HOUSE OF COMMONS

# Defence Committee

## Oral evidence: Shifting the goalposts? Defence expenditure and the 2% pledge, HC 494

## Tuesday 17 November 2015

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Watch the meeting – Shifting the goalposts? Defence expenditure and the 2% pledge

Members present: Dr Julian Lewis (Chair); Richard Benyon; Douglas Chapman; Johnny Mercer; Mrs Madeleine Moon; Ruth Smeeth; Mr John Spellar; Bob Stewart; Phil Wilson

Questions 36–95

Witness[es]: ***Professor Julian Lindley-French***, Senior Fellow, Institute of Statecraft, ***Jonathan Parish***, Deputy Assistant Secretary-General for Defence, NATO, and ***General Sir Richard Shirreff KCB CBE***, former Deputy Supreme Allied Commander Europe gave evidence.

**Q36 Chair:** Welcome to what is the second session of our inquiry on defence expenditure and the 2% pledge. I would be grateful if our three witnesses would introduce themselves for the record.

***General Sir Richard Shirreff:*** I am Richard Shirreff. I was a serving soldier up until last summer, 2014; I am now doing other things.

***Jonathan Parish:*** I am Jonathan Parish. I am the deputy assistant secretary-general for defence policy and planning at the NATO headquarters in Brussels.

***Professor Lindley-French:*** I am Julian Lindley-French and I am an academic.

**Chair:** Thank you very much indeed. We will start with John Spellar.

**Q37 Mr Spellar:** We have the 2% of GDP, but is that the correct way to assess the adequacy of defence expenditure, or should it be assessed in a different way?

**Chair:** Who would like to begin?

***Professor Lindley-French:*** Shall I kick off on that one? Well, 2% is better than 1%, which is where much of continental Europe, where I live, sits right now. I am part of the National Defence University in Washington, and for the Americans, Congress in particular, the 2% pledge has a very powerful symbolic meaning. As this issue of burden sharing intensifies with the Americans and the American taxpayers as we move towards the US elections, any attempt by a European overtly to maintain that 2% will be seen as a commitment to the alliance with the United States. Any attempt to play fast and loose with the actual meaning

of 2%—the Americans are clearly not stupid people—will have a similarly negative impact on the relationship. As much as it is a symbolic commitment to burden sharing within the alliance, 2% is important.

If it means, "Are we undertaking a proper analysis of our strategic environment, the investment in broad security and the role that defence plays therein?" it is very much open to question. It still reflects a "How much defence and how much threat can we afford?" approach to our strategic defence policy, rather than sound strategic planning upon which to base the future defence of this country and, indeed, of the alliance.

**Chair:** Other comments? Is it a good method?

***General Sir Richard Shirreff:*** I think the positive point is that it sends a powerful political signal that the UK is signing up to the NATO-recommended minimum of 2% of GDP on defence, unlike many other NATO nations. I think that that is really important. But I think what also needs to be asked is how that 2% is made up and what is included in it. We have all seen allegations of creative accounting, the inclusion of intelligence agencies and pensions, and money that in days gone by would have gone on contingencies or expeditionary operations, which would have come from the Treasury as an extra. I think we need to ask the question about to what extent does that fill the gaps or meet the challenges in defence? I think we also need to ask what we actually need, in terms of defence spending, to put right some of the cuts over the last decade and a half or so.

***Jonathan Parish:*** May I add a couple of comments? I think both Julian and Richard have expressed the political significance of this. It is a very important statement, certainly from the UK. It sets an example for other nations, and I think that is also a key point to make. Others will look to the UK and see what the UK is doing. That, again, is important, but it is not just the 2% figure; people do tend to focus on the 2%, but there is a 20% associated with it. It is 2% on defence expenditures and 20% of that on new equipment, including research and development. If the 2% were spent just on salaries and pensions, it would be worthless, but by having that 20% element to it as well, you are encouraging the nations actually to transform their armed forces—to produce something that is better, more modern, more effective. We must not focus just on that 2% figure; we also have to bear in mind that associated 20% figure.

**Q38 Mr Spellar:** Are you saying that while the 2% is a useful headline figure, particularly for encouraging those who have been dragged along behind, at the same time we ought to be developing other metrics that look at outputs rather than just this headline input?

***Jonathan Parish:*** And indeed we already have those other output metrics, for want of a better word. NATO nations have agreed a set of metrics, which are reported on on an annual basis. There is the 2%; there is the 20% of that 2%, which are your investment metrics; there is then a range of capability metrics that are looked at as well, in terms of what percentage of your armed forces are deployable, what percentage are sustainable and how many you have actually got deployed on operations. That is all taken into account when these metrics are reviewed annually.

***Professor Lindley-French:*** May I reinforce that? Next week, when the defence review is out, I will be doing a lot of work on Dutch television. The Dutch are very interested in what the outputs of the review will be. It will have a major impact on their own judgments

about the level of commitment they will make to defence. So this is not just a UK matter; it has huge significance for the rest of Europe.

**Q39 Bob Stewart:** Jonathan, my question is to you really. We used to spend a damn sight more than 20% on R and D and equipment, didn't we? In the old days, it was much more than that if I remember correctly, or am I wrong?

***Jonathan Parish:*** I don't know, I'm afraid. I have no idea what—

**Q40 Bob Stewart:** I seem to remember that 35% of the defence budget was spent on equipment. Do you remember that, Julian?

***Professor Lindley-French***: That's right. It was—

**Q41 Bob Stewart:** So it's actually quite a low figure in old-speak, isn't it?

***Professor Lindley-French:*** You can interpret the current figure as being as high as 40%—combined equipment and R and D—although on the NATO definition, it is 20.2% right now.

**Bob Stewart**: Overall?

***Professor Lindley-French:*** Overall, but remember: there are some NATO members—there is one just south of the Netherlands that spends about 3.2% on equipment and 78% on personnel. That is the balance we have to correct.

**Q42 Bob Stewart:** This question is slightly different, but using this parameter of 2%, what would you, Richard, consider to be the right level? It is 2%; what would you like it to be?

***General Sir Richard Shirreff:*** I can't give you a percentage, but what I would like to see is sufficient money spent to put right the gaps that are evidently there, particularly as a result of 2010 and preceding defence reviews. I would like to see across the board—for a start, maritime patrol aircraft is an obvious one. I would like to see something done to address the issues of manpower across all three services. How many carriers can we put to sea when we eventually get the full complement of carriers? Probably not all of them. I would like to see something done to address the issues of sustainability and logistics in order to deliver a genuinely credible manoeuvre capability in the Army. I would like to see something done about the deficiencies in Royal Naval escorts, for example. I remember, as a colonel in the MOD during the 1998 defence review sitting on the Navy organisation working group. The conclusion was that some 26 escorts were needed. I think the number is now down at about 19, and the tasks have not changed.

So I would like to see, as a start point, the gaps addressed. Then I would like to see something done to address the real threats that we face in terms of defence and security. Those gaps would need to be tailored according to the challenges we face strategically. Now, I cannot give you a figure on that one—that is for the bean counters to work out—but we need to address some of the real long-standing issues which we have seen as a result of progressive disarmament over 20 years.

***Professor Lindley-French:*** May I add to that and be blunt at the same time? The real issue is the broader investment in security that this country makes, which I estimate to be about 7.4% of GDP. What we need to look at in the contemporary climate, where we face

geopolitical change and a threat from an organisation like IS, is a proper strategic review that places defence within that broad security context and judges the role that hard power plays as part of our broader security engagement. We live in a very different world, and I have to say that, listening to the Prime Minister this morning, with the announcement of more moneys for special forces and drones, you had the feeling of a sort of back-of-the-fag-packet politics being dressed up as strategy.

**Q43 Bob Stewart:** It seems a heck of a lot of money—£2 billion going to special forces.

***Professor Lindley-French:*** It is 2010 all over again. There is furious scribbling going on across the road, where they are rewriting SDSR because the Prime Minister has come up with a wheeze after the attacks in Paris. This is not strategy, which is what this country needs.

***Jonathan Parish:*** If I may answer, Bob. In terms of capability, I focus less on, if you like, the hard capabilities and more on three other aspects, which I would call readiness, responsiveness and resilience—this, indeed, is the guidance that NATO issued earlier this year, which was agreed by Defence Ministers.

