

IV. Military spending in Europe in the wake of the Ukraine crisis

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The crisis in Ukraine has led to a major reassessment of threat perceptions and military strategies in much of Europe. To face this crisis, the North Atlantic Treaty Organization (NATO) in particular has developed a Readiness Action Plan, which includes a new rapid reaction force to respond to any potential military crisis in NATO's eastern states and the continuous rotational deployment of NATO forces on exercise in the Baltic states (see chapter 9). In turn, Russia, which has long viewed the expansion of NATO with foreboding, has upgraded its view of the threat posed by NATO in its most recent defence strategy document, and is seeking to continue unabated with its rearmament programme despite its poor economic position resulting from falling oil prices and Western sanctions.

The increased perception of a potential Russian threat has also led to plans for increased military spending in many of those European countries nearest to Russia, NATO members and non-members alike, where concerns over Russia's behaviour are most pressing. In a few cases this can be seen already in the data for 2014 presented below. In most cases the upturn in military spending can most clearly be seen in plans for 2015 and beyond. However, while the countries in Western Europe further from Russia's borders have been as strong in their condemnation of Russia and their support for sanctions, and despite NATO reiterating its call for members to spend at least 2 per cent of their gross domestic product (GDP) on the military, there is thus far little sign of a change in the trend of flat or declining military spending in most of the sub-region. Austerity plans designed to reduce budget deficits still seem to be the dominating influence on levels of military as well as other government spending.

This section reviews developments in the defence policies and military budgets and plans of European countries in the wake of the crisis in Ukraine.

Ukraine's military expenditure

SIPRI's provisional estimate for Ukraine's military expenditure in 2014 is 36.9 billion Hryvnia (\$4 billion), an increase in real terms of 23 per cent compared to 2013.¹ However, this estimate may not fully include the costs

¹ US dollar figures for countries' military expenditure in 2014 or previous years reflect the average exchange rate for the year in question. Figures for 2015 reflect the current exchange rate at the time of writing, on 11 Mar. 2015. Due to the large falls in the value of the Russian rouble and the Ukrainian Hryvnia in late 2014 and early 2015, this means that the dollar values of budgeted military

of military operations in the east of the country and the final figure is likely to be higher. Ukraine's military expenditure has increased by 65 per cent in real terms since 2005, although a majority of the increase has been on personnel expenditure, and there have only been limited arms acquisitions.

SIPRI's figures for Ukrainian military expenditure are considerably higher than those reported in most sources, as included in the SIPRI total is spending on the paramilitary border guard, which has been directly involved in the fighting in the east, interior ministry troops and military pensions.² SIPRI's figures for Ukraine in 2009–13 have been revised in this edition of the Yearbook based on more accurate information on military pensions, which account for almost half the total SIPRI figure for Ukraine's military spending—a legacy of the Soviet era.

For 2015, Ukraine has announced a massive increase in military spending in response to the conflict in the east. The total budget for 'defence and security' will amount to 86 billion hryvnia (\$4 billion) in 2015, of which (a) 40 billion (\$2 billion) will be on the regular armed forces, compared to 15 billion budgeted in 2014; (b) 7 billion (\$325 million) will be on the newly created National Guard, compared to 1.5 billion (\$126 million) in 2014; and (c) an additional 6 billion hryvnia (\$279 million) will be for state guarantees for the Ukrainian arms industry, in particular the state-owned conglomerate Ukroboronprom.³ It is not possible to establish a projected figure for the SIPRI definition of military expenditure from the available information but despite 14 per cent inflation, the figure for the regular armed forces has more than doubled in real terms.

The effectiveness of Ukrainian military spending is severely compromised by systemic corruption that includes: (a) the procurement of sub-standard equipment at inflated prices in return for kickbacks; (b) the selling-off at reduced prices of equipment and land to benefit individual senior officers; (c) use of military assets and personnel by officers for their own benefit; and (d) the payment of bribes to obtain accreditation from military academies, be given desirable assignments or avoid conscription. The lack of funding filtering through to front-line troops means that conscripts are frequently forced to purchase their own equipment.⁴

spending figures for these countries are lowered, and do not necessarily reflect the real-term rate of increase.

² State Border Guard Service of Ukraine, 'Situation at the Ukrainian–Russian border and in the area of ATO', 2 Dec. 2014, <http://dpsu.gov.ua/en/about/news/news_5469.htm>.

