



Skating on Thin Ice: Canada's Defence Expenditures and Its NATO Defence Investment Pledge

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JCSP 49 DL

Exercise Solo Flight

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SKATING ON THIN ICE: CANADA'S DEFENCE EXPENDITURES AND ITS NATO DEFENCE INVESTMENT PLEDGE

Where are you at? What is your number?

- Donald Trump, *The Economist* (Online)

Introduction

According to a leaked US intelligence report, Canada's Prime Minister informed North Atlantic Treaty Organization (NATO) Allies that Canada would "never" meet its commitment under the NATO Defence Investment Pledge to spend at least 2% of national Gross Domestic Product (GDP) on defence.¹ What are Canada's defence spending commitments, and why do they matter?

NATO member countries (Allies) define defence expenditure as "payments made by a national government... to meet the needs of its armed forces, those of Allies or of the Alliance." While Allies have agreed on this definition since 1950, it wasn't until Russia's illegal annexation of Crimea in 2014 that NATO member countries firmly committed to defence expenditure guidelines. These guidelines, known as the NATO Defence Investment Pledge, call for 2% of national GDP to be spent on defence, with 20% of that expenditure to be invested in major new equipment.²

Although Canada's defence expenditure has increased over the past decade, its spending continues to fall short of its NATO Defence Investment Pledge. This is in part by design, due to the investment commitments set out in successive defence policies, but also due to long standing challenges with defence procurement.

However, with US hegemony being challenged globally, and with American commitment to the defence of NATO Allies potentially contingent on their defence contributions, Canada risks its credibility within the alliance, and its security and sovereignty in the Arctic. The degree to which Canada can avoid these risks depends on

¹ The Economist. "Canada's Miserly Defence Spending is Increasingly Embarrassing: A NATO Laggard." *The Economist* (Online), Jul 24, 2023.

<https://login.cfc.idm.oclc.org/login?url=https://www.proquest.com/magazines/canada-s-miserly-defence-spending-is-increasingly/docview/2841538408/se-2>. Accessed 18 May 2028.

² NATO. "Defence Expenditures and NATO's 2% Guideline." NATO, July 11, 2023.

https://www.nato.int/cps/en/natohq/topics_49198.htm#:~:text=The%202014%20Defence%20Investment%20Pledge,to%20NATO's%20common%20defence%20efforts. Accessed 11 April 2024. NOTE: According to Canada's Parliamentary Budget Officer, NATO members initially agreed to the 2% guideline in 2006, and then confirmed their commitment in 2014, after 8 years of limited progress. See Christopher E. Penney, Nancy Beauchamp, Marie-Eve Hamel Laberge, Martine Perreault, and Rémy Vandeweghe, Canada's military expenditure and the NATO 2% spending target § (2022): p. 5. <https://distribution-a617274656661637473.pbo-dpb.ca/2e61c150ee17ee7fc0594b3c01632c13ffb4dcb4d848b9f259a81a318d997a3c>. Accessed 11 May 2024. See also the Message from the Minister of National Defence in *Our North, Strong and Free: A Renewed Vision for Canada's Defence*.

its willingness to translate its NATO Defence Investment Pledge into national defence policy, and its ability to address longstanding procurement challenges for major new equipment.

Current Global Security Climate: Implications for Canada & NATO

Relevance of NATO

NATO is arguably more relevant now than it has been since the end of the Cold War. Russian aggression in eastern Europe, nuclear ambitions of Iran and North Korea and a rising China have destabilized global security and demonstrated to the West the importance of maintaining and modernizing defence alliances.³

From a Canadian and North American perspective, the Cold War era North Warning System (NWS), designed to detect low flying missiles and aircraft, is obsolete against the newest generation of Russian and Chinese missiles.⁴ Russia now has the capability to target North America with long-range, highly precise land-attack cruise missiles. China is expected to also have this capability in the near future.⁵

From a European perspective, Russia's aggression in Ukraine has pushed the European Union and NATO to work together to counter Russia. While historically, the extent to which NATO should lead the security agenda in Europe has been the source of some friction in Europe.⁶ Russia now sees itself as an active counterbalance to the United States and NATO, as well as a regional power.⁷ Meanwhile, NATO membership has increased from its 12 founding members in 1949 which included Canada, to 32 countries in 2024, with Finland and Sweden being the latest to join in response to Russian aggression (see Figure 1).⁸

³ Randolph Mank, Let's get Canada's foreign policy house in order. *Global Affairs*. 7 January 2020 <https://policyoptions.irpp.org/magazines/january-2020/lets-get-canadas-foreign-policy-house-in-order/>. Accessed 27 February 2024.

⁴ Camille Raymond. "Thinking About the Modernization of NORAD," Hot Takes, *Network for Strategic Analysis*, November 24, 2020. <https://ras-nsa.ca/publication/thinking-the-modernization-of-norad/>. Accessed 24 February 2027.

⁵ Jason Sherman. "U.S., Canada set New Framework for NORAD Modernization." *Inside the Pentagon's Inside Missile Defense* 27, no. 17 (Aug 25, 2021). <https://login.cfc.idm.oclc.org/login?url=https%3A%2F%2Fwww.proquest.com%2Ftrade-journals%2Fu-s-canada-set-new-framework-norad-modernization%2Fdocview%2F2564111905%2Fse-2%3Faccountid%3D9867>. Accessed 27 February 2024.

⁶ NATO. "EU Relations." NATO Factsheet, March 2021. https://www.nato.int/nato_static_fl2014/assets/pdf/2021/3/pdf/2103-factsheet-nato-eu-en.pdf. Accessed 19 May 2024. See also Simon J. Smith. "NATO and the EU: A Short History of an Uneasy Relationship." *The Conversation*, December 2, 2019. <https://theconversation.com/nato-and-the-eu-a-short-history-of-an-uneasy-relationship-126710>. Accessed 19 May 2024.

⁷ Andrew Moran. "NATO and security alliance theory". *International Security Studies: Theory and Practice*, edited by Peter Hough, Andrew Moran, Bruce Pilbeam and Wendy Stokes, p. 340. Milton: Taylor & Francis Group, 2020. <http://cfc.idm.oclc.org/login?url=https://ebookcentral.proquest.com/lib/cfvlibrary-ebooks/reader.action?docID=6264271&ppg=354>. Accessed 27 February 2024.

⁸ NATO. "NATO Member Countries." NATO, March 11, 2024. https://www.nato.int/cps/en/natohq/topics_52044.htm#sweden. Accessed 19 May 2024.

