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# THE COST OF EUROPEAN SECURITY

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## MODERATOR:

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## SPEAKERS:

**Malcolm Chalmers**, director for UK Defense Policy at the Royal United Services Institute

**Douglas Lute**, U.S. ambassador to NATO

**Jan Techau**, director of Carnegie Europe

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**JUDY DEMPSEY:** Good evening everybody. Thank you very, very much for your patience. It's a great honor to be here. My name is Judy Dempsey. I don't live in Brussels. Non-resident doesn't mean that I don't have a roof. I live in Berlin, but I've come over for this event and especially for my friend and boss Jan Techau; and my friend and colleague, Ambassador Douglas Lute, American Ambassador to NATO; and Malcolm Chalmers who's always incredibly helpful and critical and open-minded when I ask him any questions related to security and defense issues.

So it's a very easy format. I told you about the food afterwards, which is always very important. Did you notice hamburgers, sausages, whatever they call them.

**DOUGLAS LUTE:** It's a very loyal staff.

**JUDY DEMPSEY:**—all this ketchup stuff. Whatever it is the Americans eat. [Laughter]. Except you're in Brussels now so the diet is much better. I didn't mean that.

**JAN TECHAU:** It's got more than two percent fat.

**JUDY DEMPSEY:** Just a tiny little housekeeping—I mentioned it before, but for those of you who have just arrived. After we've had our meeting the Carnegie team will quickly and effortlessly move the chairs somewhere, I never know how they do it. And they put tables here that you can stand around. The food is behind the screen, at least we hope so, it will materialize and that will only take five or six minutes and there will be beverages as well.

So without further ado, the issue at stake, the politics of two percent. It's a very complicated issue and it's quite an emotional issue and highly political because at the Wales Summit, which was quite dramatic in many ways in the background of the Ukraine crisis, they agreed on two things. The principle of two percent that all the member states of NATO would cough up, and increase their budget to two percent. And the other issue was, which was very important for the European members of the alliance was the Readiness Action Plan which the Americans have invested an awful lot of time and energy and persuasion in getting this both on the ground, off the ground and on the ground.

We've been running this series for some times and reached part of Jan's paper and it's boldly called, simply called, "The Politics of Two Percent", and you can see the subsection, "NATO and the Security Vacuum in Europe."

I'm going to ask Jan to speak for about 15 minutes on this, and Ambassador Lute, if you would give your thoughts or reply to it; followed by Malcom Chalmers, the Royal United Services Institutions under the renowned and excellent Security Institution London. Then we throw it open to as much dialogue and conversation and questions as much as possible, to really get to the heart of the issue. That will be the subject of this discussion. What is the real issue? Jan, the floor is yours.

**JAN TECHAU:** Excellent. Thank you very much, Judy.

Discussion two percent is a tricky and wonderful little issue in this town, but also across Europe because, as Judy said, it's partially an emotional one. But in my opinion it's something much bigger than this emotional thing and it's much bigger than the technical kind of air it has. Two percent sounds like a budgetary thing. It sounds like something that is for numbers geeks, and it is to a certain extent. But it is about much more, and I'm trying to make that case in the paper. And it's one of the

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points of the paper that gets most frequently attacked actually. That is that discussing two percent really means discussing the security vacuum in Europe. It means discussing the question that is unanswered after the end of the Cold War, who takes care of European security?

We all know how that was organized after World War II when the Cold War broke out, and then very quickly escalated. NATO was created, America became the most important military power in Europe. Europeans were organized in an alliance. America issued a security guarantee, and that was the game. All of the Cold War discussion was mostly about this.

But since the early 1990s we've had basically a silent strategic revolution in Europe, and that is the systematic reduction of the American footprint in Europe. Not only in terms of its physical presence. Of course a lot less troops, a lot less hardware here. But also in terms of the political capital that American governments can spend on Europe when they make decisions concerning Europe. And when they try to make the case for a continued engagement in Europe. All administrations continuously have found it more difficult to make the case for Europe, and this is the silent revolution that I'm talking about. When you actually outsource most of your security, extended security, to your big ally outside of Europe, and if that ally then has less political capital to spend on you, then you have a problem.

This is partly out of choice on behalf of the United States, but for the most part it's a matter of necessity. The Americans really have to go elsewhere because the international strategic soup kitchen, if you will, of the world, the region of the world that will most likely decide about global stability is not going to be Europe in the future, it's going to be Asia Pacific in the widest sense, so America as the backbone of the global liberal order, if you believe in that, needs to refocus and needs to reallocate its resources which are also in relative terms weaker and stronger. And this poses a problem because the U.S. presence is systemic for European security.

It is the one element that you can't remove if you want this continent to be stable. For two reasons. It has an external and an internal dimension. The external dimension is extending the deterrence, how the Americans are protecting Europe from, not only from territorial attack but also from political blackmail. That's mostly done through a presence here but also through, of course, nuclear deterrence.

But it also has an internal dimension which is often not talked about in Europe and that is the fact that by being the dominant military power in Europe the Americans have removed the questions of which European power does dominate Europe. That question does not exist any longer. The old power rivalries in Europe in terms of the forces that shaped European history for 2,000 years, that was a removed issue. That was not present any longer. And once you remove that energy and that trust infusion that the Americans brought just by being here, you know, old rivalries could very well pop up again. You see this already a little bit, the uneasiness that many Europeans have about the very strong German position at the moment in Europe.

So the U.S. presence here is one about external security and one about internal trust.

So you have the U.S. with all of that systemic relevance having to move elsewhere—I'm simplifying of course grossly—and you have Europeans on the other hand who are not stepping up. Who are not, you know, stepping in and filling the gap. They don't do this. Systematically they have also reduced their military capability since the early '90s. That is a trend that I think despite some recent, you know, changes, that is a trend that is basically unbroken and will most likely continue in the future. And between those two trends, Americans going elsewhere, Europeans not stepping up, you have a

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security vacuum or at least potentially a security vacuum. That is the problem that I think is really the one kind of issue, the big issue that lurks behind the two percent question.

All of that, of course, happens not in an equally benign kind of environment, the benign environment that we had before the Balkan wars in Europe, but that happens in a security situation where actually the neighborhood and the wider neighborhood of Europe is getting less stable, more complicated and more dangerous.

NATO as a result, as I said, is less capable in both territorial defense and also, and that is also crucial here. It's not only about territorial defense. This is also about the lack of capability and interventionist capabilities, expeditionary capabilities. And that is actually a function, or that leads to a loss of authority mostly for America but also for the Europeans and such in its wider neighborhood in terms of the power that imposes order.

We see this in Ukraine. In my opinion, Ukraine is one symptom of that security vacuum that's a leader in Moscow, who senses that there is a door open in Europe, that order cannot be easily imposed any longer by the West, that the authority of the United States and of the Europeans as a derivative of that is weakened. And that you can actually get away with stuff. You can get away with challenging the European security architecture.

Another example as to how this plays out, this vacuum could potentially be Turkey. There is an ally there, a NATO ally, with a political leadership that is very, very, very difficult to discipline in a way that it never really was. So also there I think you see the symptoms of this lack of authority that comes from having fewer capabilities all around. If you can't issue a security guarantees any longer that sound credible, your political influence will become weakened.

