see foot-note 2 above).

arms build-up in many parts of the world is a cause of considerable concern to the international community and attests to the need for effective arms control and disarmament.

22. The rapid advance of military technology and extensive international arms transfers, involving ever more sophisticated weapons systems, are particularly disquieting. Never in history has the capacity of man to destroy himself, his civilization and physical environment been greater than it is today.

23. An increase in confidence and trust among States is a prerequisite for the setting in motion of a process of real disarmament; and an important step towards the building of such confidence and trust would be an increased flow of information stemming from the successful implementation of the recommended system for the international reporting of military expenditures.

24. The present report is an attempt to formulate constructive approaches to the reduction of military expenditures and the promotion of economic and social progress. It is thus related to ongoing studies within the United Nations, and to the Disarmament Yearbook, which is intended to contain in a standardized format information appropriate for the measurement and evaluation of military expenditures.

B. Objectives and contents of the report

25. The central purpose of this report is to analyse the comments provided by States on the 1976 report entitled Reduction of military budgets: measurement and international reporting of military expenditures and to furnish further conclusions and recommendations.

26. Chapter II of the present report analyses the comments provided by States. They were asked to give their comments with regard to the matters covered in the 1976 report and in particular to give views and suggestions on the proposed standardized reporting instrument, to furnish information on their military expenditure accounting practices, and to give suggestions and recommendations concerning possible practical approaches for the further development and operation of a reporting system.

27. In chapter III further development of the reporting instrument is considered, and practical problems which will face budgetary experts in completing the recommended format and in trying to extract appropriate information from data delivered, are examined. To that end, the group of experts made use of information provided both formally and informally by a small number of States.

28. Chapter IV sets out the conclusions and recommendations of the expert group.

CHAPTER II

AN ANALYSIS OF THE COMMENTS OF STATES

29. In paragraph 3 of its resolution 31/87 of 14 December 1976, the General Assembly invited all States to communicate to the Secretary-General comments with regard to matters covered in the 1976 report. In particular, it invited all States to communicate their views and suggestions on the proposed standardized reporting instrument contained in that report, information on military expenditure accounting practices currently in use, and suggestions and recommendations concerning possible practical approaches for the future development and operation of a standardized reporting system. Nineteen States 9/ responded to this request, and five of these 10/ seemed to indicate that the proposed reporting instrument was not applicable to their situation. The analysis which follows is based on the other 14 replies.

30. The expert group discussed at some length the way in which the comments of States should be presented in this report. A number of possible methods of presentation were considered, including categorization by comment, categorization by State, and no categorization at all. The last approach, which merely reproduces the replies of States, has not been adopted since it does not fulfil the mandate of the expert group as laid down in paragraph 4 of General Assembly resolution 31/87, which requests "an analysis of the comments provided by States". For the information of the General Assembly, however, the replies of States are reproduced in full in annex I. Categorization by State was considered unsatisfactory because it was felt that a grouping together of States might fail to clarify slight, but important, differences of opinion between them. The group finally agreed to categorize on the basis of the comments of States and in accordance with the wording in paragraph 3 of resolution 31/87.

A. Views and suggestions on the standardized reporting instrument in the 1976 report

31. The views and suggestions of States concerning the standardized reporting instrument may be conveniently divided into comments relating to the definition and scope of the military sector and of military expenditures, and comments pertaining to the structure and classification of military expenditures, i.e. the format for international reporting. Some of the views expressed were raised in more than one reply, and the substantive points are recorded below.

9/ Australia, Byelorussian SSR, Canada, Finland, Germany, Federal Republic of, Italy, Japan, Maldives, Mauritius, Netherlands, Panama, Samoa, Spain, Sweden, Tonga, United Kingdom of Great Britain and Northern Ireland, United States of America, Union of Soviet Socialist Republics, Venezuela.

10/ Maldives, Mauritius, Panama, Samoa and Tonga.

1. Definition and scope of the military sector

32. In trying to devise a reporting system, the 1976 expert group was concerned to outline a generally acceptable framework which would facilitate reliable international comparison of military expenditures. To a large extent, any attempt to devise constraints on military expenditures in order to achieve a measure of arms control and disarmament itself determines how the military sector is delimited and how military capability is defined. The 1976 report defines the military sector in terms of force potential, i.e. "that group of activities whose object is the research, development, provision, assembly, maintenance and deployment of current and future force potential intended for application mainly against external forces". The core activities of the military sector include:

- (a) Employment of civilian and military personnel, including reserves;
- (b) Procurement of equipment;
- (c) Operations and maintenance;
- (d) Construction of military facilities (including acquisition of land and facilities);
- (e) Research and development.

There are, however, a number of items which may substitute more or less for these core activities. In the 1976 report these items were listed under the following headings:

- 1. Paramilitary forces;
- 2. Civil defence;
- 3. Military assistance;
- 4. Such other activities as will be viewed as important substitutes for core activities of the military sector.

(a) Definition of the military sector

33. Sweden made the general point that the recommended definition, scope and content of the military sector is appropriate, and a number of respondent States expressed views which also presuppose acceptance.

(b) Scope of the military sector

(i) Core activities

34. The only point raised concerned the difficulties of valuation and measurement attaching to "mothballed" or reserve armaments production possibilities (Sweden).

(ii) Paramilitary forces

35. Views on paramilitary forces did not call directly into question their inclusion in the military sector, but the absence of complete information by central government was emphasized (United States of America). It was also pointed out that there may be instances where expenditure on apparently non-military organizations, such as the United States Coast Guard, should be described as military (United States of America). On the other hand, it was emphasized that the absence of a coastguard required the Royal Australian Navy to perform a wide range of duties falling outside the military sector (Australia).

(iii) Civil defence

36. One view taken was that it would be almost impossible to arrive at a common interpretation of the term "civil defence" for each country, and that this item would require further study (Spain). Other countries expressed some doubt about the practicability of its inclusion (Australia, Netherlands, Sweden, United States of America). In particular, the United States pointed out that complete expenditure information on civil defence is not readily available to the central government in a situation where federal spending is supplemented by state and local expenditures. Clearly, further thought must be given to the inclusion or exclusion of civil defence (Spain, Sweden), to its role in relation to natural disaster activities (Australia), and to whether it can be regarded as an effective substitute for active air defence (Netherlands).

(iv) Military assistance

37. It was suggested that further clarification of the subdivision of military assistance into "contributions to allied forces and infrastructure" and "military assistance to allies and non-allies" is required (Australia).

(v) Other substitute activities

38. The desirability of including contributions to United Nations peace-keeping activities needs consideration (Australia).

2. Definition and scope of military expenditures

39. The conversion of military activities into current and future force potential depends upon "flows of goods and services in the form of personnel, materials, equipment, etc., which are obtained from outside the military sector" (A/31/222/Rev.1, para. 46). In the 1976 report, military expenditures are defined as flows of final military goods and services to the military sector, valued at factor cost; and the scope of these expenditures in terms of cost categories includes:

1. Compensation of civilian and military personnel, including reserves;
2. Procurement of equipment, including major modification of equipment on hand;

/...

3. Operations and maintenance;
4. Construction of military facilities, including acquisition of land and facilities;
5. Research and development.

(a) Definition of military expenditures

40. In Sweden's view the definition, scope and content of military expenditures, recommended in the 1976 report, is appropriate, and should constitute the basic framework for future progress. Other States expressed views which presuppose acceptance in principle.

41. The 1976 report requires the reporting of military expenditures on a factor cost basis. It was pointed out that the Australian accounting system records military expenditures at market prices, and data net of indirect taxes and subsidies are not readily available. Since the distortion introduced by using market price data is probably limited, Australia suggested that the reporting of military expenditures in market price terms might be acceptable initially. The Netherlands also commented on the difference between the pricing standard for military expenditures currently in use and the standard proposed in the 1976 report.

42. For effective comparisons of military capability some assessment of factors such as the size and physical location of States, the efficiency and morale of the armed forces and other considerations would be required (Australia).

(b) Scope of military expenditures: cost categories

43. Certain types of expenditure should be excluded from the definition and scope of military expenditures, e.g. expenditures associated with the performance of civilian functions by the armed forces, such as control of rivers and waterways (United States of America); aid to civilian authorities in times of natural disasters, search and rescue operations and coastguard activities (Australia); or expenditures which do not directly contribute to military capability, e.g. spending on health and housing for military dependants (United States of America).

(c) Compensation of military and civilian personnel

44. It was suggested that expenditures related to past activities, e.g. pensions, should also be excluded (United States of America). One State questioned the exclusion of government contributions to service pensions on the grounds that previous arrangements which give rise to current costs may also provide current benefits in terms of recruitment, morale and the maintenance of an efficient defence capability (Australia).

45. In addition to one minor change in the ordering of personnel expenditures proposed by Spain, Australia suggested that voluntary reserves and cadets should be included as a separate line item under personnel, and that allowances as well as salaries be recorded.

(d) Procurement of equipment

46. Australia indicated that the inclusion of ammunition and ordnance expenditure as a procurement rather than maintenance item is contrary to its current government accounting practice. Where items of this nature are purchased in replacement of consumed stocks, expenditure is treated as maintenance stores.

(e) Construction of military facilities

47. It was suggested that an additional line for training and testing facilities could be usefully included (Australia).

3. Structuring and classification of military expenditures: format for international reporting

(a) General comments

48. One of the main recommendations of the 1976 report is the standardized accounting format, reproduced as annex III to the present report. It is one possible detailed scheme for the collection and compilation of military expenditure data. The 1976 report suggests that the format should be evaluated according to three criteria: (a) the structure and scope of information needed for military expenditure comparisons; (b) technical feasibility; and (c) ease of verification. The Netherlands suggested that these criteria could conflict; technical feasibility could place restrictions on the provision of data, thereby preventing meaningful comparisons of military expenditures.

49. A number of States welcomed the efforts to produce a standardized reporting system (Australia, Canada, Finland, Germany, Federal Republic of, Japan, Netherlands, Spain, Sweden, United Kingdom, United States of America). The proposed format was described as a particularly helpful, comprehensive and detailed reporting system (Federal Republic of Germany) and an effective means of achieving standardization and comparability of military expenditure between States (Spain). It was further suggested that its wide implementation could constitute a valuable basis for possible future agreements limiting or reducing military expenditures (Sweden, United States of America). With support from the major military spending States, implementation, by virtue of the improved flow of reliable military expenditure data, would be a significant contributory factor in building international confidence (Canada, Germany, Federal Republic of, Netherlands, Sweden, United Kingdom, United States of America). Indeed, a generally accepted matrix system based on military expenditures, as defined in the 1976 report, would be likely to produce greater understanding of military budgets, and hence it would constitute an essential condition for a possible reduction of military expenditures (Germany, Federal Republic of).

50. In the opinion of Venezuela, the proposed international reporting system does not provide the instruments necessary for its effective implementation. There is no supranational agency to regulate and control the reduction of military budgets, and it would be necessary to rely on good faith and the sincerity of States to supply information.

51. Canada pointed out that the structure and scope of information needed for the

comparison of military expenditures would require a classification which permits easy comparison of data provided by States. Such a classification may appear to be somewhat arbitrary, and it is important to recognize that the provision of data is highly dependent upon a State's own accounting and reporting system and the similarity which this bears to the recommended standardized reporting instrument. For individual States, Canada contended that there are three important questions to be answered:

- (a) Do their own accounting systems provide an effective isolation of military expenditures?
- (b) Are their expenditures expressed and accumulated both by resource categories and by programmes or missions?
- (c) To what extent can their classifications meet the requirements of the proposed standardized reporting instrument?

52. Finland described the resource approach chosen by the 1976 group of experts as a realistic basis for the measurement of military budgets. It referred to the great differences in the level and structure of military expenditures of States, and pointed out that these differences could affect both the extent and the method of aggregation of detailed military expenditure data. Accounting and reporting according to the format proposed would probably lead to excessive detail in the case of small countries with low levels of military spending. Indeed, it was Finland's view that great detail would not necessarily increase the reliability of the information supplied, and hence compromise was needed between reliability and availability of detailed information on the one hand, and unambiguity and total comparability on the other.

