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## Rapporteur Report

# The Economics of National Defence in an Age of Austerity

Meeting No. 3: One Year on from the SDSR

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Following on from previous workshops in May and July, this series continued to explore 'The Economics of National Defence in an Age of Austerity'. Whereas the previous workshops focused on the UK defence strategy immediately after the Strategic Defence and Security Review (SDSR) and the future of the UK defence industry in the context of the forthcoming Defence Industrial Strategy (DIS), this workshop, entitled 'One Year on From the SDSR', examined the lessons learned from the SDSR process as well as the implications for UK defence strategy over the next several years. The roundtable discussion, held under Chatham House Rule, also looked at how the reshaping of UK force structures affects the country's ability to contribute to operations such as NATO's intervention in Libya, and what factors besides ongoing military operations might impact the next SDSR.

### Introduction

One year after the publication of the 2010 SDSR, some of the review's conclusions have been validated while others demonstrate areas where the UK's capabilities may fall short of strategic objectives. With the end of NATO's intervention in Libya, continued economic strains, and an uncertain threat landscape, how can the restructuring of the UK Armed Forces and utilization of its partnerships help to manage the current complex security environment and forthcoming challenges? The event was divided into two sessions entitled 'The 2010 SDSR: Lessons Learned?' and 'The 2010 SDSR: Looking Forward?' and included a diverse range of opinions from former and current public officials, representatives from foreign governments, academia and the private sector. This report identifies key issues and debates that arose from the discussion.

## ONE YEAR ON: LESSONS LEARNED FROM THE 2010 SDSR

The roundtable opened by placing the SDSR in the context of the current security climate, and discussing the perceived strengths and weaknesses of the Review. There was a strong consensus that the Arab Spring and NATO's intervention in Libya demonstrated the importance of the Review process and the need for adaptable forces. However, the SDSR presumed continued U.S. leadership on the international stage, yet the intervention in Libya proved that despite the critical role of U.S. forces, Washington might be inclined to take less of a leadership role in future similar engagements. Overall, the SDSR was viewed by participants as a robust assessment of defence and national security priorities, though there was general agreement that some adjustments are necessary.

### Cost Control and the Defence and Security Industry

Given the magnitude of the budget crisis facing the UK and the Ministry of Defence (MoD), one of the underlying goals of the SDSR was to drive costs down. Participants noted that since the release of the SDSR the government has renewed its efforts to work with industry to reduce costs both inside and outside the defence sector. One participant highlighted that the government had been successful in reducing costs on defence programmes and that there were ongoing discussions between the government and several major suppliers regarding cost reductions and re-negotiation of existing contracts. Because of persistent failure to accurately predict future programme costs, senior decision-makers in government have been taking a more acute look at affordability as part of MoD's attempts to streamline procurement processes.

Despite the tendency to focus on cost over-runs associated with defence procurement, several participants acknowledged that no individual stakeholder is culpable for the defence and security financial problems and that it had been a collective failure to arrive at the current situation. Moreover, several participants contended that the SDSR failed to provide clarity for partners in industry in regards to long-term investment, citing the Future Rapid Effect System (FRES) project contracted to General Dynamics UK as an example. As a result of this uncertainty, as well as to reduce costs and increase force adaptability, it was pointed out that there had been a recent government push towards conducting smaller, more frequent buys rather than more ambitious purchases.

However, the uncertainty of specific programmes is less distressing to industry decision-makers than the more fundamental question of whether HMG regards the defence industry as part of the government's strategic capability. The government's expectation for industry to make cost savings, yet still be available for future procurement programmes places industry in a difficult position. One discussant mentioned that industry may be unable to provide more cost savings as they are already selling their equipment for a loss domestically, and expressed anxiety that potential acquisition reforms may be stymied by Original Equipment Manufacturers (OEM) in the UK whose existing cost structures makes it difficult to produce further savings. Finally, the assumptions in

current Armed Forces savings estimates and the possibility of a 'double-dip' recession were recognized as potentially compelling further cuts within industry and in defence spending overall.

### **Short-Term versus Long-Term Equipment Needs and Force Structures**

It was noted that the lack of clarity for industry in regards to long-term government procurement is indicative of a broader debate over force capabilities and short-term versus long-term equipment needs. One of the major challenges post-SDSR challenges is balancing the need for larger investments such as updating the Trident nuclear system and aircraft carriers against equipment needs for current operations. This dichotomy between immediate needs and long-term planning is most apparent in the MoD's current equipment capability and budget focus which is significantly skewed in favour of operations in Afghanistan.