In terms of readiness, you are talking about armed forces that are manned to the right levels, that are equipped to the right levels, that have the right stocks so that they can go off and conduct operations, and that are trained and exercised, which is probably one of the key areas we need to look at. We are talking not about individual exercising and training, but collective training, where formations work alongside each other. So that would be the readiness component.

You then have responsiveness, and this is about how quickly you can react to something. Yes, you have your readiness forces, but in terms of responsiveness, are they in the right place? Can you move them quickly enough? And then you have resilience. This covers national resilience. Can you resist a number of attacks—we talk a lot about hybrid warfare, and there is a huge debate about that—recover quickly and respond as necessary?

**Q44 Johnny Mercer:** Sir Richard, I note your comments on manpower and things like that. Given the character of conflict and how it is developing now, would you say there is a weak argument for suggesting that our tactical capability in terms of force projection, being able to lift a man out of central Syria or targeting individuals who pose a threat to the UK has decreased significantly?

***General Sir Richard Shirreff:*** Yes, I do. I think it is has decreased as far as both defence and security are concerned. They are not necessarily discrete packages, because there is clearly an overlap in the middle, which is particularly highlighted by the developments in hybrid or asymmetric warfare we seeing on a regular basis.

Looking at security, the issue here in particular is that there are clearly some hard capabilities that are going to be needed to address the challenge we face, and that is writ large as a result of the weekend's events in Paris—so drones, surveillance and the ability to strike precisely, whether using special forces or other means; all sorts of capabilities like that. But the wider issue on security—this is not so much a tactical perspective, but a capability point—is that of stabilising the unstable: stabilising fragile states so that they do not become breeding grounds for the sort of terror and chaos that hit us at home.

On the defence side, if you swing to the other end of the spectrum—I am not saying that these are mutually exclusive, because I think that they are all part of the same whole—defence is all about deterrence and ensuring that any potential adversary understands that the bar is set so high that he or she decides it is simply not worth having a go at trying to take advantage of a weak posture. That requires capability and it requires tactical capability.

**Q45 Johnny Mercer:** To follow up on that, do you think that the decision when it came to Syria, for example, to set out a red line in 2013 and not to follow through on that, but to allow people to traipse over that red line and the problems we have seen from that, could have been linked in any way to a lack of capability to do anything about someone stepping over that red line? Obama laid out his red line, Assad jumped over it and nothing happened. Do you think that is a result of the feeding down of the programme over the last 20 years?

***General Sir Richard Shirreff:*** The consequence of that failure to hold to a red line has been catastrophic in terms of moral authority and perception of strength, because that has sent off a powerful signal of utter weakness. Whether the decision not to stand firm on that red line was capability-based, I do not know—I think more than anything it was a political decision—but it raises all sorts of questions in the context of the time about what could be done about the chemical weapons capability that Assad was using. I have to say that my sense at the time was that standing off and launching Tomahawk missiles from a long distance might have felt good here to certain political leaders in Westminster or Washington or wherever, but whether it would have had any effect on the ground was a different matter altogether.

**Chair:** That might just be the reason why quite a number of us thought that the red line had been drawn in the wrong place, but that is not the subject of today's inquiry, which is defence expenditure. I look to Madeline Moon to take us back to it.

**Q46 Mrs Moon:** Very much so. We have seen lots of headlines about an extra £4 billion over five years to combat terrorism and to protect Britain from cyber-attack. There will be £2 billion over five years to the SAS/special forces to pay for weapons and vehicles including helicopters, protective equipment and night-fighting gear. Is this new money or is this yet again smoke and mirrors from the Government—money that was already there now being ring-fenced? Have you been able to clarify that?

***Professor Lindley-French:*** There was a key word that the Prime Minister used the other day, which was "alongside". My sense of the meaning of that—that funding would be alongside existing commitments—is that it has been taken from this broad security commitment which I mentioned, this global commitment, which is not increasing, and therefore it is not new money. It will be taken from some other part of that overall commitment.

Where are we therefore likely to see the stress? We will go back to extended procurement programmes; reduced numbers of assets will be purchased, therefore the unit cost will go up and the British taxpayer will probably suffer as a result, as will the force. But I see no evidence, certainly from the Treasury, of willingness to reach in, for example, a Treasury special grant.

Of course, the key stress here is the relationship between the budget being spent on the successor programme and a conventional force and this new security force, because it is quite clear to me that on current investments we cannot afford a strategic nuclear deterrent, a global-reach conventional force and these kinds of super counter-insurgency forces on the existing budget. So without new moneys clearly allocated from the Treasury, I fear we are going to have a pale imitation of all three. Something has to give.

***General Sir Richard Shirreff:*** This might be a question you could ask the officials in the MoD who understand precisely where the money is coming from.

***Professor Lindley-French***: Quite.

**Q47 Mrs Moon:** My concern, to be quite honest, is that I do not know if this is new money, and if we have given new money to the SAS, which is largely unaccountable—certainly it cannot be questioned by this Committee—from where will money be taken away? Is there a concern that our front-line capability is going to be reduced while building up unaccountable forces that the Prime Minister can deploy at will without needing parliamentary approval? Is that where we are heading?

***Professor Lindley-French***: Yes.

**Q48 Ruth Smeeth:** Given that we are talking about the NATO alliance, does the 2% across NATO provide the capability that we require? This is specifically to Jonathan, I've been told.

***Jonathan Parish:*** Right, okay. The 2% is a target, often called a guideline, that NATO nations have given themselves. This is not something that was imposed on them by the organisation. This is what NATO nations decided would be a reasonable guideline, one to which they should aspire. Certainly, as defence planners in NATO, we feel that if the 28 nations—well, the 27 which actually have defence budgets—met their 2%, we would be more than capable of providing the capabilities that we need to do what the alliance has been requested to do by its political authorities.

We have this process—I hate to use the word—called the NATO defence planning process. The first part of that process is establishing what is known as political guidance, which is where the decision makers in NATO—the nations—decide what they would like the alliance to be able to do, in political and defence terms. That is then translated by the NATO military authorities into, essentially, a list of things that we need to be able to do that. That list of things is then divided up among the NATO nations in terms of capability targets. We then go round at regular intervals to review how those nations are doing at delivering on the targets that they have been given. We believe that if 2% were spent by all those nations, they would be achieving all the capability targets that they have been given.

***Professor Lindley-French:*** Let me add to that if I may. The 2% first appeared, if I am correct, Jonathan, at the Chicago summit in 2010.

***Jonathan Parish***: No.

***Professor Lindley-French:*** When did it first appear?

***Jonathan Parish:*** It first appeared in ministerial guidance in 2006.

***Professor Lindley-French:*** There we have it: even worse. If you read the Wales summit declaration, it says 2% within a decade.

***Jonathan Parish:*** It says "aim to move towards".

***Professor Lindley-French:*** Indeed. Now look at what has happened since 2006. It has become almost a theological objective which is observed in the breach. I go around Europe—I was in Riga last week—and the Baltic states are clearly very concerned and are making commitments to move genuinely towards that target, but I see little appetite across the rest of the European end of the alliance to move to anywhere near that target. The EU average is now 1.36%, spent very badly on average; 1.52% including the US, with the US spending 4.4% this year. These imbalances are not just nominal imbalances, they are doing profound damage to our cohesion and the interoperability of our forces—the ability of forces to work together—because the gap between them is growing in terms of their capability.

**Q49 Ruth Smeeth:** Where are the most significant weaknesses within that 2%?

***Professor Lindley-French:*** I think the former DSACEUR might be able to answer that.

***General Sir Richard Shirreff:*** I preface that by saying that I am pretty sceptical of the notion that if everybody spent 2% these capabilities would suddenly be miraculously resolved, not least because of the European—particularly the European—underfunding of defence over a generation. If you took the total NATO defence budget 25 years ago and split it between the United States, and Europe and Canada, it would work out at about a 50:50 split. Now it is about 75% spent by the US and 25% spent by Europe and Canada. It comes back to the point about the gaps. The reality is that Europe on its own could simply not mount large-scale operations of any sort—even small-scale operations of any sort—without the United States. Going back to the Libya operation for example, in the overall scheme of things it was a very small operation in terms of the daily sortie rate of fighters and fighter bombers. Yet NATO absolutely depended on American enablers—electronic warfare, logistics, fuel tankers and the like—to prosecute that campaign. So for NATO to be able to meet all the capabilities, I think, is going to need significant spending above 2%, let alone the fact, of course, that most NATO nations—all but about three or four—are spending well below 2% as it is, at the moment.