So, two percent is only one symptom of this wider problem. The discussion in Europe about two percent is actually when you look at all of the other symptoms and count them all together, it's actually quite frantic. There's two percent, the security vacuum issue is discussed not only as two percent, but also as should Germany be more of a hub security provider. There's a lot of noise about this, a lot of discussions about this. Germans have stepped out of their comfort zone, but you know, most people would say not enough, and given its size and its economic power it's not doing enough. So that's another symptom

The discussion about should the European Union be more of a military provider, of hard security. Recent discussions about the European Army. That's another symptom for the security vacuum. The question over UK nuclear arms, and maybe Malcom will tell us a little bit about it later on, is another example. TTIP in my example is part of that power vacuum as well. The geopolitical dimension of TTIP which is often invoked in Europe these days is about how can we bind the two transatlantic partners together in a kind of relationship of political fate so that they can't be divided, and so that they will be integrated in a way that makes them mutually dependent and therefore kind of married forever. For me, also part of the debate about the security vacuum.

Then of course the longer kind of standing debate about the new security architecture for Europe that also includes Russia, it also includes every country that is not part of NATO for the moment, including NATO expansion, obviously. These questions are all part of that issue of how do we address that security vacuum that's emerging.

The security vacuum is primarily Europe's problem; less so America's problem. It is also an American problem, but primarily a European one, and it is primarily the Europeans' fault. We've talked a lot

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about the reduction of the American footprint but it's the Europeans that should take care of European security, and they're not. So it affects both Europeans and the United States and it creates a dilemma for both. Only that the dilemma is different for both.

For the U.S., the dilemma is this. People like Ambassador Lute have to do it every single day. They need on the one hand to send a message to the European allies, our security guarantee is watertight. Don't worry, we are there, we'll protect you. That is not only important for Europeans but that's also important for America and America's position in the world.

But at the same time he needs to tell the same Europeans that they need to do more because America will do less for them. That is a dilemma. If you think it radically, those are mutually exclusive messages. Now of course you can tie them somehow together, but it is a dilemma in communicating this because the Europeans of course could read the reassurance as also kind of a free riding ticket. Okay, the Americans are there, they'll take care of it, we don't have to do anything. While saying that the Europeans have to do more could create insecurity among them, which it actually has. So it is a dilemma that the Americans are facing.

The European dilemma is different. The European dilemma is that either they do more which means spending more on defense which is very very painful to do; or they actually spend what they have in a smarter way, but that means that they have to integrate it and pool it and share it and that means a loss of sovereignty. So either they pay in terms of money or they pay in terms of sovereignty. That's the dilemma that they're in. And it's equally difficult for them.

So far the decision has almost always been sovereignty is more important. But that might be, you know, impossible to maintain over the long run.

So we have two dilemmas here for the United States in terms of a security guarantee for the Europeans in terms of its question of resources versus sovereignty.

Very quickly, two questions. Is the two percent goal realistic? And is it useful? I'm covering this extensively in the paper, so you can read all of this stuff including many sources.

Is the two percent goal realistic? Will the countries heed the pledge that they signed in Wales? For the most part, no. It's not very realistic. They all know this. This is the consensus to whomever you basically talk.

Five countries are earmarked to meet the goal in this year. The U.S., UK, Poland, Estonia and Greece. But two of them are basically already near two percent. That's the Americans and the UK. Poland and Estonia matter, but not an awful lot because they don't have very big militaries, so if they increase that doesn't buy NATO an awful lot more. The Estonian Defense Minister famously said at a conference a couple of years ago that his two percent is about 32 minutes of U.S. defense spending. So even he spent 10 that wouldn't buy NATO an awful lot. And Greece is a case that many of you are familiar with the debate, it's a bit of an oddity anyway, so that's not really the kind of powerhouses out there that are going to two percent.

And many of the others that actually matter like the Germans, the Italians or the Spaniards. If you look at the other remaining powers outside Britain and France and Europe, the ones that actually do matter, who have sizeable enough militaries that if they do actually expand their spending that they would matter, they don't have any inclination to really up their spending. A little bit cosmetically, yes.

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The Germans indeed. But the others, not so much. And that's about that. And everybody else is just too small to really matter, to put it in a simplified way.

The economic situation stays very problematic in Europe. You know it's a very tough case to make for every Prime Minister or Finance Minister to spend more on defense. And then perhaps more importantly, what drives defense spending, and I think studies have been done and the correlation is quite clear. What drives defense spending is a threat assessment, is a feeling of being threatened.

Europeans do not fundamentally feel threatened. I'm not talking about every country feeling the same way. Of course some countries do feel threatened. But overall, Europeans do not fundamentally feel threatened, despite Ukraine and despite the Islamic state and some other threats in their neighborhood. They still feel that this is fundamentally a safe thing and that not much is important.

So all of these arguments for me make it clear that it's not very realistic that we will ever get to two percent across the board. And a couple of countries have actually made it quite clear that they don't even intend to go to two percent, despite having signed the pledge.

So not very realistic.

Is it useful? That's a very different kind of question. If you use the two percent metric as a metric that measures actual military output, the answer is no. It's not particularly useful. It's way too simplistic for that. It doesn't really measure any of the things that we want to know. The quality of the forces, the deployability of forces, the sustainability of forces, what you actually get out of the money that you spend. So that is an input metric, not an output metric. That's a fundamental flaw in the two percent metric conceptually, and it creates a credibility risk for NATO which further undermines its usefulness because when you don't meet two percent but you announce it with a lot of fanfare, then you have a public diplomacy problem.

But politically, it's very different. Politically this is enormously useful. It's an enormously useful tool to actually drive the debate. The naming and shaming and the two percent mechanism sometimes works. Countries like Great Britain go to great lengths to actually stay within two percent, and because falling underneath two percent for them actually would be quite a shameful little thing. So the naming and shaming works, which tells me that politically it's actually quite a useful tool. It's part of the annual defense planning process of NATO which means that every country every year needs to explain where it stands and why it doesn't do more, and over time that might have an effect. So politically that's really important.

Most importantly in terms of its political value, and this is underestimated in Europe, it is tremendously important on the American side. For the Americans in Washington when you listen to the debate, two percent has become the gold standard against which European engagement is measured. The ones that are near two percent or have ambitions to go to two percent are the ones that are interested. The ones that do less than this seem to be free riders and don't really get the story.

In the U.S., two percent has become a really important measure of whether the Europeans are in NATO seriously, and this is why those who are interested, those Americans who are interested in European security like Ambassador Lute but also others, are frantically pushing the Europeans to actually do more, because when they go back to Washington and try to make the case for Europe, the more two percenters they have on their side the better for them in the internal debates in the White House and elsewhere. And this is I think something the Europeans often don't get, how important

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two percent as a symbol has become on the American side. They need to really get this because that will change the dynamic I think politically.

I think I will basically leave it as this. My final conclusion is that two percent is flawed in many ways, as a technical measure, as a concept. But it is politically enormously useful. But it is only one symptom for a wider debate that's playing out in Europe and for a wider strategic dilemma that plays out in Europe which two percent alone will not be able to resolve. But it is perhaps the best reminder that something is cooking on this continent and the Europeans will have to do more in the end and two percent is a thorn in their flesh essentially, and this is why despite all of the shortcomings of two percent it remains an important thing to play with.

**JUDY DEMPSEY:** Thank you very much, Jan, for that great overview of your paper, but actually bringing quite controversial issues to the fore.

Ambassador Lute, I'm very tempted to ask you if there really is a security vacuum in Europe, which is really what Jan's argument is. How do you see this, just not the two percent issue, but this whole back and forth between Europe and the United States?

**DOUGLAS LUTE:** The report is labeled the politics of two percent, so the politics really for NATO culminated at the Wales Summit which is almost precisely a year ago, so let me just unpack a little bit of the context of the decision taken by the 28 leaders and heads of state to include President Obama on our part.