One participant emphasized several existing deficiencies in UK defence capabilities. Using tactical examples from Afghanistan and Libya, it was noted that UK forces were fortunate to not have confronted more technologically advanced adversaries. This underscores the distinct possibility of the UK falling behind in equipment capabilities in a defence climate in which the U.S. may no longer be fully engaged in operations the UK is interested in, and in which increasingly sophisticated Chinese equipment is being exported around the world. Notwithstanding potential capability gaps, there was agreement that despite being committed in Afghanistan, the Libya intervention proved that the UK armed forces were able to effectively utilise existing capabilities such as precise air power and special operators in advisory roles on the ground.

From the discussion on balancing immediate and long-term equipment needs, the question emerged of which organization would be in the best position to address this challenge. These decisions are currently made in various defence departments and there was interest in having these processes made public or, at a minimum, audited by the National Audit Office (NAO). The newly-created National Security Council (NSC) was seen as incapable of serving in this capacity since - as currently structured - NSC staff do not have the competencies for this task. With the increased autonomy given to service chiefs, it is vital that they too understand the importance of maintaining a balance between procurement for current operations (and utilisation of existing platforms) and necessary long-term investments. To alleviate this issue, it was suggested that a separate entity or agency within each service should assist service chiefs in considering the 10 to 20-year investments cycles necessary for future platforms.

In light of the Armed Forces restructuring in the SDSR, the Army would move from five multi-role brigades capable of long-term stabilization operations towards a more adaptable force. With their existing contingent and war-fighting capability, they have begun to keep a larger contingent on a lower-readiness level to assist with adaptability in addition to bolstering overall capability by increasing reserves numbers. While the Army's revised model focuses on upstream capacity-building and conflict-prevention, the Navy's shift towards maritime security establishes a focus on operations relating to broader issues such as economic security. One discussant mentioned that

the SDSR's directive of withdrawing British troops from Germany by 2020 may allow the Army to positively contribute to UK society in a more direct manner. This could manifest itself through closer cooperation with DFID and the FCO as part of the government's efforts towards conflict prevention. It was noted that this shift in goals coincides with an increase in civilian control over the MoD. Some positive aspects of this can be seen in the more acute awareness of policy-makers towards defence procurement and in the Prime Minister's dominance of the decision-making regarding defence spending and reserve forces in addition to the intervention in Libya.

## UK Engagement in the World

The discussion turned towards the strengths and weaknesses of the SDSR, which were seen as contingent upon a much larger debate over the national narrative and what the UK hopes to achieve in the world. Previous engagements in Kosovo and Bosnia served as examples of how the use of limited, strategic air power slowly increased international willingness for more direct intervention. It can also prove problematic when partners on the ground have different interests and values than the UK. Discussants raised the point that reliance on air power and a move from interests to values-based defence policy could have significant consequences on future defence spending and force capability.

There was general agreement that protecting the UK's values would entail much broader commitments and engagements than defending the UK's interests. In the opinion of one discussant, the intervention in Libya was seen as consistent with a defence of UK values rather than interests, while another noted that maintaining a values-based doctrine whilst attempting to streamline the defence budget may be more of a theoretical clash instead of an actual decision point for policy-makers. The UK's initiative – along with France – to begin the NATO intervention in Libya also demonstrated the potential for further engagements under similar circumstances or under the auspices of the 'responsibility to protect' (R2P) doctrine.

One discussant asserted that the intervention in Libya confirmed the UK's role as a leading state in international engagements. With a decline in defence spending among most UK allies, and increasing U.S. focus on the Asia-Pacific region, the burgeoning UK-France defence and security relationship was seen as critical if the UK hopes to maintain its international presence. The Libya intervention also revealed the dilemmas that continue to confront NATO - such as how to get consensus among member states, or how heavy reliance on U.S. assets can affect operations, particularly when partners on the ground have different priorities. There was agreement that future defence scenarios would remain uncertain, though some participants expressed apprehension that the SDSR may not provide sufficient levels of defence capability in a dangerous, complex and fast-moving environment.

## **LOOKING FORWARD FROM THE 2010 SDSR**

The initiative to conduct periodic reviews will provide ample opportunity to evaluate the effectiveness of the 2010 SDSR. The UK is likely to confront a difficult defence environment when it conducts the 2015 SDSR. The review will be influenced by the withdrawal of troops from Afghanistan, the continuing economic crisis and the potential of a 'double-dip' recession, post 2010 SDSR policy-making such as the Defence Industrial Strategy (DIS), and potential UK engagement in additional conflicts or interventions.

