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STRATEGIC DEFENCE & SECURITY REVIEW 2015: ONE YEAR ON

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A week, it was once said, is a long time in politics. In a turbulent world a year is an age. The Government launched its much-needed Strategic Defence & Security Review in November 2015; in February 2016, the UK National Defence Association concluded its appraisal of this work by applauding its ambitions, but stating:

'It remains now for its fine words to be translated into action, and this is likely to require more and earlier funding than the SDSR appears to command.'

Since then, a number of events have occurred, few if any of which were anticipated, which raise important questions as to SDSR15's appropriateness and achievability in today's changed world. There are budget problems but the first major change is Brexit, which poses dilemmas for both the UK and Europe, not only financially but also across the security field. It has already revived the threat of the formation of a European force independent of NATO, which Britain has hitherto vetoed. The second is revanchist Russia. Vladimir Putin should be very pleased with world events: his ally is winning in Syria; Britain's departure fragments the EU; and Donald Trump is President-elect. The third is indeed the election of Donald Trump. Mr Trump has raised the possibility of agreement over 'spheres of influence' with Mr Putin and a lesser role for the USA in the defence of Europe.

Such events cannot but undermine the effectiveness of NATO, raising great concern in the Baltic nations, apprehension in the Ukraine, and concern in the UK, who could be left with neither a security place at the European Union's high table nor an adequate umbrella from the United States. It must surely be that the sum of these very considerable challenges demands a closer look at SDSR15 and its fitness for purpose today.

BUDGETS AND BREXIT

It is not for us to comment on the wisdom or otherwise of the UK's decision to withdraw from the European Union; it is a fact. However, there are clear implications for our defence and security.

When the SDSR was unveiled in late 2015, George Osborne was anticipating a budget surplus by 2019-20. In his successor's autumn statement a requirement for further borrowing of some £122bn by 2020 was revealed, with no surplus likely before 2022-3. The Institute for Fiscal Studies states that the fiscal outlook to the end of this Parliament (2019/20) is highly uncertain¹. Economic growth is likely to be some 2.4% less over the five-year period. Predicted levels of cumulative inflation till 2019 are expected to rise from 7% to 9%. The pound, already 18% below its level in June, is likely to stabilize somewhere around this level in the medium term. The Government's annual tax receipts are forecast to be £31Bn² lower than previously forecast, a figure approaching the entire annual cost of the Defence Budget. Fortunately, low interest rates will help slightly, but if Mr Trump's expansionist plans go ahead then world interest rates are sure to rise.

The cumulative effect of all this is to put further pressure on our Defence Budget. As the pound has fallen, so certain procurement costs have risen, such as the F-35 fighter and the P-8 Maritime Patrol Aircraft, both of which are substantially manufactured in the USA. Roughly 20-30% of the Defence Budget is spent on procurement, and if the budget is not increased in line with the fall in the value of the £, then numbers purchased, equipment fitted and timescales for introduction will all be under the microscope. Currency hedging will not have anticipated an 18% sterling reduction.

The Defence Budget is also highly sensitive to inflation, particularly the price of oil. Earlier this year, the OBR forecast a price of \$44 per barrel by 2019/20. The price has since rallied and already averages almost \$57 per barrel, making the futures market expectation of \$57 by 2019 look optimistic. Depending on the Dollar exchange rate the sterling cost per barrel is thus likely to rise to some £48, over half as much again as assumed in the SDSR, affecting the cost of equipment availability and training.

Although the Defence Budget is nominally fixed in cash terms until the end of the Spending Review, a policy to maintain defence spending at 2% of a lower GDP would amount to a net reduction of some £1Bn annually against that already planned, an effective cut of some 2½%.

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All this is easy enough to predict, but other insidious threats to defence may be more serious. Britain's

military and economic security is indivisible from that of Europe. Yet there is little doubt that one consequence of the Brexit vote is the souring of relationships between the UK and some of the major EU nations. Unless a more mature approach is taken on both sides as the disengagement negotiations proceed this is potentially dangerous. Mutual common sense will be necessary if European and British security is not to be further weakened. Yet the likelihood is that tempers will fray.

More dangerous still is the ideologically-motivated proposal to create a 'European Army' when one already exists in the well-proven NATO alliance. This can only result in the creation of duplicated

¹ Institute for Fiscal Studies, *Winter is Coming: The outlook for the Public Finances in the 2016 Autumn Statement*. IFS Briefing Note BN 188, 8 Nov 2016, p26.