Why did they sign up for this pledge? What was it about Wales? Was it just persuasive diplomacy on behalf of the U.S. Mission to NATO? No. Some of my staff, I think, think that, but that's not actually the case.

There were a series of factors that came together, that intersected at Wales, and I'll tick them off for you here, that I think changed the conversation on two percent and really reflect back on Jan's point about this being a political tool or a political factor.

First of all, at Wales the conversation was very much, and somewhat unexpectedly, somewhat surprisingly, very much shifted to what the leaders began to call the arc of instability. What they're referring to, of course, is Putin in the east with Ukraine, to the southeast ISIL. Just 30 days or so before the Wales Summit ISIL seized the second largest city in Iraq, Mosul. And of course all of this was taking place on the Syrian and Iraqi border with Turkey, a NATO ally, a 1500 kilometer border. So that was happening at Wales.

Then to the south across the Med, you saw what I consider a failed state in Libya and the beginning of a migrant flow out of Libya using Libya as sort of the end of the funnel. But migrants really coming from the Sahel, the Middle East, and even South Asia.

So all this came together and was on the leaders' plate when they met in Wales.

If that weren't enough, they were reminded that NATO had unfinished business. We're still in Afghanistan, we're still in Kosovo. Leaders were reminded that we had responsibilities and relationships with 40-some partners around the world that range from Morocco to Japan and many nations in between. They were reminded that NATO had committed to new capabilities that were about to come on-line and they were going to be expensive. Capabilities like the Alliance Ground Surveillance System, essentially the first high altitude, long endurance drone that NATO will own and

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operate in the coming years. And also the NATO ballistic missile defense system which is also expensive. So, new capabilities.

So when you add this up—arc of instability, unfinished business, partners, new capabilities—it became pretty clear that this wasn't going to be cheap.

Meanwhile, the same 28 leaders had a financial portfolio that they brought with them to Wales. So it wasn't just a security situation. They of course are the keepers of the checkbooks, ultimately, for their governments. And by 2014, all 28 allies were beginning to move out of the trough of the 2008 recession.

Now the recovery from 2008 is still to this day uneven, but this year for I think the first year since the recession, all 28 allies are showing some growth. Some of the growth is below one percent, some of it's right on the margin, but for the first time there's pretty even evidence that we've turned the tide. Again, it's very uneven. We can get into the specifics there. But the economic situation seemed to be turning.

Then finally, there was recognition of this persistent imbalance that Jan's report refers to. And this of course has the comparison between two roughly equal GDPs. The GDP of the United States and the summed GDP of the other 27, which are roughly equal. And yet defense spending against these two roughly equal denominators has the United States spending 70 percent of the total and the others spending only 30 percent. So there was this sort of gap between commitment to the alliance, which is equally shared, and obligations and resources committed by way of funding which from the United States perspective is out of balance. It's a 70/30 out of balance.

So what did the leaders actually do? So they signed up, here's what they signed up for. There were no proxies. They were all there. The lights were on. It was read very clearly and they signed up for the following: That all 27 agreed that they would reverse the decline in national defense budgets and move towards two percent of GDP for defense spending in the course of a decade. So nobody thought this was going to happen overnight, right?

And they further said that inside that two percent defense spending figure, they would commit 20 percent towards capital investment. So equipment investment. Not manpower, not operations and maintenance, but towards new equipment. So two percent and 20 percent. That's essentially the pledge.

Now there are some common misperceptions about the pledge. In fact the report highlights, and Jan's comments actually highlight some of these misperceptions. First of all, that NATO is fixated, artificially unrealistically on a too narrow bumper sticker number. Two percent. What is two percent? Jan said it's neither realistic or in some ways useful. And that actually a more sophisticated metric would be to focus on outputs. So not inputs, outputs. Not on quantities of inputs but on quality of outputs. And if NATO were a sophisticated organization it would in fact do that. Well I'm here to report tonight that in fact we do. Okay?

So you can't fit all of this on a bumper sticker which maybe today reads two percent. But the reality is that NATO every year across all 28 allies assesses these two input measures, so two percent and 20 percent, alongside nine output measures. These are all qualitative measures of output. They involve air, land and sea forces and they involve the ability of that ally to deploy those forces and the ability of that ally to sustain those forces. So we do a very deliberate measurement every year of outputs.

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Some say the two input measures are unrealistic or they're missing the story. There are 11 metrics, not two. And nine of the 11 are focused on outputs.

Now these remain difficult because of the political narrative. The output measures remain classified, and you can imagine why. I mean they're not perfect. These metrics are not green across the board with all 28 allies meeting all nine output measures. And it's not smart for a military alliance to demonstrate publicly and to have this conversation publicly about shortfalls in capabilities and so forth. But I will give you some insight to the classified reports, okay?

First of all, no single ally among the 28 meets all nine output measures. So the United States of America is not green across the board on output measures. We all have work to do.

Very significantly, we've done some research, and it turns out there's a correlated effect empirically between input measures and output measures. So what might seem sort of intuitive, that you've got to pay more to get more, actually proves out empirically. So it takes inputs to get outputs. So for those who would say it's unrealistic, it's wrong, it's sophomoric, actually there's a correlated effect between inputs and outputs.

Then finally, the pledge itself refers in passing to the output measures and the leaders committed to those as well.

There's also some fine print or some overlooked portions of the pledge, elements of the pledge that I want to highlight to you.

First of all, it allows as how the 28 economies are not going to grow uniformly. So the pledge actually includes the words "as economies grow" you move towards two percent and move towards—

The second is, this is going to be a long term effort. The pledge is explicit. In the course of a decade. So here we are, one year after Wales, I'm going to give you the data here in a second, and it's not uniformly positive. But again, this is a long term effort. You don't turn around public spending on the order of magnitude that we're talking about here in order to close the 70/30 gap in one or two budget cycles. It takes a prolonged effort, over a decade.

The other thing that's somewhat overlooked is that this is the first time in NATO's history that the two percent pledge, which has been around for a while, I mean this wasn't invented at Wales, but it's the first time in NATO history that it was taken by leaders.

When we went back and looked at this as we were working on the pledge in the run-up to Wales, we actually said where did this come from? Who has made this pledge before? Is this really a meaningful thing to take to President Obama and his—Or is this just rhetoric?

It turns out, the record is that only Defense Ministers in the past had ever committed to two percent. Well imagine how easy that was politically, right? You've got 28 Defense Ministers. They're all agreeing that their budgets should be increased. It's not that ambitious actually. They of course then went back to 28 capitals and they were undoubtedly met at the airport by the 28 Finance Ministers and subsequently, by the 28 leaders of government and heads of state. So I don't think it was very ambitious of NATO over the years to get Defense Ministers to agree that their own budget should increase. So Wales was different in that regard. This was leaders. This is leaders who have the whole fiscal portfolio of their governments at hand.

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The last thing I think I'd like to just update you on is where are we now? We're one year into a ten year process. Well, maybe we should do this every year for ten years, this session, so that we can update one another, right? But here's where we are.

First of all, we're starting from a low base line. I don't refute Jan's report. Today five allies make the two percent cut; seven make the 20 percent capital investment. So it's five and seven today out of 28, which is not very encouraging.

However, in the course of the last year since the Wales pledge, here's the data. Twenty-one of the 28 have halted or reversed the decline in defense spending towards the two percent goal. So 21 have halted or reversed the decline, which is all that's required year by year. We won't be able to judge the full impact of the pledge until year ten, at the end of the decade.