53. Australia, Sweden and the United Kingdom pointed out that considerable effort would be required on the part of some States to complete the standardized reporting instrument, and Sweden suggested that this should be taken into account when the system is implemented. The resource cost classification proposed was similar to that currently in use in Australia, but it was considerably more disaggregated. The United States pointed out that military expenditure data are more readily available by resource cost and/or force groups than in combination.

54. Five countries indicated that it would be possible without excessive difficulty to supply the appropriate military expenditure data (Canada, Italy, Spain, Sweden, United States of America). In particular, Canada noted that the classification by resource cost and programme shown in Table A of the 1976 report is at a level of aggregation which would enable that State to report, provided there is sufficient definition of individual items. The Netherlands supported the need for precise definitions, and suggested that the proposed reporting system include data on numbers and quality of weapons systems and personnel. The United States emphasized the need to maintain a clear distinction between monies authorized and appropriated, and amounts actually spent. For the standardized reporting instrument amounts spent or actual outlays are required, although the definitive determination of United States' military outlays for a given fiscal year is possible only after some delay.

(b) Specific comments

55. Australia made specific observations on the reporting instrument. Under operations and maintenance the treatment of intragovernmental user charges between agencies, and rations and quarters, require further clarification. Provision for imputed payments should be included in the reporting instrument. This would assist in overcoming discrepancies arising between States pursuing different policies of rental or acquisition of defence facilities. The recommended subdivision of procurement categories between domestically produced and imported items may also require further refinement to take account of the import content of domestic contracts. In this context a division into domestic value added and imported items was proposed.

56. In relation to its budgetary and accounting practices the United States pointed out that current practice does not distinguish between domestic production and imported materials, between force allocated stocks and general stockpiles, or between a number of different types of construction; and that total expenditure information in certain areas such as civil defence and paramilitary forces is not available to central government.

B. Information on the military expenditure accounting practices of States

57. Only a limited amount of information on military accounting practices currently in use was supplied in the official replies of States. ^{11/} Spain suggested it was unnecessary to send information on its methods of measuring military expenditures, since this could be found in the general State budgets published annually. The Federal Republic of Germany pointed out that its defence expenditures are published in the federal budget and in detail in the White Books. Canada, Italy, Netherlands, Spain, Sweden and the United States of America indicated that accounting practices currently in use could be modified to provide the kind of information required in table A of the 1976 report.

58. Italian military expenditures are detailed annually item by item, and classified into administrative, operational and economic categories. In the over-all national budget, however, military expenditures are not classified as capital or investment funds but as current expenses.

59. Australian military expenditures are also appropriated annually, and classified on a resource cost basis, i.e. salaries, administrative expenses, capital equipment, replacement equipment, stores, etc. A functional classification in terms of missions or programmes is not readily available, but separate financial and manpower estimates are produced for the Army, Navy and Air Force.

60. In the Canadian budget system, the classification of expenditures reflects

^{11/} Reference is also made to military accounting practices currently in use in chap. III, where a more systematic analysis of the problems which might confront States in completing the standardized accounting table is attempted.

the needs of the national accounts and the requirement of detailed information for day-to-day management purposes. Expenditures are classified by activity and by object, and this is achieved through an integrated coding system. It is the Canadian view that this system might be usefully applied to the data reported by States.

C. Further development of the standardized reporting system

61. It was the view of the 1976 group of experts that the international reporting instrument proposed should be put into operation, tested and refined prior to its more general application as a regular instrument for reporting military expenditures, and that technical responsibility for these tasks should be assigned to an ad hoc panel of experienced practitioners in the field of military budgeting under the aegis of the United Nations. These views received support from Germany, Federal Republic of, Japan, Sweden, the United Kingdom and the United States of America; the Netherlands indicated that it was prepared to attempt a classification of its military expenditures in accordance with the proposed standardized reporting system. Japan further recommended that the work of operationalization, testing and refinement, referred to as "operational development" in the 1976 report, should start as early as possible, and that the present group of experts should concentrate its efforts on establishing concrete methods and procedures for operational development, including the defining of the composition and activities of the ad hoc panel. The Federal Republic of Germany thought that the panel should try to improve the matrix, and then, in the proposed test phase, attempt to demonstrate whether the reporting system can be used by all States.

62. Canada agreed with the conclusion of the 1976 report that there is clearly a need to translate the concepts and procedures developed in the study into practical ways and means that can be utilized on a regular basis by the United Nations and its Member States. With this in mind Canada suggested that consideration should be given to the operationalization of the international reporting instrument so that States would have precise definitions and specifications of expenditure categories and their content in such detail as to constitute concrete guidance on what data are required. It is only after this has taken place that States will be able to give detailed consideration to the other recommendations concerning testing and refining.

63. In testing the validity of the proposed reporting system, Japan and the United Kingdom expressed preference for a pilot study, whereby a small representative group of States completed table A of the 1976 report. Japan suggested that the group of States should represent different economic systems, although any State should be allowed to participate on a voluntary basis. The United Kingdom agreed with voluntary participation, but pointed out that a universal sample could produce a mass of data difficult to analyse and refine. The United States emphasized the necessity of including States which have high levels of military spending and different kinds of economic systems.

64. It was hoped that the General Assembly would agree to commission a pilot study and to establish an ad hoc panel at its thirty-second session

(Japan, United Kingdom). This panel could submit its plan of activities (Japan) or the results of the pilot study (United Kingdom) to the special session of the General Assembly on Disarmament, to be held in May/June 1978.

65. The Netherlands envisaged a number of national pilot studies to test the proposed reporting system and to examine the practicability of the adjusted factor cost pricing standard. It also suggested that ways of measuring international differences in productivity in the creation of force potential should be examined; otherwise, equal reductions in military expenditures could create unequal, and therefore destabilizing, reductions in force potential. Hence the need for information on numbers and quality of weapon systems and personnel.

66. The 1976 report also provided recommendations on the deflation and international comparison of military expenditures. Specific proposals were made for the construction of military price deflators and for appropriate surrogate indices. These proposals were described as valuable (Sweden), and the need for further development of techniques for the more accurate and consistent measurement of military expenditures was acknowledged (Australia, Netherlands, Sweden, United States of America). It would be necessary to evaluate data over a period of years in order to discover and resolve the problems likely to occur in making comparisons over time (United States of America). In contrast, Venezuela did not believe that the 1976 report established an evaluation system which could measure and internationally compare military expenditures, nor that it establishes procedures for the precise measurement of military force changes.

67. Before it became possible to formulate effective agreements to limit military expenditures however, a variety of technical issues remained to be resolved, especially those associated with verification (United States of America), and it was suggested that a separate study should be made of the ways in which military expenditure data provided by States could be verified. It was argued that it must be possible to verify the practical application of agreements to reduce military expenditures and to develop a verification procedure on a reciprocal basis which would meet both the national security interests of States and the requirements of such agreements (Federal Republic of Germany).

D. Other views and suggestions

68. The Byelorussian SSR and the Union of Soviet Socialist Republics suggested that it was unfortunate that in recent years it had been the practice of the United Nations to carry out technical studies of individual aspects of the problem of the reduction of the military expenditures of States. Experience had shown that such studies did not promote the practical reduction of the military budgets of States and, in fact, only diverted attention from a solution to the problem. In the view of the Soviet Union, the efforts of States must be directed not towards abstract research which does not yield practical results, but towards the implementation of genuine effective measures to reduce military budgets.

CHAPTER III

FURTHER DEVELOPMENT OF THE REPORTING INSTRUMENT

A. Introduction

69. The 1976 report observed that several issues had been left unresolved mainly because the level of detail and specialization required to deal with certain technical questions could only be supplied by professionals in the subfields involved. That group of experts were mindful of the fact that the definition and scope of the military sector and of military expenditures might require some consideration, and that the standardized reporting instrument would have to be made operational. Operationalization would involve the precise definition and specification of expenditure categories and their content in such detail as to constitute concrete guidance to States supplying the required data; and subsequently, the instrument would be tested and refined. Once a system of reporting in national currency terms had been established, attention could be turned to the development of appropriate military price deflators and to international value comparisons.

70. Given the limited amount of information available to the expert group, it is not within the group's capacity to provide detailed definitions and specifications for all the expenditure categories which make up table A, i.e. the matrix of the 1976 report. The group considered it important at this stage to clarify the wider choices which will be involved in completing the matrix, and to examine in general terms the kind of information problem which arises in a situation where data, collected and compiled in various ways specifically for budgetary and accounting purposes, do not fully accord with the requirements of the format proposed and recommended in the 1976 report. Furthermore, a number of more specific and detailed problems concerning the definition and scope of the military sector and military expenditures, raised in the replies of States, are also considered. Finally, general conclusions and recommendations are put forward.

71. This examination of general and specific issues has been conducted on the basis of information contained in the replies of States in pursuance of General Assembly resolution 31/87; information obtained by the Swedish Government as a result of its highly successful attempt to complete the matrix; and information on budgetary and accounting systems provided informally by members of the expert group. ^{12/} On account of the lack of information concerning the military budgeting and accounting practices of States in the replies and to the extent that the further information provided was not as representative as desirable, it must be emphasized that the group's appreciation of the exact nature of the practical difficulties faced by States in filling out the matrix is inevitably incomplete. The gathering of additional detailed information from a more representative sample would be an important part of any operational development phase.

^{12/} The information provided by the Government of Sweden, including a completed matrix; the replies of States; and the format recommended in the 1976 report, are attached as annexes to the present report.

B. Levels of detail, costs of reporting and ease of verification

72. It is important to bear in mind that each of the cells in the matrix reflects a large number of transactions between the military sector and other sectors within an economy. Accompanying these transactions are exchanges of requisitions, orders, payments, receipts, inventory reports and the like. These are the primary data that underlie the corresponding entry in the matrix. If the matrix is built up cell by cell, there would be in principle a set of these primary data corresponding to each entry; and these data, in turn, could be identified in the accounts of enterprises supplying goods and services to the military sector. Therefore, primary data relating to each cell of the matrix provide the basic information for verification of agreements on the reduction of military expenditures. To the extent that figures in the cells of the matrix are based principally on primary data, and to the extent that the information provided is detailed and interrelated, as is the format of the proposed reporting instrument, the possibilities for successful concealment and the cost of verification of military activities are both reduced.

73. The cost to a State of producing the proposed matrix depends in part on how closely the information currently produced by its budgeting and accounting system already approximates the structure of the matrix. It would appear that many States maintain systems which regularly report military expenditures, but in a form somewhat different from that required by the matrix contained in the 1976 report. For the purposes of the international reporting instrument, military outlay data are required, and although several States allocate and monitor actual military outlays in groups broadly similar to the resource categories of the matrix, it appears that a smaller number of States, for example, Sweden, have systems which report military outlays both by resource category and force group. In some cases the allocation to force groups may be made on the basis of planning data, though such data tend to change as the programme represented is carried out. This occurs because of errors in price estimation, changes in priorities, programme delays, etc. For some States, however, it may be possible to report actual outlays by force groups with small changes to budgeting and accounting systems.

74. If States are not in a position to provide the kind of detailed data required for the matrix, then such States would have to choose one of the following simplifications and/or modifications in order to complete the reporting instrument:

- (a) To simplify the problem of supplying data by reducing the level of detail required;
- (b) To retain the level of detail required, but allow to some extent approximations for some of the cell entries;
- (c) To modify their budgeting and accounting systems so as to collect and produce the relevant detailed data in the required form.

75. Decisions to facilitate the supply of data or to enhance existing budgeting and accounting systems will therefore involve choices. Guidance for such choices will have to be given by the General Assembly. In the matrix an attempt is made

to maintain a balance between the costs of data collection and compilation and the costs of verification. The more detailed the data required, the easier it becomes to cross-check and to verify. If the acceptable level of detail is reduced (as in option (a) in para. 74 above), it is at the cost of some loss to the verification properties of the matrix. In the limit, the recommended matrix might be reduced to a single column corresponding to resource categories. This would enable many States to complete the matrix simply by reproducing data already made public, but such a reporting format would contain considerably less information than many States currently publish. Less extreme compression of the matrix might also be contemplated, but this kind of simplification, as already pointed out, would make the task of verification more difficult and reduce the benefits of military expenditure as a practical approach for purposes of arms control and disarmament.