### **Government and Industry in the Future**

The high likelihood of continued economic constraints will undoubtedly affect the government's relationship with the defence industry. One discussant queried whether the government would embrace free-market principles for the defence industry or adopt protectionist measures – implying that ideology could play a significant factor in this partnership. Participants agreed that persistent uncertainty and unpredictability for the defence industry may encourage short-term thinking at the expense of addressing long-term challenges.

In considering future relations between the government and industry, a discussion about weapons platforms emerged. Discussants feared that cost-saving measures, such as updating aging platforms rather than replacing them, present the danger of the UK failing to maintain the most technologically advanced platforms. Age was not the only concern over weapons platforms as the Libya intervention substantiated the crucial role that international interoperability plays in international defence partnerships. The RAF's cooperation with the Italian and French air forces allowed for seamless operations. Although Germany was not involved in the Libya intervention, it was noted that they share the same maintenance and support systems for Typhoon and Tornado aircraft, which could assist in future operations. One participant expressed the view that allies hoping to work together should – to the greatest extent possible - use the same or similar equipment to take advantage of shared logistics and support systems.

### **Alliances, Partnerships and the Relationship with the United States**

A major theme that emerged from the discussion was the importance of alliances and partnerships for future defence and security. The ability to coordinate across multiple complex platforms in the Libyan air campaign invoked a debate about sharing and pooling of resources. There was general agreement that, as other countries reduce their defence spending, partners and allies may need to 'offset' the potential loss in capabilities. One participant described the potential cost-savings that retrofitting and updating naval ships in allied ports could provide, and another noted that sharing need not pertain solely to equipment. For instance, given the geographic constraints on pooling equipment and resources, a strong partnership with Australia could include cooperation on specific concepts or doctrines as well as utilising the UK's and Australia's comparative advantages in specific areas of naval warfare. Additionally, Franco-British cooperation in the Libya campaign supported the notion that increased partnership between the two countries would be vital for UK

defence and security policy. However, one discussant contested the notion that all cooperation is positive, contending that some international partnerships can restrict choice rather than enhance strategic options.

A majority of discussants questioned NATO's ability to manage future challenges without reform, noting that the future of NATO and U.S.-UK relations has never been so unclear. Although the UK sees NATO as a vital part of its international partnerships, there was a consensus that the U.S. remains a vital component of the alliance and is starting to view the alliance as less useful than in the past. The growing strategic importance of the Asia-Pacific region was noted several times, both in regards to increased U.S. attention to the region and also in the context of UK and European interests. The point was raised that, as a whole, European trade and investment in the region was nearly equal to that of the U.S. Despite the SDSR's recognition of UK trade and economic security interests in Asia-Pacific and wider European investment in the region, it was agreed that the U.S. is perceived as having a more influential military role. Although the eastward focus of U.S. military and diplomatic efforts concerned all participants, the debate highlighted the need for continued joint training and equipment partnerships. One example is the procurement of the U.S.-built F-35 Joint Strike Fighter, which continues a baseline level of partnership with the UK and Europe.

### **Government Staffing and Armed Forces Command Structures**

Nearly all participants agreed that one of the major factors to affect the next SDSR would be public sector personnel cuts, as well as the ability of the Armed Forces to adapt to new command structures. A primary concern was how various organizations and agencies would retain and operationalise the collective knowledge of retiring civil servants and military personnel. In addition, looking towards future operations one discussant conveyed the need for the armed forces to capitalize on the strength of the younger cohort of military personnel that have been deployed multiple times in the past decade, frequently in a joint forces capacity.

Despite the creation of the Joint Forces Command, several participants perceived the SDSR's restructuring of the armed forces as a fairly superficial manoeuvre as opposed to a true transformation. It was argued that new processes and structures seemed to emerge without sufficient consideration for purpose and function. The superficial nature of the restructuring can be seen in the decrease of 4-star generals from ten to nine, the first such re-evaluation or change to the UK's military ranking system since 1995, although possibilities for transformation could result from more significant numerical reductions in senior officers.

With individual service chiefs being granted increased freedom for their budgetary processes, tensions could arise between their levels of oversight, that of MoD central military planners, and the newly-created Joint Force Commander post. Potential points of conflict for the new Joint Forces Commander stem from a largely undefined role and possible bureaucratic clashes with armed forces commanders over budgets and implementation of the SDSR. The transfer of additional

command authority towards front-line services concerned some participants as it may shift attention from force development to force generation.