Beyond those 21, 24 have halted or reversed the decline in the 20 percent factor, the capital investment factor.

So look, largely we agree with the Carnegie report. We got it right. Two percent is largely a political tool. It highlights very importantly, though, the political obligations of burden sharing and collective defense. That's not an obligation that's 70 percent the Americans' obligation. That's an obligation that's shared across all 28 allies.

It is useful on both sides of the Atlantic. In his outline of the political utility, I largely agree with that. It's helpful for me to go back to Washington and have two percent in the pledge written out. I show it to every congressional delegation that comes through Washington. That's good for me. That's good news.

Finally, I think it's useful for Europeans, and this goes to the question of the security vacuum. To assess whether they have sufficiently invested in their own collective defense. Let me just take you one short excursion to the Washington Treaty.

Article 3 in the Washington Treaty, not Article 5. Article 3 in the Washington Treaty obliges every member nation to take sufficient steps domestically, internally, individually, towards self-defense and it obligates in Article 5 that an attack on one is an attack on all.

The Washington Treaty though is founded first on national obligations. Article 3 precedes Article 5 in the layout of the Treaty. So all 28 of us have national responsibilities, and I think given what's going on around Europe today, given the disparity, 70/30, that it's time and I think this is what the pledge does for European leaders. It's time for European leaders to look at the ledger sheet and determine whether or not they are sufficiently committed to their own defense.

**JUDY DEMPSEY:** Thank you very much, Ambassador.

We can go back to the security vacuum which you barely skirted over. I just want to raise one thing that I've always wanted to ask you about this, this 70/30 disparity. I mean when you look at it, perhaps it's not that surprising because the interests of the United States are so different.

**DOUGLAS LUTE:** That's right. I admit that.

**JUDY DEMPSEY:** So just putting that into the context of —

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**DOUGLAS LUTE:** I agree with you, Judy. Look, we should understand that NATO does not have global security commitments. The United States does. Right?

**JUDY DEMPSEY:** Exactly.

Ambassador Lute: So the United States is not, when you look inside the United States defense budget, the 70 percent, there's not a line item in there that says this chunk is devoted to NATO. We approach this globally.

**JUDY DEMPSEY:** It does show though that even the 30 percent that the Europeans are doing, they're not defined in terms of geostrategic interests.

Malcolm, there's an awful lot of meat in these two presentations, but we're very interested in David Cameron's pledges or non-pledges and the defense review coming up, the strategic review. There's been so much discussion about this. How do you see the perception from London?

**MALCOM CHALMERS:** First of all can I just say that I recommend Jan's paper, which has provoked a lot of thought. It's a very meaty paper and I recommend it to all of you, although there are some points on which we might have a discussion.

But Judy, let me start by saying a few things about the position in the UK. Because I think it's fair to say that the UK as a host country for the last NATO Summit was in part responsible for putting this issue on the agenda.

**DOUGLAS LUTE:** That's absolutely true. The U.S. and the UK linked arms on this, inside the alliance.

**MALCOM CHALMERS:** I think that's right. And I think as many of you are also aware, the fact that after that summit David Cameron then became rather unclear as to how long the UK would stay at two percent. It wasn't helpful for the UK diplomatically. A lot of UK government officials, military and civilian, had a lot of very uncomfortable meetings with American diplomats and American leaders in Washington. I've heard reports of many of those meetings and the period between the Newport Summit and July of this year. But in July of this year, the UK Treasury committed to real terms increases in our defense budget of 0.5 percent per annum through to the end of the decade. And also committed to meeting the two percent NATO commitment through to the next, to the end of the decade.

The first is very important in terms of stopping the real term decline in defense spending. That's been in place in our country since 2010. The latter is a matter of great diplomatic relief in our relationship with our allies. The reason why the 0.5 percent real growth keeps you at two percent in an economy that's growing at 2.5 percent per annum is because we've discovered other areas which we didn't previously include in our NATO reporting which we are eligible to include. So we were too conservative in our reporting to NATO in the past. And by the end of the decade there will be about 5.5 billion pounds of spending which we will report to NATO, items which we previously did not report to NATO. But certainly my understanding is that NATO's accepted those additional things -- pensions, UN peacekeeping contributions, Ministry of Defense [income], elements of our intelligence services which should have been included all along. So everybody's happy that the UK is now back on board with two percent in the way which it appeared it wasn't. And our Ministry of Defense is happy because given the budgetary situation in our country, the expectation until July was that there would

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have been further real term cuts in our defense budget in this year's spending review, and there are not.

There's an interesting issue in our country which I'm not sure if it applies to any other, about the mutually reinforcing character of our commitment to the 0.7 percent official development assistance target from the UN and the NATO two percent target. Because one of the strongest arguments within our country for meeting the two percent was we're meeting the 0.7 percent, we're committed to it. We should do the same in defense.

And it's also the case that there were many who were saying if we're going to fall below the two percent then why do we keep the 0.7 percent?

Actually an interesting phenomena since July has been the political pressure and the 0.7 percent has been substantially reduced because we're going to meet the two percent. So I'm not sure that applies to any other country, but now I think a large part of the narrative of the government already, you'll see it more in our strategic defense and security review by the end of the year, is that we're a 2.7 percent power. We do both aid and defense, we're punching above our weight on both of those, and actually the UK will be the biggest European spender in absolute terms on both aid and defense. Already is and will continue to be in that position.

But I think it's also important, this maybe comes back to the issue of metrics, that the relative scale of commitment to collective operations or collective preparations is sort of, the output the Ambassador was talking about is also important. So things like who's contributing the most to anti-ISIL operations in Iraq and Syria? The UK is the largest European contributor to the air campaign, provides a very significant proportion indeed of ISR assets in Iraq and Syria. And also on the aid side is the largest contributor of humanitarian assistance around Syria and in Syria after the United States. Always very important. So that's in a sense where we're coming from for the UK.

Let me make four other points briefly.

The first, and I think all the comments in different ways are sort of saying about Jan's paper that there's a lot of good things you're saying, but I think you overstate the extent to which the current situation is unstable or unique.

So the first point I'd make in that regard is if you look at the relative levels of defense spending of the major European countries, then the relationship between those countries is pretty well as it was right back in the 1950s. It alters a little bit from one decade to another, but basically the Brits and the French are at the top of the lead table; and the Italians, the Spanish at the bottom, and so on. East Europeans are a separate case because they've only joined the West European community after the end of the Cold War. But for the major West European parts, those relationships are pretty stable.

The reason for that is not because some of us are more communitarian and more generous in terms of our contributions to the common good than others, although sometimes people in Westminster might say the UK, the British are particularly generous people. It's because of our different national defense policies. Sometimes all these numerical comparisons might mislead you to thinking that these are all subscriptions, that the UK taxpayer spends 38 billion a year on defense because we love contributing to the common effort. Of course that's part of the explanation, but much more of it I think is because of our perception of our own national interest and I think that's true of all the NATO countries including the United States.

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Why did the UK and France spend more than others? Partly because they have a nuclear deterrent which is driven in large measure by national security considerations, which none of the other NATO European countries have. And partly because we want to maintain some degree of independent expeditionary capability. Modest in some regards, but both the UK and France have launched successful expeditionary missions outside Europe and continue to have that capability. Continue to be major players in the Middle East with bases, we have bases in the Gulf and in Cypress and indeed of course we have the Falklands commitment.