76. Another way of reducing the costs of reporting is to retain the level of detail required for the matrix (as in para. 74 (b) above), but allow to some extent approximations for some of the cell entries. Where the precise outlay figures are not readily available for particular cells, it may be possible to arrive at approximations using a combination of planning data and other outlay data, as well as information on the progress of particular programmes.

77. The following kinds of information may be contained in varying degrees in the budgeting and accounting systems of States:

- (a) Complete information for a scattering of cells on an outlay basis;
- (b) Almost complete outlay information for single cells in the sense that a large fraction of the outlays to be allocated is known;
- (c) Outlay information corresponding to the sums of groups of cells in the matrix;
- (d) Similar kinds of information on planned outlays;
- (e) Other kinds of information, e.g. programme slippage, cost overruns.

It may be possible to supply the figures for certain cells by resource category and by force group without too much difficulty. In other cases the judicious use of actual outlay information may be required to arrive at approximations. This may involve the aggregation of detailed information in different ways; or, where detailed information for force groups is not readily available by actual outlays, the disaggregation of resource category totals may be necessary, using proportions derived from planning data and other information. On account of its heterogeneity, the item "operations and maintenance" may have to be allocated to all force groups, and, in this case, it may be particularly difficult to arrive at close approximations.

78. Similar approximation procedures may be required for personnel outlays. In the budgeting and accounting systems of some States, civilian pay is scattered throughout operations and maintenance accounts and would need to be separated. In some cases, pay and allowances for conscripts may not be distinguished from pay for non-conscripts. Nevertheless, in such systems, it may be possible to arrive at approximations for the personnel cells of the matrix. If the planning system produces information on personnel numbers and their average grade by force group, this information could be used together with the outlay totals for personnel across force groups to arrive at approximate figures for the cells.

79. The allocation of resource category totals to arrive at approximations for force group entries would make it relatively simple to fill out the reporting matrix. However, this low-cost approach would reduce the reliability of the completed matrix. The numerous links between the cell entries and financial and physical data beyond the boundaries of the matrix, together with the requirement for internal consistency, both of which give the completed matrix a broad range of verification possibilities, would be much less precise. The loss would be reduced, but not to zero, if countries reported in detail on their procedures for arriving at such approximations.

80. In the initial reporting phase States may only be able to complete the matrix using figures based on primary data and approximations (as in para. 74 (a) or (b)). Directly estimating all or most of the cells from primary data would probably require modifications to many budgeting and accounting systems (as in para. 74 (c)). This would imply some additional costs of collection and compilation. If precise comparison and effective reduction of military expenditures is to be undertaken on the basis of this kind of reporting system, then Governments must decide to bear the cost of reporting based on direct estimation. This is the option towards which it is hoped all States will move.

C. Outstanding issues relating to international reporting

81. In addition to the general considerations outlined above, a number of more specific issues were raised in the replies of States and in the Swedish submission to the expert group. These issues fall into three groups:

- (1) Definition and scope of the military sector;
- (2) Definition and scope of military expenditures;
- (3) Other specific issues relating to the proposed reporting format.

These groups are discussed in turn in the following paragraphs.

1. Definition and scope of the military sector

82. In the light of the general tenor of the replies of Governments, there appears to be no reason to revise the definition and scope of the military sector proposed in the 1976 report. The only issue relating to the proposed core activities concerns the inclusion of reserve or "mothballed" arms production

facilities, which in some cases poses severe problems of valuation and measurement. The problems arise because these facilities may be part of the same firms or establishments as active production lines, because support for them may come from more than one government department, and because the boundaries of the category are blurred by the maintenance in some States of production lines operating at uneconomically low rates for purposes of maintaining a capability to expand rapidly. Nevertheless, such facilities are clearly part of future force capability and should in principle be included in the definition of the core of the military sector. The practical problems of measuring the payments to maintain facilities, however, must be addressed at the appropriate time.

83. The 1976 report discussed in some detail the inclusion of substitute activities. Inclusion of paramilitary forces in the substitute category presents no problem. However, it seems to be difficult to define paramilitary forces more precisely than in the 1976 report i.e. those groups which, having received organized military training, could, if equipped with appropriate weapons, be used as substitutes for regular military forces. Where there is ambiguity, this may be clarified on the basis of the paramilitary forces, as delineated in the categories of paramilitary forces identified in the 1976 report.

84. The inclusion of civil defence raises issues of principle and measurement. Conceptually, expenditures on civil defence can substitute for military forces or can reduce the effectiveness of an adversary's forces. Therefore in principle they should be included in the military sector. It is apparent, however, as the 1976 report indicates, that accurate measurement and verification of civil defence will be difficult because of the involvement of local government and the private sector in civil defence. In some cases, the effectiveness of civil defence as a substitute for active defence may be doubtful. Furthermore, the arms control characteristics of civil defence are ambivalent (its possible strategic importance versus its humanitarian effects). Civil defence might very well be considered in agreements to limit military expenditures, particularly among nuclear weapon States. Several States expressed some doubt about the possibility of including civil defence in their reports, at least in the early phases. These various considerations pose a dilemma that cannot be resolved easily or without further thought.

85. In the opinion of the expert group, the subdivision of military assistance between (1) aid provided for allied infrastructure or to allied forces stationed on one's own, or on allies' territory and (2) aid extended abroad, is useful if the case of collective defence organizations is kept in mind. Since it may be assumed that the intention of a donor State is to strengthen its military position, there is no reason to change the conclusion of the 1976 report that all military assistance should be included in the military sector.

86. There is some ambiguity concerning treatment of expenditures for United Nations peace-keeping forces other than contributions to international organizations. Where such forces are raised specifically for United Nations service and demobilized upon the completion of such service, they are not part of a State's force potential, and expenditures on them should be excluded. Where such arrangements do not pertain, the forces may be better viewed as continuing to

constitute a part of their State's force potential. In both cases, of course, the strictly additional cost of moving and maintaining the forces should be viewed as non-military function.

2. Definition and scope of military expenditures

87. The definition and scope of military expenditures contained in the 1976 report appear to the expert group to be generally satisfactory.

88. Where military or quasi-military organizations perform civil functions it is important to exclude from military expenditures only the additional costs arising from those civil activities, e.g. costs of materials, oil and special allowances. This implies that the organization's basic costs, e.g. pay and allowances of personnel, and procurement of equipment, should not be excluded from military expenditures. It may be difficult to measure the additional costs of maintenance parts specifically used for civil activities, in which case they should not be excluded from military expenditures.

89. The principal outstanding issues concerning appropriate measurement of military expenditures are in the area of personnel costs. Putting military and civilian compensation on a comparable basis across countries is complex because national practices concerning payroll taxes, income taxes, social insurance and retirement benefits differ. The 1976 report argued that inputs used by the military sector should be evaluated, as far as possible by using an adjusted factor cost standard, a variant of the opportunity cost approach. This implies in principle that salaries paid by the military sector should include such items as payroll taxes, social insurance contributions. Allowances and in-kind payments (e.g. rations, health care) should also be included, although the latter may be hard to allocate across force groups. Retirement payments to former personnel are a transfer payment for past service which does not contribute to current or future force capability and should therefore be excluded. However, there may be a trade-off between the level of retired pay that current personnel will receive in the future and the level of their current compensation. National practices differ on this balance. Since there is no explicit provision for including the present value of future retired pay in the matrix, States which have generous retirement systems and relatively low current pay may appear to have somewhat understated current personnel costs. It seems necessary, too, at the trial-demonstration stage, to examine further the definition of personnel costs in order to avoid discrepancies among States.

3. Other specific issues relating to the proposed reporting format

90. The issue has arisen of whether there should be a division of purchases of ammunition between supplies to be expended in training and supplies to be stockpiled for war. Given the difficulties of retrieving data thus distinguished from several States and the dependence of the balance between the categories on training policy, the age of existing stocks and their rates of deterioration, etc., it seems best simply to include all ammunition purchases with procurement. Similarly, ammunition going to stockpiles seems difficult to distinguish usefully from ammunition allocated to forces.

91. The force group divisions parallel the organization of the military forces of many States. However, in some cases the groups proposed in the matrix do not exactly match these organizational divisions. In such cases it may be worth while, for the sake of reducing the number of required approximations and the cost of reporting, to allow some flexibility. That, too, is a detailed matter for discussion at the next stage.

92. Distinguishing imported from domestically produced procurement poses some difficulties. Tracking imports is simple where entire systems are purchased abroad; it is difficult where components may be purchased abroad by domestic manufacturers. The information would be useful to some verification problems because of the range of data on foreign exchange and trade transactions to which it might be connected. This is a matter that will require some attention in the following stages of development of the reporting instrument.

93. There are considerable differences among States in accounting policy on real estate rents. In some States there is an element of double-counting in the area of construction; the original investment made, as well as annual rents for the facility, are included in the military expenditures. This needs further examination in order to obtain compatibility between States.

94. The group of experts is also aware of some difficulties in distinguishing between investment and repair. Reconditioning of weapons systems and buildings could be so extensive that it is in fact a net value added, i.e. an investment. This problem of delimitation should also be a matter for analysis at the next stage of development of the reporting instrument. Clear-cut definitions could probably be attained only after further operational development.

95. In the comments provided by States there are suggestions on modifying the resource cost category "construction". It is suggested that the line items "fortifications" and "shelters" be merged together, and that additional line items "training facilities" and "land" be established.

96. For some States, making public the data required by the proposed matrix will reveal information presently considered secret. Ultimately, when the matrix is used for reporting connected to agreements for reductions or limitations of military expenditures, considerations of secrecy will be resolved by negotiation. In the operational development phase, this problem may have to be resolved by aggregating some of the cells of the matrix. Such matters must be addressed by an ad hoc group of experts in that phase.

IV. CONCLUSIONS AND RECOMMENDATIONS

97. On the basis of the foregoing discussion and analysis, and pursuant to the General Assembly's request set forth in paragraph 4 of its resolution 31/87, the group of experts submits the conclusions and recommendations below.

A. Introduction

98. It is important to keep in mind that the basic aim of the exercise begun pursuant to General Assembly resolution 3093 A and B (XXVIII) of 7 December 1973 is to achieve agreement regarding the reduction of the military budgets of the States permanent members of the Security Council, as well as any other State with comparable military expenditures, and to ensure that part of the resources thus released be utilized for social and economic development, particularly of the developing countries.

99. An essential element for the achievement of that aim is the availability of a satisfactory instrument for the effective reporting of military expenditures by States. This instrument should be characterized by consistency and comprehensiveness, which add to the verifiability of compliance by participants.

100. Much progress has been made, in the course of the studies underlying the 1974 and 1976 reports, towards developing and refining a reporting instrument with the following characteristics:

(a) Acceptable definitions of the military sector and of military expenditures have been devised;

(b) An international reporting format has been constructed which balances the needs of detail and verifiability against the difficulty of reporting;

(c) This reporting format and the report of which it was a part have been submitted to States, and comments have been invited; an analysis of those replies has been undertaken in this report.

101. The group of experts believes that the views of respondent States reaffirm the validity of the concepts of the reporting instrument contained in the 1976 report. None the less, it should be observed that some degrees of reservations, and suggestions for modifications, were offered by some States, and that the data on which this report is based are less than complete, as indicated in paragraph 71 above. However, the highly successful attempt of one State (Sweden) to complete the matrix and the indications from other States that it would be possible without excessive difficulty to supply the required military expenditure data, emphasize the practicability of the proposed reporting instrument.