² Institute for Fiscal Studies, *Winter is Coming: The outlook for the Public Finances in the 2016 Autumn Statement*. IFS Briefing Note BN 188, 8 Nov 2016, p25.

command and control arrangements, and new or expanded HQs, almost certainly leading to a deterioration in the teeth to tail ratio as well as some confusion in aims, when even large European nations admit publicly that American engagement in European security is a *sine qua non* of our defence against a more belligerent Russia. A strong re-affirmation of the validity of Article 5 of the NATO treaty, and some serious effort to meet NATO budget targets, would seem much more sensible. Germany spends just 1.38% of GDP currently and its heralded increases will take some 5 years to deliver.

There is uncertainty too over the Brexit outcome for Research and Development money. The UK receives a major slice of available EU R&D which will be difficult to replace given the commitments made to other departments for money, if any, released from our EU contribution. Finally, Brexit has raised the prospect of a further Scottish referendum, threatening defence structures and in particular our nuclear submarine base.

In summary, whilst Brexit may offer new opportunities to the UK, it also poses risks to British and European security. Defence is an issue which should remain paramount at a time of much danger. This must not be ignored in the Brexit negotiations.

RUSSIAN THREATS

Apart from continued military action against ISIS, the West seems to have deserted the Syrian rebels, leaving the field to Presidents Assad and Putin. The

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ratcheting-up of Russian involvement in Syria, its increasingly aggressive activities in the Baltic, its use of cyber, propaganda and even funding to influence elections in Western countries – these all confirm a nation intent on reasserting its power lost after the Cold War. The outturn of events fit admirably the ‘Gerasimov Doctrine’ which holds that conflict with the West has already started, and is being fought, not by direct confrontation, but by hybrid means that are ambiguous in intent and deniable in operation, ranging from trade corruption, and cyber activities, to Special Forces in unmarked uniforms and surrogate guerrilla operations redolent of the ‘liberation’ struggles of the Cold War. Such operations are designed to confuse and undermine Western political and public will. They eschew direct, attributable violence which might trigger Article V but instead threaten the full panoply of weapons, military as well as civilian, including the use of nuclear weapons.

This new assertiveness begs two questions: why, and do they have the necessary capability? Russian Grand Strategy, based on the country’s vulnerable position at the centre of the Eurasian landmass, has hardly changed since the first Romanov. Russia has always felt threatened, from the Mongols to the Teutonic knights, Napoleon and Hitler’s Wehrmacht. Each invasion proved devastating, kept Russia in a state of militarisation, creating a victim psychology that persists even today. Meanwhile Russia’s victorious dictators are venerated, and even Stalin has recently been rehabilitated. For ‘Mother Russia’ the lesson of history is clear: weakness leads to devastation and only in strength can one guarantee the security of the homeland.

Economically though, Russia is in a bind. During the first 8 years of Vladimir Putin’s reign the economy grew by an average of 7% a year.³ Defence spending quadrupled. Now the economy is in recession; last year the GDP shrank by 3.7%, and disposable income by 10%. According to one

³ Economist Special Report Russia, 22 Oct 2016.

While he would most likely come off second best against a fully mobilised, internationally committed and determined NATO, that is not his game. He targets NATO's political weaknesses, not its military strengths, and by using his coercive powers he can place NATO on the defensive.

(non-attributable) source, even defence spending may be affected. Part of the blame lies with the fallen oil price and the effects of Western sanctions, but this may change with an oil price rise assisting Mr Putin. In an oligarchic state, where property can be confiscated without justification, where any owner that offends can be arrested and political opponents can be murdered, there is unlikely to be much investment. Corruption, stagnation, rigged elections and the power of the FSB have created a

scepticism amongst the population, demonstrated by the low turnout for the recent elections. Such apathy ought to signal the beginning of the end for Mr Putin. However, his control of most state media, particularly TV, has allowed him to play on the fears of the population and portray himself as a strong leader against the aggression of the West. Russia is seen as justified in recovering the Crimea, supporting the Russian diaspora in the Donbas, and taking action against terrorists in Syria. Despite the economic woes, Putin's approval rating has increased from 60% to 80%.

Such a different perspective on the world from our own bodes ill for international relations. Since the fall of the Soviet Union, when America inevitably declared itself the winner of the Cold War, the USA has regarded Russia as the rump of a defeated empire; with its military strength atrophied; its economy, progressing awkwardly from central direction to quasi market driven, floundering. Russian satellites rushed to join the West, and even several republics of the old USSR joined NATO.

Though the crowing of the West could hardly be avoided, some of its actions then begin to look less than wise in the face of a Mr Putin determined to restore his country to the status of a major power, and still possessing both formidable nuclear strike capacity and sufficient conventional strength to overawe immediate neighbours, especially the Baltic States who, though admitted to NATO, are vulnerable to annexation by a mixture of infiltration and provoking internal upheaval through their substantial Russian minorities.