So none of that's going to change. No other European country's going to become a nuclear power. I don't think Germany's going to suddenly become a major expeditionary power. It's not in the strategic culture, it's not in the way those countries define their objectives. Therefore I think the relative, these relative numbers I don't think are going to change very much. Actually we've all got pretty comfortable with it. I mean everybody mourns, there's always the [inaudible] and Brits always say why don't these continentals do more and so on. And the Americans complain about the Europeans collectively. But I'm not sure whether anything's changed so dramatically.

I think the commitment to real terms increases and the Ambassador's statement that most NATO countries are now doing that, is very important because in a sense that's keeping the relativities the same, but there's a rising tide for all of us because of the increased concerns about Russia and the south. I think that's very helpful, and that commitment at Wales is very helpful. I don't think we're going to have a large number of countries which are sub-1.5 percent and moving towards two percent any time soon because national priorities are not going to change radically. So that's the first point.

The second point again is maybe a conservative, more of a conservative point to make, is that discussion about the United States effectively withdrawing its security guarantee against major power aggression in Europe, which Jan suggests is somehow a possibility, I mean we've been around this circle ever since NATO was founded. You saw the Korean War, they were more interested in Korea than Europe. The Vietnam War. Immediately before 9/11 Condi Rice was talking about focusing in the Asia Pacific. Hillary Clinton. And basically the United States is a global power. It has really strong security commitments to Western, to Europe, to NATO Europe, to East Asia, and maybe to a more confused extent in the Middle East, but also in portions there.

That doesn't mean that our security interests always coincide. In the Balkans in the '90s we saw in America the confusion there. But we'll continue to get examples where the Americans on less than vital conflicts have a very different view and that's one of the reasons I think it's important to have autonomous European capability. I just don't see a trend. I'm skeptical about this long term trend to the Americans disengaging in Europe. And I think the American response to the revival of Russian concerns illustrates that.

The third point is that I actually do believe that total defense budgets are the best single indicator of defense capability. They are important. Spending does matter. And it does matter in lots of different ways, even if it's misdirected in different ways. And it's more relevant than the percentage of GDP.

But it's also relevant in comparison between NATO and other countries. The Russian defense budget has been growing rather rapidly for the last decade. It's also relevant that China is now the number two defense spender, way above Russia and continues to grow rapidly.

But it's also relevant, the total NATO defense budget this year is \$650 billion; and the Russian defense budget was, at pre-crisis exchange rates, \$90 billion. Today, more like \$50 billion. And of course there are all sorts of ways in which maybe Russia gets better value for money from its defense budget than

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NATO does because it's one country rather than several, and so on and so forth. I know those arguments. But nevertheless, that's a pretty big disparity. And the problems, I would argue, in relation to deterrence of Russia are not primarily about aggregate NATO defense spending or capability. They're about responding to asymmetric Russian threats. Sub-conventional. I'm not sure about the term hybrid warfare, but sub-conventional or nuclear threats are ways that Russia tries to get under the skin of NATO cohesion by undermining the political unity of the alliance, and indeed, undermining the political unity of individual member states which themselves are divided internally. And spending more money on defense may be part of that solution, but what's more important is what they spend it on. And a lot of the spending actually may be in non-defense elements of security. Strengthening the police in places like the Baltic Republics and so on. So that asymmetric dimension is very important in Russia.

And finally, I think Jan's paper and indeed his presentation talked a little bit about some of the concerns in relation to renationalization of defense in Europe, which I think is a very important factor, and one of the key benefits of NATO historically has been precisely what he said, that it's alleviated the security dilemmas rather equally sized European countries had in the past ever since [inaudible] reunification in the 1870s and that's a very important part of Europe.

One of the things I do worry about European security, and I think it's actually more of a pink elephant and a black swan. I mean it is a big elephant in the room which we can all see, is that we are in a period of significantly increased potential for political instability in Europe. A lot of things we've taken for granted in terms of European integration or the potential for European disintegration including in relation to my country, are more evident than they have been for some time.

One of the consequences of global recession has been that we have parties on the left and the right getting stronger in a number of our member states who are outside the post-war liberal consensus. It's not yet at crisis point, but one can imagine ways in which it might be and which would create circumstances with external actors including Russia, might exploit that. Of course the latest crisis we've all been talking about over the last couple of months in relation to refugees and migrants from Africa and from the Middle East is a structural problem. Arguably, a bigger threat, a bigger challenge for European security, European societies and terrorism which is not going to go away any time soon, but which precisely is linked to some of the worrying political trends in many of our countries including my own country, that we're facing.

So the security dynamic has to, a lot of it has to be about precisely whether there are some threats that denationalization which we successfully achieved in the 1950s after the catastrophe of World War II, but which I don't think we can ever take for granted.

**JUDY DEMPSEY:** Thank you very very much for that contribution.

I just want to bring up this, I mean having read Jan's report, I don't think he was saying that America is going to pull away the security guarantee. My interpretation, that Europe itself was creating a security vacuum for their own security. I don't think the U.S. would dare give up the security guarantee. I don't think that's — Never.

**DOUGLAS LUTE:** Let me clarify this. This is not altruism. This is just national interests. We have made this commitment since 1949 yes, in the interest of Europe and a peaceful, stable Europe. But that is fundamentally an American interest. So the reason we should remain confident that there's not going to be an ultimate vacuum is that it's in America's interest that they're not be so.

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**JUDY DEMPSEY:** But the trend going through the three arguments, although you may see it a little bit differently, Ambassador, the trend still is the fact that the Europeans as Europeans do not still have a common threat perception. Which actually affects how they see the budgets, affects how they work for themselves, let alone how they deal with the United States. I think this is a hugely debilitating aspect.

Jan touched on, I think we still are in the comfort zone. And what would push Europeans out of this comfort zone is if we should have been out of it a long time ago, ever since Georgia, in some ways, Russia's invasion of Georgia. I don't know what would push Europe to actually understand why they have to really boost the defense much more collectively together. This is what bothers me about this trend in Jan's paper.

Jan, do you want to pick, up on any of the comments of shall we invite—

**JAN TECHAU:** I will say one or two things very briefly and then—

First of all, what Malcolm just said in the very end is I think very important and it relativates the entire party here tonight a little bit. The real threat of course to European security comes from within Europe. That has always been the case. That's very clear. And this is why the political fallout from many of the internal crises is so worrisome.

We are a foreign policy think tank so we don't primarily focus on the internal kind of integration issues that Europe has, but it's deeply worrying because of course it has a direct impact on the ability of the Europeans to act as a foreign policy entity, both individually as nations and also of course together as Europeans both inside NATO and the EU.

There are a couple of things that I could comment on that were said. It is true, it was said that the spending patterns are roughly the same today as they were in the 1950s. Basically that seems to indicate that we're in pretty good shape. That might be true in terms of the relative spending, when you compare them with each other. But it's all at a considerably lower level than it was. Of course we don't have the model threat of the Soviet Union any longer and that is a huge factor in all of this and that dictates threat perceptions, but my feeling is that we're moving into territory that's a lot more dangerous and with that comfort zone in place, you know, the fact that we're all spending at the relatively same patterns doesn't comfort me a great deal, I have to say.

**DOUGLAS LUTE:** If I may, this is what was different at Wales. It was the combination of Crimea, Donbas, Mosul and migrants that maybe forced the leaders out of their comfort zone. That dynamic was different.

**JUDY DEMPSEY:** But you see, Ambassador, if you go on this argument you have to factor in Malcolm's point, the [inaudible] security, yes, it's outside, but it's coming from within which complicates the issue, which the Americans must be very worried about.