**Q50 Chair:** Is it worth observing at this point that throughout the cold war years, right up until the year before the fall of the Berlin wall, Britain was regularly spending more like between 4% and 5% of GDP?

***Professor Lindley-French***: 5.3% in 1990.

***Jonathan Parish:*** May I come in, because I dare to disagree with Richard on this? There is a difference between what a nation wishes to achieve and what NATO asks it to achieve. Of course here you have a number of nations—the UK is one—whose, if you like, national level of ambition goes beyond what NATO is asking it to do. I was very careful to say that if all NATO nations spent 2% of their GDP on defence, I am confident that they could reach their NATO capability targets.

If you look at the UK, the NATO capability targets for the UK are largely met; but the UK chooses to do a huge amount more than just what NATO has asked it to do. That is a

sovereign decision that the UK takes. A number of other nations do the same. Again, we often hear this story about "Well, NATO has, today, to rely on the US." It has always relied on the US, since day one, to provide a number of the significant enablers.

***Professor Lindley-French:*** If I may, I will push that with a "so what?" question: why does it matter? I had a conversation with a very senior American two weeks ago in Washington. The Americans could not offer the enablers they offered to support the Libya operations today, because of their own cuts. Their concern is that, as they get drawn more and more into Asia-Pacific, we are faced with a simultaneous crisis in four or five years' time, to our southern flank and to our eastern flank; and they are facing a major crisis in Asia-Pacific. If that happened, the Americans could not come over the horizon as they did in the cold war—the old Reforger idea that we would be effective first responders reinforced by the United States. In a situation where there was a worst-case simultaneous crisis, we would find ourselves for quite significant periods on our own, dealing with a very serious emergency. In that instance, Britain and France would be in the lead, for a significant period, with a small number of forces. What we do then is the question that that scenario raises.

**Q51 Ruth Smeeth:** That brings me nicely to my second question, which is, given the likely strains in the alliance and our global ambitions as a sovereign nation, what more do we need that is not the 2%? We talk about the 2%, in terms of this inquiry, as our requirement to comply with our NATO commitments. This is a very different conversation. This is 2% as our basic requirement: what then do we need on top of that to provide enough resource and capacity for our wider capabilities?

***Professor Lindley-French:*** I would suggest that we need to completely change our force concept. Hitherto, the United Kingdom has tried to be a little America. We have a force with a little bit of everything but not much of anything. I want us to become a hub or a core force for European and other coalitions, where we would be towards the high end with sufficient capability and command assets to be able to put together coalitions quickly, that enable others to organise around us; because the new transatlantic contract implicit in the new alliance is that we will take the pressure off the Americans worldwide by being effective in and around Europe. Now, that requires Britain and France to work together towards that hub force; but that requires a change of strategic mindset on our part, and a willingness to invest in those high-end command assets, which will give us that clear leadership role, because if we don't do it, I don't see any other Europeans—certainly not Germany, with due respect—stepping into that role.

**Richard Benyon:** On that precise point, I have read what you have written about the common security and defence policy and the Lancaster House agreement. I am sceptical about these things, as is Richard, but I am actually quite positive about this. When you talk to senior officers and people from both countries, they want to make this work. There is this big exercise next year. It is the makings of a strategy at last, isn't it? You have a country with a large footprint across some of the dangerous parts of our southern flank, and we have a footprint in other parts of the Middle East. You can start seeing we provide lift into Mali, they do the dirty stuff and then we support them, hopefully, with training missions and other things going forward. Give me cause to be positive about this.

***Professor Lindley-French:*** I will try. I am a Yorkshireman, and we find it difficult to be optimistic. I wrote my PhD over 20 years ago as quite a young man on this subject and

recommended exactly that in my final chapter. The other day, I attended a European defence summit in Brussels, and it was like being trapped in that film "Groundhog Day" where I was going over and over again. We Europeans have just got to get on with it and start investing together the kind of capabilities in a European pillar that could operate under an EU flag or a coalition flag or a NATO flag, and just do it. I am saddened by the lack of progress on Lancaster House since 2010. Last night, I had dinner with senior French officials, and they are very keen to move on this. I think after Paris, we have to. Everything is there, but for some reason we can never seem to move beyond base one in getting this European structure in place.

**Q52 Richard Benyon:** But it makes 2% look more effective. If you start talking about European defence co-operation, some of my colleagues come out in hives, but actually with France, which has a similar world view and good armed forces with similar capabilities to ours, it just makes sense. It can make 2% go further, can't it?

***Professor Lindley-French***: Yes, period.

***General Sir Richard Shirreff:*** I completely agree. I think that NATO can only be strengthened as a result of bilateral or broader agreements by like-minded nations, like the British-French agreement and like, for example, some of the northern nations coming together. That can only be a good thing, but it has got to be followed through with substance. Of course, the reality, as we saw with the so-called smart defence initiative, is that these things all too often fall at the first political fence. Even for like-minded nations such as, for example, Denmark, Norway, Sweden and Finland, trying to forge a Nordic formation is really difficult, because there are substantial issues from a national perspective that have got to be overcome. It requires real will to make it work.

***Jonathan Parish:*** The UK has actually got quite a good track record on this. You talk about French-UK co-operation, and nobody wants that more than I do; I am married to a French girl. We have got some very good examples, such as the ARRC—the Allied Rapid Reaction Corps headquarters—which is an outstandingly capable multinational headquarters. The UK—Julian, you know this better than I do—has got a very good relationship with the Dutch marines, in the UK-Netherlands amphibious force. The UK is developing this joint expeditionary force with seven other nations, which we will be able to plug and play.

There are some very good stories here, and I am encouraged by what I see across NATO as a number of nations try to pursue multinational co-operation in a way in which you have what is called a framework nation, into which others can plug and play. So the framework nation can perform on its own if absolutely necessary, but others can plug in and increase your quantity and quality.

***Professor Lindley-French:*** But here is the health warning, and the Dutch are a classic case. I have worked with the Dutch marines, and they are great. They are serious allies. The problem is at the political level. If you ask me whether we can base the planning for the future of the Royal Marines on an assumption that the Dutch marines will always be there—no, we cannot. We cannot be sure that the Dutch Parliament and Government would agree to their deployment alongside British forces. That is the block on this. We always have to plan inefficiently as national Governments, because we cannot assume that our allies will always be there. I do not see a way around that.

***General Sir Richard Shirreff:*** I think that the UK has been good at this. This is how the battle of Waterloo was won, in a way. Britain was the framework nation for a significant allied force, and Jon is absolutely right about the ARRC and other formations. But plug and play is only okay if the UK wants to play. There is, I think, increasing concern among many of our friends and allies. I sensed this as Deputy SACEUR doing the rounds of NATO capitals. There was a sense of concern and surprise that the UK seems increasingly to be pulling in its horns and to be unwilling to play.

**Chair:** We must come back to focus a little more on the expenditure inputs rather than the defence outputs. I am sure that we are all agreed that we could spend 7% or 8% on defence, but if we spent it on the wrong things, we would not get a very good security outcome.

**Q53 Mrs Moon:** I am interested in this plug and play concept. How valid is our 2%, with 20% on equipment, if some of our allies, particularly in the east, do not have modern equipment and capability? I am worried that NATO is becoming a split defence capability, with the western nations attempting to stay at the cutting edge and the eastern nations using an awful lot of late-Soviet capability. How realistic is 2% across an alliance of two very different halves?

***General Sir Richard Shirreff:*** If I may, I will get away from the figures, because it is all about capability. As I have said before, it is about spending what needs to be spent, identifying the gaps and then being prepared to make the sacrifices in order to meet those gaps.

On the eastern nations, we have seen—I can think of a couple of examples here—a number of the former Warsaw Pact members of NATO taking some quite bold decisions to focus on specialist capabilities which are really useful: for example, the Czech CBRN brigade. That is a really useful capability. We do not need fleets of tanks and armoured personnel carriers and guns from the Czech Republic, but the ability to generate a state-of-the-art CBRN brigade for an alliance operation is a valuable capability. There may well be other examples as well. That is something that NATO has been very successful in doing: bringing in new members and helping them change and adjust their defence posture to focus on specialist capabilities.