B. Development of the reporting instrument

102. The expert group considers it important to put before the General Assembly the choices which will be involved in completing the matrix. Where States are not presently in a position to provide the kind of detailed data required, choices lie between (a) reducing the level of detail required; (b) allowing approximations for some of the cell entries; and (c) appropriately modifying their budgeting and accounting systems. Although some simplification of reporting procedures may be appropriate in the early stages, reaching effective agreements to reduce military expenditures will ultimately involve the modification of the budgeting and accounting systems of States.

103. The following recommendations are made on the basis of chapter III, as they are related to the resolution of issues raised in the formal replies submitted by States:

- (a) The definitions of the military sector and military expenditures are appropriate;
- (b) The importance of including paramilitary forces and all military assistance in the military sector was emphasized;
- (c) Reserve production facilities and civil defence are part of the military sector in principle, although practical problems of measuring expenditures on them remain to be addressed as the development of the reporting system proceeds;
- (d) Whether United Nations peace-keeping forces should be included or not depends on how they are mobilized and demobilized;
- (e) Where military or quasi-military organizations perform civilian activities, only the additional costs arising from those activities should be excluded from the military sector;
- (f) It will be necessary during operational development to further examine national practice with respect to personnel compensation, rental policy, the division between investment and repair, etc., in order to avoid discrepancies between States;
- (g) Ammunition going to stockpiles should not be distinguished from ammunition for training;
- (h) Some slight modifications of the subdivision of the resource cost category "construction" are suggested;
- (i) Where the proposed force group divisions do not exactly match a State's military organization, some flexibility of division should be allowed;
- (j) The distinction between imported and domestically-produced procurement items is important but will require further attention as the development of the reporting system proceeds.

C. Further recommendations

104. The testing and refinement during the phase of operational development of the proposed reporting instrument will involve, in part, the completion of the matrix by a number of States. For this purpose a body will be required to carry out the work, to assess its results, and to develop practical recommendations for larger-scale applications and further refinement of the reporting instrument. Consideration should therefore be given to the composition and functions of such a body. The group of experts, in accordance with the 1976 report, recommends that such tasks might be delegated to an ad hoc panel of experienced practitioners in the field of military budgeting, under the aegis of the United Nations. The group of experts further deems it advisable that, in establishing the initial calendar of work of that body, account should be taken of the decision of the General Assembly to hold a special session on disarmament in May/June 1978.

105. For the phase of operational development referred to above, the sample of countries would preferably be manageably small, although participation would be open to all States. In order to test and refine the reporting instrument as thoroughly as possible, it is the opinion of the expert group that the sample should reflect as varied a group as possible of different military budgeting and accounting systems as well as different mechanisms for establishing the relevant prices for the military sector.

106. The work set in motion by General Assembly resolution 3093 A and B (XXVIII) of 7 December 1973 has reached a decisive stage. A satisfactory reporting instrument has been devised and reviewed. The time thus appears propitious to attempt to move a step further. Progress along these lines will require operational testing and refining of the reporting instrument, which is work of a character different from that undertaken by the expert groups of 1974, 1976 and 1977. Development of the instrument, although necessary, is not sufficient in itself. It must be recalled that without an accompanying process of co-operation among States with large military expenditures, as referred to in Assembly resolution 3093 (XXVIII), in reducing military expenditures it will not be possible to accomplish the ultimate objectives -- the reduction of military expenditures and the freeing of significant resources for social and economic development, particularly of developing countries.

ANNEX I

Replies received from Governments

The General Assembly, in resolution 31/87 of 14 December 1976, invited all States to communicate to the Secretary-General their comments with regard to matters covered in the report on measurement and international reporting of military expenditures (A/31/222/Rev.1) and in particular, their views and suggestions on the proposed standardized reporting instrument contained in the report (see annex III); information on their military expenditure accounting practices; and suggestions and recommendations concerning possible practical approaches for the further development and operation of a standardized reporting system.

The replies received are reproduced below.

AUSTRALIA

1. Australia supports the concept of a standardized reporting system of military expenditure between Member States. In general terms, given acceptance of the basic concept of an international expenditure reporting system, much of what is proposed by the report in this direction seems possible, subject to clarification in a number of areas.

2. The following considerations would need to be taken into account if misleading comparisons were to be avoided:

(a) Non-quantifiable factors such as size and geographic location of Member States, levels and efficiency of defence forward planning and infrastructure, training and education of defence personnel, morale, and so on would require military expenditures to be weighted in accordance with relative values between States to provide effective comparative analysis.

(b) Australian budget accounting (and presumably that of many other Member States) is not based on an accrual accounting concept. Expenditure therefore reflects only cash outlay and not necessarily the cost of activities involving such items as consumption of resources purchased in previous financial periods and imputed rentals and amortization of equipment and facilities.

(c) A distinction should be drawn between expenditure as defined and the concept of outlay on defence activities. The latter comprises expenditure on less recoverable items and general defence revenue. Defence revenue is considered to be a significant factor in assessing a defence capability.

(d) The effectiveness of the proposed instrument will be significantly affected by the efficiency with which price movements are deflated especially in regard to the economic climate of recent years. This is an inherently difficult problem where resolution would be expected to be achieved in greatly differing degrees between Member States. Difficulties continue to be experienced in Australia in this area particularly in relation to the intertemporal quality change problem.

3. It would also be relevant to compare various aggregates such as gross domestic product, gross net expenditure and Public Sector final expenditure on goods and services as a further basis for comparative analysis with military expenditures.

4. Generally, the definition of the scope of the military sector (A/31/222/Rev.1, para. 32) is in line with that for Australia's "Defence" function. There is, however, a number of elements included in the Australian classification of the defence function which would be excluded from the proposed reporting system. It would seem from the report that recoverable expenditure for other Governments should be excluded as not contributing to "force potential". It would also seem that defence activity in support of civil authorities (*ibid.*, para. 58) should be excluded. Australian Defence Forces are frequently called upon to aid civil authorities in natural disasters such as flood, fire, cyclone and locust plague and also in search and rescue operations. In particular, the absence of an Australian coast guard force requires the Royal Australian Navy to perform a wide range of duties which fall outside the military sector. Similarly, there could be a need to consider including United Nations peace-keeping contributions.

5. Australia offers the following comments on the detailed constitution of expenditure for the proposed instrument as defined in table A of the report:

(a) General: (i) The definition of military expenditure adopted by the report requires that military expenditures be reported at factor costs and this presents some difficulties. The current accounting system records direct purchases by the Australian Department of Defence at market prices (excluding Federal taxes, etc., where appropriate). By definition, direct payments of wages and salaries are at factor cost but there obviously remains a sizable area of military expenditure where data on purchases, at factor cost (that is, net of indirect taxes and subsidies) is not readily available. Given the relative size of that component, the distortion introduced by using market prices might be acceptable in the initial stages of development. Progression to a more rigorous approach (including price/volume revaluations, etc.) would necessitate further effort in this direction.

(ii) The "resource cost" headings in the proposed system are, for the most part, similar to the input headings that Australia now uses. They are, however, considerably more disaggregated and would impose a substantially greater compilation and verification effort (for example, the dissection of R and D costs).

(b) Personnel: (i) The cost dissection should be extended to include the following: regular military and paramilitary forces, voluntary reserves and cadets, conscripts and civilian support.

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This category should include not only salaries but also allowances in the nature of pay.

(ii) Australia questions whether "the current cost of past military activity" should necessarily be excluded from defence expenditure (para. 30 of 5.2 of the report). In some instances previous undertakings or arrangements, which give rise to current costs, have a continuing link with the present and future, in terms of current benefits and other implications. Where interest on previously accumulated national debt could arguably be excluded on this basis, Government contributions to Service pensions and retirement funds should, in our view, be included in defence expenditure. By reason of recruitment, morale and general personnel standards, such payments are very much part of maintaining an efficient defence capability.

(c) Operations and maintenance: (i) The question of intragovernment user charges between agencies (for example, for meteorological services) seems to need consideration and definition. While the adopted definition of military expenditure implies a gross approach, there is also the question of whether rations and quarters charges, for example, could/should be offset.

(ii) While Australian defence operating expenditure includes cash payment for real estate rents it is considered that the reporting instrument should preferably include provision for imputed payments. This would assist in overcoming discrepancies arising between Member States pursuing different policies of rental or acquisition of defence facilities.

(d) Procurement: (i) The inclusion of ammunition and ordnance expenditure as a procurement rather than maintenance item is contrary to current Australian Government accounting practice. Where items of this nature are purchased in replacement of consumed stocks, expenditure is treated as maintenance stores.

(ii) The recommended subdivision of procurement categories between domestically produced and imported items may require further definition. Items procured through domestic contracts often include imported content. It is suggested that the subdivision should be amended to read "domestic value added versus imported items".

(iii) Another area where difficulty would be experienced in meeting the requirements of the proposed reporting instrument relates to the Australian defence factories which at present record their transactions on the basis of net movements in their trust accounts. It would be necessary to identify the payments of salaries and wages, together with the purchases of goods and services by the factories, from the non-military sectors - at factor cost. It would also be necessary to exclude purchases relating to non-military production, and to examine "reserve capacity" in the light of paragraph 52 of the report (A/31/222/Rev.1).

(e) Construction: It is suggested that the construction category be extended to include a line item for training and testing facilities.

(f) Civil Defence: Expenditure charged to defence in relation to civil

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defence is included with natural disasters activities. Any further studies may need to consider the role of civil defence in relation to that activity.

(g) Military assistance: The distinction is not clear between the suggested subdivision of military assistance of "contributions to allied forces and infrastructure" and "military assistance to allies and non-allies".

6. The following information is provided on Australian military expenditure accounting practices:

(a) All Australian military expenditures are appropriated by the Parliament and it is current practice for this allocation to be carried out on an annual basis. Defence expenditure currently includes under table 5-3 "Classification of the Purposes of Government" as set out in the United Nations publication "A System of National Accounts";

(b) Appropriation classification of expenditure is input oriented, that is, salaries, administrative expenses, capital equipment, replacement equipment and stores, etc., and does not identify programmes of activity or functional force groups;

(c) Owing to long lead time acquisition on capital equipment and defence facilities and the necessity for defence planning of resource allocation to ensure rational force structure development to achieve policy objectives, a system of five-year defence forward planning has been implemented. This system is designed to reflect a programme of resource requirements for capital equipment, defence facilities, defence co-operation, manpower and operational expenditure for five years beyond the current budget year. The programme also includes defence revenue and other federal departments contributing to the defence function, e.g., munitions factories, stores and transport, to give total outlay on defence function;

(d) Each year the programme rolls forward one year so that year one of the programmes provides a basis for planning the budget year. This system permits progressive assessment and refinement of new policy initiatives and operational infrastructure enabling evaluation of resource requirements to meet capability objectives under budget appropriations;

(e) Additional information is also compiled reflecting financial and manpower five year defence programme estimates by unit or elements of the forces. The elements representing ships and establishments of the Navy, functional commands and units of the Army, and squadrons and bases of the Air Force are aggregated into activities and functions for information purposes;

(f) While the five-year defence programme does not reflect a total PPBS system it has been developed as an aid to management in assessing alternative options in achieving defence policy objectives.

BYELORUSSIAN SOVIET SOCIALIST REPUBLIC

1. The position of the Byelorussian SSR on the question of the reduction of the military budgets of States permanent members of the United Nations Security Council and utilization of part of the funds thus saved to provide assistance to developing countries has been clearly reflected in the statements by its representatives at sessions of the General Assembly and in reply to the Secretary-General dated 3 July 1975 (A/10165).

2. In the struggle to achieve a lasting peace, there is now no more important task than that of putting an end to the arms race and proceeding to disarmament. Among the ways leading to a solution of the problem, there is one which, by combining various possibilities, leads directly to that objective: this is the reduction of military budgets. It was for this reason that the Programme of Further Struggle for Peace and International Co-operation and for the Freedom and Independence of the Peoples, adopted at the Twenty-fifth Congress of the Communist Party of the Soviet Union, laid down the objective of seeking to replace the present constant growth in the military expenditure of many States by the practice of systematically curtailing such expenditure.