³ Dunai, P., 'Ukraine to increase spending on security and defence', *Jane's Defence Industry*, 22 Dec. 2014; 'Ukraine creates National Guard ahead of Crimea vote', BBC News, 13 Mar. 2014, <<http://www.bbc.com/news/world-europe-26558288>>; and Statko, A., 'Ukraine increases defence spending', *Southeast European Times*, 13 Jan 2015.

⁴ Chayes, S., 'How corruption guts militaries: The Ukraine case study', *Defense One*, 16 May 2014, <http://www.defenseone.com/ideas/2014/05/how-corruption-guts-militaries-ukraine-case-study/84646/?oref=defenseone_today_nl>; and Lapko, A., 'Ukraine's own worst enemy', *New York Times*, 7 Oct. 2014.

Russia's military expenditure and arms industry

Military spending in Russia increased by 8.1 per cent in real terms in 2014 to 3.2 trillion roubles (\$90 billion). Modernization of the Russian armed forces has been a major priority since 2011. The aim is to replace, by 2020, 70 per cent of the armed forces' equipment with new weaponry, ranging from rifles to nuclear submarines equipped with ballistic missiles with nuclear warheads. The initial budget for 2015 included a substantial increase in military spending to 4.2 trillion roubles (\$69 billion), with the planned budgets for 2016–17 then falling to 3.9–4 trillion roubles (\$64–65 billion). Based on projected inflation rates, this would represent a 22 per cent real terms increase in 2015, but only about a 5 per cent increase by 2017. Most of the increase is earmarked for the 'state defence order' or procurement, which is set to increase by over 60 per cent in 2015 and to remain at this higher level in 2016 and 2017.⁵

Most or all of the increases were planned before the Ukrainian crisis. However, Russia was also hit by an economic crisis during 2014 due to falling oil and gas prices and economic sanctions, which dramatically reduced the income of the Russian state and led to a sharp devaluation of the rouble.⁶ The Russian Minister of Finance, Anton Siluanov, warned that the 2015–17 government budget, presented in October 2014, was based on an 'alternative economic reality' (of 20 per cent higher oil prices and the end of Western sanctions in 2015), and that Russia could not afford the planned defence budget.⁷ As a result, in early 2015 the Russian Government was preparing a revised budget, which was expected to cut spending in most or all areas.⁸

Despite its economic troubles, Russia is continuing to make major investments in most of its arms industry. Industry restructuring has been ongoing since 2007–2008 to increase its effectiveness and reduce costs. Concentration of the majority of companies into large conglomerates for each sector continued in 2014, and is now almost complete.⁹ A possible new

⁵ Cooper, J. 'Military spending in the draft law amending the Russian 2015 federal budget, a research note', Unpublished paper, available on request from author.

⁶ 'The Russian economy: The end of the line', *The Economist*, 22 Nov. 2014; and Bush, J., Kelly, L. and Winning, A., 'Russian central bank makes surprise interest rate cut', Reuters, 30 Jan. 2015, <<http://www.reuters.com/article/2015/01/30/us-russia-crisis-cenbank-rates-idUSKBN0L311Q20150130>>.

⁷ Kushinov, O. and Papchenkova, M., [Budget expenditures in 2016–2017 can be reduced by 10%], *Vedemosti*, 27 Oct. 2014 (in Russian); and Kelly, L., 'Finance minister warns Russia can't afford military spending plan', Reuters, 7 Oct. 2014, <<http://www.reuters.com/article/2014/10/07/us-russia-economy-spending-defence-idUSKCN0HW1H420141007>>.

⁸ Piper, E. and Sichkar, O., 'Economic crisis threatens Russia's most secure state jobs', Reuters, 20 Feb. 2015, <<http://www.reuters.com/article/2015/02/20/russia-crisis-power-idUSL5N0VUOBL20150220>>; and Carvalho, S., 'Russia's military budget may shrink 10 per cent in 2015: Rostec', Reuters, 23 Feb. 2015, <<http://www.reuters.com/article/2015/02/23/us-russia-crisis-arms-rostec-idUSKBN0LR10P20150223>>.