***Professor Lindley-French:*** I would echo that. I have spoken to Baltic state Defence Ministers and a Polish Defence Minister, and I am seeing a sea change, certainly in central and eastern Europe, because a resurgent Russia has focused their minds. I am more concerned about countries like Italy—with due respect; I love the country dearly and I speak the language—and Spain, which faced immense financial crises due to the eurozone crisis and are simply not in a position to modernise their defence effort. Those countries are leaders. They are big powers. Without their leadership, we lose a significant component of the European effort, but certainly in central and eastern Europe, I am beginning to see a change of mindset and a willingness to invest in that kind of asset, as well as a willingness to specialise—to accept that they will not be leaders in their own right, but will be part of a coalition.

Unless there is a true Article 5 contingency, my sense is that NATO will not deploy at 28; it will deploy as a coalition force generator and command mechanism. Therefore, interoperability is vital so that we can generate those coalitions efficiently.

**Q54 Mrs Moon:** Is that not also where niche capability is dangerous? If the niche capability force decides, "No, we're not involved," you are weaker.

***Professor Lindley-French:*** Correct. That is why we have to do what we do.

***Jonathan Parish:*** You say that other than Article 5, you do not think NATO will deploy all 28. I think all 28 will be there in one form or another, because politically it is important to send that message. Having taken a collective decision to do something, there is a responsibility to take collective action, not necessarily in the form of collective defence; it might be a non-Article 5 operation. But you will see all NATO nations present in one form or another. It might be in the form of niche capabilities; it might just be staff officers in one of the headquarters.

Going back to your original point, you talked about outdated equipment, in some cases of Soviet and Russian origin. There is a huge amount of work going on at NATO at the moment to address that, and a number of nations have grouped together to try to come up with solutions to this problem.

**Chair:** I am now going to ask people to focus very much on the 2% and the expenditure side of things, however desirable and interesting it is to know how NATO should be configuring its forces and planning its strategy. With that in mind, I look to Phil Wilson.

**Q55 Phil Wilson:** Do the UK Government follow the NATO definition of defence spending in calculating their contributions? If not, in what ways does their definition diverge from what is required by NATO?

***Jonathan Parish:*** The UK does follow the NATO definitions. Every two years, a huge survey is sent to all the NATO nations to fill in. That survey, the questions within it and the definitions associated with all those questions are agreed by the nations. The UK received its defence planning capability survey this year, and there is a huge section on financial data. The UK has completed some, but not all of it. We are waiting for the last bits and pieces before we review it with them at a meeting in the UK in two weeks' time.

There was another input given earlier this year in what was called a response to the metrics. There, the UK changed what it was presenting as expenditure, and those changes were fully in accordance with the NATO definitions. They included for the first time figures for expenditure that they had not included before, but which they are perfectly entitled to include within the NATO definitions.

***Professor Lindley-French:*** I am not a diplomat, so I can be slightly more direct. It's true, but—

***Jonathan Parish:*** It's true. The UK is meeting the NATO definitions.

***Professor Lindley-French:*** It is, but let's be specific here: the UK has suddenly discovered the 2004 NATO definition that refers to other forces. It refers specifically to other forces that are "structured, equipped and trained to support defence forces and which are realistically deployable". I would suggest that the Government has creatively applied those criteria of other forces, and in doing so has added some 14% or £5.7 billion to the defence budget. That includes intelligence assets, military pensions, the cost of overseas

stabilisation missions, UN peacekeeping missions and, it would appear, pay-outs to retired civil servants and MOD income. That, I would suggest, is being creative with the books.

***Jonathan Parish:*** And I would suggest it isn't. I would suggest that it is respecting the definitions that NATO—the collective of 28—has agreed. The vast majority of other nations, when submitting their financial returns, do that according to those categories, including things like that.

**Q56 Chair:** Can I put this to you, Jonathan? I don't think anyone is disputing the fact that whatever the Government are now proposing to include in the calculation of the 2% will fall within the NATO rules.

***Jonathan Parish***: Right.

**Q57 Chair:** The question we are asking ourselves is whether the goalposts are being shifted between what we are proposing to do now and what we have traditionally done in the past. While accepting that collections of both topics and sums for inclusion in the calculation of the 2% are legitimate, the point we are trying to tease out is: if we are now including those things for the first time, should we not extrapolate backwards and see what our percentage spend on defence would have been if we had included them all along? Would that not give a truer picture of whether we are maintaining our defence effort or whether it is actually surreptitiously in decline?

***Professor Lindley-French:*** If one includes pre-2010 accounting methods, it is between 1.5% and 1.6% by 2020. If we take this new figure, I would suggest it is around 1.8% by 2020, which means we are indeed seeing a shifting of the goalposts. Jonathan is right; it technically is correct, but it is a silly definition, given the world we are moving into. That is the real issue.

**Q58 Chair:** So you don't think the Russians or Daesh—ISIL—are going to be deterred by the size of our pension pots.

***Professor Lindley-French:*** I suspect they won't be, no.

***Jonathan Parish:*** But you did say you need to look back. As a result of the submission made by the UK earlier this year, their figures for 2014 and 2013 have been corrected. The figures we are now using for 2013 and 2014 for UK defence expenditure have been corrected as a result of the new way the UK is reporting.

**Q59 Chair:** That is very interesting. I am not asking you to read the corrected figures off the top of your head, unless you can, but are you able to supply them to us?

***Jonathan Parish:*** I am pretty certain that they are the ones that were published on the NATO website this summer. They came after the UK submitted its revised figures for '13 and '14 and its estimate for '15.

**Q60 Chair:** So you would say that we should compare the calculation that we are going to be using for the immediate future with the calculation that has now been applied to create the figures for the previous two years?

***Jonathan Parish:*** Yes. The 2013 and 2014 figures were corrected as a result of the UK's submission. Another factor is that the GDP definition was changed. The GDP definition

meant that GDP for virtually all nations was slightly higher than originally calculated, so that also had an impact. As a percentage of GDP, defence spending for almost all NATO nations had to be adjusted downwards.

**Chair:** Thank you very much indeed.

**Q61 Phil Wilson:** Are the Government comparing like with like, or does the 2% figure now include significant expenditure previously allocated to other Departments?

***Professor Lindley-French:*** My assessment is yes, it includes figures previously allocated to other Departments. There has been a shift since 2009 onwards: the retreat from Treasury special grants, putting nuclear forces inside the defence budget and now the July statement reinterpretation of those figures. I have to say, as an academic, that I think the Government are dancing on the head of a pin. The achievement of the figure has become more important than the generation of the future force that this country needs, given the environment into which we are moving. That is the danger implicit in these falls.

**Q62 Phil Wilson:** If no one else wants to comment, that leads me on to the next question. For the UK Government, does today's definition of defence spending differ from the one used in the past? If so, why the change?

***Jonathan Parish:*** We need to use the term "defence expenditures" because that is what NATO talks about. As we mentioned, the UK is now including within its submission to NATO of what it expends on defence a couple of areas that it did not include in the past. We have corrected those figures for the last two years to ensure we now have a consistent baseline for comparison.

***Professor Lindley-French:*** In 2010, the Chancellor moved the nuclear forces from a Treasury special grant to the defence budget, and we then have had a new interpretation, so in a sense the conventional force at the heart of the budget has been squeezed from both ends. That is the essential shift that has been going on. The contradiction implicit in the way the accounting has changed is that as the tasks and roles of the force increase, given the dangers of the environment in which we exist, the actual moneys to invest in each area, particularly the successor programme for the deterrent and the future deployable conventional force, to my mind do not stack up on that level of investment. Both are damaged, or one is damaged and the other funded. That is where this accounting manoeuvre results in a strategic pretence, to be blunt, on the Government's part.

**Q63 Mrs Moon:** So to put it simply, is the UK's defence and military enhanced or reduced by the change of calculation?

***Professor Lindley-French***: Reduced.

***Jonathan Parish:*** It depends how it is spent.

**Q64 Mrs Moon:** Can you elaborate?

***Jonathan Parish:*** Yes. If all the money were spent on stuff that is totally ineffective and useless, clearly it would achieve nothing; but if the UK focuses its expenditure on the things that deliver the highest capability, one could argue that the ruthless way that defence expenditure has been looked at and the SDSR, which hopefully will ensure that

money is spent most effectively, will leave you with a set of armed forces that are more capable.