3. General Assembly resolution 3093 A (XXVIII), adopted at the initiative of the Soviet Union, contributes towards the attainment of that goal. It recommends that all States permanent members of the Security Council should reduce their military budgets by 10 per cent and allot 10 per cent of the funds released as a result of the reduction in military budgets for the provision of assistance to developing countries so as to permit the execution of the most urgent economic and social projects.

4. The speedy implementation of that decision of the General Assembly would help to achieve the goal of further easing international tension, limiting the arms race and bringing about disarmament. The funds thus released, as is emphasized in the memorandum of the Soviet Union on the questions of the cessation of the arms race and disarmament, could be allotted to the task of promoting the economic and social progress of peoples, increasing economic growth, ensuring employment, developing new sources of energy, solving the problem of production, fighting diseases, and building new schools and higher educational establishments.

5. However, as a result of the negative position taken by some States permanent members of the Security Council, General Assembly resolution 3093 A (XXVIII) has not yet been implemented. In the opinion of the Byelorussian SSR, effective steps should be taken to ensure the implementation of that important resolution. The way to give effect to the decision concerning the reduction of the military budgets of States permanent members of the Security Council is indicated in the memorandum of the Soviet Union on the questions of the cessation of the arms race and disarmament. It would be possible, as is noted in that document, to reach agreement on either a higher figure than 10 per cent, or a lower one. It is important, however, that the issue should soon be the subject of businesslike negotiations between the States concerned.

6. As regards General Assembly resolution 31/87, adopted at the thirty-first session, the Byelorussian SSR is of the opinion that consideration of practical steps to reduce military budgets is replaced in that resolution by a technical examination of the question which will in essence merely detract from its solution.

CANADA

1. The Acting Permanent Representative of Canada has been authorized to assure the Secretary-General, in response to his note, that Canada's concern about the consequences of increased military spending is one of long standing. Canada sees utility in a considered, detailed and serious study and assessment of the possible means and practical problems of setting up an international system of reporting to compare military budgets. Thus, Member States will be in a better position to judge the feasibility of military budget reductions as an effective approach to disarmament.
2. In Canada's view, the value of reductions in military budgets as an effective disarmament measure cannot be determined in the absence of an agreed system of assessment and an agreed formula by which reductions in military budgets can be measured and compared among various types of accounting procedures. The agreed system must also provide a means to ensure that the announced reductions have actually taken place.
3. Consequently, Canada considers the Secretary-General's report contained in document A/31/222/Rev.1 to be a useful start in resolving the problems of the definition of what constitutes a military expenditure, in identifying a suitable basis for comparison among States and in delineating the requirements of a mechanism for reporting States which would be readily translatable into the categories of the proposed international system.
4. The Secretary-General's report has been considered by Canadian defence budget experts. The following preliminary and general comments are of a technical nature and deal specifically with the compatibility of the proposed international reporting system with the Canadian defence budget system; the comments focus on the section of the Secretary-General's report dealing with "Structuring and Classification of Military Expenditures: A Proposed International Reporting System".
5. The structure and scope of information needed for the comparison of military expenditures will require the setting up of categories that will allow easy comparison of data provided by Member States. Such categories thus may appear to be somewhat arbitrary to individual Member States and it is important to recognize that the technical feasibility of what data a State can present is highly dependent on the degree of similarity a particular State's accounting, reporting and statistical systems bear to the international formula. Thus, for Member States it is a question of (a) whether Member States' systems provide an effective isolation of military expenditures; (b) whether their expenditures are expressed and accumulated both in terms of the nature of the expenditures (object/resource

categories) and their purpose (mission/programme/activity categories); and
(c) whether and to what extent Member States' classifications can be translated to meet the requirements of the international system.

6. In the case of Canada, the general approach adopted in the Secretary-General's report bears a strong similarity to the Canadian system as it concerns mission/programme/activity classifications and subclassifications and resource/object classifications. Both the resource costs and force groups arrays shown in table A of the report are at a suitable level of aggregation to permit Canadian reporting under those classifications if there is sufficient definition of the subdivisions. In the Canadian budget system the classification of accounts is so arranged as to provide data in the form required centrally for the national accounts and to provide the detailed information to meet day-to-day management requirements. The Canadian system classifies each and every expenditure by activity and by object of expenditure. (These appear to correspond to the proposed international system for force groups and resource costs respectively.) In the Canadian system this classification is achieved through an integrated coding system and is applied to each transaction. It is even possible that the Canadian system of codification might usefully be employed to classify the data reported by various Member States for translation into the international system.

7. Although these preliminary comments are by no means exhaustive, it is Canada's hope that they will be of assistance in the further work that will be required to refine the proposed international reporting system. Such work can make an important contribution to the essential aspect of building confidence in Member States as to the utility of an international reporting and comparing system. After arrival at a mutually agreed procedure, the system must, of course, rely on sufficient political will among participating States to ensure its satisfactory operation.

8. Canada agrees with the conclusions of the report that there "is clearly a need to translate the concept and procedures developed in this study into practical ways and means that can be utilized on a regular basis by the United Nations and its Member States". Therefore, consideration must be given to the "operationalization" of the international reporting instrument so that Member States will have the "precise definition and specification of expenditure categories and their content in such detail as to constitute concrete guidance to States on what data is required". It is only after such "operationalization" takes place that Member States will be able to give detailed consideration to the other recommendations in the report concerning "testing" and "refining".

FINLAND

1. In the view of the Finnish Government, no opportunity of promoting the goal of disarmament should be left unexplored. In the face of an ever increasing world military expenditure, the reduction of military budgets would be a meaningful approach to halting and eventually reversing the arms build-up. In this

perspective, the Finnish Government finds it appropriate and natural that the United Nations continues to study and consider the question of the reduction of military budgets.

2. The Finnish Government believes that the report by the group of experts on the reduction of military budgets should be viewed as a study of one approach to disarmament and that the over-all assessment of the report should be based on its merits in this respect. Standardized reporting on military expenditure such as envisaged by the group of experts is a valuable basis for the further consideration of the reduction of military budgets to this end; the recommendations contained in the report are a commendable contribution, and the Government of Finland welcomes the report.

3. The standardized accounting and reporting instrument, a matrix of expenditures proposed in the report by the group of experts, represents creditable scientific expertise. The resource approach chosen by the group of experts is, in the view of the Finnish Government, a realistic basis for valuation criteria in measuring military budgets.

4. One of the merits of the report is that it charts a number of the complex problems to be tackled before the recommendations contained in it could be used on a regular basis for accounting and reporting by the United Nations and its Member States. In the context of the proposed instrument itself, these problems are, as it is pointed out and elaborated in the report, mainly those of operationalization, testing and refining.

5. The Government of Finland agrees with the conclusion of the group of experts as presented in paragraph 19 of the introductory note of the report that a pragmatic, step-by-step approach would be called for in implementing standardized reporting in the practical applications of a reporting instrument. The great differences both in the level and structure of military expenditures of Member States should be sufficiently reflected in the modes and level of aggregation. In the case of small countries with military outlays low in comparison with the major military powers of the world, accounting and reporting as based on the proposed instrument would probably lead to excessive disaggregation. These observations apply, in particular, to the complicated problem of index numbers and their construction. Because of these and similar difficulties, disaggregation would not in all cases increase the reliability of information.

6. In view of the above comments, in developing and working out an operationalized reporting instrument a compromise should be sought between unambiguity and total comparability, on the one hand, and reliability and availability of data, on the other.

7. The Finnish Government wishes to point out that political will on the part of Member States is a necessary condition for the success of every disarmament effort. Only coupled with such will can standardized measurement and international

reporting of military expenditures be instrumental in the reduction of military budgets.

8. The Finnish Government wishes to reiterate its strong support for the principle of channelling funds released by the reduction of military expenditures to social and economic development.

GERMANY, FEDERAL REPUBLIC OF

1. The Federal Government expresses its gratitude and appreciation to the United Nations Secretary-General and the national experts for the well-founded and objective report on measurement and international reporting of military expenditures. The report provides a good basis for further preparatory work in pursuit of the aim of reducing military expenditures, which all United Nations Member States seek to attain. The Federal Government considers the deliberations of the experts regarding a comprehensive and detailed reporting system to be particularly helpful.

2. The idea of reducing military expenditures, combined with the ultimate goal of making available for economic and social purposes of the developing countries funds obtained through such reductions, is in keeping with the policy of the Government of the Federal Republic of Germany which aims at stabilizing peace and mitigating tensions throughout the world. These endeavours can further the efforts to build confidence among all States and nations.

3. The Federal Government emphasizes, however, that disarmament or arms control measures must be compatible with the legitimate security interests of the States which are parties to the relevant negotiations and agreements.

4. The Federal Government is prepared to continue its constructive contribution towards creating the necessary political and technical conditions for the disclosure and measurement of military expenditure.

5. This means, however, that military expenditures must be made internationally comparable by the application of realistic rates of conversion taking into account the price-cost ratios in the various countries and their different development. The Federal Government considers that a matrix accounting system, based on a concept of military expenditures thus defined and generally accepted, would be likely to produce the desired greater transparency of military budgets and thus an essential condition for a possible reduction of military expenditures.

6. The Federal Government would suggest that the ad hoc Working Group of Budget Experts examine in the light of these suggestions which points of the matrix it has proposed could be improved. The proposed test phase will then show whether this reporting system can be used by all United Nations Member States. Gradually refined and intensified methods of reporting could be a means of promoting the building of confidence among participating States.

7. The Federal Government would point out that the defence expenditures of the Federal Republic of Germany are published in the Federal Budget. The Federal Republic moreover issues White Books on the security of the country and the development of the Federal Armed Forces, in which it sets out its national defence expenditures in detail.

8. The Federal Government wishes to point out another aspect which should be taken very seriously, namely, that it must be possible to verify the practical application of a possible agreement on the reduction of military expenditures. As in all previous agreements in the disarmament and arms control sector, it would be necessary to develop a verification procedure also with regard to the present subject, which would meet both the national security interests of all States and the requirements of such an agreement.

9. The Federal Government would appreciate it if all Member States were ready to contribute to the elaboration of such verification methods.

10. Only if these efforts are concluded successfully will this concept of making global reductions of military expenditures an effective instrument of arms control and disarmament be likely to fulfil its purpose.

11. If this proposal could be realized on the basis of reciprocity, it would be a visible and credible sign of the readiness of States to limit their armaments and to strengthen co-operation among them in this field as well.

ITALY

1. The proposed standardized model for the reporting of military expenditures - table A of the report - does not, in the view of the Italian Government, present excessive difficulties of implementation.

2. The Government of Italy believes, in fact, that the establishment of a set of standards common to all countries could enable the various items of their defence budget to be equated with the items listed in table A and thus enable countries to indicate the amounts allotted for each item.

3. The allotments for Italian military expenditure derive from the "Estimated Budget for the Ministry of Defence" which, like the estimated budgets of the other Ministries, is compiled annually and itemized, as well as classified into administrative operational and economic categories. It must be particularly stressed that military expenditures, in the over-all national budget, are not classified as "capital funds" (or investment funds), but as "current expenses" (operating and maintenance expenses).

4. Concerning the further development and elaboration of a standardized reporting system for military expenditure, the Government of Italy wishes to stress that one of its most important aspects is the search for a common methodology - especially as regards the States members of the Security Council - with the aim of

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expressing military expenditure in real terms and thus acquiring a knowledge of the actual extent of the military spending of every State.

