

By Simon Roberts

What follows is part 2 of a condensed version of the paper "A decision the next

Prime minister must make..." by Tony Edwards for the United Kingdom National Defence Association (UKNDA) dated February 2009. A full version of the paper can be found [here](#)

The UK has an open defence market.

The UK defence market has been opened up to all comers, sometimes rationally and sometimes viscerally because of the intense personal antagonism between the MoD and certain British-owned defence contractors. The MoD has actively encouraged foreign companies to compete within the UK market and has gone as far as actively participating in the acquisition of British-owned defence companies by foreign contractors.

In defence crisis, only national suppliers are 100% reliable. Imports of vital military equipment are always vulnerable. What happens if the foreign policy of the supplying nation is not congruent with that of the buying nation?

The UK is losing its ability to make independent decisions in its foreign and defence policies. Already, a Secretary of State for Defence has stated that the UK is unlikely to engage in any major campaign without being alongside the US. This necessitates Britain's armed forces to be interoperable with those of America. This is becoming increasingly expensive where at the same time technology transfer from the US is becoming increasingly problematic.

UK defence spending is being 'outsourced'

The recent trend is that traditional in-house operations are being outsourced at an increasing rate. The benefit of this trend is that short-term cost savings can be obtained through outsourcing or 'contractorisation', and officials and politicians take full credit for them. However, this trend can lead to unfortunate unintended consequences.

First of all, the nature and ethos of the armed forces is changing because of the incorporation of so many contractors closer and closer to the front line

Secondly, the re-competition to follow-on contracts is proving increasingly difficult and expensive.

Thirdly, after the first round when military-trained personnel are taken over by contractors the question is who trains the next generation has to be faced.

The European defence procurement back-drop

- Europe vs. America

John Dowdy of McKinsey Consultants first made the staggering observation that Europe had twice as many troops but half the defence budget of the US. This is largely because of national conscription which still exists in parts of Europe and the almost derisory budgets for defence in most European countries the arithmetic implication is that the investment in the United States is four times the average of Europe. Europe is now spending the lowest percentage of GDP for defence budgets since the 1930s.

- Procurement policy

Europe still pursues, somewhat schizophrenically, both European-joint procurements (e.g. Typhoon, A400M) and also US imports (JSF/F-35). History suggests that the European joint procurements with their work-sharing and executive job rotation incur a penalty of 50% longer schedules and 40% increase of total cost compared with procurement from single prime contractors.

- Defence Industrial Strategy

It is somewhat novel that the MoD set out a Defence Industrial Policy, followed by a Defence Industrial Strategy and then a Defence Technology Strategy. This was seen as a great step forward at the time, even though France, Germany and Italy already had de facto national strategies.

Ownership/sovereignty: Certain capabilities – such as production of helicopters and ships – we identified as being core to the UK defence industrial base and were singled out for special consideration. However, ownership of the British defence industry was downplayed and instead consideration was given to on-shore key executive positions, investment and intellectual property.

Exports: The importance of defence exports was emphasised but the world leading MoD-centred Defence Export Service Organisation (DESO) was abandoned later, to the puzzlement of customers and the amusement of competitors.

Summary: If strategy is defined as 'a roadmap with appropriate resources leading to an objective' then the Defence Industrial Strategy does not conform to the definition and is really another formulation of policy. The upshot is that the DIS has encouraged the remaining British-owned defence companies to appreciate their current peak value and many have sold themselves to foreign interests.

- La Republique

Already France has become the centre for European aerospace and increasingly, Paris is becoming the centre for the European defence industry with the combined strength of EADS,

Dassault and Thales. In contrast the UK defence industry, perversely, is descending down the value-added curve and the one-time national champion, BAE Systems is increasingly US-centric. A rare bright spot is the Rolls-Royce remains, through an effective blend of strategic management, science and feudalism, a world-class British-owned engineering based designer, manufacturer and supporter of prime engine systems.