***Professor Lindley-French:*** But there is a further question. If you look at the $90 billion being spent by the Russians as part of their modernisation programme, the $150 billion or so being spent by the Chinese and what other countries around the world are doing, what strikes me is how few assets—both platforms and systems—the UK gets for its money. There is a whole question about how come we spend so much and seem to get so little compared with other countries? Frankly, that is another area—with due respect, Chair—that the Committee might examine at some point, because the money, in and of itself, at the level of investment, should generate far more compared with other countries than it appears to do. Why?

**Q65 Mrs Moon:** Do you have an answer to that?

***Professor Lindley-French:*** I think it is to do with how we change the specification of major equipment assets, the relationship between the Government and prime contractors, and how defence cost inflation is built into major procurement projects. It is also do with the fact that we tend to go for very high-end assets but very few of them, so we lose economies of scale—Type 45 and carriers being examples. To my mind, these are all vital assets because they are not just defence assets; they are part of Britain's strategic brand. In my book, "Little Britain", I talk about our strategic brand. We do have a brand and if we invest in these high-end assets, it builds our influence, not just in defence, but elsewhere. To my mind, we are critically inefficient in the way that we go about investing in those assets, and that really ought to be corrected.

***Jonathan Parish:*** Which goes back to my point that it depends how you spend the money.

***General Sir Richard Shirreff:*** I would also say that it depends on the strategy. It is about determination of the ends and the integration of ways and means to meet the ends required, rather than just deciding on replacement of high-end capabilities for their own sake. That complex integration is the key issue.

**Q66 Mrs Moon:** It has been argued that exceeding the NATO 2% target until 2021 has been achieved by adding 14% in total—£5.7 billion—to defence budget calculations. What proportion of that 14% is new money? I am very worried about this shifting around of figures. What proportion is redefinition of defence expenditure? Is this smoke and mirrors or is there new money in here?

***Professor Lindley-French:*** I think it is smoke and mirrors. I tried to look at the impact of the additional money on the fighting power of the future force as agreed under the 2010 SDSR. I can see no additional fighting power apart from the soft investment, which is a mystery in its own right. To my mind, no additional fighting power is generated from that investment. I may be proved wrong next week, but I can see no evidence of that.

**Q67 Mrs Moon:** I tend to agree with you. Jonathan?

***Jonathan Parish:*** We are waiting to see the outcome of the SDSR. The NATO team will visit the UK Ministry of Defence in the first half of December. We will then be in a better position to judge what the budget is made up from and what the plans to spend it on are.

At this point, I'm afraid, I would not wish to make a judgment because I do not have the information on which to make that judgment.

**Mrs Moon:** Sir Richard, any comment?

***General Sir Richard Shirreff:*** I have no comment except to say that you need to ask the officials in the Ministry of Defence and hold their feet to the fire. They are the ones who should be able to answer the question. If they cannot answer the question, I think we have a problem.

**Mrs Moon:** If only.

**Q68 Johnny Mercer:** Jonathan, could I clarify a point with you? You mentioned that if this money—the 2%—was spent correctly, we could see an increase in our capabilities. Would you expand on that? We have had different views from different members of the panel. Clearly that is the Government's view. It would be interesting to see the evidence base for that.

***Jonathan Parish:*** I do not have any evidence; it is all subjective and drawn from past experience of dealing with a number of other nations. I would repeat what Julian said: many nations—not just the UK—are inefficient in their procurement programmes. There is the potential for savings there.

**Q69 Johnny Mercer:** But do you think that the specific 2% will lead to an increase in our international and domestic defence capabilities?

***Jonathan Parish:*** Again, if it spent effectively, yes. One of the others areas to improved procurement is greater multinational co-operation, which can lead to enhanced capability.

**Q70 Johnny Mercer:** Sir Richard, what is your answer??

***General Sir Richard Shirreff:*** I cannot answer because I do not know that detail, to be honest. I am just naturally rather sceptical about these issues. Looking at the baseline and how far behind the European members of NATO in particular have fallen over decades, frankly, it seems to me that to achieve—. Put it this way: if NATO thinks that every nation spending 2% is going to deliver what NATO needs, I would suggest that NATO's baseline is pretty low, frankly. I am not sure that that baseline is adequate to deliver the conventional deterrents that NATO needs or the other capabilities that NATO needs.

***Jonathan Parish:*** We need to talk about timescale here. Nobody is going to say that it's going to happen tomorrow, but if all those NATO nations were to spend 2% of their GDP on defence and, of that, they were to spend 20% at least on major new equipment and research and development, that would be leading to a far more capable alliance.

***General Sir Richard Shirreff:*** In terms of timescale, the promise that we will try to get to 2% in 10 years smacks to me of the 10-year rule in the 1930s. It does not fill me with great confidence, frankly.

***Professor Lindley-French:*** May I add to that? I said 5.3% in 1990; it was 5.3% of GDP in 1982 and 3.8% in 1990. There is a further point, which is that if we are going to achieve the 0.5% year-on-year real-terms increase, given defence cost inflation running at 2%, we need to be seeing a 2.5% nominal cash increase per year. I don't see evidence of that,

either. An economy of the size of circa $3 trillion a year, which is the GDP of the UK roughly, increasing at 2%—that's an awful lot of money, potentially £6 billion extra, over the period 2015-16 to 2020-21, than the pre-July statement assessments of the UK defence investment. That is a lot of money. If that was used properly as both Jonathan and Richard suggest, that could lead to a major increase in fighting power and solve all the manpower issues that the three services are facing in particular. The danger right now is that, as the Chief of the Defence Staff suggested in a speech to RUSI recently, we end up with an exquisite force of great equipment, but insufficient manpower, with insufficient training and education, to properly exploit the force that is available to the country.

**Q71 Chair:** I want to follow up a couple of the points about the figures. Let me say at this point that it is no disrespect to the witnesses, but we are losing a number of our Committee members. That is purely because of the Prime Minister's very important statement at 12.30, but three of us are going to see this through and that is all we need for a quorum. I hope you will take that in the spirit in which it is meant. That is why it is now going to be a trio, rather than the full ensemble for your delectation.

I want to come back to what you were saying, Julian, about the changes in relation to defence inflation costs. What about the fact that GDP itself is expected to increase over the same period? Although you were saying, "Even if we stick at this figure, with the new combination of ingredients that make up the total, we will still not be dealing with the costs of defence inflation," the reality is that if the economy continues to grow, surely that should offset that increase in inflation costs.

***Professor Lindley-French:*** All things being equal, that is correct. Of course defence cost inflation does not apply across the defence budget; it applies to certain areas—salaries, equipment and procurement. But it is a big assumption that the economy will continue to grow at 2% or thereabouts for the next 10 years. The Treasury has built in assumptions that it will continue to invest in defence roughly in line with those ballpark figures over the next 10 years, but should the economy suffer another major crisis—some suggest that by 2018 the world economy could be in recession and growth could not be maintained—there would probably have to be a downward revision of our own commitment to defence investment.

**Q72 Chair:** Let me take you back to the point I raised earlier about the level of expenditure being 4% to 5% of GDP during the years of the cold war, and ask you to put that in the present day context. The NATO minimum may be a target for other NATO countries, but it has always been a minimum for us—in fact, we have always exceeded it by a large degree, sometimes, as you said, over the 5%, sometimes even more. Through the period of cold war confrontation, it was always between 4% and 5% of GDP. Given what has happened to the political climate as a result of Ukraine and a change in Russian policy towards the NATO area, and given what is happening in the Middle East and the threats posed by international terrorism, how does it strike each of you that this country is measuring up to its task, compared with how it measured up to its role in the cold war?

***General Sir Richard Shirreff:*** It is worth pointing out that that NATO agreed minimum of 2% was drawn up at a time when there was arguably no existential threat to NATO and that has changed. You ask the extent to which this country is measuring up, but more broadly, I think the alliance has got a long way to go before it measures up in terms of what it needs to do to build and maintain a credible deterrent posture to minimise the

chances of the Putin dynamic that he started in Ukraine spilling over into the Baltic states. As part of that, the UK also has a long way to go. I mentioned earlier some of the shortfalls as a result of the 2010 defence review. I think the chickens are now really coming home to roost in that respect. So, I think there is a long way to go and that the UK does not measure up adequately.