### **Future Procurement and Force Development**

In addition to short-term concerns over personnel cuts and force structures, equipment was discussed as a major long-term factor for future defence and security reviews. Participants expressed apprehension towards the MoD's announced 1% increase in defence equipment spending by 2015, because the MoD did not state whether this 1% increase would come at the expense of a decline in the personnel budget or would be part of an overall increase in defence spending. Discussants acknowledged that the Trident replacement would require a large portion of MoD's budget, with one estimate of approximately 30% of defence spending over the next decade.

In the short-term, equipment returning from Afghanistan will play a vital role in how MoD confronts its budget challenges as one participant questioned how much equipment will actually return versus how much will essentially be written off. In the long-term, some discussants stated that the notion of a withdrawal from Afghanistan before the 2015 SDSR is somewhat dubious because it rests on the assumption that UK, U.S., and NATO operations will proceed according to plan. Finally, one discussant addressed both industry's and the Armed Forces' hopes that after withdrawal from Afghanistan equipment procurement will return to previous levels, arguing that increasing defence spending after the lengthy and costly engagement would be difficult to justify to the general public.

Significant reductions in equipment platforms and training capabilities would hinder the military's ability to reconstitute and further develop its forces, and participants noted that force regeneration and development present unique problems for the Royal Navy. Naval platforms tend to have a long lifetime when compared with equipment in other branches of the Armed Forces. This, coupled with the near-constant deployment of the Navy in recent operations, has exacerbated the difficult task of naval force development. However, it was mentioned that longer life platforms can capitalize on retrofitting so long as updating in perpetuity does not become the norm. Although additional budget cuts would further complicate force reconstitution and regeneration, as long as the critical infrastructure of key platforms, the officer corps and non-commissioned officer corps remains intact, regenerating a force to accomplish future objectives would still be possible.

### **The Use of Non-Military Power**

In considering UK defence and security in the years to come, a discussion emerged about the utility of non-military power. Following on from the R2P doctrine, one participant expressed the view that when R2P engagement is seen solely from a military viewpoint - and disregards political and diplomatic engagement - then it may not fully align with the UN's stated goals for the doctrine. International concern regarding the Iranian nuclear programme was noted as a potential opportunity to utilize diplomatic capabilities, as military operations could prove highly destabilising

in the region. Although it naturally focussed on defence policy, the SDSR was credited with acknowledging the contribution of security and development. One discussant highlighted the creation of the NSC (and its goal of producing synergy across Whitehall ministries) as a necessary mechanism to confront future challenges of terrorism, energy security, future military operations and organized crime. However, the difficulties of cross-departmental coordination were again identified, particularly in regards to division of responsibilities and budgets.

### Perceptions of the SDSR

Throughout both sessions, policy-makers and experts alike emphasised the need for the government adequately to explain the SDSR's goals to the public and industry. There was general agreement that the public viewed the SDSR process as driven by the economic crisis, and they did not fully understand why the government was reducing the size of the army whilst still engaged in Afghanistan, and building aircraft carriers while reducing numbers of aircraft. The discussion yielded a counter-argument (to public perception that the equipment and force cuts were not strategic) with participants expressing that not all defence and security strategy is inexorably linked with military capability. Some participants expressed the view that not all media criticisms were well founded. They were not the only group with a varied and critical reception to the SDSR. Participants noted that some members of parliament viewed the SDSR as not sufficiently strategic while members of the defence industry viewed the spending cuts as an aberration (something that may produce a failure to diversify).

### Conclusion

The debates over the efficacy of the SDSR were as contentious one year on from its publication as they were upon its release. An assessment of lessons identified revealed the SDSR's unclear vision regarding the future role of industry, difficulty coming to grips with financial constraints, and ambiguous force and command restructuring. Though most participants agreed with many of the risks and priorities outlined in the SDSR, concerns were raised regarding implementation and execution. There was mention of the need for increased focus on value for money, acknowledgement of the tension between Urgent Operational Requirements (UORs) and large, long-term procurement projects, and emphasis on the lack of HMG clarity regarding the UK defence industry.

Looking forward to the next review, a number of points were raised including the need to effectively utilise international partnerships and diplomatic power, managing evolving personnel and command structures, and clearly explaining strategic choices to the public. Future models of military operations were also discussed, as was the choice between a values or interests-based defence doctrine. Ongoing military operations in Afghanistan, the recent NATO intervention in Libya, and continued economic uncertainty reaffirm the need for the agile and adaptable force that the SDSR aimed to achieve. One year later some of the review's conclusions have proven accurate, while implementation of many others is pending.