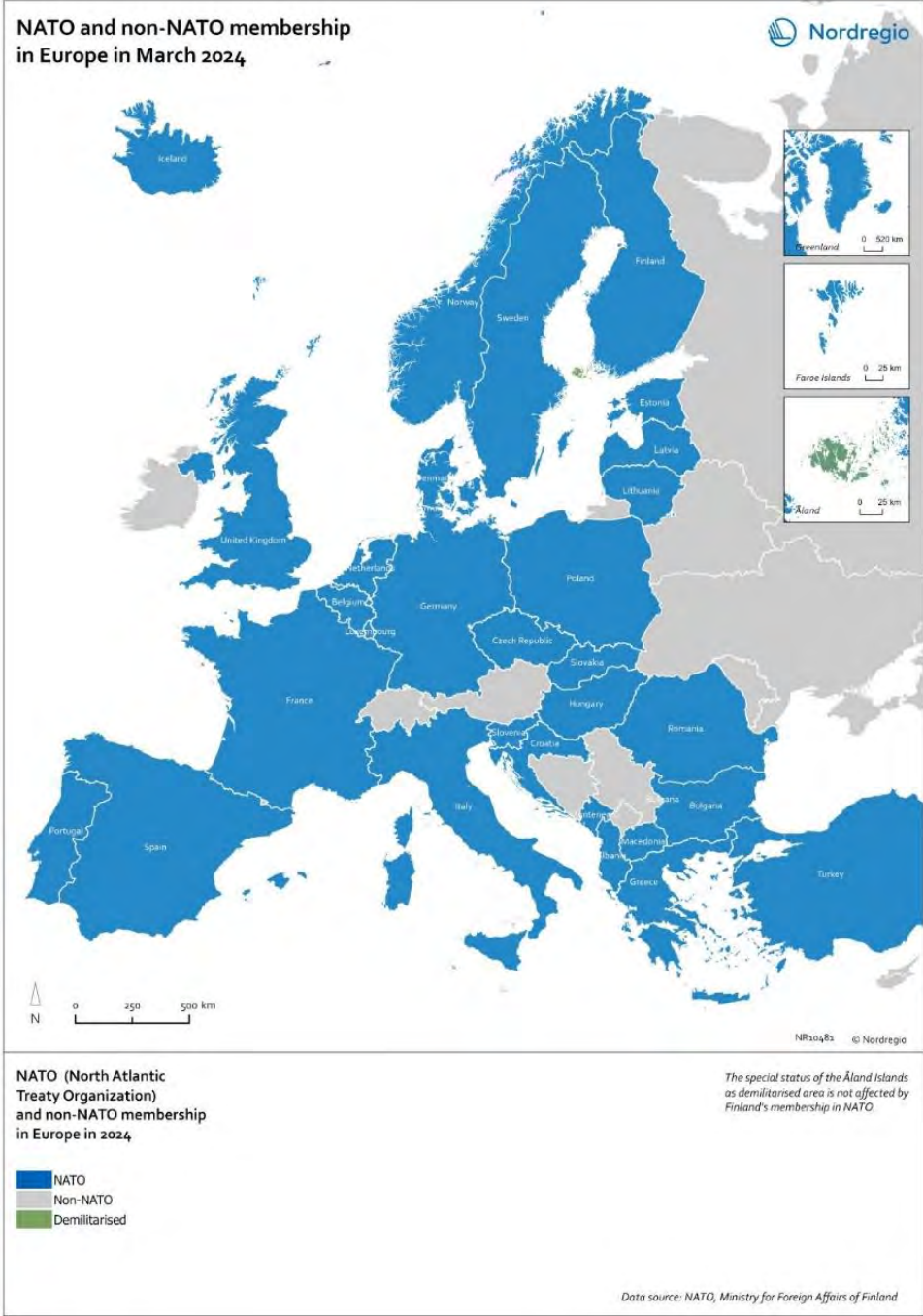


Figure 1 – NATO and Non-NATO Membership in Europe in 2024

Source: *Nodregio*

Challenges to US Hegemony

While the post-Cold War era saw the US as the unchallenged great power, the emerging context sees three great powers in the world: the United States, China and Russia.⁹ American primacy on the world stage is being contested not only by confrontation with Russia in Ukraine, but also by competition with China.¹⁰

Following the collapse of the Soviet Union bloc, the United States emerged as the hegemonic global power in a newly unipolar world. In the nearly 2 decades that followed, until Russia's invasion of Ukraine in 2022, the globe experience a sustained period with the lowest number of deaths in state-based conflicts since the end of WW2.¹¹

During this period of uncontested unipolarity, the US and the West viewed international relations from a western-centric ideology which assumed continued western hegemony.¹² Meanwhile, a brief period of democratization in Russia was followed by the return of authoritarian, though nominally democratic, leadership under President Vladimir Putin.¹³ Under Putin, Russia has invested in once again being a military power. Following Russia's invasion of Ukraine in 2022, Russian defence spending was USD 109,454 billion in 2023, representing 5.86% of its national GDP (see Figure 2).¹⁴ As a share of GDP, Russian defence spending is significantly higher than US defence spending of 3.36% of its national GDP, and China's 1.67% of its national GDP.

⁹ General Mark Milley. "How to Avoid a Great-Power War." *Foreign Affairs*, May 2, 2023. <https://www-foreignaffairs-com.cfc.idm.oclc.org/podcasts/how-to-avoid-great-power-war-mark-milley>. Accessed 08 April 2024.

¹⁰ Aaron Ettinger. "After Failure: American Foreign Policy at the End of the Post-Cold War Era." *International Studies Review* 23, no. 1 (2020): p. 249. <https://web-p-ebshost-com.cfc.idm.oclc.org/ehost/pdfviewer/pdfviewer?vid=0&sid=89e4699f-c13a-4c64-869c-229688fdf187%40redis>. Accessed 12 April 2024.

¹¹ Bastian Herre, Lucas Rodés-Guirao, Max Roser, Joe Hasell, and Bobbie Macdonald. "War and Peace." *Our World in Data*, March 20, 2024. <https://ourworldindata.org/war-and-peace?insight=conflict-deaths-have-declined-it-is-on-us-that-this-trend-continues#key-insights>. Accessed 24 March 2024.

¹² Greg Simons. "West vs. Non-West: A New Cold War?" *Transatlantic Policy Quarterly* 21, no. 4 (March 1, 2023): 117–25. <https://doi.org/10.58867/gxdg4139>. Accessed 21 April 2024.

¹³ Alexander Lukin. "The US-China Trade War and China's Strategic Future." *Survival* 61, no. 1 (January 2, 2019): p. 25. <https://doi.org/10.1080/00396338.2019.1568045>. Accessed 21 April 2024.

¹⁴ SIPRI. "Sipri Military Expenditure Database." *Stockholm International Peace Research Institute*. <https://www.sipri.org/databases/milex>. Accessed 20 May 2024.

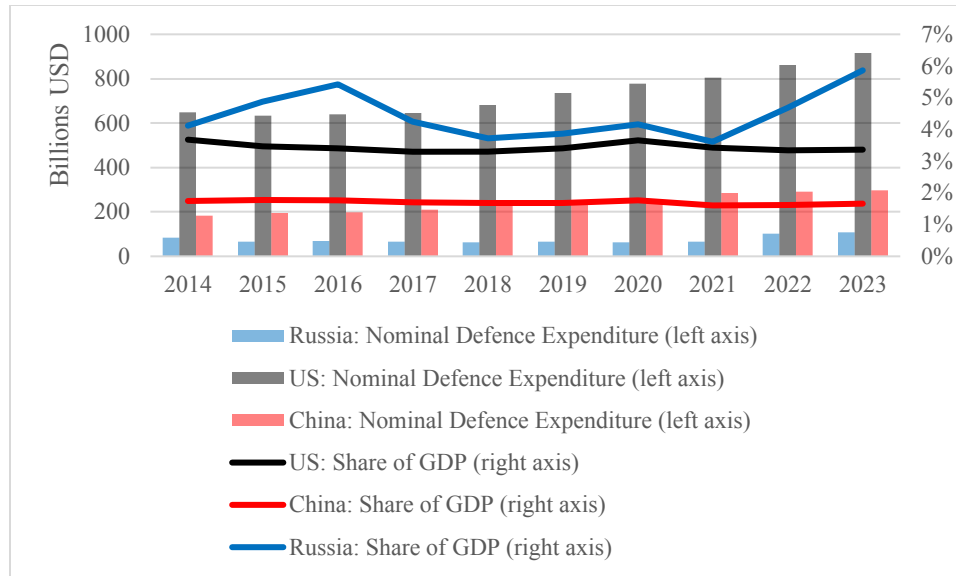


Figure 2 – US, Russia and China Defence Expenditure

Source: *Stockholm Peace Research Institute*

With respect to China, the West pursued economic engagement with the belief that this would lead to political reforms more in line with the West. Chinese leadership never seemed to share this view. Rather, they believed it was possible to grow the economy and raise living standards while maintaining an authoritarian political structure.¹⁵ The West seemed to assume that a rising China would not become a power that would be a counter or challenge to US power.