**Q73 Chair:** Accepting, Jonathan, that you are a NATO civil servant, do you feel that you can make any observations about this, or is it slightly outwith your terms of reference?

***Jonathan Parish:*** As I said, there is a difference between national level of ambition and the capability targets that NATO asks the UK to provide. By and large, the UK does very well on delivering what NATO asks it to provide. I'm afraid that might sound an opt-out.

**Q74 Chair:** No, it is a perfectly proper answer.

***Jonathan Parish:*** That is the only area in which I am capable of judging.

**Q75 Chair:** I fully understand your position. Julian, I think you can probably range a little bit more freely.

***Professor Lindley-French:*** I suggest that the UK right now suffers from what I call threat lag. The focus of the Government is understandably on reducing the deficit. The deficit is simply too high and the Government have focused on deficit reduction, but the world has moved on. My sense is that the Government, and the political class in general, still see security and defence as almost at the margins of the polis, almost as a luxury that will have to be afforded after everything else—welfare, health service and so on—have been afforded.

My sense is that is about to change. I believe that whatever the Government, or whatever hue, at some point would have to have an honest debate with the public, and say that it is simply too dangerous and we are going to have to shift moneys into security and defence from other parts of the national economy and from the public sector, because that is the first duty of the state. That has not yet hit home.

**Q76 Chair:** May I interject? The Government have a mantra that you cannot have security and defence if you don't have economic security. It strikes me that you are saying the reverse is true, that you cannot have economic security if you are militarily insecure.

***Professor Lindley-French:*** That is correct, and historically that has always been the case. The debt-to-GDP ratio between the First and Second World Wars and into the mid-1960s was well over 140% of GDP. In historical terms, the current ratio is relatively low. The reason the Government say that is because they still believe that we exist in a benign environment. When one does not exist in a benign environment, the judgment one then has to make is that physical security comes first.

**Q77 Chair:** I want to pursue this a little further and particularly with General Shirreff. At the risk of going back into the question of military value and outputs rather than expenditure inputs, is the following true? If you are in the situation that we appear to be in, where we are not ready to spend and invest in defence at a level commensurate with the darkening international situation in relation both to our former cold war adversary and to international Islamist extremism and terrorism, is there not something to be said for using our defence

investment in ways that ensure that we at least maintain the core skills and the quality and rely on an ability to expand those in a crisis when it gradually dawns on the people in charge of the country's finances that they really have to spend more?

***General Sir Richard Shirreff:*** There is very firmly a case for maintaining capability and core skills, but let us not kid ourselves: the regeneration of capability, once lost, is a massive task. The Regular Army has just been cut to 82,000. Twenty-odd thousand well-trained professionals have been cut out. You can't replace that instantly. What you then end up with, if you go down to a core and rely on a surge of spending when the time comes, is what I am afraid all too often history has demonstrated, which is that the decision to surge comes far too late to meet the capability. There is a huge risk involved in that, particularly at a time when, as you say, the international horizon is very dark from the east and from the south.

***Professor Lindley-French:*** Worse, it damages our defence strategy. We have lost significant influence in Washington since 2010. The Americans remain central to our efficient defence strategy, but believe me, they no longer accord us the same level of influence that they did a few years ago, because of the choices that we have made. So it is not just a question of lacking our own defence, but of lacking influence over those crucial to our defence.

**Q78 Chair:** During those cold war years when we were all growing up, the configuration was that the Americans bore the lion's share of the burden in terms of defence expenditure, then Britain was in an intermediate position and pretty much all the other NATO members were some way below that. I seem to remember often hearing the argument put by those who don't approve of defence expenditure, "Why should we spend so much more than the rest of our European allies?" It appears that that gap between us and the remainder of our European allies has been much diminished. As a result of that, do you feel that our influence with the United States is commensurately reduced?

***Professor Lindley-French:*** Clearly so. I spend quite some time on the Hill. I have seen, in the many years that I have been speaking to not just senators, but their key staffers, that the culture has changed on the Hill. Many years ago, we had a clearly strong group of Atlanticists who believed in the transatlantic relationship. The new crop are nothing like as automatic in their support of Europe and the transatlantic relationship. For them, it is, "How much are the Europeans investing?", and Britain has always been seen as a leader. We talk of the special relationship. What makes it special is ultimately what we bring to the Americans, and if we do not bring anything, it is not special.

**Chair:** Are there any other comments on that?

***General Sir Richard Shirreff:*** Without question, that is true.

**Chair:** I am going to come to Douglas Chapman now, and we will look at some of the high-end assets that we are acquiring. At some point, I would be grateful, Julian, if you would list some of the ones that you were saying we ought to be concentrating on.

**Q79 Douglas Chapman:** When you look at the major projects that the UK is involved in just now, there are the two carrier projects, and particularly the second carrier, the maritime surveillance capability and the development of the Army scout vehicle. If all those projects

come to successful fruition, would that address the major military deficiencies and ensure that there is sufficient defence of the UK?

***Professor Lindley-French:*** Shall I go first? I am a passionate believer in the two carriers—I would prefer that they were conventional carriers operating with cats and traps for a range of reasons—because I have found as I have gone around the world that they are having an effect not just on the sense of Britain being back, but on rebuilding the strategic brand to which I referred. With the Type 45s and the Type 26s, if we properly build the whole complement as currently envisaged, plus successor, plus the full naval amphibious marine programme, it will give us an ability to support land operations from the littoral maritime that will take real pressure off the United States. It would be seen in Washington as a major investment by the UK in the very issues I was raising a minute ago.

The key, to me, is the P8—the MPA replacement. That is the Capstone enabling capability. If we are building this deployable, highish-end force, which can attract European allies into coalitions that we are the hub thereof, we have got to have the force operating a level of risk—both a deterrent and a deployed force—that is acceptable. Without that capability, the risk goes up exponentially. When HMS Queen Elizabeth moves south from Rosyth, I would strongly advise that we invite our European allies to escort her and that we say to them, "This is Britain's contribution to future deployable European coalitions". We are demonstrating not just our commitment to the United States, to take the pressure off them, but also our leadership role in Europe in a key area. So the capabilities as planned right now, to my mind, are sound as long as they are fulfilled. But if P8—if the MPA is cut—then I am afraid it is back to 2010 all over again. The Government will be very loth to deploy extremely expensive assets at a high level of risk, implied by the cut.

***Jonathan Parish:*** Yes, these new equipments will lead to a significant improvement overall, but they need to be accompanied by the right manpower, which is trained, by the right stocks and supplies that go with it, and, critically, by training all these elements together with the other elements that are key around them, to deliver the combined effect that you want. It is not just about the platforms, but everything else that goes around them, to get the maximum out of the platforms.

***General Sir Richard Shirreff:*** That was exactly the point I wanted to make—so I am walking in step with NATO, for a change.

It is about readiness, delivery, deployability and resilience—and for how long and with what, and with what effect, you are going to deliver. But—good news, up to a point.

***Professor Lindley-French:*** There is a further issue about the joint force. The UK was almost in a position, back in the late 1950s, when we moved from a conscript to a professional military. I believe that we have an opportunity to pioneer a new concept of deep jointness, where the three forces are brought much more closely together in support of each other, because all of them are going to have to operate across air, sea, land, cyberspace, information communications and knowledge. Those are areas where I would love to see innovative investment in the future force, which is not simply hardware, but builds on the quality of our people through education in those areas of comparative advantage. It is not just about personnel numbers or hardware, but how we invest in each

individual in our armed services to give them that comparative edge, which makes the most of the force they have available to them to deploy.

**Q80 Douglas Chapman:** Thank you. On the issue of the second carrier, I think that earlier, when asked if both carriers would be deployed, Sir Richard said, "probably not all of them". Given that there are only two, can you expand on that point, because the carriers obviously require a huge amount of support?

***General Sir Richard Shirreff:*** Again, I would love to hear the answer from the MOD if you asked that question. I would answer with something along the lines of, could you deploy both carriers and, for example, HMS Ocean—three capital ships—at the same time? Given what I read in the media about Navy manpower, I suspect that they would be hard-pressed to do so. They would have to borrow from Peter to pay Paul in order to get one carrier at sea.