**DOUGLAS LUTE:** Fair enough, but that's not fundamentally—

**JUDY DEMPSEY:** I know.

**DOUGLAS LUTE:** That's not a NATO issue from the inside as much as it is sort of an EU political national issue.

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**JUDY DEMPSEY:** I think it is a NATO issue.

**DOUGLAS LUTE:** If you're taking this argument as far as questioning democratic principles and so forth, yes. That's all part of the underpinning of the alliance. But I don't know that we're going that far, right? Was that your point?

**MALCOM CHALMERS:** It doesn't affect NATO as an institution unless countries have a coup or—

**DOUGLAS LUTE:** Nobody's ever left NATO, so we don't have to—

**JAN TECHAU:** We have been very accommodating to non-liberal governments inside NATO during the Cold War. It was, it would probably be less so today, but under the threat of the Cold War it was perfectly fine to accommodate non-democratic governments inside NATO and we'll probably be able to do the same thing again if we have to.

**MALCOM CHALMERS:** I wasn't really addressing it as a NATO point, more as a national security or a collective security point. And I think for my country, for example, the security implications of the United Kingdom breaking up, as could have happened last year, or the UK voting to leave the European Union. You know, on one level what's the implication for defense? But there will be implications for defense if either of those things happen. We can think of examples of that sort in most countries I think.

**JUDY DEMPSEY:** I think I shall open this up. I think the idea is to take three or four questions at a time. First of all identify yourselves. Secondly, one question per person, and please keep them very focused.

**FREDERIC MAURO:** Thank you, I've been told sitting here that it was the seat of the one who has to ask the first question, so I just tried to fulfill my commitment. [Laughter].

My name is Frederic Mauro. I'm a former civil servant of the French Senate and I'm now a lawyer at the Bar of Paris and the Bar of Brussels.

It happens that I've worked for one of my clients this year on the Pesco. Pesco is a permanent structure corporation. And it took me a long time and I found out that it's very similar, to the two percent metrics, the two percent politics in these periods. What we are talking about is to increase the percentage of spending of the people.

I will not question the realistic goal of the two percent quantity, although I want to raise the fact that it will take \$87 billion for all the countries to meet [inaudible]. \$26 billion for Germany; \$16 billion for Italy.

But my question is about shouldn't we alongside this quantitative goal focus more on quality of goals, not in terms of outputs which are classified, but I mean in capability of acting together. What is the point of spending more if we are launching now, right now, six different programs of frigates in the European countries? What is the point of saying that the UK is the first country in Europe spending if UK does not want to act and to go to Syria.

So instead of focusing on the muscles which are important, yes, money does matter. Shouldn't we focus more on our political capability? Sorry to be long.

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**JUDY DEMPSEY:** That was very focused.

**FABRICE POTHIER:** Great discussion. I think it's very stimulating that we managed to talk about a figure, a budget figure, and have some real political strategic points.

Sorry, Fabrice Pothier from NATO.

I just wanted to make two very quick comments and one question. Very quick comment. I totally agree with Ambassador Lute. I think there is no dilemma between input and output because I think the real equation is you've got to get both right. Because we know some countries are good on input but are not really there on output and vice versa. So I think it's a non-debate.

I like very much Malcolm's point but I slightly disagree that somehow the geometry of European military powers have not really changed. Yes, you still have the top two, France and the UK there. But I think for two reasons it's changing. One is worrying, and one is a new trend.

The worrying is you see what we can call the middle class— So Italy, Spain, Netherlands are really, if you look at the 10-20 year trend they're really what we say in French, *décrochés*. That means they're really falling below the line of being both good on output and good on input. This is a problem when you are an alliance of 28 allies because you don't only need leaders. You also need other countries to make a real collective effort possible. So I think here there's an issue that goes beyond the usual European leaders that is about how do we make sure that we've got the whole of a European effort.

The trend on the changing European geometry and military power, Malcolm, you only looked at Europe and military power through the prism of expeditionary operations. But what we know since last year is there is a new front line open which is what we call the Eastern Front and which is very much about collective defense. And when it comes to collective defense you do have new powers that matter very much. One is Germany. Politically, but also militarily. One that is growing is also Poland. So I think the geometry here is kind of expanding in a way. Typically you are right, that it was more expeditionary and crisis management. So I think we need to look at it as something more mobile and changing.

My question. I was also in the back stage of preparing the transatlantic declaration where we put the two percent and it was a very interesting development. The one thing where we were always stuck, but for obvious reason, is how do we enforce these magical numbers. This is an alliance of sovereign nations with sovereign budgets and with difficult finance ministers, and we don't have, per se, enforcement mechanisms, as now I think the EU has developed some kind of enforcement mechanisms on European countries' budgets.

So the question to Ambassador Lute and maybe the two other speakers, is where could we go in terms, in the next years in terms of exerting slightly more pressure than diplomatic pressure. It can be naming and shaming, but how far can we go? I think we are doing better inside the privacy of the rooms in showing the numbers and who is doing well and who is doing less well. But should we go further? Should we have some more regular reporting? And should we have more public reporting? Because if not, the risk is that, I get the point that communicating too openly about our strengths and vulnerabilities is a problem, but not communicating about them I think leads to speculation. Thank you.

**JUDY DEMPSEY:** That's a very good point.

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As you know, NATO, we've always had discussions about NATO's communication skills.

**BROOKS TIGNER:** Brooks Tigner, *Jane's Defense*. Straight to the question.

Wales, the Wales two percent pledge was binding on politically elected, temporarily politically elected governments and not their standing bureaucracies, so what is NATO going to do to organize, to keep up that pledge? Are you going to organize a pledge every two or three years and have new leaders sign onto that? And given that the allies are going to stretch out the achievement of that two percent as far as they can, we can safely assume it will be ten years. What implications does that have for the RAP and the timing and the achievement of the RAP?

**JUDY DEMPSEY:** That was very sly how you snuck in your second question. I have to keep my ears open.

**JULIAN BARNES:** Julian Barnes, *Wall Street Journal*.

On the issue of sovereignty versus pooled resources, is there a way to tweak how the VJTF, the spearhead force is put together, fielded, utilized to force more of a pooled resource issue there? Is there the beginning of a solution in that?

**JUDY DEMPSEY:** Great questions. I think we should start from the last one, the pooling, the pool resources.

**DOUGLAS LUTE:** First of all there are some modest success stories in terms of pooling. Admittedly I say modest, but we are pooling for the Alliance Ground Surveillance, this UAV that 15 nations. We own and operate our own pooled AWACS fleet. So in the air, surveillance of the air. There are some modest efforts with regard to pooling airlift. But fundamentally, the pooling, the logic of the efficiency of pooling bumps up against sovereignty and defense industry issues, so we've never gotten to the point where we've taken this hard decision to sacrifice some sovereignty for military efficiency.

As regards, this then intersects the question of could we use the VJTF perhaps as a vehicle to push more of this. I don't think so, and the reason for that is the VJTF, the spearhead force is organized around what we call framework nations, so lead nations on a three year rotational basis. So fundamentally we're relying on national forces to man and equip the VJTF and not pooled forces. So it would be quite difficult I think to find common capabilities that you could use non-stop across the VJTF spectrum. So we've gone to, and partly because it had to be ready. We had to do it at Wales and we're now executing. So we didn't have time to sort of craft a pooling solution. We had to go with what was on the shelf and what was on the shelf were national forces.

**JUDY DEMPSEY:** It's touching on Mr. Murrow's question also, about the capabilities working together as well. And it's been such a mantra of NATO for such a long time.

