

# *Dollars and Sense:* Canada has Entered NATO's Quadrant of Shame

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At NATO's 2023 Summit in Vilnius, Lithuania, all member states, Canada included, committed to two new Investment Pledges. The first reads that "we make an enduring commitment to invest at least 2% of our Gross Domestic Product (GDP) annually on defence."<sup>1</sup> The second pledge states that "[w]e commit to invest at least 20% of our defence budgets on major equipment, including related Research and Development."<sup>2</sup> Taken together, these pledges commit all NATO members to spend a minimum share of their economy on defence, and commit a minimum portion of what is spent on defence on materiel defence capability. The first of the two pledges is directed at ensuring members commit a comparably meaningful share of their economic production to defence, while the second is an effort to ensure that the funds that are spent produce modernized forces. It is notable that in each case, the new NATO Investment Pledges agreed to at Vilnius strengthened pledges made previously by NATO members, notably at the Wales Summit in 2014.

At the summit in Wales, NATO members that were not spending 2% of GDP on defence committed to "aim to increase defence expenditure in real terms as GDP grows; [and] aim to move towards the 2% guideline within a decade."<sup>3</sup> With respect to equipment, member states similarly agreed to "aim, within a decade, to increase their annual investments to 20% or more of total defence expenditures."<sup>4</sup>

Canada, like many of its NATO allies, has struggled over time, meeting neither investment pledge target. In the last several years, and especially since increased Russian

aggression against Ukraine in 2022, many NATO members have increased their spending such that they are now meeting one or both targets. In 2021, 24 NATO members fell short of the 2% pledge,<sup>5</sup> but the estimates for 2023 show that five of those countries will now meet the 2% target. Similarly, in 2021 nine states fell short of the 20% equipment spending pledge, but in 2023 only two are estimated to fall short. In 2023 alone, this positive investment trajectory in NATO countries other than the United States resulted in an increase of 11% overall, which was characterised by the Secretary-General in his Annual Report as an "unprecedented"<sup>6</sup> increase in total spending.

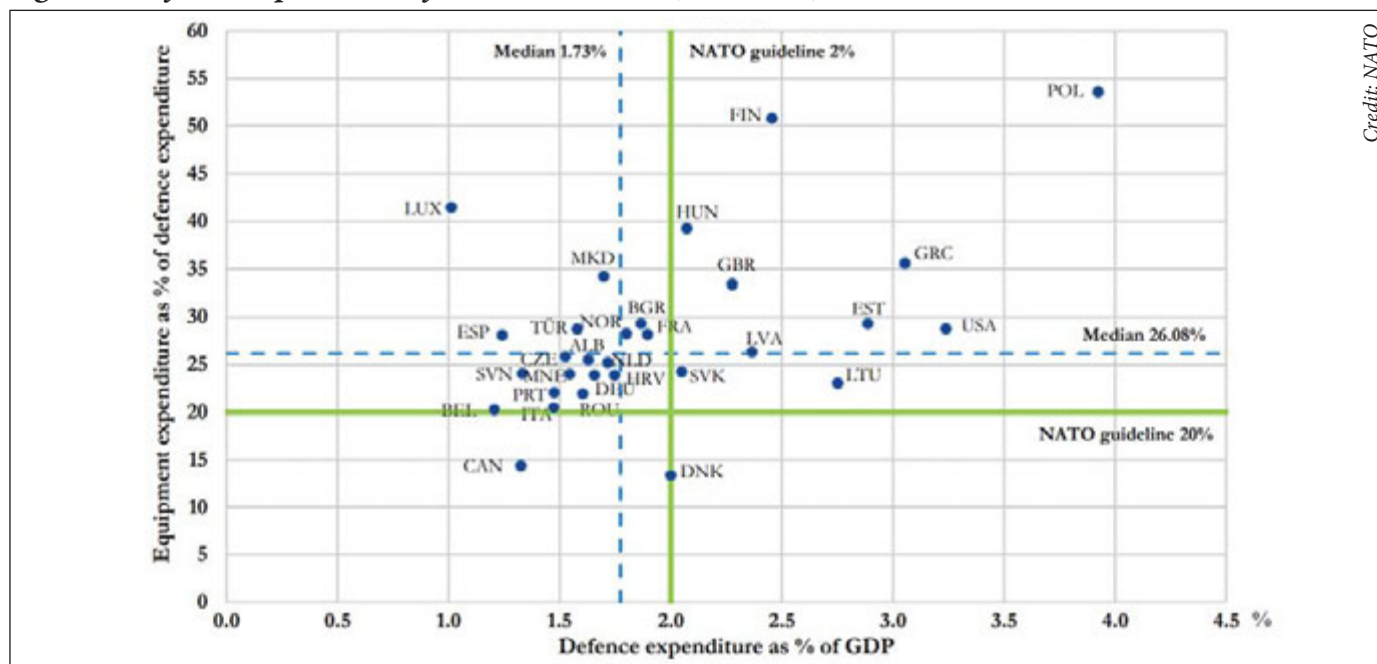
Despite this overall increase, the data troublingly show that Canada is now the only NATO member which does not meet either of the NATO investment pledges. Estimates for 2023 indicate Canada will spend 1.33% of GDP on defence, and 14.37% of that spending will go towards equipment and related Research and Development. While Denmark is also slated to fall short of the equipment target, estimates are showing that the country will reach the 2% target for 2023.<sup>7</sup>