Underpinning this new assertiveness, Russia has been modernising its arsenal with effective 4th generation weapons avidly sought by India and China, and with 5th generation weapons such as the PAK-FA stealth fighter under rapid development. Submarines, such as the Yasen or Borei classes, are being rapidly constructed, and Russia's new electric boats are quieter than ever and very difficult to track, as became clear when one was hunted off Scotland last year. Armoured vehicles are being rapidly modernised, as is the missile arsenal. With 770,000 men under arms, a nuclear arsenal and with an offensive cyber warfare capability, Mr Putin must be more than content with his capabilities.

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TRUMP PRESIDENCY

Putin has made his point in the Crimea, in Georgia, in the Ukraine and now in Syria. His place at the top table may have been funded by oil at a higher price than it stands at today but his military resources, both nuclear and conventional, are formidable. No US administration could possibly handle the Russian Bear with anything short of the greatest circumspection. It would be sensible to assume that Trump is neither the fool nor the knave our press and political classes suggest. Stroking

Putin's ego and respecting Russia's still considerable power may be a wiser course of action than what has gone before.

To the United States, the re-absorption of Estonia, a stone's throw from St Petersburg, and maybe Latvia and Lithuania as well, is unlikely to seem worth the risk of starting World War III. But what exactly might US reaction be? The impending Trump presidency leaves most commentators in a state of great uncertainty. Words of admiration for Putin and criticism of Europe's inadequate contribution to its own defence might suggest catastrophe if Mr Trump looks the other way when Europe is confronted with problems of its own making.

Originally threatening to withdraw from NATO, he has more recently been very clear that NATO nations will have to pay more and by implication the US less. Though he will "rebuild the US military", and presumably this will give it a greater technological edge, it looks as though he will insist that the 2% of GDP for defence is a minimum. This will put pressure on Europe's leading powers who fall well below the 2% but also on the UK to maintain its 2% commitment without any backsliding. It also behoves Britain to support such a US demand with both words and deeds. Whether Mr Trump might be tempted to make America's commitment to Article V conditional on the country in question meeting its minimum 2% GDP commitment to NATO defence spending, or perhaps the European members of NATO collectively spending the minimum 2%, is for the future; but a businessman's approach to such issues may see changes to traditional diplomacy.

The PM, in congratulating Donald Trump on his victory, has emphasised "our shared values", highlighting the need to work together on "trade, security and defence". A wise Chancellor would understand the need for Britain to be in the forefront of NATO, spending at least 2% of GDP on defence. Any less than a solid 2% on defence and the UK will be seen as equivocal, if not devious. Mr Hammond, as an ex-Defence Secretary, will recognise that the future uncertainties in carrying out our trade, in ensuring our security and providing for our defence all militate strongly in favour of an expenditure that is above the 2% pass-mark, tailored to the increased risks we all face.

And it is perhaps here that the UK has an opportunity. Having arguably lost influence with President Obama, there is an opportunity for the UK to build a position with the new President in our traditional role as the Atlantic bridge. It may not be easy given Trump's demand for greater defence effort by all European nations, but it may offer the UK a 'trump card' in the Brexit negotiations.

INSTABILITY IS INCREASING

In 2015 the last Prime Minister claimed that the UK was still a major contributor to world order, with 2% of GDP spent on defence and 0.7% on foreign aid. It emboldened him to say that "We are the world's leading soft power." Yet, even as he said this, the 2% of GDP gave less than before to frontline defence due to the inclusion, for the first time, of both military pensions and peacekeeping.

Another boast was that "We are at the heart of the Rules-Based International Order." Is this justified today as we prepare to leave the EU and fear both for NATO's future and our special link to the United States? Membership of the UN Security Council? Out of the EU and after a further Scottish referendum will this still be justified? Until Brexit is clear, are we not a diminished force?

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Is it not clear that instability in the world is increasing? The threat from so-called Islamic State remains and Al Qaeda is back on stage. Europe's reaction to the flood of asylum-seekers from Syria, Afghanistan and North Africa, with the consequential rise in far right political parties, is an example close to home. Is democracy in Erdogan's Turkey already lost? Is it still a reliable ally in NATO or is it drifting towards Russia? By any measure Russian behaviour since SDSR15 was launched has been increasingly disturbing. She has lied consistently about her cyber attacks in the Baltic States, in America and elsewhere. The United Kingdom may at last be waking up to the extent of the Russian threat to change the balance of power but tangible steps to confront it are not yet evident.