**DOUGLAS LUTE:** Of course we call this interoperability. Right? At least the operational integration of forces is interoperability. But I took your question to do more with industry and procurement and so forth.

**AUDIENCE:** [Inaudible].

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**DOUGLAS LUTE:** But policies towards acquisition or policies towards operational policymaking.

**AUDIENCE:** Operational.

**DOUGLAS LUTE:** We're quite integrated. That's what I do something like 12 hours a day. From the outset the members have committed to an integrated military command structure, so this is Phil Breedlove just down the road in Mans and so forth. But also a standing political structure which is the North Atlantic Council. I could get, I hope I don't, but I could get a call before the end of this session, the Council is convening to take up a political issue. All of us live here in Brussels. If we're away we're required to have a deputy. We're on recall. So it's quite integrated. I mean integrated to the extent that I spend more time with these folks than I do my family.

**JAN TECHAU:** In a way there are two levels— interoperability and integration. Integration is the more far-reaching kind of thing which is what I think you're alluding to and [inaudible] is an instrument in the EU to foster that integration. That's not going to come any time soon. There are some rumors that the Germans all of a sudden want to make this part of the British negotiation. I'm not sure that's actually going to fly. That's for afterwards when we have alcohol.

Two things that Fabrice (n.d.r. Fabrice Pothier) said. First of all, the dilemma on input and output, and I agree with what Ambassador Lute said, that of course there is a correlation between spending and outcomes. That's quite clear. That's almost like a commonplace. If you don't spend anything there's also no outcome. But it's interesting how greatly that varies inside NATO. I mean you have countries that have a relatively healthy ratio and then you have countries that have a totally unhealthy ratio. Our host country, Belgium, is one of those that has an unbelievably unhealthy ratio where the level of spending that goes into non-outputs is just not sustainable at all, but they have sustained it for a long long time. They're not going to change it any time soon.

So yes, there is this correlation. Does that buy us a lot more? No. It means that two percent is not meaningless but it also means that two percent is certainly not enough in terms of the argument that you want to make.

Secondly, on how to enforce two percent. That's a tricky question. In the end, you of course can't enforce because it's a non-binding commitment. That means that you can only do soft stuff to enforce it. But perhaps you can, and that's a communications issue more than anything else. Use parts of these nine criteria to the extent that you can use it. Most of it is classified but you can perhaps find some poetry that uses it without breaching the confidentiality.

Shameless naming and shaming. That's a problem for NATO itself, obviously because the member states run NATO and they don't want to be named and shamed by you guys, but there are ways to play it perhaps. I think naming and shaming is probably the best thing to do.

**DOUGLAS LUTE:** Just at the Defense Minister's meeting, just last June, for the first time, you probably helped behind the scenes on this, right? We actually displayed, so 28 Defense Ministers, the Secretary General, the session is live, and we passed out a chart that had across the top 11 measures, and across the flank, 28 countries. It was red and green. It was quite stark. Getting NATO to be only that transparent was a multi-month effort, just to produce the chart and get it in front—

**AUDIENCE:** And I think we removed one of the two colors.

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**DOUGLAS LUTE:** So we're in the early days of internal accountability and transparency. But also, under-appreciated in the pledge, the leaders agreed to check this and show and tell at every future summit.

**JUDY DEMPSEY:** But that's all internal. It's taken us 60 years to reach this. A year ago we were sitting here discussing why NATO matters, and we were struggling to reach out to the public. We're getting into the whole problem of this two percent— You barely name and shame among yourselves. What about reaching out to the public to say this is what's the issue of NATO. This is about the security of the transatlantic alliance. This is about protecting our security. The public knows nothing about it.

**JAN TECHAU:** On Fabrice, and the Wall Street Journals in the room, documents can be leaked. I'm just saying that. [Laughter].

**DOUGLAS LUTE:** That would never happen in our government. [Laughter].

**MALCOM CHALMERS:** Let me just come back on some points.

In the UK debate, the two percent mattered. It did give those arguing for an increment to the defense budget some extra power to their [output]. But I think the reason it mattered in the UK is because we were so close to the two percent, so it was a realistic thing to do in terms of our national budget. I think the further countries are below it, the more important it is to have other indicators which they can realistically, in terms of their own domestic politics, without increasing the budget by 40 percent or something, and that's where some of these confidential indicators come in.

But it's also other things in terms of contributing to various missions and so on. And there are some countries which are at 1.3, 1.4 percent who are punching above their weight in Iraq and did so in relation to Libya and others who did not. So those are important indicators. We shouldn't only be focusing on spending.

Some of the questions about pooling, and I think sometimes those questions are more relevant for those countries which don't have any possibility of having an independent capability without pooling. So it tends to be the smaller you are the more important that is.

But one of the reasons why the UK, and I think France, maybe Germany, spend a bit more on defense is because political leaders know that they have an instrument which they can use, and they don't have to go to NATO to do it, they don't have to get 20 other countries to agree to it. It's something they can actually use independently. I realize that's difficult, but we do it in the lines of independent democratic countries with separate defense budgets, accountable to our national taxpayers. Therefore, you have to get a big benefit from pooling and sharing.

On procurement, I think the UK experience historically of collective procurement projects, collaborative procurement projects in Europe is pretty mixed in terms of cost savings. Because of all the different military requirements and all the different defense industrial interests come in and actually it would be cheaper and produce better weapon systems if you bought something off the shelf or perhaps something much more straightforward, and that's why we've ended up going for F-35 rather than another European combat aircraft, the next aircraft generation. [Fabris'] points are really excellent in terms of the geometry and how you think about them.

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I think one of the questions I have is that in this period when the main focus has been expeditionary warfare after the end of the Cold War, I would say that the German position in that pecking order has fallen, and maybe also some of the other European countries you were talking about. Because Russia and collective defense has become less important. Now it's become more important. It's not the only game in town but it's become more important. It will be very interesting to see whether the role of Germany and maybe the Netherlands, maybe some others, moves up that pecking order a bit more compared with what it has been for the last 20 years.

And my impression, but others probably know more. My impression is that defense is being taken more seriously in Germany than it has been for some time, precisely because deterrence of Russia is something which the Germans feel more comfortable with than they did with involvement in traditional British areas like Iraq and Afghanistan which, after all, were part of our imperial sphere of influence in the past. Maybe not. Maybe that won't be the change. But of course one of the results of this all coming down is that the countries near the bottom of that lead table, even if their relativities haven't changed so much in aggregate terms, do end up in more and more areas being unable to generate a credible national capability. And of course because they're national forces, they're very reluctant to specialize, because specialization is always something you want other people to do but it's very difficult for any of us to reduce the spectrum of our capabilities because it means relying more on others who may not be there in a day.

**DOUGLAS LUTE:** One thing that underpins both the report but the conversation this evening is this question of shared threat perception. Just a data point. If you look at the defense spending decisions since, over the last year, the closer you live to Russia, the more clear-cut you have in most cases legislated your path to two percent. So for the Eastern Flank allies it's more than a Wales pledge among leaders who can arguably change office and so forth. For them, if you take the Balts, for example, they're on a legislative path to get to two percent. Poland's already there. Estonia's already there. Romania is making big strides. So it's interesting. Geography here still counts, right? And they have a shared threat perception and one that is quite up close and personal because it wasn't that long ago that they lived this threat.