For several years, NATO has plotted the progress of member states against both of these spending targets, and the most recent estimates for 2023 are presented in Figure 1. In plotting performance against both targets, the chart creates four quadrants. The upper right quadrant depicts the 10 states which currently meet both targets. The bottom right depicts Denmark as the sole member meeting the 2% mark, but falling short of the 20% equipment target. The upper left depicts the majority of NATO states



Official portrait of NATO Heads of State at the 2023 Vilnius Summit.

Figure 1. Defence Expenditure of NATO Countries (2014-2023), 14 March 2024



Credit: NATO

which fall short of the 2% mark, but which are exceeding the 20% spending threshold. In the bottom left quadrant are countries that meet neither alliance investment pledge target. As Figure 1 shows, Canada is the only country residing in what could be called ‘the Quadrant of Shame.’

On 8 April, three months prior to NATO’s 75<sup>th</sup> anniversary summit meeting in Washington, DC, Canada released “Our North, Strong and Free,” the much-awaited review of Canadian defence policy promised two years earlier. The new policy warrants an entire column of its own to address the substance (and in the case of a funded submarine replacement project, the lack thereof) but on the financing “Our North, Strong and Free” comes with a net new funding injection of \$71 billion over 20 years and \$7.9 billion over the first five years of the policy on an accrual basis. According to DND officials, on a cash basis (the actual spending, not how it is accounted for) the policy will mean more than \$10 billion spent over the first five years and just over \$100 billion spent over the policy’s first 20 years. On this basis, the policy states that “[t]he government is projecting our defence spending to GDP ratio to reach 1.76% in 2029-30 and initiatives under this policy also puts Canada on track to exceed NATO’s target of 20% for major equipment expenditures as a proportion of defence funding.”<sup>8</sup>

Will “Our North, Strong and Free” get Canada out of the Quadrant of Shame? With regard to NATO’s 2% target, the new policy shows Canada has simply no intention of meeting that spending threshold, which will not go unnoticed by allies. Even after committing to spend at least that much on defence, and conducting a two-year review of defence spending, the Justin Trudeau government is unwilling to commit the funds to meet that target. This leaves the assurance that Canada will at least meet the 20% equipment pledge target. However, given how far

Canada has fallen behind in meeting these commitments, it has earned the skepticism of its allies and anyone else interested in seeing it live up to its international commitments. The federal budget, published on 16 April, provided a projected cash spending table that shows that annual spending on DND is slated to rise from \$33 billion in 2024/2025 to \$44 billion the following year.<sup>9</sup> This could be driven by expenditures on several large projects which are now moving through the procurement system, including the purchase of the Airbus 330 multi-role tankers and P-8 Poseidon maritime patrol aircraft. But an annual spending increase by more than one-third has never happened at any other point in the previous two decades when defence spending has been rising. As well, Canada has projected spending at least 20% of GDP in several years, and failed to meet the threshold.

From the standpoint of living up to our NATO commitment, even with the promise of tens of billions more in additional defence spending, “Our North, Strong and Free” is a serious disappointment. Let’s at least hope it gets us out of the Quadrant of Shame. 🇨🇦

Notes

1. NATO, Vilnius Summit Communiqué, 11 July 2023.
2. *Ibid.*
3. NATO, Wales Summit Declaration, 5 September 2014.
4. *Ibid.*
5. This includes data for Finland before it acceded to NATO.
6. NATO, “The Secretary General’s Annual Report 2023,” 14 March 2024.
7. NATO, “Defence Expenditure of NATO Countries (2014-2023),” 14 March 2024.
8. Canada, “Our North, Strong and Free,” Ottawa, Department of National Defence, 2024.
9. Canada, Budget 2024, Ottawa, Department of Finance, 2024.

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