⁹ 'Rostec controls Tula Arms Plant', *Jane's Defence Weekly*, 16 July 2014, p. 21.

state holding company combining the state space agency Roscosmos, the newly formed United Rocket and Space Corporation (URSC) and the large missile and space technology producers Almaz-Antey and KTRV was reportedly discussed in 2014.¹⁰ In January 2015 URSC and Roscosmos were merged into a reorganized entity, but the missile producers currently remain separate.¹¹ However, despite the restructuring, the Russian arms industry still faces the problems of having to rely on equipment that is worn out and outdated, and a shortage of trained personnel. The situation is serious enough for the acting commander of the Russian ground forces, Lieutenant General Aleksandr Lentsov, to openly express doubts about the ability of part of the industry to meet Russian demands for new equipment in the coming years.¹²

The Russian Government has started to support the industry by paying for orders in advance of delivery and placing lifecycle orders for some systems.¹³ However, the problems have not been significantly addressed in the proposed budgets, and funds to modernize the industry would have to come on top of the ordinary budget or from private sector sources. For example, most of the shipyards that form the United Shipbuilding Corporation (USC) have made a loss for many years, and many ships are delivered late and at a higher cost due to its worn out facilities and ineffective production methods. In 2013 the USC announced plans for a major restructuring, which would still need massive investment of 1 trillion roubles (\$31 billion) by 2030. Some 80 per cent of this is to come from private investors and 20 per cent from the state.¹⁴

The crisis in Ukraine added another element of increased costs to Russia's procurement since it had to hurriedly invest in indigenous production of the equipment and components it sources or had planned to source from Ukraine or from the Western suppliers implementing sanctions established by the EU, the USA and several other Western countries (see section III).

In late 2014, Russia unveiled a modified version of its 2010 military doctrine, which emphasized the United States and NATO as the primary sources of risks to Russia's security, while other previously highlighted threats, such as terrorism and the proliferation of weapons of mass destruction, were given less emphasis. The new doctrine specifically mentions: (a) NATO's enlargement and enhanced capabilities; (b) the increased

¹⁰ Zudin, A., 'Russia considers new space weapons company', *Jane's Defence Weekly*, 1 Jan. 2014, p. 22.

¹¹ Bodner, M., 'Putin approves Roscosmos merger with conglomerate', *Space News*, 23 Jan. 2015.

¹² Soper, K., 'Commander urges Russian industry to retool and train', *Jane's Defence Weekly*, 30 Apr. 2014, p. 18.

¹³ Soper (note 12), p. 18.

¹⁴ 'Russia's shipbuilding reform nears completion', *The Motorship*, 18 Dec. 2013; and 'United Shipbuilding Corporation faces major overhaul to fight slump', *Moscow Times*, 27 Sep. 2013.

presence of NATO troops near Russia's borders; (c) US strategic missile defence; (d) the 'Global Strike' concept that allows the USA to strike targets anywhere in the world within one hour; and (e) non-nuclear strategic systems.¹⁵ The latter three in particular are seen as threatening Russia's nuclear deterrent capability.

While the description of NATO and US power as key risks is not new, Dmitry Trenin of the Carnegie Moscow Center argues that the greater urgency and harsher tone in the new doctrine reflect a watershed in Russian relations with the West, whereby the prospect of partnership is effectively ended and, even if the West is not yet a military adversary, it has become 'a powerful competitor, a bitter rival, and the source of most military risks and threats'.¹⁶

Poland

Poland is one of the countries bordering Russia where there are clear signs that the crisis in Ukraine is leading to increased military spending. Poland is likely to exceed the NATO 2 per cent of GDP military expenditure target in 2015, based on its current budget.

Poland did not suffer an economic recession during the global economic and financial crisis that began in 2008 and, largely due to historical fears of Russia, it has been one of the keenest of the new NATO members and US allies in terms of military spending and involvement in NATO and US-led military operations. It has also shown willingness to host NATO's Ballistic Missile Defence programme.¹⁷

In contrast to most of Western and Central Europe, Poland's military expenditure increased by 38 per cent in real terms between 2005 and 2014, including a 13 per cent increase in 2014. A further increase of 20 per cent in nominal terms, around 19 per cent in real terms, is budgeted for 2015.

These most recent large increases are largely devoted to fulfilling a new 10-year military modernization plan for 2013–22, initially outlined in December 2012 and further developed in June 2013, which aims to spend 130 billion Polish zlotys (\$35 billion) on new and upgraded military equipment over the period. The programme covers the full range of land, sea and air systems, but some of the key purchases include 70 combat helicopters, naval vessels and systems for the Baltic Sea, several hundred drones, air-defence and missile-defence systems, and JASSM cruise missiles to arm

¹⁵ Trenin, D., '2014: Russia's new military doctrine tells it all', Eurasia Outlook, Carnegie Moscow Center, 29 Dec. 2014, <<http://carnegie.ru/eurasiaoutlook/?fa=57607>>. On conventional prompt global strike weapons see Woolf, A. F., *Conventional Prompt Global Strike and Long-range Ballistic Missiles: Background and Issues*, Congressional Research Service (CRS) Report, R41464 (CRS: Washington, DC, Feb. 2015).