***Professor Lindley-French:*** The carrier-enabled power projection plan is effectively one carrier plus a sort of mothballed plus—which does not strike me as an effective use of the two assets. The two carriers are the hub of the future force, and when you add them to the French carrier, they are the core of the future European carrier force. Once Prince of Wales is commissioned, to my mind, every effort should be made to ensure that she is fully operational.

**Q81 Douglas Chapman:** £3 billion of public money is a lot to put into mothballed plus.

***Professor Lindley-French:*** But also strategic value.

**Q82 Douglas Chapman:** Just to go back to the earlier discussion when you talked about our European hub, that obviously has an impact on how much we spend on defence and how we spend it. At the previous defence review, there was a level 1 risk associated with the possibility of Scotland becoming independent. The possibility of the UK leaving the EU is not given any space in the current defence review. In terms of that relationship, when you were talking about the creation of the hub and the much better use of assets and resources across the European Union, were you talking about Europe geographically or the European Union? If the UK decides to pull out of the EU, where does that leave us in terms of developing a much more joined-up defence system in which we can share and work with our closest neighbours?

***Professor Lindley-French:*** There would clearly be turbulence, but the fundamental strategic principles of NATO and the relationships thereof, unless the UK could be towed out of the Atlantic, would pertain. I do not think that Brexit would destroy those relationships per se, but it would clearly cause political turbulence. And that turbulence right now, when we face so many threats together, strikes me as being somewhat unfortunate.

But power talks. The more Britain is a powerful force, the more that Britain's very power will organise others around it. That is what has happened historically. So the fundamental reality of Britain's influence as a powerful military actor, a top-five world economy and military power, will be eloquent in and of its own right. But the institutional arrangement that we already have in place strikes me as being very important to maintain and ensure the efficiency of those relationships.

***General Sir Richard Shirreff:*** If I could turn the question around slightly, Britain outside the EU would weaken the EU. I think we often lose sight of the strategic benefits in terms of stability and therefore security that the EU has given us. I spent a fair amount of time in the Western Balkans and there is no question that much of the recent stability, or the improvement in stability in the Western Balkans—for example, the Kosovo-Serbia comprehensive normalisation agreement—has been brokered by the EU because it is an attractive organisation to belong to. If it were not for the magnet of the EU, you probably would not find relatively good behaviour in that part of the world. So I think that is important. Then, on top of that, magnified by the scale of the migration crisis, which is potentially existential to the EU. For all its faults, the EU is probably about the only organisation that can organise 28 nations to confront this challenge.

***Professor Lindley-French:*** I will be honest: I have flirted with the idea of Brexit, because I used to work for the EU and there is an awful lot of it I do not like. I am very concerned about what political integration in the eurozone will mean in general terms and also in country. But I have now come to the conclusion that, given the danger in this world and what is happening, in fact Brexit would be bad news for Europe and for this country as well. We have to find a solution in the frameworks that we have.

**Q83 Douglas Chapman:** One final easy question on Trident. Should the Trident successor be funded from within the MOD budget, bearing in mind the 2% of GDP and I think the latest estimates for it presented in the press have been near £168 billion. If the successor programme for weapons of mass destruction goes ahead, what would we forgo in terms of other expenditure and how will our flexibility be reduced, given we are facing a huge range of different crisis situations? Is that a good use of public funds in terms of bang for our buck, as it were?

***Professor Lindley-French:*** If we assume that the capital cost is between £20 billion and £34 billion, that means between £1 billion and £1.3 billion a year from the defence budget that could otherwise be spent over a 20-year period. Plus you have got the operating costs. I think the maximum would be about £160 billion over the life of the asset. Traditionally, that was funded outside by the Treasury special grant, so that money will be lost from the defence budget. Strategically, I believe that the UK should maintain the deterrent. Given the world into which we are moving, clearly the UK should retain it, but we should return to the method that funded Polaris and the Treasury special grant should fund it beyond the defence budget.

***General Sir Richard Shirreff:*** I agree. Assuming there is a replacement, it should not be funded at the expense of the wider defence budget because of the impact it would have on a whole range of conventional capabilities.

**Q84 Phil Wilson:** When did that change?

***Professor Lindley-French:*** In 2010, the Chancellor announced that it would be funded from within the defence budget.

**Q85 Douglas Chapman:** If it is not funded by the Treasury, are you saying it may impact adversely on conventional capabilities? Is it an unacceptable level, or is it something that can be managed? You mentioned that if it was funded by the Treasury as a separate pot of money, that might not affect conventional capability to a larger extent, but if the Treasury holds up its

hand and says it must be funded through the MOD, what would be the impact on conventional capability?

***General Sir Richard Shirreff:*** It would have a massive impact if it was drawn from within the existing defence budget. It would have a massive impact on exactly the issues we have just been discussing about readiness, capability and equipment across the board. It is a tough decision. If it is to be done from within the defence budget, you either go down the line of a nuclear capability at the expense of conventional capability, or conventional capability at the expense of nuclear. It appears to be that sort of zero-sum game.

***Professor Lindley-French:*** We have had 13 years of campaigning in which the 1998 defence planning assumptions were effectively destroyed by the campaigns in Iraq and Afghanistan. We are having to rebuild the force with £163 billion of investment. At best, we have a fragile force that is vulnerable to shock. Redundancy—resilience of the force is built by investment in the force itself. The more the money in the defence budget is being siphoned off to fund other major capital investments, the greater the danger of the hollowed-out, fragile force being broken on the horns of reality.

To be blunt, my concern is that, at the end of the day, some poor British serviceman or woman in some place far away, under-equipped and under-armed, will be trying to cope with the consequences of a lack of proper funding of the defence budget. That is the reality that happens when we do not match ends, ways and means, as the General rightly says.

**Q86 Chair:** We have added into the defence budget various what might be called soft items that do not actually affect what might be termed fighting value at the output end, and we are now failing to add into the defence budget what previously was an additional Treasury grant to meet the cost of a new generation of submarines.

***Professor Lindley-French***: That is correct.

**Q87 Chair:** And if we did not build that new generation of submarines, we would have to give up building submarines altogether, would we not, because obviously we will have completed the SSN hunter killer submarine programme and I take it that would be the end of the Barrow yard.

***Professor Lindley-French:*** Or one simply builds the number of Astutes we originally planned.

**Q88 Chair:** In which case, you would not save that much money, would you?

***Professor Lindley-French:*** Correct, but you would still have the assets available.

**Chair:** Nevertheless, although different members of the Committee have different perspectives on this particular issue, I am sure we would agree that your original point holds good when you say that on the strength of 2% you believe it would be difficult, if not impossible, to tick a number of essential boxes. It would help us if the three of you could put your heads together and see which are the essential boxes and what is the list that we would have difficulty in meeting unless we were to spend more than 2% on the current method of calculating it? You may confer.

***Professor Lindley-French:*** Thank you, sir. *[Interruption.]* Chairman, we have a position, which Jonathan will report.

***Jonathan Parish:*** In our little huddle, we said that one needs to answer the question, "Do you need a nuclear deterrent?" That will dictate the other choices you have to make.

***Professor Lindley-French:*** That's the warping factor in this.

***Jonathan Parish:*** That is the key question.

**Q89 Chair:** If the answer to that question is yes, what other choices will be affected?

***Professor Lindley-French:*** The ability of the UK to deploy a conventional force able to undertake one serious contingency and maybe another contingency in parallel would be affected profoundly.

**Chair:** On its own?

***Professor Lindley-French:*** On its own, or even with one or two allies in a coalition, and certainly over time and distance. Sustaining a deployed force would not be possible.

**Q90 Chair:** That is one other item. What others?

***General Sir Richard Shirreff:*** As part of that, the UK's ability to contribute to a NATO defensive deterrent posture would be seriously affected, because ultimately it is about being able to project power.

***Jonathan Parish:*** But, if I may, one of the key elements within that deterrent posture for the alliance is the nuclear element—nuclear, conventional and missile defence.

**Q91 Chair:** It seems to me that although the consensus of our witnesses today is that we are certainly not breaking any NATO rules by incorporating items in our calculation of the 2% of GDP for our contribution to defence, we are nevertheless still falling short of what we need to invest in defence—assuming a consistent level of efficiency in the way that we invest it—to have a balanced nuclear and conventional deterrent posture.