Meanwhile, as China has grown as an economic power, it has also developed as a military power that is now in competition with the United States for influence in the Indo-Pacific region and beyond. China has the second largest national expenditure on defence after the US, and has consistently increased this spending each year for the past 29 years.¹⁶ Figure 2 illustrates China’s defence expenditures over the past decade.

While the US continues to act on the world stage as a hegemonic power, Chinese influence has been growing. Although Russia and China currently lack a strategic military alliance between them, the BRICS (Brazil, Russia, India, China and South Africa) bloc of countries is emerging as a counterweight to US hegemony. This is especially so in the area of security cooperation.¹⁷ In addition, the BRICS bloc have taken

¹⁵ Alexander Lukin. “The US–China Trade War and China’s Strategic Future.” *Survival* 61, no. 1 (January 2, 2019): p. 24. <https://doi.org/10.1080/00396338.2019.1568045>. Accessed 21 April 2024.

¹⁶ Nan Tian, Diego Lopez Da Silva, Xiao Liang, and Lorenzo Scarazzato. “Trends in World Military Expenditure, 2023.” *SIPRI Fact Sheet*. <https://doi.org/10.55163/BQGA2180>. Accessed 20 May 2024.

¹⁷ Mihaela Papa, Zhen Han, and Frank O’Donnell. “The Dynamics of Informal Institutions and Counter-Hegemony: Introducing a BRICS Convergence Index.” *European Journal of International Relations* 29, no. 4 (2023): P. 982. <https://doi-org.cfc.idm.oclc.org/10.1177/135406612311183>. Accessed 21 April 2024.

concerted efforts to counter US and Western attempts to isolate Russia and together have criticized Russian sanctions by the US and NATO Allies.¹⁸

Another concern is the potential for nuclear escalation. Russian President Vladimir Putin has threatened to use nuclear warfare in Ukraine. Meanwhile, China has doubled the size of its own nuclear arsenal. Finally, Iran remains a concern as it reportedly makes continued advancements in its development of a nuclear warhead.¹⁹

US hegemony has been a positive force for nuclear non-proliferation. The US has worked to counter nuclear proliferation, including by friendly states, in part in exchange for security commitments. For example, Taiwan was on track to develop nuclear weapons capability in the 1980s, but pressure from the US prompted them to end their nuclear program.²⁰ Without the certainty of US hegemony and its ability to defend its Allies, nuclear proliferation efforts may be reversed. In fact, there was recent political discussion in Germany regarding the need for that country to have nuclear weapons.²¹ This would represent a significant shift from the post-WW2 defence posture of Germany, if realized.

The United States is still the most powerful state both militarily and economically, yet there may be a shift under way from United States hegemony to a multipolar global context.²² Russia has demonstrated that it is willing to use force to gain or maintain recognition of its status as a great power.²³ Meanwhile, US-China strategic competition in the Indo Pacific region has the potential to spill over and have more regional security implications.²⁴ A multipolar world would likely lead to a return to great power competition and conflict. This will require NATO Allies to take their defence commitments seriously, and not rely as heavily on the US for security, as lack of US hegemony would make security guarantees less certain. This is particularly important in

¹⁸ *Ibid.* P. 961.

¹⁹ Keir A. Lieber and Daryl G. Press. "The Return of Nuclear Escalation." *Foreign Affairs*, 2023. <https://www-foreignaffairs-com.cfc.idm.oclc.org/united-states/return-nuclear-escalation>. Accessed 11 April 2024.

²⁰ Andrew J. Nathan. "Taiwan's Former Nuclear Weapons Program: Nuclear Weapons On-Demand." *Foreign Affairs*, April 16, 2019. <https://www-foreignaffairs-com.cfc.idm.oclc.org/reviews/capsule-review/2019-04-16/taiwans-former-nuclear-weapons-program-nuclear-weapons-demand>. Accessed 18 April 2024.

²¹ Benjamin Schreer. "Trump, NATO and the Future of Europe's Defence." *The RUSI Journal* 164, no. 1 (2019): p. 15. <https://www-tandfonline-com.cfc.idm.oclc.org/doi/full/10.1080/03071847.2019.1605011>. Accessed 19 April 2024.

²² In their paper "A future Multipolar World", Lloyd and Dixon use the following definition of multipolar: "a particularistic structure that permits a balance of interests, a variety of politico-cultural forms, and multiple centres of significant international influence." Michael Lloyd and Chris Dixon. "A Future Multipolar World." *Global Policy* 13, no. 5 (2022): p. 819.

²³ Cristina Buză. "Russian Great Power Logic and its impact on Russia-West Relation." *Cogito* 11, no. 1 (Mar 2019, 2019/03//): p. 147. <https://login.cfc.idm.oclc.org/login?url=https://www.proquest.com/scholarly-journals/russian-great-power-logic-impact-on-russia-west/docview/2255281923/se-2>. Accessed 24 May 2024.

²⁴ Kai He, and Huiyun Feng. "Navigating International Order Transition in the Indo Pacific." *The Pacific Review* 36, no. 2 (December 26, 2022): p. 232. <https://doi.org/10.1080/09512748.2022.2160798>. Accessed 24 May 2024.

the Canadian context, where the US is Canada's most significant defence partner and Ally.²⁵

Resurgence of US Nationalism

Recent populist and nationalist movements, such as Former US president Donald Trump's "America First" campaign, have coincided with a resurgence of "populist foreign policy" in the United States.²⁶ Trump, currently the presumptive presidential candidate for the Republican nomination, has demonstrated a US nativist perspective which focuses almost exclusively on defense expenditure of Allies in order for them to maintain credibility as a security partner with the US.²⁷ This places pressure on NATO Allies to achieve their Defence Investment Pledge commitments, or risk American security guarantees.

President Trump has singled out NATO Allies, including Canada, for failing to meet the 2% of GDP target agreed at the 2014 NATO Summit. At the 2019 NATO summit Trump reportedly asked Allies "Where are you at? What is your number?", in reference to their NATO Defence Investment Pledge expenditures.²⁸ Perhaps most significantly, Trump declined to endorse Article 5 of the NATO treaty.²⁹ This article on collective defence and solidarity is considered a cornerstone of the alliance.³⁰

If the United States continues to employ a populist foreign policy with Allies in the future, it has become clear that Allies will need to step up to meet their defence expenditure commitments or risk their credibility within the alliance. In response to the "America First" nationalism of the previous US administration, European Allies reacted with increased defence investment in order to become less reliant on the US. This

²⁵ Canada, Global Affairs. "Government of Canada." GAC, June 27, 2023.