¹⁶ Trenin (note 15).

¹⁷ See e.g. Dempsey, J., 'Poland to accept U.S. offer on shield', *New York Times*, 20 Oct. 2009.

Poland's new fleet of F-16 combat aircraft. Polish industry will be heavily involved in the programme.

While the modernization programme was planned well before the start of the Ukraine crisis, events in Ukraine have prompted the Polish Government to seek to accelerate aspects of the programme, including the purchase of helicopters, for which bids were received in late 2014, multiple rocket-launchers, and unmanned aerial vehicles (UAVs). Poland also announced plans to increase its level of military spending in 2015 from the legally mandated 1.95 per cent to 2 per cent of GDP. In fact, the Polish Ministry of Defence budget for 2015 amounts to 38 billion zlotys (\$10.8 billion), about 2.1 per cent of Poland's projected GDP in 2015 of 1807 billion zlotys, according to the International Monetary Fund World Economic Outlook.¹⁸ This is up from 31.8 billion zlotys (\$10.1 billion) in 2014, of which 28.3 billion zlotys was from the regular ministry of defence budget and 3.5 billion from dedicated funds for military modernization. The 2015 budget includes 13.8 billion zloty for capital expenditure, around 34 per cent of the total—equal to the target for the share of capital expenditure in total spending for the entire period of the modernization programme, 2013–22.¹⁹

Sweden

While maintaining its policy of 'alliance-freedom', Sweden has nonetheless grown increasingly close to NATO since the end of the cold war, including participation in NATO-led military exercises and joining the NATO-led International Security Assistance Force in Afghanistan. Sweden also plays an active role in the EU's Common Security and Defence Policy (CSDP), and has made a unilateral 'solidarity declaration' to provide active support to any EU member state or Nordic country that comes under armed attack.

After the end of the cold war Sweden, like other West European countries, significantly reduced its military spending and downsized its armed forces, which were reoriented from territorial defence towards participation in overseas peacekeeping and other expeditionary operations. Sweden abolished compulsory military service in 2010.

The crisis in Ukraine has prompted a fundamental rethink of this defence policy orientation. Territorial defence has once again become the key focus rather than overseas operations. Concerns over Russia's actions in Ukraine have been heightened by a number of incidents in the Baltic involving Russian military forces, most notably a suspected incursion by a Russian mini-

¹⁸ International Monetary Fund, World Economic Outlook Database, Oct. 2014, <<https://www.imf.org/external/pubs/ft/weo/2014/02/weodata/index.aspx>>.

¹⁹ These figures do not include spending on the paramilitary Border Guard, which is included in SIPRI's military expenditure figures for Poland.

submarine into Swedish waters in the Stockholm archipelago.²⁰ Sweden's Foreign Minister, Margot Wallström, stated in November 2014 that many people in Sweden were afraid of Russia's behaviour.²¹ Such incidents have also raised questions about the adequacy of Sweden's defence capabilities.

In May 2014 the Swedish Parliament's Defence Commission produced a cross-party analysis of the implications of the crisis in Ukraine for Swedish security. It contained recommendations about Sweden's response in terms of defence and security policy and spending.²² The report was delayed for two months so that it could take proper account of developments in Ukraine. The Commission's conclusions were broadly accepted by both the centre-right government in power at the time and the Social Democrat-led government that took office in October 2014.

The Commission described Russia's actions in Ukraine as the greatest threat to European order since the cold war, with clear implications for Sweden's own security. Although it regarded a direct attack by Russia on Swedish territory as unlikely, it argued that a military conflict in the Baltic region would be unlikely to affect just one country, and that 'Crises or incidents . . . could nonetheless occur and, in the longer view, the threat of military attack equally cannot be excluded. Russia's aggression against Ukraine means that the risk of this has increased'.²³

In the light of events in Ukraine, and concerns about Sweden's current level of defence capabilities, the Commission recommended an increase in the annual defence budget of 5.5 million Swedish krona (\$840 million at the time of the report), or about 12 per cent, by the end of the defence planning period starting in 2015.²⁴ An increase of 1 billion krona by 2017 was already planned. The major focuses of the extra spending would be to: (a) increase the number of JAS Gripen-E combat aircraft to be acquired from 60 to 70 and equip them with long-range air-to-surface missiles; (b) acquire four new tactical transport aircraft; (c) increase the number of submarines from four to five, including two of a new class to be developed; (d) upgrade Sweden's seven surface warships; (e) strengthen coastal defences, especially on the island of Gotland, through a new anti-ship

²⁰ Swedish Armed Forces, 'Bekräftad ubåt i Stockholms skärgård' [Submarine in Stockholm archipelago confirmed], 14 Nov. 2014, <<http://www.forsvarsmakten.se/sv/aktuellt/2014/11/bekraftad-ubat-i-stockholms-skargard>>.