JAPAN

1. The Government of Japan greatly appreciates the contribution by the experts who have made the report a dependable international standard permitting a fair comparison of the military expenditures of the various countries.
2. The report is conscientious and objective, and the contents of which are viable and constitute an analytical step towards the goal of reducing military expenditures. There seems to be little room left for further theoretical study. We are now at the stage of putting the results of the analysis into practical development. In the opinion of the Japanese Government, the proposed standardized reporting instrument, which is the main result and culmination of the efforts by the group of experts, is now to be operationalized, tested and refined. It is highly advisable that this work of operationalization, testing and refinement, which constitute the three phases of operational development as is explained in paragraphs 153 to 157 of the report, should be commenced as early as possible.
3. As recommended by the group of experts, the technical responsibility for the concrete tasks of such operational development is best to be delegated to an ad hoc panel of experienced practitioners in the field of military budgeting, under the aegis of the United Nations system. All Member States of the United Nations are asked to extend their full co-operation to this panel.
4. At the initial stage of the operational development, a selected group of States might suffice, as is suggested in paragraph 157, to complete, for testing, the reporting instrument with the required data, providing it is representative of States with different economic systems. Needless to say, all Member States may participate in the completion of the instrument on a voluntary basis.
5. The Government of Japan suggests that the General Assembly in its coming session could establish the ad hoc panel as referred to above. The Assembly may also request the panel to submit its plan of activities to the special session of the General Assembly devoted to disarmament which will be held in the spring of 1978.
6. The Government of Japan wishes to recommend that the intergovernmental group of budgetary experts, which was established according to General Assembly resolution 31/87, should concentrate its efforts on establishing the concrete methods and procedures for operational development, including the composition and activities of the ad hoc panel.

MALDIVES

The Government of the Republic of Maldives has no comments to make on the subject.

MAURITIUS

The Government of Mauritius regrets being unable to offer any comments on "Measurement and International Reporting of Military Expenditures" in view of the fact that Mauritius has no military forces.

NETHERLANDS

1. The Netherlands Government welcomes the study undertaken in 1976 by the group of experts on the reduction of military budgets, in pursuance of resolution 3463 (XXX), and has examined its contents thoroughly.
2. The Netherlands Government remains of the view that, under the present circumstances, an agreement for the reciprocal reduction of military budgets would not be suitable as a direct means for achieving disarmament. It favours, however, efforts to reduce the level of world military expenditures and considers the publication, in a standardized way, of reliable data concerning those expenditures to be a useful instrument to achieve that objective. Verifiable information will probably first serve as a confidence-building tool by reducing the fear of underestimating military forces of other States and the tendency to overcompensate. The Netherlands Government is of the opinion that the study of the group of experts represents a serious effort to determine the problems involved and can be regarded as a contribution to the solution of these problems.
3. As was announced by the Netherlands State-Secretary for Foreign Affairs, Dr. P. H. Kooijmans, in the First Committee of the thirty-first United Nations General Assembly, on 9 November 1976, the Netherlands Government is prepared to take part in the operational development of the international reporting system, suggested in the report.
4. In accordance with paragraph 3 of resolution 31/87, the Netherlands Government wants to make the following observations:
 - A. Views and suggestions on the proposed standardized reporting instrument contained in the report
5. The Netherlands Government shares the view expressed by the group of experts that agreement on a common accounting table and a common set of accounting principles would facilitate international comparison of military expenditures.

Publication of military expenditures in a standardized way and the verifiability of this information could enhance feelings of trust and confidence between States.

6. Although the Netherlands Government agrees in principle with the three criteria mentioned in paragraph 62 of the report, it would like to point out that these criteria can conflict with one another to a certain extent. The criterion of technical feasibility (criterion b) could lead to too little information being made available for a meaningful comparison of military expenditures (criterion c).

7. In rejecting the valuation of the output defence sector, as is done in the report, international differences in productivity in the development of force potential will be disregarded. These differences in productivity mean that a country with a technological lead can produce more force potential for each unit of expenditure than less technologically advanced countries. Equally, for such a country a given reduction in military expenditures will mean a greater reduction in force potential than for other countries. As a result equal reductions in the military budgets of different countries would create unequal reductions in force potential and thus affect the existing security situation in the world. This problem will need to be solved as the report's proposals are developed further and a first step could be disclosure of information on the numbers and quality of weapons systems and personnel in a reliable and verifiable way.

8. Before the reporting system can be made operational, the input and output categories chosen must be carefully defined, and here a contribution from defence experts is indispensable. As this is done, account must be taken of the requirements which must be met in any proper system of verification of the figures disclosed.

B. Information on the Netherlands military expenditure accounting practice

9. The accounting systems used in the Netherlands are generally such that the required classification of expenditures can be complied with. A number of categories need further investigation, because the expenditures for it partly do not fall within the defence budget. Furthermore, the standard of pricing used by the Netherlands administration is different than that which is to be used in the proposed reporting system.

C. Suggestions and recommendations concerning possible practical approaches for the further development and operation of a standardized reporting system

(i) Further examination is needed of the extent to which civil defence can be regarded as an effective substitute for active air defence as suggested in the report.

(ii) Precise definitions need to be prepared of the input and output categories in the proposed reporting system.

(iii) A separate study should be made of ways of verifying the data that States provide on their military efforts.

(iv) If possible, the proposed reporting system should be expanded to cover data on the numbers and quality of weapons systems and personnel in the various countries. Ways must also be sought of measuring international differences in productivity in the creation of force potential.

(v) A number of countries could conduct pilot studies to test the proposed reporting system in the context of the national defence budgets. The results of these studies can be used when more precise definitions are being prepared of the input and output categories. The studies could also examine the practicability of Professor Bergson's proposed adjusted factor cost standard of pricing in the context of this subject.

(vi) The proposals contained in chapters IV and V of the report should first be developed at national level, the results being taken as a basis for a proposal to all Member States. This seems sensible in that the implementation of these proposals is very dependent on the availability of data at national level.

PANAMA

Armaments do not constitute a heavy burden for the Panamanian economy. The only armed force we maintain is the "Guardia Nacional". This body of men utilizes the minimum military equipment necessary to ensure public order and maintain national security.

SAMOA

Western Samoa was admitted as the 147th Member towards the end of 1976 and would not have therefore been able to familiarize itself with the background and objects of the information requested. It wishes, however, to inform the United Nations that Western Samoa possesses no military forces upon which the operation of a standardized reporting system could be based. It is regretted that the Government of Western Samoa, being handicapped by the lack and absence of information, can offer no contribution to the above-mentioned resolution.

SPAIN

(a) Views and suggestions on the proposed standardized reporting instrument

1. This is an effective means for achieving standardization and comparability of the military budgets of various countries.

2. In item 1 (Personnel) of Section I (Operating costs), the categories should be listed in the following order:

- (a) Military
- (b) Conscripts
- (c) Civilian

3. The "Civil defence" column should be deleted, as it will be almost impossible to arrive at the same interpretation of this term for each country. The item is not part of the military budgets and, as is recognized in the report, interpretation of the item would require further studies not undertaken by the experts who prepared the report.

- (b) Information on military expenditure accounting practices, including a description of methods currently in use

4. It does not seem necessary to transmit information on methods of measuring Spain's military expenditures, since these are reflected in the General State Budgets published each year and available to any technical bodies in the world which wish to study them. In any case, Spain's expenditures can be reported in the format proposed in the report (A/31/222).

- (c) Suggestions and recommendations concerning possible practical approaches for the further development and operation of a standardized reporting system

5. The item seems premature. For the present it can be said that the desired information on military expenditures is suitably covered in the experts' report.

SWEDEN

1. The Government of Sweden fully agrees with the statement that "the continuing global expansion of arms and forces, both nuclear and conventional, attests to the need for effective arms control". The Swedish Government welcomes every attempt to achieve a balanced reduction of the world's total military expenditures; global and regional security would benefit from such measures. Furthermore, it would release resources for economic and social progress in the world. The seriousness of the situation is demonstrated by the huge and ever-increasing volume of resources devoted to military activities. By contrast, even fractions of the sums involved could meet the basic needs of the poorest peoples of the world. Consequently, the Government of Sweden considers this as a high-priority item on the agenda of the General Assembly.

2. A necessary prerequisite for agreements on reductions of military budgets is a system of military expenditure concepts, definitions and measurements procedures, together with a corresponding international reporting structure. The Swedish Government considers the report, reproduced in document A/31/222, as an important and promising contribution towards resolving the analytical and technical problems involved. The report provides a clear exposition of problems of immediate

interest. It also presents an exhaustive analysis and gives recommendations for further action.

3. The report defines the military sector as activities whose object is the research, development, provision, assembly, maintenance and deployment of current and future force potential intended for application mainly against external forces. The scope and content of the military sector is given by a list of core military activities and of substitute activities. The Swedish Government considers the recommended definition, scope and content appropriate. However, the difficulties of measurement and valuation of "mothballed" or reserved production facilities should be noticed. In spite of the fact that civil defence to some extent may serve as a substitute for active air defence, it is also doubtful whether civil defence should be included in the military sector. Civil defence is mainly motivated by the need to try to protect the civilian population in case of war. These two questions should be further considered.

4. The report defines military expenditures as the flow of final military goods and services to the military sector, valued at factor cost. The scope and content of military expenditures are clarified in terms of cost of activities identified when defining the military sector. According to the opinion of the Swedish Government the definition, scope and content of military expenditures, recommended in the report is appropriate and should constitute the basic framework for the further procedure.

5. The major recommendation of the report is an international reporting system on military expenditures. There is a suggested format, a matrix, for standardized international accounting and reporting. The matrix contains resource cost elements and programmes or military missions. The Swedish Government believes that experiences from the implementation of the recommended reporting system could constitute a valuable basis for negotiations on military expenditures reductions.

6. The Swedish Government is prepared to meet a request to deliver information according to the proposed reporting structure. The accounting practices currently in use in Sweden do not present any special problems in meeting the demand for information according to the scheme of the general accounting structure set out in table A of the report.

7. It should be noticed that the implementation of the accounting and reporting systems would in itself, by virtue of the improved flow of information, contribute to confidence-building. The Swedish delegation to the conference of the Committee on Disarmament has on several occasions focused on the need for a greater amount of information in the field of military expenditures as an important instrument for creating mutual confidence among States.

8. The Government of Sweden appreciates that the group of experts has focused on that fact. The lack of trust between States seems to an important extent to originate from such a lack of information. This lack of information has often led to exaggerated assumptions of the military capacity of a potential antagonist, and this in turn has contributed to a spiralling escalation of armaments.

9. The group of experts has also provided suggestions for price deflation and methods to convert expenditure values expressed in national currencies into a common currency. Specific proposals are made for the construction of military price deflators and appropriate surrogate indexes for different components of military expenditures. The Swedish Government considers the proposals valuable and believes that further procedures could be based on them. However, it should be noted that price deflation and international comparison in a common currency is not a part of the first operational step ahead as scheduled in the report. At the point of implementation, it will be necessary to carefully consider the availability and accuracy of price information.

10. The Government of Sweden agrees with the statement in the report that the international reporting instrument set out in table A must be operationalized, tested and refined before it can be applied as a regular instrument for reporting the military expenditures of the States Members of the United Nations. The Swedish Government considers the recommended operational development appropriate. It is, however, necessary to notice that standardized reporting in the form recommended may require considerable efforts for many States. This must be taken into account when implementing the system.

TONGA

His Majesty's Government has no comments to make on the matters covered in the report entitled "Measurement and international reporting of military expenditures".

UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND

1. The Government of the United Kingdom attach great importance to the need to limit the growth of global military expenditure and eventually to reduce it on a multilateral basis, thereby releasing resources which could be used for economic and social purposes. Measures to limit military spending could also complement agreements to restrict force numbers, since the latter would not necessarily preclude rapid and possibly destabilizing increases in military expenditure on new weapon production and improved weapon performance.

2. A prerequisite for international agreement on practical measures to reduce the burden of military spending is an equitable and comprehensive system for making realistic comparisons between the military spending of different States. This depends upon the satisfactory resolution of the complex technical problems involved.

3. For this reason, the United Kingdom Government welcomed and supported the efforts of the 1976 United Nations Secretary-General's group of experts to produce a standardized reporting system for military expenditure. The experts have adopted a particular definition of military expenditure to reflect military capabilities; a set of criteria to apply to both market and centrally planned

economies; and an international reporting system for military expenditure. As the experts themselves acknowledge, they have produced only one of several possible methods for the reporting of military expenditure. Although they only had expert knowledge of certain types of economy, they have devised a system which reconciles the individual characteristics of different economic systems. In the view of the United Kingdom, the next step should be to test the mechanism they have prepared by applying it to an analysis of the military budgets of a small representative group of States selected on a voluntary basis. The United Kingdom Government believe that such a pilot study would be the most practical approach. A universal sample at this stage would be likely to produce a mass of data before the system had been tested. It would also place an obligation on States which they might not all yet be able to meet.