<https://www.international.gc.ca/country-pays/us-eu/relations.aspx?lang=eng>. Accessed 12 April 2024.

²⁶ Daniel F. Wajner. "Exploring the Foreign Policies of Populist Governments: (Latin) America First." *Journal of International Relations and Development* 24, no. 3 (Sep 2021, 2021/09//): p. 656.

<https://login.cfc.idm.oclc.org/login?url=https://www.proquest.com/scholarly-journals/exploring-foreign-policies-populist-governments/docview/2560489550/se-2>. Accessed 19 May 2024.

²⁷ Sara Greco and Stéfanie von Hlatky. "Soft Contributions Are Hard Commitments: NATO and Canada's Global Security Agenda." *Canadian Foreign Policy Journal* 24, no. 3 (May 25, 2018): p. 274.

<https://doi.org/10.1080/11926422.2018.1467837>. Accessed 08 March 2024.

²⁸ The Economist. "Canada's Miserly Defence Spending is Increasingly Embarrassing: A NATO Laggard." *The Economist* (Online), Jul 24, 2023.

<https://login.cfc.idm.oclc.org/login?url=https://www.proquest.com/magazines/canada-s-miserly-defence-spending-is-increasingly/docview/2841538408/se-2>. Accessed 18 May 2028.

²⁹ James McCormick and Gerald Schmitz. "Meeting the Challenge of 'America First' and the New Nationalism." *Canadian Foreign Policy Journal* 26, no. 2 (April 6, 2020): p. 111.

<https://doi.org/10.1080/11926422.2020.1745253>. Accessed 08 March 2024.

³⁰ N.B. Article 5 provides that if a NATO Ally is the victim of an armed attack, each and every other member of the Alliance will consider this act of violence as an armed attack against all members and will take the actions it deems necessary to assist the Ally attacked. See: NATO. "Collective Defence and Article 5." NATO, February 6, 2024.

https://www.nato.int/cps/en/natohq/topics_110496.htm#:~:text=Article%205%20provides%20that%20if,%20assist%20the%20Ally%20attacked. Accessed 20 May 2024.

increased European defence expenditure accelerated a trend of increased defence spending following Russia's 2014 illegal annexation of Crimea.³¹

While European and Canadian NATO Allies can further increase defence spending to achieve their NATO Defence Investment Pledge commitments, they would not be able to make up for any complete pull-out of support from the US. Fortunately for NATO, the US is unlikely to abandon the alliance. However, it has become increasingly clear that NATO Allies must shoulder more of the defence investments of the Alliance, and not rely as completely on the US for defence as they had in the preceding decades. \

Emerging Competition in Arctic Region

Canada's Arctic is rich in natural resources including fish, minerals, oil and gas. As shown in Figure 3, its geographic position and the potential of the Northwest Passage offer Canada a strategic passageway for shipping transit, as well as monitoring of other nations. Yet, melting ice and rising sea levels due to climate change will likely have significant impacts on the Arctic region and Canada's sovereignty.³² Further, due to Canada's limited military presence and surveillance capabilities, together with the size of the region, it is difficult to effectively monitor and respond to threats.³³ Meanwhile, Russia and China, are increasingly exerting their presence in the Arctic, which poses sovereignty and security threats to Canada.³⁴

³¹ Benjamin Schreer. "Trump, NATO and the Future of Europe's Defence." *The RUSI Journal* 164, no. 1 (2019): p. 15. <https://www.tandfonline-com.cfc.idm.oclc.org/doi/full/10.1080/03071847.2019.1605011>. Accessed 19 April 2024.

³² Government of Canada. "Arctic and Northern Policy Framework." Government of Canada; Crown-Indigenous Relations and Northern Affairs Canada, September 22, 2022. <https://www.rcaanc-cirnac.gc.ca/eng/1560523306861/1560523330587>. Accessed 19 May 2024.

³³ Satcha de Henning Michaëlis. "Policy Brief 27: What Multilateral Strategy for Canada in the Arctic?" *Network for Strategic Analysis*, March 2, 2023. <https://ras-nsa.ca/what-multilateral-strategy-for-canada-in-the-arctic/>. Accessed 19 May 2024.

³⁴ Adam Perry MacDonald. "China-Russian Cooperation in the Arctic: A Cause for Concern for the Western Arctic States?" *Canadian Foreign Policy Journal* 27, no. 2 (2021). <https://www.tandfonline.com/doi/full/10.1080/11926422.2021.1936098>. Accessed 18 May 2024

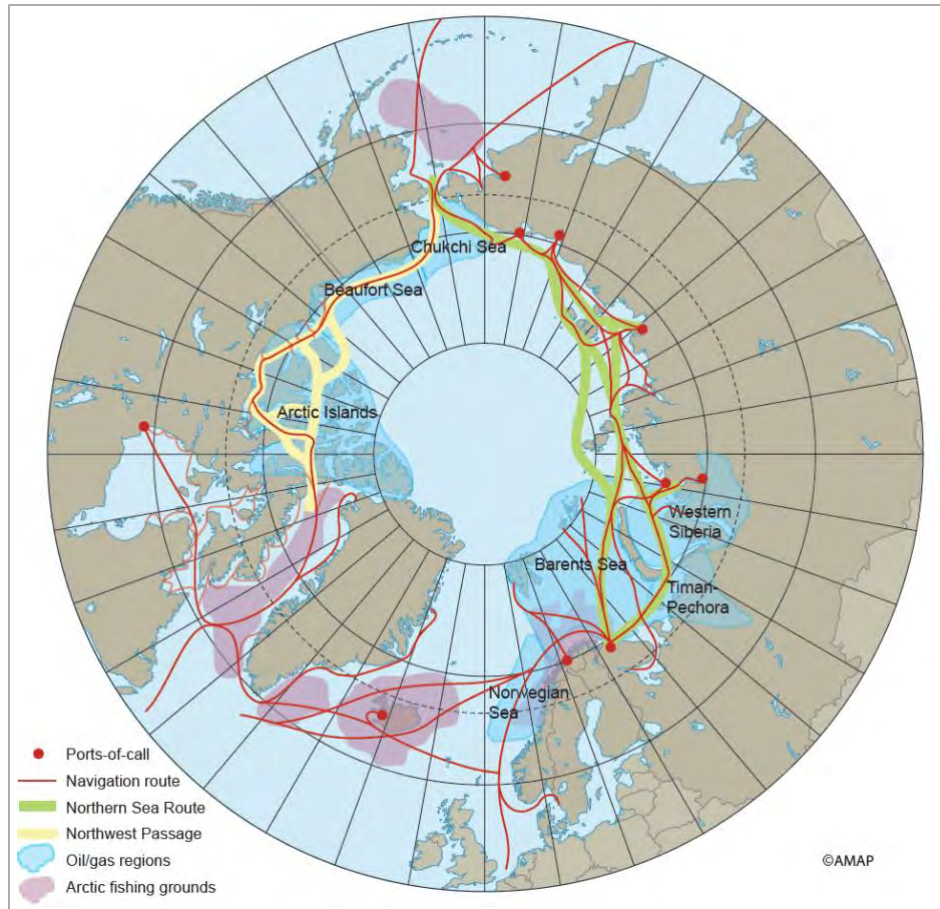


Figure 3 – Shipping Routes, Oil & Gas Regions, and Fishing Grounds in the Arctic

Source: *Arctic Monitoring & Assessment Program*

Russia and China have both demonstrated economic and military interests in the Arctic region. Since 2013, China has used climate science and scientific collaboration in the Arctic as a cover to gain international acceptance of its presence in the region, even as it describes itself as a “near-Arctic nation”. China announced a “Polar Silk Road” initiative in 2018 which was to go along the Northern Sea Route, along the Russian Arctic coast (see Figure 3). This calls into question their purported strictly scientific interest in the region. In terms of China’s Arctic military capabilities, in 1999 the country had just one icebreaker, while they are now capable of multi-domain, persistent observation in the Arctic, with the ability to support navigation and resource extraction.³⁵