²¹ Eriksson, G., "Ingen ska tvivla på att vi kräver respect" [No one should doubt that we demand respect], *Svenska Dagbladet*, 16 Nov. 2014.

²² Swedish Ministry of Defence, 'Försvaret av Sverige: Starkare försvar för en osäker tid' [The defence of Sweden: Stronger defence for an uncertain time], 15 May 2014, <<http://www.regeringen.se/sb/d/18692/a/240414>>.

²³ Swedish Ministry of Defence (note 22), p. 21.

²⁴ The length of the defence planning period is not specified in the report, but is elsewhere described as 5–7 years. See e.g. Benzinger, Ö., 'S och M oense om anslagen till försvaret' [Social Democrats and Moderates disagree on allocation to defence], *Dagens Arena*, 15 May 2014, <<http://www.dagensarena.se/innehall/s-och-m-oense-om-anslagen-till-forsvaret>>.

missile system; and (f) add a second air defence battalion to the new medium-range air defence system which was already planned.²⁵

In addition to the new equipment, the extra spending will provide greater flying time for combat aircraft and increase the number of exercises in the Baltic Sea. In particular, Sweden's military presence on Gotland, including troop numbers and air and marine defence systems, will be strengthened.²⁶

The 2015 Defence and Crisis Readiness budget passed by the Swedish Parliament in December 2014 amounted to 48.5 billion Swedish krona (\$5.7 billion). This was about 3 per cent higher than the initial budget for 2014, although only about 1 per cent higher than the provisional outturn reported in January 2015, following mid-year budget increases.²⁷

The mid-year increases meant that Sweden's military expenditure increased by 5.9 per cent in real terms in 2014. However, the figure is still 2.5 per cent below the level of 2005 and 15 per cent below its level in 2000. The increases proposed by the Defence Commission will still leave Sweden's military spending below its 2000 level in real terms in 2017. Despite the proposed rise, the commander of the Swedish armed forces, Sverker Göranson, argued in January 2015 that the level of spending proposed by the Defence Commission was insufficient to meet its proposals for increased military capabilities.²⁸

Events in Ukraine also prompted Sweden to seek increased defence cooperation with NATO and with its neighbours. In August 2014, Sweden signed a Memorandum of Understanding on Host Nation Support with NATO, which would allow NATO troops to be deployed to Sweden under certain circumstances, and provide them with Swedish logistical support.²⁹ However, the current government continues to rule out NATO membership.³⁰ Sweden has also proposed enhancing the existing Nordic Defence Cooperation (NORDEFECO) arrangements, and extending them to the Baltic states.³¹ In particular, Sweden and Finland, which is also not a

²⁵ Swedish Ministry of Defence (note 22), pp. 53–66. See also Swedish Government, 'Defence Commission presents its defence policy report'.

²⁶ Swedish Ministry of Defence (note 22).

²⁷ Using SIPRI's definition of military spending, which excludes civil defence, the increase is also about 1% in both nominal and real terms, as Sweden's inflation rate was close to zero in 2014.

²⁸ Göranson, S. (Gen.), 'Förutsättningar inför ett nytt försvarsbeslut' [Conditions for a new defence decision], Conference speech, 12 Jan. 2015, <<http://www.folkochforsvar.se/rikskonferensen.html>>.

²⁹ Swedish Government, 'The government decides to sign Memorandum of Understanding on Host Nation Support', 28 Aug. 2014; and 'Natostyrka kan få agera in Sverige' [NATO forces could operate in Sweden], *Svenska Dagbladet*, 27 Aug. 2014.

³⁰ 'Inte aktuellt med Natoutredning' [NATO investigation not current], *Svenska Dagbladet*, 29 Oct. 2014.