Add in North Korea and Chinese activities in the South China Sea and the state based threat has surely increased. As Russia expert Chris Donnelly has regularly stated: "The world is at war but it does not know it." The rules-based international order is surely on the run. Lack of Western leadership has created a power vacuum which has been filled by Russia and other states with similar beliefs and little or no interest in a rules-based system.

Unsurprisingly, commentators⁴ are expressing the view that the democracies are facing challenges not seen since the end of the Cold War. In that war deterrence was provided by credible nuclear and conventional forces. Today, our failure, and in particular the failure of our Continental allies, to meet obligations for effective security, has encouraged a variety of destabilising elements to flourish.

The world is by any measure more unstable today than it was 14 months ago. Taken together with our changed circumstances, Brexit, and President-elect Trump, does the SDSR require revalidation?

IS SDSR15 STILL VALID?

The peace dividend we took, beginning with "Options for Change" in 1990, as we moved from confronting the Soviet threat to counter-insurgency in Iraq and Afghanistan, is clearly in need of serious review. The last SDSR had fine ambitions; defence engagement using soft and hard power to tackle instability was surely a correct aim, and it appeared to chart a slow recovery of military strength to allow Britain to play its proper part, whilst repairing some of the damage inflicted by SDSR10. Yet as SDSR15 enters its second year further inroads to capabilities are emerging.

Given the increasing self-reliance demanded by Brexit, and our dependence on cyberspace for commerce, this bill is likely to rise over time and the bill should be met so that our economy can, in turn, pay our other bills.

Force improvements were heralded in the SDSR with recovery in the size of the surface fleet, a capable expeditionary force of around 50,000 personnel and procurement of Maritime Patrol Aircraft. The dates in service were well into the 2020s for the frigates, 2025 for the land

force and 2019 before the first MPA. This is all a long way off. There were other good things on the prospectus. £2.5bn was earmarked for strengthening the network of counter-terrorism in the Middle East, North Africa, SE Asia and Sub-Saharan Africa. The FCO was to benefit from refocusing the aid budget, though as yet little of this refocusing has been seen and the distribution of DfID money is still the subject of much embarrassment for the Government.

In the face of the Russian threat, the US is now rebasing heavy armour in Germany; it would seem premature for UK to be repatriating units at the same time. Moreover, it is difficult to understand how

⁴ Tom Tugendhat, *UK must boost its defence role after Brexit*, Financial Times, 26 Dec 2016 and Ben Farmer, *Armed Forces face New Cuts*, Daily Telegraph, 28 Dec 2016.

an Army of some 80,000 personnel, facing humiliating failure to recruit the 30,000 reservists deemed necessary to bolster these numbers, can expect to field an expeditionary force of 50,000.

The British economy adopted and exploited cyberspace more than any other global economy; but with that adoption came a major vulnerability. In GCHQ, the UK has a world-leading asset but it will take a national effort to keep Britain's cyber economy a safe place to do business. The head of CESG has recently said that it is clear that we are not winning the cyber security battle. The next five-year programme needs to be funded in full. Given the increasing self-reliance demanded by Brexit, and our dependence on cyberspace for commerce, this bill is likely to rise over time and the bill should be met so that our economy can, in turn, pay our other bills. Rising oil prices are disadvantaging the defence budget whilst assisting Mr Putin.

The reality then is that SDSR 2015 is not fully funded and is already creaking at the seams. The timing could not be worse, but if defence really is the Government's top priority then the bill to achieve the SDSR ambitions now needs paying. We recognise that the Government confronts huge financial challenges with Brexit and infrastructure projects such as London Airport and HS2, but how important are these compared with facing up to the major changes in the security landscape?

In this light, it is hard to see SDSR15 today as any more than a wish list whose funding is most likely to be addressed, if at all, by a new government after 2020. In these circumstances, the honest thing to do is to come clean that the world is far more dangerous than anticipated, and that this well considered review needs full funding now as a first step in meeting the challenges we face.

There are those who call for 3% of GDP to be spent on defence; we cannot say whether this is correct. But there is little doubt that such a step would send very powerful messages to the new Trump administration in America, to Europe as we enter Brexit negotiations, and crucially to Mr Putin. What is surely unacceptable is to soldier on pretending that all is well and that we can safely continue with running this level of risk. Denial has been the default position of governments for over a decade; it is time for it to stop.

The views and opinions expressed in this publication are those of the authors and do not necessarily reflect the policy of the UK National Defence Association.

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UKNDA's objectives are:

Promoting the effective and efficient Defence of the United Kingdom and the UK's worldwide interests;

Advancing public awareness and understanding of the history and role of the Armed Forces in the life of the Nation;

Commissioning research into the threats faced by the United Kingdom and the military capabilities required to meet these threats;

Seeking to inform debate on all aspects of National Defence and Security.



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