³⁵ Bryan J.R. Millard and P. Whitney Lackenbauer. “Trojan Dragons? Normalizing China’s Presence in the Arctic.” *Canadian Global Affairs Institute*, June 2021.

Of note, Russia has supported China's designation of the Northern Sea Route as the Polar Silk Road, while China has backed Russian claims to the route. To date, China and Russia's Arctic cooperation has indeed been economic. However, they have recently begun cooperating militarily, and it is likely that this military cooperation would extend to military cooperation in the Arctic region in the future as well.³⁶

As the country with the largest Arctic territory (see Figure 3 above), the Arctic is central to Russia's status as a great power, providing a strategic resource hub for the country.³⁷ However, although its Northern Fleet remains its largest, Russia's naval power in the Arctic is restrained by its Cold-War era fleet. Further, its effort to bring modern ships into service have been delayed by issues with air-defense systems and faulty turbines.³⁸

Meanwhile, in the past Canada has avoided NATO exercises in the Arctic and opposed NATO exercises in its own Arctic in an attempt to avoid "provoking" Russia. This position seems to have shifted in response to Russia's 2014 annexation of Crimea, and subsequent military buildup. Canada's 2017 defence policy Strong, Secure, Engaged (SSE), calls for "joint exercises with Arctic Allies and partners" and to "support the strengthening of situational awareness and information sharing in the Arctic, including with NATO."³⁹

Canada's Defence Expenditure: 2014 - 2023

Canada spent an estimated CAD 37.774 billion on defence in 2023, compared with CAD 33.707 billion the year before, and just CAD 20.076 billion in 2014.⁴⁰ This represents an 88% increase in expenditure over the past decade. However, as a share of GDP, defence expenditure increased at a comparative rate of 32% percent over this period, as GDP itself rose from CAD 1.895 trillion in 2014 to CAD 2.175 trillion in 2023 (see Figure 4).⁴¹ Further, the Parliamentary Budget Officer (PBO) reports that spending

https://d3n8a8pro7vhm.cloudfront.net/cdfai/pages/4715/attachments/original/1622484329/Trojan_Dragon_s_Normalizing_Chinas_Presence_in_the_Arctic.pdf. Accessed 18 May 2024.

³⁶ Adam Perry MacDonald. "China-Russian Cooperation in the Arctic: A Cause for Concern for the Western Arctic States?" *Canadian Foreign Policy Journal* 27, no. 2 (2021): p. 197.

<https://www.tandfonline.com/doi/full/10.1080/11926422.2021.1936098>. Accessed 18 May 2024.

³⁷ *Ibid.*

³⁸ Robert David English and Morgan Grant Gardner, "Russia Doesn't Threaten the United States in the Far North—But Climate Change Does," *Phantom Peril in the Arctic*, September 29, 2020, <https://www-foreignaffairs-com.cfc.idm.oclc.org/articles/united-states/2020-09-29/phantom-peril-arctic>. Accessed 18 May 2024.

³⁹ Andrea Charron. "NATO, Canada and the Arctic." *Canadian Global Affairs Institute*, September 2017. https://d3n8a8pro7vhm.cloudfront.net/cdfai/pages/1793/attachments/original/1505784594/NATO_Canada_and_the_Arctic.pdf?1505784594. Accessed 18 May 2024.

⁴⁰ Expenditures in current prices and unadjusted for inflation. See: NATO. "Defence Expenditures and NATO's 2% Guideline." NATO, July 11, 2023.

https://www.nato.int/cps/en/natohq/topics_49198.htm#:~:text=The%202014%20Defence%20Investment%20Pledge,to%20NATO's%20common%20defence%20efforts. Accessed 11 April 2024.

⁴¹ Statistics Canada. "Table 36-10-0434-03 Gross domestic product (GDP) at basic prices, by industry, annual average (x 1,000,000)." Statistics Canada, April 30, 2024. <https://doi.org/10.25318/3610043401-eng>. Accessed 11 May 2024. NOTE: The Organisation for Economic Co-operation and Development

2% of GDP on defence remains out of reach for Canada over the medium term, with a CAD 13 billion annual funding gap remaining by fiscal year 2026-2027.⁴²

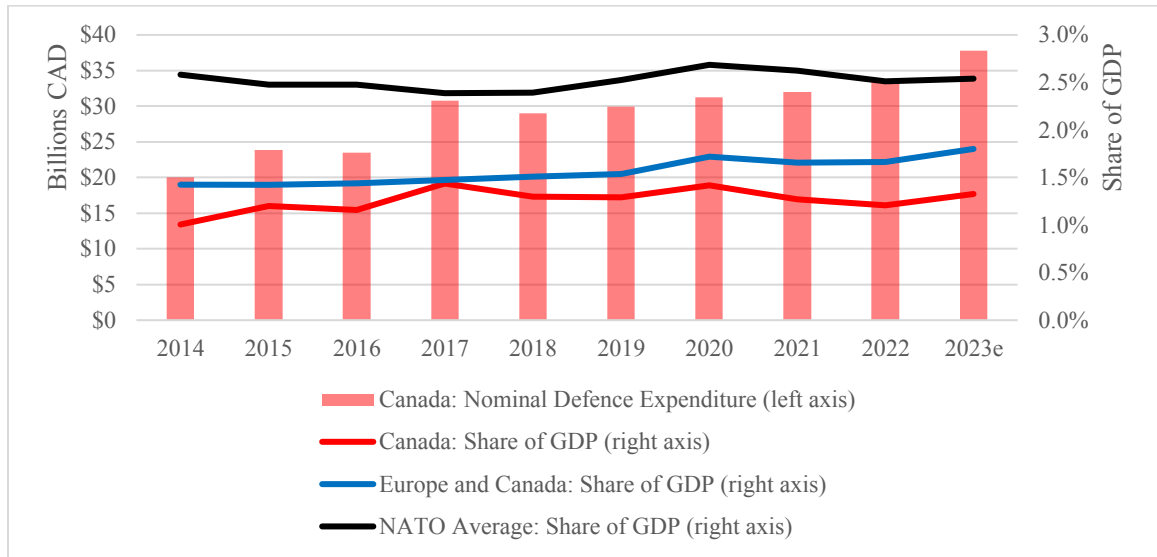


Figure 4 – Canada and NATO Defence Expenditure

Source: *Defence Expenditures and NATO’s 2% Guideline*

Compared with European Allies, Canada’s progress toward meeting the NATO 2% guideline has lagged considerably. In 2014, only Greece, the United Kingdom and the United States met the 2% guideline, while in 2023, 11 of the 29 Allies met the guideline, with two thirds of the Allies projected to meet the guideline in 2024. Figure 4 illustrates how Europe and Canada’s combined defence expenditure rose from 1.47% to 1.98% of combined GDP over the past decade, while Canada’s alone increased from just 1.01% to 1.33% of its GDP over the same period.⁴³ However, while Canada has lagged far behind European Allies in meeting the NATO guidelines, it has contributed CAD 4 billion in military assistance to Ukraine since 2022.⁴⁴ This demonstrates Canada’s commitment to

(OECD) defines gross domestic product (GDP) as the standard measure of the value added created through the production of goods and services in a country during a certain period. See OECD. “GDP and Spending - Gross Domestic Product (GDP) - OECD Data.” OECD Data. <https://data.oecd.org/gdp/gross-domestic-product-gdp.htm>. Accessed 11 May 2024.