³¹ NORDEFECO is a framework for defence cooperation by Denmark, Finland, Iceland, Norway and Sweden. See <<http://www.nordefco.org>>. 'Sweden proposes aggressive Nordic defense', *Defense News*, 10 Feb. 2015.

member of NATO, are working towards much closer defence cooperation, and agreed in January 2014 to pursue a 'special partnership' involving joint operations and joint equipment procurement. In February 2015, the Swedish and Finnish defence ministers announced a plan to enable the two countries' military forces to fight together in crisis or war situations.³²

The Baltic states

Estonia, Latvia and Lithuania are among the smallest members of NATO in terms of population, GDP and military spending but, given their geographic location and history of Russian rule, have long sought to establish themselves as serious contributors to the organization, insofar as their means allow. Events in Ukraine as well as numerous incidents involving Russian forces, from airspace violations to the abduction of an Estonian intelligence officer by Russia in September 2014, have heightened long-standing fears of their much larger neighbour.³³ Indeed, a personal adviser to President Putin, Sergei Markov, said in October 2014 that Latvia and Estonia in particular—with their substantial Russian minorities—have every reason to be afraid of Russia.³⁴

All three countries increased their military expenditure markedly in the run-up to NATO membership in 2004 and in the years immediately after, only to cut it sharply again during and following the global economic and financial crisis. Spending has been increasing once again in the past two or three years, however, and the Ukraine crisis is spurring this trend. Of the three, Estonia made the smallest cuts from its peak level of spending, by 32 per cent from 2007 to 2010, compared to 55 per cent for Latvia from 2007 to 2012, and 39 per cent for Lithuania from 2008 to 2011 (see figure 3.1). Estonia is one of the few NATO members to spend 2 per cent of its GDP on the military. The corresponding figures for Latvia and Lithuania are 0.9 per cent and 0.8 per cent, respectively.

Budgets for 2015 show a continued increase in military spending in all three countries: by 7.3 per cent in Estonia, 14.9 per cent in Latvia and, most dramatically, by 50 per cent in Lithuania, indicating some degree of convergence between the three.

³² Swedish Government, 'Försvarssamarbetet mellan Sverige och Finland' [Defence cooperation between Sweden and Finland], 27 June 2014, updated 17 Feb. 2015; O'Dwyer, G., 'Sweden, Finland eye non-NATO defence partnership', *Defense News*, 24 Jan. 2014; and Holmström, M. 'Sverige och Finland planerar för att kunna kriga tillsammans' [Sweden and Finland plan for joint war-fighting], *Dagens Nyheter*, 17 Feb. 2015.

³³ Borger, J., 'Russians open new front after Estonian official is captured in "cross-border raid"', *The Guardian*, 7 Sep. 2014.

³⁴ 'Hotet från Ryssland: Baltstaterna ska vara rädda' [The threat from Russia: Baltic states should be afraid], SVT Nyheter, 11 Nov. 2014, <<http://www.svt.se/nyheter/varlden/estland-och-lettland-ska-vara-radda-for-oss>>.

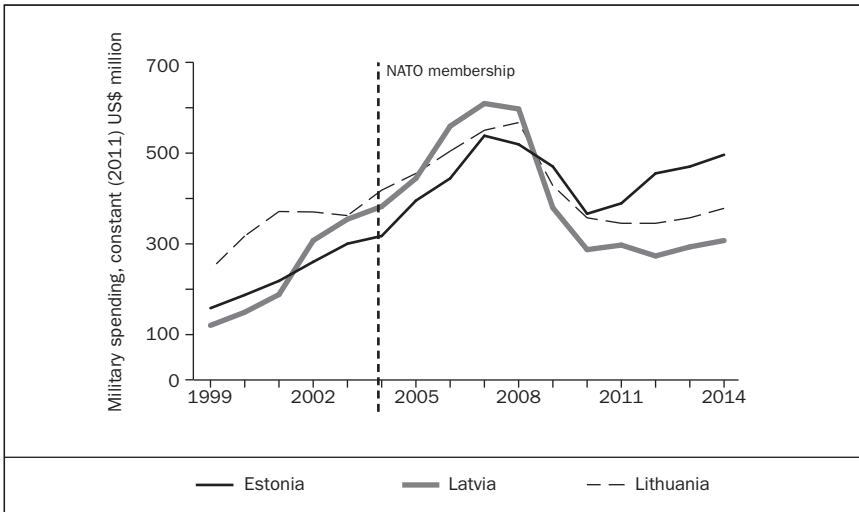


Figure 3.1. Military spending in the Baltic states, 1999–2014

Source: SIPRI Military Expenditure Database, <<http://www.sipri.org/databases/milex/>>.