**JUDY DEMPSEY:** Absolutely. Whereas Britain would see more ISIS as a threat in a very different way, and the French would have their own—

**DOUGLAS LUTE:** Migration, ISIS —

**MALCOM CHALMERS:** —more money for defense in the UK. Cameron made a speech saying what he really wanted more capability for was drones, ISR and counter-terrorism.

**JUDY DEMPSEY:** We have room for a very short round of questions, and I hope we can deal with them very quickly.

**DAVID FOUQUET:** David Fouquet. I'm with the European Institute for Asian Studies at the moment, so I might have some views on the rebalancing to Asia. But more relevant, I covered NATO as a journalist since the '60s when I kept hearing pledge year after year, about flexible response that we never met. We never adopted the capabilities.

I'm wondering now whether again, there's a need for a flexible response and a look at priorities. Asymmetric or hybrid warfare was mentioned. I wonder whether that requires the same kind of big ticket capabilities that we have had in the past such as BMD, ballistic missile defense, which if I remember correctly was targeted against Iran. Iranian capability. Is that still a factor?

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**JUDY DEMPSEY:** That's very important. Thank you.

**JACEK SARYUSZ-WOLSKI:** Just on two percent—Jacek Saryusz-Wolski, former European minister of Poland, former Chairman of Foreign Affairs Committee and NATO Delegation the European Parliament, author of the defense policy position paper of the biggest faction of the European parliament.

Congratulations on focusing on two percent. That's to Mr. Techau. Endless discussion we can have on security. But there is very [inaudible], and I have to say that I distributed your paper at the Bureau meeting of our fraction on defense position paper. With some hesitation. I didn't like the parts of your paper where you put into doubt the sense of using it. As a politician I'll tell you yes, it's a great sense; second, as a politician I'll tell you don't trust politicians, rather trust systemic solutions.

We as Europe, we are free-riding on the U.S., and the U.S. and southern Europe, you are free-riding on Central Eastern Europe in terms of expenditure. It's contrary to the solidarity principle. I have a question to a German whether the new explosion of solidarity in Germany will lead us somewhere closer to that.

My question is as follows. Whether neutralizing defense expenditure on the excessive deficit procedures of the European Union, not only EMU but on the [inaudible] of the EU. In a sense as it was done with the Juncker Investment Plan, which means there are counted into deficit but not punished by the Commission. A proposal which I have put into the paper and which I have lost the vote by 16-11, which is not that bad. My question is, whether this systemic solution when there's some hope of more common perception of threats coming would not be a solution which would not necessitate to have every three years new generation of leaders to meet, but to create a systemic solution that every expenditure after two percent commitment would be excluded from punishment by the rules of the union, fiscal rules. Then we would have probably the input as it should be and good input guarantees good output. Thank you.

**JUDY DEMPSEY:** It sounds like breaking the stability pact, being sanctioned or fined. Who would like to pick up this point?

**DOUGLAS LUTE:** I don't have one on the EU internal dynamics but I do want to come back on missile defense.

You're right, the ballistic missile defense that's in operation today and maturing over the next couple of years, NATO owned and operated, is focused on Iran. It's important to remember that the deal which has been signed dealt with the nuclear warheads atop ballistic missiles, but only those warheads. So not conventional warheads, not chemical warheads, and not the missiles themselves.

So while arguably if implemented according to the standards the nuclear threat will be reduced, the purpose of the agreement itself, it doesn't reduce the threat of Iranian missiles. So NATO is proceeding on program with its BMC.

**JUDY DEMPSEY:** Thank you for that clarification.

**MALCOM CHALMERS:** You're absolutely right to focus on response to asymmetric threats because I think that's very important in the Middle East but it's also I think important in relation to

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Russia, and missile defense I think is part of that where we're facing greater missile threats including in the Middle East and elsewhere, so that's something that's important.

I think also important is investment in intelligence and surveillance, really critically important in terms of what we're doing in different parts of the world. And actually some independent national capability in that regard is important for some European countries also, in order to have political influence.

Special Forces, really important, play a really important role. And also I think development of cyber capabilities including defensive cyber capability is really important in terms of some of the forms of threats we're facing going forward. Of course we have to have deterrence of a force on force scenario with Russia, but precisely because NATO has very considerable conventional capabilities. Russia is more likely to do things which try and get under the threshold where we're likely to get involved in largescale conventional warfare. We need to— Deterrence is most effective if you can match an opponent at each level and therefore escalation is credible.

**DOUGLAS LUTE:** But these asymmetric tools below conventional are the most difficult because they're designed to be ambiguous, sometimes non-attributable. And they're designed also to play against the boundaries of where military force and police forces and border guards and so forth, where all those boundaries lay inside our governments. So this is a real challenge for NATO because we have part of that responsibility, but part of that responsibility falls on the nation itself, the first line of defense. And a big part of the responsibility falls on the EU as well. So you have a triangle between national, NATO and EU responsibilities and we're only just defining how that should work. It's a big challenge.

**JUDY DEMPSEY:** It's really important.

**JAN TECHAU:** I think it's absolutely right what Mr. Fouquet said that pledges historically don't make much of a difference and therefore I tried to be very cautious with the two percent overall. It makes a lot of sense when it comes in combination with a real threat perception. We have that partially in NATO which is why it partially works, but we don't have it across NATO which is why it doesn't work across the board in NATO. In a simplified way I think that's the truth of the matter and we can have 100 more pledges, and if there's not a real credible threat then that's not going to lead us very far.

On Germany. Malcolm earlier said it's interesting how another territorial defense Article 5 stuff is kind of on vogue again. The Germans all of a sudden are more there. And I think that's absolutely crucial to understand if you want to understand German defense policies and its position in NATO. The Germans find expeditionary warfare very very unpalatable, for a number of reasons. They always teeth-grindingly do it, but they don't really want to do it and it's always a hard sell domestically.

That's not the case when it comes to Article 5, and you could see this after Ukraine when the Germans were actually surprisingly forthcoming in the reassurance immediately after it turned hot. A lot of people in this town were very surprised about the Germans actually coming forward relatively solidly and quickly and meaningfully also. Not only framework nation, but also in terms of meaningful contributions.

So I think in that sense with this new outburst of solidarity in Germany, will that lead us anywhere on Article 5? And I'm saying this having been a staunch critic of the Germans for many years, which has made me a lot of friends in Berlin. But I think on that Article 5 commitment Germany is rock solid. I wouldn't doubt that for one second. Whether it's always capable to deliver what is desirable is another

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question. But in terms of its determination to live up to its Article 5 commitment, I think nobody should really doubt the steadfastness of Germany and that's pretty much a political consensus in Germany, apart from some loonies on the fringes.

But on expeditionary warfare, that remains the big story to be seen. That for me is the litmus test as to whether Germany can become more than just a player in a very confined, integrated European context, or whether Germany can also step up to become a guarantor of a more kind of global stability framework that essentially is what's at stake and whether Germans feel very difficult, and for me that remains the big question in Germany. But in terms of will Germany defend Poland if that needs to—Absolutely, it will.

**JUDY DEMPSEY:** Jan, thank you.

We're going to wrap up the session. Before we do, I just want to say a big thanks to Jan for the paper and a big thanks to Ambassador Lute for coming here and giving a very special view and reassuring us. It's very important.

**DOUGLAS LUTE:** I hope you got that, but I'm not sure how you did.

**JUDY DEMPSEY:** It's very complicated, this security vacuum at the moment, the whole idea of it.

And Malcolm, thank you for going through the whole mechanics of Britain.

Thank you very very much for coming and we invite you to the hamburgers and wine and hot dogs.

Thank you very much.