⁴² Christopher E. Penney, Nancy Beauchamp, Marie-Eve Hamel Laberge, Martine Perreault, and Rémy Vandeweghe, *Canada’s military expenditure and the NATO 2% spending target* § (2022): p. 10. <https://distribution-a617274656661637473.pbo-dpb.ca/2e61c150ee17ee7fc0594b3c01632c13ffb4dcb4d848b9f259a81a318d997a3c>. Accessed 11 May 2024.

⁴³ NATO. “Defence Expenditures and NATO’s 2% Guideline.” NATO, July 11, 2023. https://www.nato.int/cps/en/natohq/topics_49198.htm#:~:text=The%202014%20Defence%20Investment%20Pledge,to%20NATO’s%20common%20defence%20efforts. Accessed 11 April 2024.

⁴⁴ Sara Greco and Stéphanie von Hlatky. “Soft Contributions Are Hard Commitments: NATO and Canada’s Global Security Agenda.” *Canadian Foreign Policy Journal* 24, no. 3 (May 25, 2018): p. 475.

the defence of Europe even though it continues to struggle to meet its NATO Defence Investment Pledge commitments.

Still, when it comes to expenditure invested in major new equipment, Canada is now a clear outlier. In 2014, only Albania, Estonia, France, Luxembourg, Norway, Türkiye, the United Kingdom and the United States met the 20% guideline. However, after a decade of significant increases in investment by the rest of NATO, in 2023 Canada was the only country that did not meet this guideline, with just 14.37% of its defence expenditure invested in major new equipment. As shown in Figure 5, the percentage of Canada’s defence expenditure on major equipment in the past decade has remained in the range of 10.47% to 14.37%.

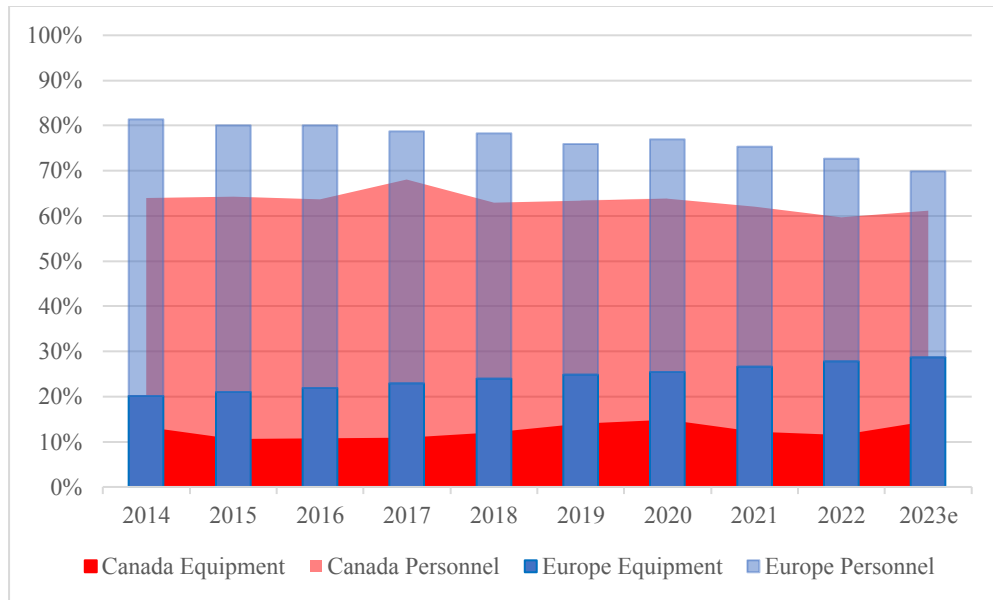


Figure 5 – Canada and Europe Defence Expenditure Percentage by Category

Source: *Defence Expenditures and NATO’s 2% Guideline*

Meanwhile, European Allies have significantly increased their percentage of expenditure on major equipment from 20.20% in 2014 to 28.72% in 2023. As Figure 6 illustrates, in 2023 Canada was the only NATO Ally to fail to meet both guidelines of spending 2% of national Gross Domestic Product (GDP) on defence, and also 20% of defence expenditure to be invested in major new equipment.⁴⁵ This places Canada in the unenviable position within the Alliance as the only member that has failed to meet either of the expenditure guidelines in the NATO Defence Investment Pledge. This outlier

<https://doi.org/10.1080/11926422.2018.1467837>. Accessed 08 March 2024. See also National Defence. “Government of Canada.” Canadian military support to Ukraine - Canada.ca.

<https://www.canada.ca/en/department-national-defence/campaigns/canadian-military-support-to-ukraine.html#toc0>. Accessed 20 May 2024.

⁴⁵ NATO. “Defence Expenditures and NATO’s 2% Guideline.” NATO, July 11, 2023.

https://www.nato.int/cps/en/natohq/topics_49198.htm#:~:text=The%202014%20Defence%20Investment%20Pledge,to%20NATO's%20common%20defence%20efforts. Accessed 11 April 2024.

status has the potential to seriously undermine Canada’s standing and credibility within the alliance if it is not remedied in the coming years.