Other European countries

Despite the strong condemnation of Russian actions in Ukraine, and the defence policy responses taken collectively by NATO, there is much less sign of changes in military spending budgets and plans in Western Europe, in particular among the largest spenders. France's core defence budget—excluding pensions and the Gendarmerie—is constant in nominal terms in 2015 at €31.4 billion (\$33.2 billion), in line with the 2013 *Loi de Programmation Militaire* (Military Planning Law), indicating a small real-terms fall.³⁵ Germany's defence budget for 2015 is marginally down, in line with previously announced plans as part of Germany's austerity measures. The same is true of Italy. The United Kingdom has not announced any change to its existing budget plans for a modest cut in the 2015–16 defence budget, which are also part of long-running austerity measures.³⁶ According to a briefing paper by the Royal United Services Institute (RUSI), this will mean British military spending falling below 2 per cent of GDP. If so, this would be the first time this has happened since before World War II. Current UK plans beyond 2015–16 allow for a 1 per cent annual real-terms increase in the equipment budget, while the rest of the defence budget

³⁵ *Loi relative à la programmation militaire pour les années 2014 à 2019* [Law on military planning for the years 2014 to 2019], French law no. 2013-1168 of 18 Dec. 2013, <<http://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000028338825>>.

³⁶ HM Treasury, *Spending Round 2013*, CM 8639 (The Stationery Office: Norwich, June 2013).

remains constant in real terms. According to the RUSI briefing paper, this would see military spending fall to around 1.5 per cent of GDP by 2020.³⁷

In general, the pattern is of increases in military spending in many of the Nordic and Central European countries, with some exceptions, but falling or flat spending in Western Europe. Increased military spending is budgeted for 2015 in the Czech Republic, Norway, Romania and Slovakia, but there are falls in Denmark and, perhaps surprisingly, Finland. Belgium and Switzerland are the only countries in Western Europe outside the Nordic countries to have budgeted for a clear real-terms increase in military spending.

The NATO 2 per cent target

The NATO summit in Newport, Wales, in September 2014 agreed a number of measures to address the changed European security situation in the light of the Ukraine conflict, most notably the Readiness Action Plan.³⁸ The summit also addressed military spending. NATO members agreed that countries currently meeting NATO's guideline of spending a minimum of 2 per cent of GDP on the military would aim to continue to do so, while those not currently meeting the guideline would (a) halt any decline in military expenditure; (b) aim to increase military expenditure in real terms as GDP grows; and (c) aim to move towards the 2 per cent of GDP guideline within a decade. Members also agreed to aim to raise equipment spending (including research and development) to at least 20 per cent of total military spending within a decade, or for those already spending more than this level, to continue to do so.³⁹ Although this is not a politically binding commitment, it represents a strengthening of the status of the 2 per cent target, which hitherto has essentially been no more than a guideline.

The long-term, non-binding nature of the pledge represents a compromise between countries, including the USA, that were pushing hard for increases in military spending, and others, such as Canada—which in 2013 spent 1 per cent of GDP on the military according to the NATO definition—where the government argued that Canadian taxpayers would not stand for the doubling of military spending implied by a 2 per cent target. A spokesperson for the Canadian Prime Minister described the target as 'aspirational'.⁴⁰

³⁷ Chalmers, M., *The Financial Context for the 2015 SDSR: The End of UK Exceptionalism?*, Royal United Services Institute (RUSI), Briefing Paper (RUSI: London, Sep. 2014).

³⁸ On the Readiness Action Plan see chapter 6, section II, in this volume.

³⁹ NATO, Wales Summit Declaration, Issued by the Heads of State and Government participating in the meeting of the North Atlantic Council in Wales, <http://www.nato.int/cps/en/natohq/official_texts_112964.htm>.

⁴⁰ Chase, S., 'Canada agrees to defence spending "compromise"', *Globe and Mail*, 2 Sep. 2014.

Based on current trends and historical precedent, it seems highly unlikely that many NATO members will meet this target, unless tensions with Russia escalate to fully blown conflict or a serious threat of it. Based on NATO's definition of military expenditure, which does not correspond to SIPRI's, only Greece, Estonia, the UK and the USA met the 2 per cent target in 2014—and only France, Poland and Turkey spent 1.5 per cent or more. Of the other major NATO countries, Canada, Germany, Italy, the Netherlands and Spain spent 1.0, 1.2, 1.1, 1.2 and 0.9 per cent of their GDP on the military, respectively.⁴¹ With Europe and Canada currently strongly focused on austerity and deficit reduction, there is little if any prospect of short-term increases in military spending. In the long term, increases in military spending as a share of GDP of 80 per cent or more would be unprecedented for any NATO members in peacetime.⁴² Throughout the cold war, especially since the end of the 1950–53 Korean War, the trend of almost all NATO members' military burdens has been downwards or at most flat—even during periods of heightened tension with the Soviet Union, such as the 1980s.⁴³