***Professor Lindley-French:*** That is correct. There are two elements, force projection and power projection. The tension between the nuclear and the conventional is eroding both. We move from whether we are spending enough or not, but to my mind, there is no one in this town looking at the innovative solutions that might solve the problem. For example, do we need a like-for-like replacement for Trident? Are there other options available that could exploit conventional force with a nuclear component? That kind of innovative thinking and examination strikes me as the first examination we should undertake.

**Q92 Chair:** We are in danger of getting on to the Chairman's hobby-horse territory here. I gently remind you that there was something called the Trident alternatives review, which looked at all those things very clearly and came to a very firm result. But I do not think we want to focus on that at the moment.

Time is beginning to move on so I will ask about the danger that you, Professor, recognise in your book, "Little Britain?" Are we only recognising as much threat as we can afford? How does that inform the message that this Committee ought to be taking to the Government in

our scrutiny of its affairs? To me, what seems to be coming out of this evidence session is that 2% is not enough unless we are prepared to sacrifice either our nuclear deterrent capability on the one hand, or a significant proportion of our conventional capability on the other. Would any of you like to comment on that?

***Professor Lindley-French:*** I would certainly concur with that analysis. My sense in using that phrase is that we have abandoned worst-case strategic planning. We do not any longer look at the worst-case scenarios upon which sound defence policy is traditionally based. Instead we have decided to look at how much we can invest and then we assess what level of risk we are willing to live with—the rest of the area of threat that we are not investing in. That strikes me as a very dangerous thing to do. It is almost appeasing reality, especially a reality of the kind that we face today. My plea is simply to go back to proper worst-case-based strategic planning to get a sense of where those lacunae are in the investments that we must make as a country. And I would add, Chairman, that it is also linked to the ambition of our political leadership about the role that the UK plays in the world, because defence is not simply an issue of defence; it is also a function of influence.

**Chair:** I know, General Shirreff, that you need to go in about four minutes' time. We will finish soon after 1 o'clock. I will ask Phil to put question 20 in the brief.

**Q93 Phil Wilson:** Sir Richard, you have previously said, in a contribution to the 2015 Atlantic Council report that, "The threat to defence is posed by a resurgent Russia...Britain's current National Defence Strategy states, among other things, that there is no existential threat to its shores. At a stroke therefore Putin has rendered this strategy obsolete." What are the key requirements and capabilities for Britain to counter the threat from Russia, and will defence spending of 2% of GDP provide sufficient resource for the UK and NATO to counter the Russian threat? Also, to what extent must we balance investment against the Russian threat with other threats?

***General Sir Richard Shirreff:*** Britain can do this only as part of NATO. As we have discussed, NATO needs to be able to present a credible defensive deterrent posture, both nuclear and conventional, and Britain has to contribute to that. As for what NATO needs to do, it needs—in a word—to raise the bar so high that Mr Putin is very clear that there is no point at all in trying to put one foot across the border into the Baltic states. I am not saying that he intends to do that, but he could. He started a dynamic with the campaign in Crimea and Ukraine last year, and unless NATO sends a very strong signal saying, "Thus far. Absolutely no further", it might just happen. And Britain needs to contribute to the defence against that.

What needs to happen? I think there needs to be a force based permanently in the Baltic states; it doesn't need to be very big. We—NATO, I mean—need to work with the Baltic states to address the whole issue of hybrid war, asymmetric war and what sort of support they might need to think through some of the scenarios that might take place, so that NATO has answers and understands what Article 5 means in the 21st century, because to a certain extent we still look at it through cold war spectacles.

There must be not only a permanent presence but the capability to respond very quickly; I know that is a feature of the so-called Very High Readiness Joint Task Force. But I would ask questions about command and control, the speed with which NATO can take decisions and get forces moving, and the extent to which that force trains in the Baltic and is a

permanent structure. On top of that, NATO needs to have significantly strong reserves to follow up, all in order to present the posture to President Putin that persuades him that he is simply not prepared to have a go at anything. And we have bigger fish to fry, arguably, because we need to work with Russia to resolve some of the challenges in the Middle East.

As a leading nation in Europe, as a member of the P5 and G8, and as an experienced, proven diplomatic and military power that is able to contribute to peace and stability in Europe, Britain needs to step up to the mark and make a significant contribution.

**Q94 Phil Wilson:** So, is 2% of GDP sufficient?

***General Sir Richard Shirreff:*** I don't think it is, and I think we've gone round this point several times today. Even if it is not creative accounting, I don't think that 2% of GDP will be enough to resolve some of the huge risks—perhaps gambles—that were taken in 2010. So, to start with you've got to put right the problems that exist in the force already, and then you have got to tailor that force and ensure it has the necessary readiness and capability to deploy it wherever you need to, as well as maintaining the nuclear deterrent, as we have discussed.

***Professor Lindley-French:*** The Russians don't think it is sufficient.

***General Sir Richard Shirreff:*** The danger is that too much big talk presents a sort of Potemkin village, which the Russians, including the FSB and President Putin himself, will see through immediately.

**Chair:** General, you need to leave us at this moment.

***General Sir Richard Shirreff:*** I'm afraid I have a train to catch.

**Chair:** Thank you very much indeed. We will finish in about five minutes, but thank you very much indeed for your contribution.

***General Sir Richard Shirreff:*** I stand by to support and help in any other way.

**Chair:** Thank you.

**Q95 Phil Wilson:** Are there any other comments from the witnesses?

***Jonathan Parish:*** There is a range of threats and challenges that NATO needs to take into consideration, and I think our security environment could be characterised as one that is highly unpredictable. If you face an unpredictable environment around you, you need to ensure that you are highly ready. NATO has already taken steps, with the readiness action plan it agreed at the NATO summit in Wales last year, to enhance its readiness to be able to respond to threats, wherever they may arise. Clearly, you cannot do this overnight. A certain amount of work has already been done. Further work needs to be done, and some very difficult political decisions will need to be taken.

To come back to the 2% issue, one of Richard's first comments was that the UK will be doing this as part of NATO, and that is really important. If you spent your 2% in the UK on the targets that NATO gives you—I am confident you would meet those NATO targets if the 2% was spent on them—and if all other nations did the same, NATO would indeed

be able to do what is required to respond to any of the threats that might crop up around its borders. It is a collective effort that needs to be taken.

***Professor Lindley-French:*** Let me turn that around and ask: what are the worst threats we can conceive of that are credible to NATO's southern flank and NATO's eastern flank? To the southern flank, it is a collapse of many of the fragile states in north Africa and the Middle East, with massive migration flows and terrorism exploiting that, making new criminal networks and gaining access not to weapons of mass destruction but serious destructive power. To our east, it is that Russia seeks to straighten its defensive line, build a buffer zone and take the Baltic states. To our east, what matters much more in the Baltic states is forward deterrence—more than collective defence, because there is a big issue about how one would defend the Baltic states anyway in a real emergency. We wouldn't want to put ourselves in a position where some future Russia presented us with a fait accompli and said, "Okay. Do you really want to go to war over these people? Do you really want to trade space for time?" That might be the situation we find ourselves in, and therefore maintaining the borders with credible forward deterrence is critical, but that needs presence in the Baltic states.

At the same time, we have to look south, look across north Africa and the Middle East and imagine a humanitarian and political crisis with massive strategic and political implications for Europe. The use of force in whatever role would require mass, so it is that balance between mass and manoeuvre that NATO would have to generate. Right now, we have significant manoeuvre but no mass. We have to increase both through our alliance, and my estimate is that NATO right now, without the Americans, who are otherwise engaged in Asia-Pacific, would lack both the mass and manoeuvre to be credible for forward deterrence against both the southern flank risk and the eastern flank risk.

That is where the 2% issue comes in. Is 2% in and of itself enough to generate the non-American force to support our objectives in both those flanks simultaneously? No. Therefore, even at 2%, we have to live with a higher level of risk. Is that risk politically acceptable to you? That is the choice that you, as political leaders, will have to make.

**Chair:** That is, of course, the choice that the Government have to make and that we have to try to influence in the right direction. I am sure we will be much augmented in our attempts to do that as a result of the excellent testimony of three first-class witnesses today. Thank you very much for your participation. You have given us a great deal to think about. The meeting is concluded.