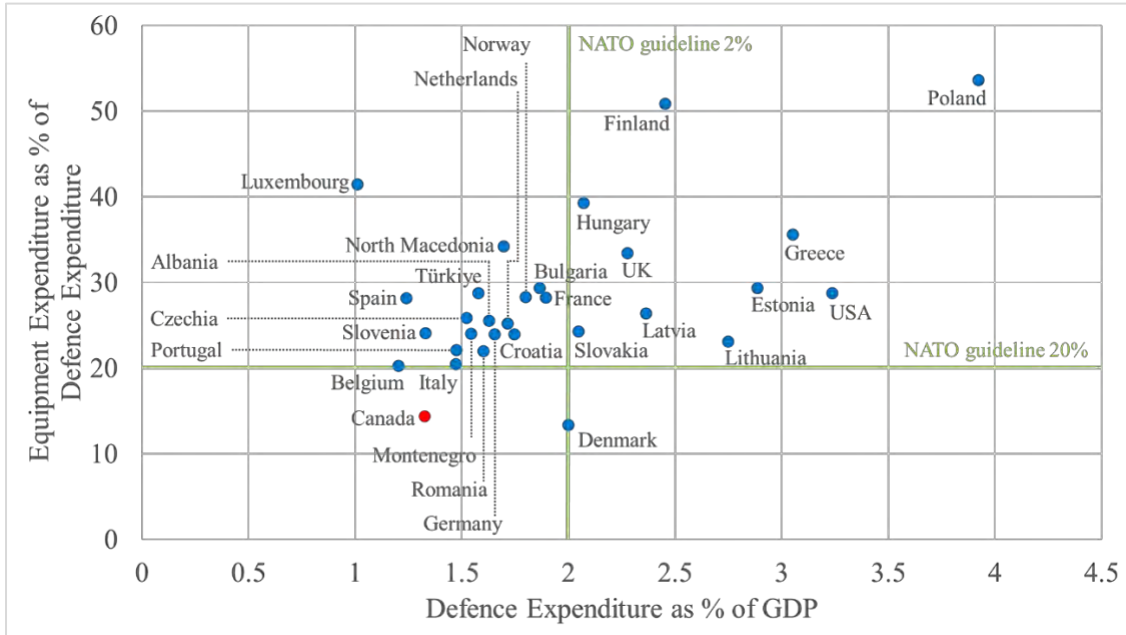


Figure 6 – 2023e Defence Expenditure as a Share of GDP and Equipment Expenditure as a Share of Defence Expenditure
 Source: *Defence Expenditures and NATO’s 2% Guideline*

Canada’s Defence Policy Commitments to NATO Expenditure Guidelines

The 2008 *Canada First Defence Strategy* made no reference to NATO defence expenditure guidelines, although NATO members initially agreed to the 2% guideline in 2006; however, it did promise predictable funding increases out to 2028. The policy also called for an annual 2% increase in defence expenditures starting in fiscal year 2011-2012, up from the previous 1.5% average annual increases.⁴⁶ In reality, the annual real change based on 2015 prices has fluctuated dramatically over the past decade, as seen in Figure 7. However, the largest increase of 27.76% in 2017 was at least in part due to a change in how Canadian defence expenditure is reported to NATO. As part of the defence policy review that resulted in the 2017 *Strong, Secure, Engaged* (SSE) policy, the reporting criteria were changed to align with NATO defence expenditure eligibility criteria. The criteria include not only defence ministry spending, but also pension and benefits payments to veterans, Canadian Coast Guard spending, security agency spending and humanitarian activities.⁴⁷

⁴⁶ National Defence. “Canada First Defence Strategy.” Canada.ca, 2008. <https://www.canada.ca/en/department-national-defence/corporate/policies-standards/canada-first-defence-strategy-complete-document.html>. Accessed 17 May 2024.

⁴⁷ National Defence. “Strong, Secure, Engaged: Canada’s Defence Policy.” Canada.ca, April 8, 2024. <https://www.canada.ca/en/department-national-defence/corporate/policies-standards/canada-defence-policy.html>. Accessed 08 April 2024. See also Christopher E. Penney, Nancy Beauchamp, Marie-Eve

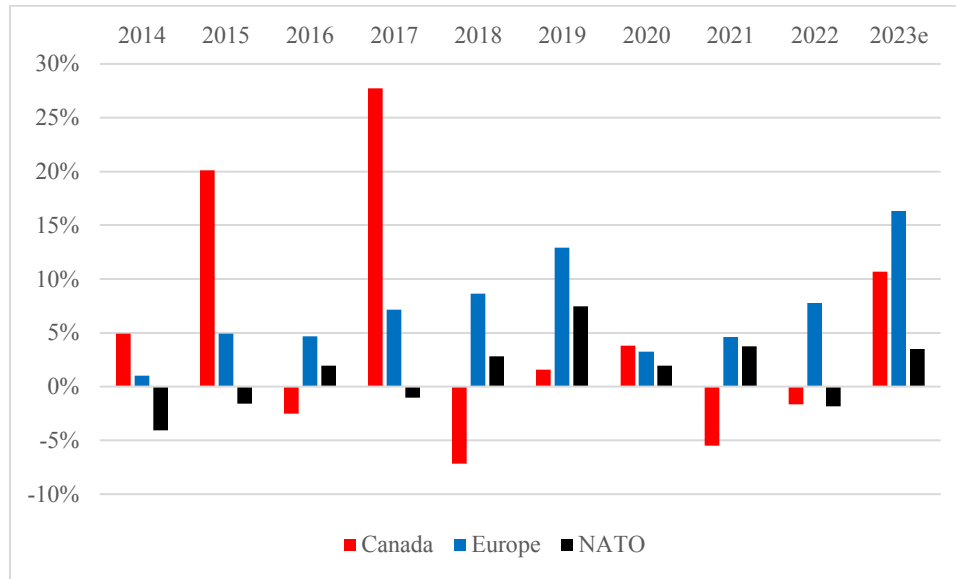


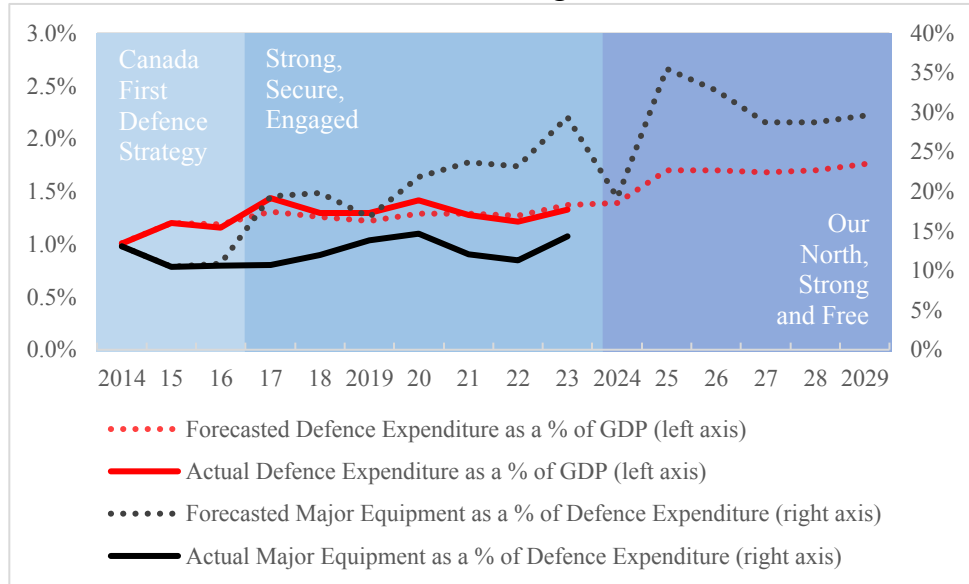
Figure 7 –Defence Expenditure Annual Real Change (%)
 Source: *Defence Expenditures and NATO’s 2% Guideline*

Strong, Secure, Engaged and the updated 2024 defence policy, *Our North, Strong and Free*, both explicitly reference the NATO Defence Investment Pledge. The policies also provide projections for defence expenditure as a percentage of GDP, as well as major equipment as a percentage of overall defence expenditure.⁴⁸ As shown in Figure 8, Canada’s defence policy does not commit to meeting the 2% of GDP guideline, but it does commit to the 20% for major equipment guideline. While actual defence expenditure as a percentage of GDP has tracked relatively closely to policy forecasts, actual major equipment procurement as a percentage of defence expenditure is currently just half of what the policy called for and has been consistently below forecast for the past 7 years.