4. The United Kingdom Government hope that the General Assembly will agree to commission such a pilot study at its thirty-second session. Its results might be submitted to the special session of the General Assembly on Disarmament in 1978. The testing and improvement of the experts' report will require the provision by some States of more detailed information about their military expenditure than they customarily release. The United Kingdom already publishes detailed figures. The United Kingdom Government consider that an adequate supply of information and general support for this exercise by major military States would be a significant contribution to building international confidence.

UNITED STATES OF AMERICA

1. The United States of America considers the 1976 report of the Secretary-General on the measurement and international reporting of military expenditures (A/31/222) to be a constructive contribution to the process of developing generally acceptable reporting standards. Making meaningful and reliable data on military expenditures available in a form well suited to international comparisons could play an important role in promoting international security and confidence. Standardized reporting by all nations would help develop a basis for possible future agreements limiting military expenditures. Accordingly, as recommended in the Secretary-General's report, the United States supports continuing systematic and careful development of a reporting framework.

2. The standardized instrument proposed in the 1976 report is a logical outgrowth of the Secretary-General's 1974 report on the reduction of military budgets (A/9770/Rev.1). Based on the United States Government's review of the standard reporting instrument proposed by the group of experts in the 1976 report, its completion should not present great difficulties. Nevertheless, readily available United States data cannot be directly inserted in the reporting matrix, for a variety of technical reasons:

(a) Data on United States military expenditures is more readily available by "resource costs" or by "force groups" than by combinations of them;

(b) Current United States budget reporting practices do not distinguish

between domestic production and imported material, between force-allocated stocks and general stockpiles, or among a number of different types of construction;

(c) Information on total United States expenditures on paramilitary forces and on civil defence is not currently available, because Federal spending for these purposes is supplemented by state and local expenditures.

3. An additional problem relates to the fact that a definitive determination of military spending or outlays for a given fiscal year is not possible until several years later. Thus there are significant technical issues which the United States would have to resolve in completing the standardized reporting instrument, but they seem to be surmountable with a moderate amount of effort.

4. In developing an international reporting system for military expenditures, it will be useful to identify certain well-known relationships between Defence Department spending and over-all national income and product accounts. For example, certain types of expenditures related to past activities should be deleted (e.g., pensions), as well as those which serve civil purposes (e.g., control of waterways and rivers) or which do not directly contribute to military capabilities (e.g., spending for the health and housing of military dependents). In addition, certain types of expenditures of other organizations (e.g., the United States Coast Guard) should be added to Defence Department budget figures.

5. A further complication arises because of the legislative aspects of the United States budgetary process. In this connexion it will be necessary to maintain clear distinctions between the amounts authorized by Congress, the amounts appropriated by Congress, and the amounts actually spent by the Executive Branch. Only the last type of figures, actual outlays, is specifically applicable to the standardized reporting instrument.

6. These and similar problems identified by other countries can undoubtedly be resolved during the process of operational testing and refinement, as suggested in the 1976 report. The United States Government supports the approach to implementation described in the report, including the establishment of an ad hoc panel of experienced military budget practitioners who would provide technical assistance during implementation. In order to discover and resolve problems of comparison over time, it will be necessary to evaluate data for several years. In addition, in order to ensure that the standardized reporting instrument is both sufficiently flexible and sufficiently precise to characterize and compare expenditure data derived from different national accounting practices, it will be important to include information from countries which represent the main types of national economic systems and which have large military expenditures.

7. Before it will be possible to formulate realistic and effective undertakings limiting military expenditures, a number of technical issues remain to be resolved, especially those associated with verification. In the 1976 report, the group of experts expressed the view that implementation of an orderly reporting procedure should lead without delay to international consideration of these issues, and the United States Government concurs with this view. Part of the

subsequent work will involve the development of techniques for accurate international comparisons of military expenditures, requiring consistent standards for resource valuation, price deflation, and currency conversion.

8. The United States Government supports efforts to reduce tensions and enhance international security, and is prepared to participate in the work of the ad hoc panel concerned with implementing an international reporting instrument for military expenditures, as well as in subsequent efforts directed towards the resolution of remaining technical issues. Implementation will be a very constructive step, but it can only be considered a beginning to the process of devising reliable international means which could form the basis for agreements limiting military expenditures.

UNION OF SOVIET SOCIALIST REPUBLICS a/

The Soviet Government has repeatedly offered its observations on the question of the reduction of the military budgets of States, in particular in the letter dated 25 September 1973 from the Minister for Foreign Affairs of the USSR addressed to the Secretary-General of the United Nations and the letter dated 26 June 1975 from the Permanent Mission of the USSR to the United Nations addressed to the Secretary-General, and also in the memorandum of the Soviet Union on questions relating to the cessation of the arms race and disarmament of 28 September 1976. All those observations are still fully valid today.

The Soviet Union is firmly convinced that the present constant increase in the military expenditures of States should be replaced by the practice of systematically reducing such expenditures. As is known, in resolution 3093 A (XXVIII), adopted on the initiative of the USSR, the General Assembly appealed for the reduction of the military budgets of States permanent members of the Security Council by 10 per cent and for the allocation of part of the resources released for the provision of assistance to developing countries. The speedy implementation of that decision of the General Assembly would help to relax international tension and to limit the arms race. In addition, substantial additional resources could thus be directed towards economic and social development goals.

The practical implementation of that decision of the General Assembly is, however, being delayed. Some permanent members of the Security Council have still not declared their readiness to respond to the appeal of the General Assembly. Unfortunately, in recent years it has been the practice in the United Nations to carry out technical studies of individual aspects of the problem of the reduction of the military expenditures of States. But, as the experience of recent years has shown, such studies do not promote the practical reduction of the military budgets of States and, in fact, only divert attention from a solution to the problem.

In the view of the Soviet Union, the efforts of States must be directed not

a/ Issued as document A/32/72.

towards abstract research which does not yield practical results, but towards the implementation of genuine effective measures to reduce military budgets.

The Soviet Union, as it has already stated in the General Assembly, is prepared to adopt a flexible position and seek mutually acceptable specific decisions, inter alia, concerning the figures by which military budgets should be reduced initially. It might be possible, as a first step, to agree on a larger figure than 10 per cent, or on a smaller figure. It is important to make this question the subject of businesslike talks between all the States concerned. The Soviet Union is prepared to take serious steps in this area simultaneously with the other permanent members of the Security Council.

VENEZUELA

1. Since 1974, Venezuela has supported all resolutions on the reduction of military budgets, so that the human and financial resources thus released might be used to build a more just world.
2. With regard to the report prepared by the group of experts, we believe that the proposed system does not have the instruments necessary for its effective implementation. In other words, as there is no supranational agency to regulate and control the reduction of military budgets, it would be necessary to rely on the good faith and sincerity of States in supplying information.
3. The report proposes an international system for the reporting of military expenditures. We think that this system will not suffice to solve the questions of arms control raised by restrictions on military spending, since the arms trade is both qualitatively and quantitatively in the hands of the arms-producing countries.
4. Finally, we note that the report does not establish procedures which could provide a precise measurement of price changes, nor any uniform evaluation system which could by an appropriate method, measure the reduction of military budgets and draw comparisons between different kinds of budget.

ANNEX II

Swedish military expenditures presented in the format recommended
for international reporting - figures and comments

The present working document, being produced in the Ministry of Defence with assistance from the Civil Administration of the Armed Forces, the Material Administration of the Armed Forces and the Fortifications Administration, is informally submitted to the United Nations Group of Experts on the Reduction of Military Budgets. The Group of Experts has entire disposal of the document.

The attached table, in accordance with table A of United Nations document A/31/222, presenting Swedish military expenditures for the fiscal year 1975/76 in the format recommended for international reporting was produced with strictly limited resources of time. Despite this circumstance it was possible to achieve, with some exceptions, what is requested by the reporting format. The international reporting instrument recommended, although subject to clarifications and refinements in a number of respects, seems possible and appropriate for adoption and implementation.

Generally, the matrix recommended is in line with what could be supplied by the Swedish programme budgeting system. There are a few exceptions, which appear from the foot-notes to the table (see, in particular, foot-notes 11, 16, 19 and 28). Some additional data, missing at present, could be supplied, but would require a certain amount of computer programming. Nevertheless, the completion of the matrix should not present any great difficulties.

The most obvious experience obtained when accomplishing this pre-pilot study was the need to further elaborate on the precise definitions and specifications of resource cost categories in such a detail as to constitute guidance to Member States when supplying the data. At present the matrix does not give guidance enough to avoid difficult problems of delimitations. As a result, there is a certain scope for arbitrariness when filling in the matrix.

Some suggestions for improvement of the reporting instrument are given in this document (see, in particular, foot-notes 26, 27 and 28). Furthermore, a number of items for further considerations are noticed (see, in particular, foot-notes 2, 8, 15, 16, 17 and 21). The rest of the foot-notes are primarily intended to elucidate the figures and give some examples of the need for accompanying instructions when asking Member States to supply the data.

The problems identified in this document can undoubtedly be resolved during the process of further operational development of the reporting instrument. To secure a reporting instrument sufficiently precise and sufficiently flexible to different accounting practices, the next step should be a more exhaustive test of the reporting instrument by applying it to the military budgets of a group of Member States selected on a voluntary basis. The result of such an analysis might be submitted to the special session of the General Assembly on Disarmament in 1978.

The continuing systematic and careful development of the reporting instrument, by testing and improving the matrix and preparing accompanying instructions, seems to require the establishment of some panel of experts for providing technical assistance during testing and implementation.

Swedish military expenditures presented in the format recommended for international reporting (table A of document A/31/222), fiscal year 1975/76, million Swedish kronor, actual outlays

Resource costs	Force 1/ groups	General purpose forces			Central support, administration and command		Total
		Land (2)	Naval (3)	Air (4)	(6)	(7)	
I. Operating costs							
1. Personnel 2/							
(a) Civilian 3/		315.6	136.2	127.3			
(b) Conscripts		343.9	67.5	53.6	0.5	87.7	
(c) Other military		996.7	395.9	457.0	287.4 4/	517.5 4/	
Total I.1		1 656.2	599.6	637.8	287.9	605.2	3 786.7
2. Operations and maintenance							
(a) Materials for current use							
- Food 5/		98.7	24.1	18.1	11/	11/	
- Clothing 6/		1.2	-	0.1	11/	11/	
- Petroleum		61.6	34.8	146.8	11/	11/	
- Training materials 8/		176.9	6.7	23.9	11/	11/	
- Medical materials 9/		8.1	-	1.3	11/	11/	
- Office supplies, etc. 10/		8.6	-	1.5	11/	11/	
(b) Maintenance and repair							
- Contract services for repair and maintenance of equipment and facilities 12/		195.2	163.9	394.2	11/	11/	
- Purchases of parts, materials and tools for repair and maintenance of equipment and facilities 13/		20.7	-	0.5	11/	11/	
(c) Travel expenses, postal charges, printing expenses and payment for other current services 14/		200.4	34.5	90.6	11/	11/	
(d) Real estate rents 15/		162.8	27.5	74.5	19.1	23.2	
Total I.2		934.2	291.5	751.5	67.4	153.2	2 197.8
Total I (I.1 + I.2)		2 590.4	891.1	1 389.3	355.4	758.4	5 984.6