Russian capabilities and Western rearmament

The reluctance of many European NATO countries to increase military spending in line with their pledges and, conversely, the more rapid moves by many Central European and Nordic countries to increase spending reflect geographical realities, military capabilities and economic trends. One factor limiting the degree of urgency in the European NATO countries furthest from Russia's borders may be the limitations of Russia's military capabilities. US President Barack Obama described Russia as a regional power in 2014.⁴⁴ Vice Admiral Frank Pandolfe, Director for Strategic Plans and Policy at the US Joint Staff, expanded on this in testimony to the US House of Representatives Armed Services Committee in April 2014, stating that although Russian capabilities had grown since 2008—with increased readiness, better organization and planning, and better trained and equipped forces—'Russia is a regional power that can project force into nearby states but has very limited global power projection capability . . . it suffers from corruption and its logistical capabilities are limited. Aging

⁴¹ NATO, The Secretary General's Annual Report 2014, <http://www.nato.int/cps/en/natohq/opinions_116854.htm>. SIPRI data adjusted for differences in the definition of military expenditure between SIPRI and NATO.

⁴² Exceptions are the large increases by Greece and Turkey around the time of the Cyprus conflict in 1974, and by Portugal in the 1960s under the Salazar dictatorship when the country was engaged in numerous wars with anti-colonial movements in its colonies.

⁴³ SIPRI Military Expenditure Database, <<http://www.sipri.org/databases/milex/>>.

⁴⁴ Borger, J., 'Barack Obama: Russia is a regional power showing weakness over Ukraine', *The Guardian*, 25 Mar. 2014.

equipment and infrastructure, fiscal challenges, and demographic and social problems will continue to hamper reform efforts'.⁴⁵ Similarly, a report by the Swedish Defence Research Agency in 2013 found that Russia was making significant improvements to its military capability, but would still be limited in the next decade by technological capabilities—especially in the areas of C4ISTAR, logistics and personnel.⁴⁶

Moreover, despite the rise in Russian military spending and falls in Western European spending, European NATO members still spend collectively three times as much as Russia on the military, even before the USA, which retains a strong military presence in Europe, is taken into account.

Hence, European concerns are related to the possibility of a confrontation with Russia in a local context, in particular the Baltic states, rather than any generalized attack by Russia on Western or Central Europe. The issue for Western countries in this context is not Western military capabilities in relation to Russia's, but whether they possess the ability and the political will to respond swiftly to any such crisis in the Baltic states, especially if it were to involve the type of ambiguous, deniable 'hybrid warfare' seen in Ukraine.

Furthermore, with the exception of Poland, most of the countries that are increasing military expenditure are those which cut spending the most during the global financial and economic crisis, or in Sweden's case in the decade preceding the crisis. To some extent these countries are making up what they see as lost ground, although the crisis in Ukraine has undoubtedly led to greater urgency.

Nonetheless, the Ukraine crisis, as well as marking a fundamental change in Europe's security situation, may well come to mark a break in the trend of declining military spending in Western and Central Europe. Even where they are not currently increasing spending, the pressure on NATO members to at least maintain, and if possible boost, their military spending in keeping with NATO commitments will grow. Meanwhile in countries that border Russia, and of course in Ukraine itself, the impact on military spending is already apparent. Ironically, the implications for military spending in Russia may be ambiguous: greater urgency for the ongoing process of military modernization, on the one hand, and greater pressure on the economic resources needed to carry it out, on the other.

⁴⁵ House Armed Services Committee, 'Opening statement of Vice Admiral Frank C. Pandolfe, Director for Strategic Plans and Policy, the Joint Staff, before the House Armed Services Committee', 8 Apr. 2014, <<http://docs.house.gov/meetings/AS/AS00/20140408/102108/HHRG-113-AS00-Wstate-PandolfeUSNF-20140408.pdf>>.

⁴⁶ C4ISTAR refers to: computers, command, control, communications, intelligence, surveillance, target acquisition and reconnaissance. Hedenskog, J. and Pallin, C. V. (eds), *Russian Military Capability in a Ten-year Perspective—2013* (Swedish Defence Research Institute [FOI]: Dec. 2013).