Hamel Laberge, Martine Perreault, and Rémy Vandeweghe, Canada’s military expenditure and the NATO 2% spending target § (2022): p. 5. <https://distribution-a617274656661637473.pbo-dpb.ca/2e61c150ee17ee7fc0594b3c01632c13ffb4dcb4d848b9f259a81a318d997a3c>. Accessed 11 May 2024.

⁴⁸ National Defence. “Our North, Strong and Free: A Renewed Vision for Canada’s Defence.” Canada.ca, April 11, 2024. <https://www.canada.ca/en/department-national-defence/corporate/reports-publications/north-strong-free-2024.html>. Accessed 11 April 2024. See also National Defence. “Strong, Secure, Engaged: Canada’s Defence Policy.” Canada.ca, April 8, 2024. <https://www.canada.ca/en/department-national-defence/corporate/policies-standards/canada-defence-policy.html>. Accessed 08 April 2024.

Figure 8 – Canadian Defence Expenditure: Forecasted and Actual
 Sources: *Defence Expenditures and NATO’s 2% Guideline, Canada First Defence Strategy, Strong, Secure, Engaged and Our North, Strong and Free*



The

Procurement Problem

Why has Canada so consistently failed to achieve its major equipment expenditure targets as forecasted in SSE? The Parliamentary Budget Officer points to project delays which have resulted in the planned capital expenditures being pushed to later years in the 20-year spending horizon for SSE. Of the CAD 533 billion in planned defence expenditures over 20 years, beginning in fiscal year 2017-2018, CAD 164 billion was allocated in capital spending. This would represent 30.7% of defence expenditures for major equipment, if realized. However, the PBO found that of 329 specific capital projects identified in 2018, the Department of National Defence was only able to provide updates on 10% of the projects by 2022, had underspent on capital by a cumulative CAD 5 billion, and a further gap of CAD 13 billion of the total 164 was not planned or allocated against specific capital projects.⁴⁹

The SSE policy acknowledged the longstanding challenges with defence procurement in Canada and promised a reform of Canada’s procurement model. However, changes to procurement under SSE were minimal, and not sufficient to achieve the aspirational goals of the policy.⁵⁰ This must be meaningfully addressed in order for

⁴⁹ Penney Kho, “Planned Capital Spending under Strong, Secure, Engaged – Canada’s Defence Policy: 2022 Update,” Office of the Parliamentary Budget Officer, March 11, 2022, <https://www.pbo-dpb.ca/en/publications/RP-2122-033-S--planned-capital-spending-under-strong-secure-engaged-canada-defence-policy-2022-update--depenses-capital-prevues-titre-politique-defense-canada-protection-securite-engagement-mise-jour-202>. Accessed 18 May 2024.

⁵⁰ David Perry, Philippe Lagassé, Alan Williams, Charles Davies, and Ross Fetterly. “Assessing SSE and Anticipating the Defence Policy Update.” *CDA Institute*, September 28, 2023. <https://cdainstitute.ca/assessing-sse-and-anticipating-the-defence-policy-update/>. Accessed 18 May 2024.

Canada to achieve its commitment of 20% of defence expenditure to be invested in major new equipment. The 2024 defence policy, *Our North, Strong and Free* also acknowledges that Canadian “defence procurement takes too long” and promises a review of the procurement system.⁵¹

Dr. Craig Stone, who teaches Strategic Resource Management at Canadian Forces College, points to the complexity of three departments (Department of National Defence, Industry Canada, and Public Works and Government Services Canada) being responsible for defence procurement. He has argued for the establishment of a standalone defence procurement organization to streamline the process and allow for skills specialization needed to match the complexity of military procurement. Other researchers argue that structural reform alone will not be a silver-bullet or panacea.⁵² Dr. Stone acknowledges this fact and further recommends that the government should in fact conduct a wholesome review of its procurement system. Other researchers point to the importance of the approach to and prioritization of procurement as areas of focus.

According to Trevor Taylor, a Professorial Fellow at the Royal United Services Institute, risk management must be recognized as central in defence acquisition. The approach that he advocates for involves understanding and articulation of acceptable (and unacceptable) risk. This sort of risk-based approach would be necessary for “Agile Procurement” to be adopted, as it would be essential to have a commonly agreed upon risk appetite for the sort of fast-tracked contract and regulatory approvals this approach would entail. If a delay or capability gap were outside of the risk appetite, then an agile approach (using fast-tracked approvals) would be acceptable in those instances.⁵³

Conclusion

Successive Canadian defence policies over the past decade have committed to substantially increasing defence expenditures. Overall, defence expenditures have increased roughly in line with forecasts laid out in policy, though they have not achieved the NATO Defence Investment Pledge target of at least 2% of national GDP, nor have they committed to. While defence policy forecasts have committed to meeting the guideline of 20% of defence expenditure to be invested in major new equipment annually by 2020, Canada is still far behind on that goal, investing just 14.37% in this category in 2023.

⁵¹ Defence, National. “Our North, Strong and Free: A Renewed Vision for Canada’s Defence.” Canada.ca, April 11, 2024. <https://www.canada.ca/en/department-national-defence/corporate/reports-publications/north-strong-free-2024.html>. Accessed 11 April 2024.

⁵² Jeffrey Collins. “Defence Procurement Canada: Opportunities and Constraints.” *Canadian Global Affairs Institute*, December 2019.

https://www.cgai.ca/defence_procurement_canada_opportunities_and_constraints. Accessed 18 May 2014.

⁵³ William Richardson, Kalen Bennett, Douglas Dempster, Philippe Dumas, Caroline Leprince, Kim Richard Nossal, David Perry, Elinor Sloan, and J. Craig Stone. “Toward Agile Procurement for National Defence: Matching the Pace of Technological Change.” *Canadian Global Affairs Institute*, June 2020. https://www.cgai.ca/toward_agile_procurement_for_national_defence_matching_the_pace_of_technological_change. Accessed 18 May 2024.

Canada's position as the only NATO Ally that has failed over the past decade to achieve either of the 2% of GDP or the 20% of defence expenditure on major new equipment guidelines places it as the clear outlier within the alliance. This threatens its credibility within the alliance and strains relations with its closest Ally and security partner, the United States of America.

In the emerging global security environment where US hegemony is no longer certain, countered by a rising China and a belligerent Russia, the risk to Canadian security and sovereignty is clear if it does not make improved progress toward meeting its NATO Defence Investment Pledge. This is even more significant in the context of recent US populist foreign policy, where collective defence has been called into question for Allies that do not meet their defence expenditure commitments.

Major new equipment is required, particularly in arctic defence, to replace obsolete equipment. While Canada has committed to achieving the 20% guideline of defence expenditure on major new equipment, as has been laid out in defence policy, significant challenges remain extant for national defence procurement. To overcome these challenges, policy makers should consider creating a standalone defence procurement organization to streamline the process or taking a risk-based approach with agile procurement to fast-track approvals of critical major new equipment.

Finally, policy makers should consider whether Canada's continued lack of commitment in defence policy to meeting the 2% of GDP guideline is worth the risk of its credibility within the NATO alliance, and threats to its sovereignty in the Arctic. However, should Canada meet at least the 20% of defence expenditure of major new equipment guideline in the near term, it could mitigate some of the current risk associated with Canada's current standing as the only NATO Ally that fails to meet either of its commitments under the NATO Defence Investment Pledge.

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