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Resource costs	Force <u>1/</u> groups	General purpose forces			Central support, administration and command		Total
		Land (2)	Naval (3)	Air (4)	(6)	(7)	
II. <u>Procurement and construction</u>							
1. Procurement <u>16/</u>							
	(a) Aircraft and engines	0.2	5.7	773.9	-	-	
	(b) Missiles, including conventional warheads	26.4	2.3	161.1	-	-	
	(c) Nuclear warheads and bombs	-	-	-	-	-	-
	(d) Ships and boats	-	149.0	-	-	-	
	(e) Tanks, armoured personnel carriers and other armoured equipment	111.4	-	-	-	-	
	(f) Artillery	138.7	48.2	-	-	-	
	(g) Other ground force weapons	69.2	-	-	-	-	
	(h) Ordnance and ammunition <u>17/</u>	121.8	53.7	23.5	-	-	
	(i) Electronics and communications	133.0	84.0	198.6	-	-	
	(j) Vehicles	64.6	-	-	-	-	
	(k) Other <u>18/</u>	142.6	70.7	134.4	24.0 <u>19/</u>	52.4 <u>19/20/</u>	
Total II.1		807.9	413.6	1 291.5	24.0	52.4 <u>20/</u>	2 589.4 <u>20/</u>

Resource costs	Force <u>1</u> / groups	General purpose forces			Central support, administration and command		Total
		Land (2)	Naval (3)	Air (4)	(6)	(7)	
2. Construction <u>21</u> /							
	(a) Airbases, airfields <u>22</u> /	-	-	21.7	-	-	
	(b) Missile sites <u>23</u> /	-	-	-	-	-	-
	(c) Naval bases and facilities <u>24</u> /	-	-	-	-	-	-
	(d) Electronics, communications and related structures and facilities	-	-	4.1	-	2.2	
	(e) Personnel facilities	54.4	7.4	17.4	-	-	
	(f) Medical facilities	4.2	-	-	-	-	
	(g) Warehouses, depots, repair and maintenance facilities <u>25</u> /	76.1	22.8	39.2	1.3	1.0	
	(h) Command and administration facilities	4.8	2.0	1.0	-	-	
	(i)+(j) Fortifications, shelters <u>26</u> /	3.1	54.9	2.8	19.3	12.1	
	(l) Training facilities <u>27</u> /	5.3	7.2	5.6	-	-	
	(m) Land <u>28</u> /	7.8	0.2	0.6	0.7	-	
	(k) Other <u>29</u> /	29.2	6.5	31.0	8.5	7.3	
Total II.2		184.8	100.9	123.5	29.8	22.6 <u>30</u> /	461.6 <u>30</u> /
Total II (II.1 + II.2)		992.7	514.5	1 415.0	53.8	75.0	3 051.0

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Resource costs	Force <u>1</u> / groups	General purpose forces			Central support, administration and command		Total
		Land (2)	Naval (3)	Air (4)	(6)	(7)	
<u>III. Research and development</u>							
	1. Basic and applied research <u>31</u> /	-	-	-	-	164.8	
	2. Development, testing and evaluation <u>32</u> /	67.9	25.4	533.0	-	6.9	798.0
Total III (III.1 + III.2)		67.9	25.4	533.0	-	171.7	798.0
Total Military expenditures (I + II + III)		3 651.0	1 431.0	3 337.3	409.1	1 005.2	9 833.6

Summary table, Swedish military expenditures, FY 1975/76, million Sw.kr.

Resource costs	Force <u>1</u> / groups	General purpose forces			Central support, administration and command		Total
		Land (2)	Naval (3)	Air (4)	(6)	(7)	
I. Operating costs		2 590.4	891.1	1 389.3	355.4	758.4	5 984.6
II. Procurement and construction		992.7	514.5	1 415.0	53.8	75.0	3 051.0
III. Research and development		67.9	25.4	533.0	-	171.7	798.0
Total		3 651.0	1 431.0	3 337.3	409.1	1 005.2	9 833.6

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Foot-notes to the table

1/ Position (1) of force groups, 'Strategic forces', is not relevant to Swedish military expenditures.

Sweden is not in possession of any 'Other combat forces' (5) than those defined by positions (2)-(4).

The subdivision of 'Central support, administration and command' into positions (6) and (7) has been carried out in a simplified and somewhat arbitrary way. The programme 'Central and higher regional staffs' in the Swedish programme budgeting system has been interpreted as approximately synonymous with position (6), 'Central support'. The Swedish programme 'Common agencies and functions' and added to that the Ministry of Defence has been interpreted as an approximation of position (7), 'Central administration and command, including intelligence and communications'.

Sweden does not possess any 'Paramilitary forces' (8) as defined in document A/31/222. It should be noticed that the Swedish Home Guard is included in position (2), 'Land forces'.

Position (9) 'Civil defence' has not been considered in this working document. The Swedish Government has in its comments on document A/31/222 expressed severe doubt about the inclusion of civil defence when reporting expenditures for military purposes.

Sweden does not provide or receive any 'Military assistance' (10), (11). It is assumed that contributions to United Nations Peace-keeping Forces should not be included.

2/ It should be noticed that the resource cost component 'Personnel' (I.1) includes not only salaries, different kinds of salary increments, benefits and emoluments etc. but also a wage tax. The rate of this tax was 33 per cent of the total salary in FY 1975/76. The definition of personnel cost needs further considerations in order to overcome discrepancies between Member States.

3/ Excluding salary increments. This cost element is instead included in (I.1.c) 'Other military'.

4/ Including both (I.1.a) 'Civilian' and (I.1.c) 'Other military'.

5/ Composed of the cost categories 'Food' and 'Canteen goods'.

6/ Composed of the cost category 'Textile and leather goods'. The accounted amount is however only a fraction of the actual amount. The reason is that agencies often account these purchases as 'Other goods'. 'Other goods' is in this table included in 'Training materials', a residual to balance (I.2.a) 'Materials for current use'.

7/ Composed of the cost categories 'Oil for heating', 'Coal, charcoal, wood' and 'Fuel'.

8/ Calculated as a residual to balance the total of (I.2.a) 'Materials for current use'. Includes among other things ammunition for training. It should be noticed that ammunition is to be found both as maintenance (training materials) and as procurement (II.1.h), Ordinance and ammunition). This sophisticated borderline between ammunition for 'consumption' and 'investment' seems to need further considerations.

9/ Including only the cost categories 'Drugs' and 'Animal drugs'. Medical equipment is included in the residual 'Training materials'.

10/ Composed of the cost categories 'Paper articles, stationery' and 'Books, periodicals, etc.'. See also note 4 above.

11/ For the force groups (6) and (7), 'Central support, administration and command' it is at present not possible to disaggregate the resource cost category (I.2) 'Operations and Maintenance' according to the matrix. The only cost element that could be accounted separately is (I.2.d) 'Real estate rents'. The total amount on (I.2) 'Operations and Maintenance' is however presented for the force groups (6) and (7). The disaggregation requested in table A of the report is possible to obtain for these force groups as well, but it will require a certain amount of computer programming.

12/ Composed of the cost categories 'Repair of building, premises and constructions', 'Repair of machineries and equipment' and 'Repair of war equipment'.

13/ Composed of the cost categories 'War equipment', excluding ammunition for training which is included in 'Training materials' in (I.2.a) 'Materials for current use', and 'Tools, instruments, etc.'.

14/ The cost categories 'Foreign travel' and 'Domestic travel' accounts for about 90 per cent of this cost group.

15/ Composed of the cost categories 'Land rents', 'Rents for buildings' and 'Rents for machineries'. It should be noticed that there are considerable differences between Member States in accounting policy concerning real estate rents in the military sector.

16/ It is at present not possible to subdivide procurement by domestically produced versus imported and allocation to forces versus stockpiled.

The definitions of domestically produced and imported items need to be further elaborated. Domestic production of weapons systems often contains imported subsystems and parts. Weapons systems could furthermore be produced on licence from abroad or by joint production. It is thus necessary to clarify the distinction between direct import and indirect import of components and parts for domestic production.

17/ See note 8 above.

18/ Calculated as a residual to balance the total of (II.1) 'Procurement'. Contains mainly materials and equipment for supply service, workshops and depots.

19/ Not divided into subgroups according to (a)-(j) of II.1.

20/ Including 5.4 million Sw.kr. for acquisition of computers. In the Swedish budgeting system this is accounted as (II.2) 'Construction'.

/...

21/ Including the budgeting concepts 'Investment' and 'Recondition' in the Swedish programme budgeting system. By 'Recondition' is meant such thorough repairs that there is a net value added, in fact an investment. Repairs aiming only at restoring the quality and performance are included in (I.2.b) 'Maintenance and repair'. This problem of delimitation seems to need further considerations to attain clear-cut definitions.

22/ Including also installations for camouflage, electricity, fuel-storing, etc. in connexion with and for airbases and airfields.

23/ No outlays this fiscal year.

24/ No outlays this fiscal year.

25/ Including also depots for mobilization.

26/ Elements (i) 'Fortifications' and (j) 'Shelters' have been merged into one cost element in order to avoid unnecessary and difficult problems of delimitation. The distinction between those concepts is not clear. It is suggested that elements (i) and (j) be merged together.

27/ An additional cost element introduced; (II.2.1) 'Training facilities'. It is suggested that the construction cost category be extended to include this element.

28/ An additional cost element introduced; (II.2.m) 'Land'. It is at present not possible to disaggregate acquisition of land according to elements (a)-(1) of (II.2) 'Construction'. It is suggested that the construction cost category be extended to include this element.

29/ Contains above all road constructions, installations of heating, electricity, water and sewage systems, etc.

30/ Excluding 5.4 million Sw.kr. for acquisition of computers, in the Swedish budgeting system accounted as (II.2) 'Construction' but in this matrix included in (II.1) 'Procurement'.

31/ Interpreted as analogous to the budgeting concepts 'Basic research' and 'Applied, not object-destinated research' in the Swedish programme budgeting system.

32/ Interpreted as analogous to the budgeting concept 'Applied, object-destinated research, development and testing' in the Swedish programme budgeting system.

ANNEX III

Recommended format for international reporting of military expenditures

Resource costs	Force groups	Strategic forces	General purpose forces	Central support, administration and command	Para-military forces	Civil defence	Military assistance
		(1)	(2) (3) (4) (5)	(6) (7)	(8)	(9)	(10) (11)

I. Operating costs

1. Personnel

- (a) Civilian
- (b) Conscripts
- (c) Other military

2. Operations and maintenance

Subdivision of general purpose forces

- (a) Materials for current use (purchases of food, clothing, petroleum products, training materials, medical materials, office supplies and the like)

- Cols. (2) Land forces
- (3) Naval forces
- (4) Air forces
- (5) Other combat forces

(b) Maintenance and repair

Subdivision of central support, administration and command

- (i) Contract services for repair and maintenance of equipment and facilities
- (ii) Purchases of parts, materials and tools for repair and maintenance of equipment and facilities

- (6) Central support (supply, maintenance construction, training, medical, etc.)
- (7) Central administration and command, including intelligence and communications

(c) Travel expenses, postal charges, printing expenses and payment for other current services

Subdivision of military assistance

- Cols. (10) Contributions to allied forces and infrastructure
- (11) Military assistance to allies and non-allies

(d) Real estate rents

II. Procurement and construction

1. Procurement*

- (a) Aircraft and engines
- (b) Missiles, including conventional warheads
- (c) Nuclear warheads and bombs
- (d) Ships and boats

ANNEX III (continued)

Resource costs	Force groups	Strategic forces	General purpose forces	Central support, administration and command	Para-military forces	Civil defence	Military assistance
		(1)	(2) (3) (4) (5)	(6) (7)	(8)	(9)	(10) (11)

II. (continued)

- (e) Tanks, armoured personnel
Carriers and other armoured
equipment
- (f) Artillery
- (g) Other ground force weapons
- (h) Ordnance and ammunition**
- (i) Electronics and
communications
- (j) Vehicles
- (k) Other

2. Construction

- (a) Airbases, airfields
- (b) Missile sites
- (c) Naval bases and facilities
- (d) Electronics, communications and
related structures and
facilities
- (e) Personnel facilities
- (f) Medical facilities
- (g) Warehouses, depots, repair and
maintenance facilities
- (h) Command and administration
facilities
- (i) Fortifications
- (j) Shelters
- (k) Other

III. Research and development

- 1. Basic and applied research
- 2. Development, testing and evaluation

* Subdivide by

Domestically produced vs. imported.

Allocation to forces vs. stockpiled.

** Excluding elements in (b) and (c) above.