UK defence spending from 1931

The evolution of UK defence spending started with 2.1% of GDP in 1931. Such low defence spending was justified on the 10 year rule which stated that so long as a major conflict could not be envisaged within ten years, then defence spending could be allowed to languish. The mistake contained in this rule is symbolised by the 60%+ of GDP required to be expended by Britain in 1945 during the resulting war. This fell as a percentage but was still at 9% of GDP during the Suez crisis, when even with this level of spending the generals found it difficult to assemble the necessary armed force. During the Cold War spending hovered at around 4%.

UK defence spending from the end of the Cold War

Following the collapse of the Berlin Wall, Western European countries collectively took a 'peace dividend' by cutting their defence budgets. In the UK, first we had 'Options for Change' in the early 1990s, and then 'Front line First' driven defence spending cuts masquerading as Defence Reviews. In 1997, spending still remained in excess of 3% GDP. This was the backdrop to the 1998 SDR. Since then, emphasis has been placed on the maintenance of a defence spending level instead of maintaining a percentage of GDP which would have been more appropriate. This explains why the Government claims that it has increased defence spending in 'real terms' whereas the armed forces know they have experienced effective cuts. The difference comes from the real rate of inflation in the defence world which overall is between 6 and 8% as compared with 2-5% in the consumer world.

UK defence spending today

The implication of the serially under funded defence budget since the SDR of 1998 is that a cumulative deficit has built up to the tune of some £10-20 billion. This explains the dire state of the forces' housing, medical, training, pay and equipment. Some of this deficit has had to be made up by the charities, which have received a positive response from the British public.

To continue with the current UK foreign and defence policies requires an increase in the defence budget to cover three aspects. One is to support the armed forces at a level appropriate to their commitments and tempo of operations; the second is to 'repair' the armed forces by making up for the cumulative deficit and third is to close the capital equipment spending gap both now and in the future.

In practice, this will require a year (one) increase of the defence budget by £5 billion, year (two) by £10 billion and year (three) by £15 billion per annum and then to be held at that level until an appropriate balance has been restored.

UK defence spending 2009

Because current defence spending is out of balance with current foreign and defence policy expectations there is need for massive reductions and cancellations of already announced programmes. It is worth pointing out that 'repairing' the armed forces, thereby restoring balance and morale is probably more important than acquiring some of the new capital equipment.

With the possible exception of the Foreign and Commonwealth Office, the MoD has been the lowest funding priority of any Government department since 1997. This is inconsistent with the ambitious foreign and defence policies pursued by the Government in the same period.

Defence capability with current spending

Defence capability is defined here as the combination of forces, equipment and the willingness to use them. In the next five years at current spending levels, the uk cumulative deficit of spending and the exhausted condition of the troops and their equipment suggests that the nation will fall out of the so called 'first division' of nations down into the middle of the 'second division'. The implications for British foreign policy will be obvious for all to see. In the meantime, Russia, China and India, because of their increased spending levels, will climb up the ranks.

Let us remember that our position is not a matter of machismo, but a measure of the nation's ability to defend its interests. America needs a junior partner to enhance its effectiveness around the world. The lack of a partner, however junior, could encourage the US to revert to isolationism.

Conclusion

The United Kingdom is a major player in world affairs. A Permanent Member of the UN Security Council and America's key partner in the transatlantic alliance, Britain undoubtedly 'punches above its weight'. But we are also currently 'punching above our budget' – and we can no longer continue to do so. Our armed forces are severely overstretched and this situation can only worsen if we muddle along as we are, patching up the holes in our defence budget with stop-gap funding.

Our military capabilities are an extension of our foreign policy, but they are also an insurance policy for the nation. Britain is an island nation with a sea-borne trade to protect, and with vital interests throughout the world.

The world is an increasingly dangerous place. How can we predict where the next threat may emanate? From a resurgent and bellicose Russia perhaps? Or from a fast-industrialising (and militarising) China? What about Iran – seemingly intent on developing a nuclear capability – or turbulent Pakistan? Or any number of failing states. How are we to meet our obligations to the victims of the victims of warfare, or of natural disasters and others who look to us for aid?

At stake is Britain's future: our ability to defend our country and our world-wide interests, out

global influence through the UN and international alliances, and, not least, our special relationship with the United States. The question must be asked: what will we know 18 months from now that we do not already know regarding the state of Britain's security and defence?