

# *Dollars and Sense:* Defending Canada with a 2% of GDP Defence Budget

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In July 2024, NATO allies met in Washington, DC, to celebrate the 75<sup>th</sup> anniversary of the world's most successful military alliance. The event featured three days of celebrations of alliance unity, resolve and support for Ukraine amidst sweltering (even for DC) heat and humidity.

The summit was significant for Canadian defence and the future of Canada's navy. Most notably, after the summit officially concluded, Prime Minister Justin Trudeau held a press conference flanked by Minister of National Defence Bill Blair and Foreign Affairs Minister Mélanie Joly. After extolling his government's record on defence, noting that it had already made a commitment of \$175 billion in funding to the military, the Prime Minister stated that "Canada fully expects to reach NATO's 2% of GDP spending target by 2032."<sup>1</sup>

This statement is an important, if highly qualified, move that will help reframe the Canadian defence landscape. It marks the first time a Canadian leader has officially made the commitment to live up to the defence pledge outside of the commitments made implicitly by signing NATO defence communiqués at the summits in Vilnius and Wales. The primary qualification that must be attached to this announcement relates to both funding and planning. There has as yet been no official commitment of funding to back the political commitment, and its believability hinges on the government coming forward with a funding decision.

However, this is an important political commitment for both international and domestic audiences. Canada's refusal to commit to meet the investment pledge target was leaving it increasingly offside with other members of the alliance. At the NATO Public Forum held adjacent to the official summit, the pledge and its importance came up over and over again during two days of discussions. The need for the investment target to increase to a higher threshold of 2.5 or 3% of GDP came up frequently enough to demonstrate that there is seriousness behind the Vilnius language that 2.0% is the minimum allies must spend. These conversations demonstrated that recognition of the importance of defence spending extends well beyond the United States where, in the lead-up to the summit, American political leaders had called out Canada for failing to meet its investment pledge target. In May a bipartisan group of 23 American Senators signed an open letter calling on Canada to meet the target. In the days immediately preceding the summit, following meetings with leading Congressional members by Trudeau, House Speaker Mike Johnson accused Canada of "riding on America's coattails" on defence while Mitch McConnell, the Senate Minority Leader, posted to social media that "it's time for our northern ally to invest seriously in the hard power required to help preserve prosperity and security across @NATO."<sup>2</sup> As Chris Sands, an observer of Canada-US relations from a Washington think tank noted, Canada's failure to state it would meet the investment pledge target was negatively affecting Canada-US relations.<sup>3</sup> Indicating that Canada would meet the target helps restore some lost reputational credibility.

At home, committing to 2% has set new yardsticks by which Canadian defence commitments will be measured. Ahead of the NATO summit, Pierre Poilievre, the Conservative Party of Canada's leader – and barring significant change in Canadian public opinion, Canada's next Prime Minister – would only commit to 'work towards' spending 2% of GDP on defence. This language essentially echoes the NATO Wales Summit pledge from 2014. Following Trudeau's declaration that Canada expects to reach 2% by 2032, Poilievre has been unwilling to echo the commitment, instead stating "[e]very time I make a financial commitment, I'm going to make sure I've pulled out my calculator and done all the math."<sup>4</sup> Despite Poilievre demurring to make the same financial commitment, Trudeau's statement has likely redefined the discussion of defence in Canada. Having staked out a concrete timeline to honour Canada's alliance investment pledge, future



*Prime Minister Justin Trudeau speaks with Kyriakos Mitsotakis (Prime Minister of Greece), Ulf Kristersson (Prime Minister of Sweden) and Emmanuel Macron (President of France) during the NATO Summit in Washington DC, 11 July 2024.*



Credit: Timothy Choi

A model of the Korean KSS-III diesel-electric submarine, with a cutaway showing its large-diameter ballistic missile launch tubes. The KSS-III is one of the likely contenders for the Canadian Patrol Submarine Project. This model was on display at the Hanwha booth at the CANSEC 2024 tradeshow in Ottawa, May 2024.

political leaders will measure any future political party’s pledge or government’s action against that commitment.

In a news release issued in conjunction with the speech in Washington, Minister of National Defence Blair clarified that the government of Canada expects to reach 2% of GDP spending by 2032 by moving forward with the items that *Our North, Strong and Free (ONSAF)* – the defence policy released in April 2024 – committed only to ‘explore.’ This includes, most prominently, renewing and expanding Canada’s submarine fleet, a capability Trudeau committed to acquire on the opening day of the NATO summit. The supporting news release for that announcement indicates Canada is in the market for “up to 12 conventionally-powered, under-ice capable submarines,”<sup>5</sup> and a process to initiate the procurement will begin with a formal Request for Information released this fall. Canada’s key capability requirements are “stealth, lethality, persistence and Arctic deployability – meaning that the submarine must have extended range and endurance” and well as “striking capability.”<sup>6</sup> This commitment for striking capability aligns with the commitment in *ONSAF* to explore options for “acquiring long-range air- and sea-launched missiles” and indicates that the Royal Canadian Navy (RCN) will be developing an enhanced long-range missile capability on both the *River*-class destroyers (also known as the Canadian Surface Combatant) and the Canadian Patrol Submarines.

The other naval-related commitments that *ONSAF* indicated would be explored but are now to proceed include “enabling our Arctic and Offshore Patrol Vessels [*Harry*

*DeWolf*-class] to embark and operate our maritime helicopters at sea,” “acquiring a suite of surveillance and strike drones and counter-drone capabilities,” and “making further contributions to the integrated air and missile defence of Canada and North America,” all of which will add needed capabilities.

The first of these commitments will significantly enhance the operational capability of the *Harry DeWolf*-class. Given the trajectory of the *River*-class project (at the time of writing still without a build contract, and therefore without a real schedule for delivery), and the advanced age and state of the *Halifax*-class frigates (despite the additional funding for their sustainment pledged in *ONSAF*), the *Harry DeWolf*-class ships are likely to play a more significant role in Canadian seapower for a decade more than originally envisioned when the ship was conceived. *Max Bernays* was deployed to RIMPAC 2024, the first of the class to participate in the Pacific exercise, hardly what was envisioned for the class originally. Fully enabling Cyclone helicopter operations would further enhance the ships’ capability and strengthen their relevance in the years to come when their utilization is likely to increase further.<sup>7</sup>

Adding a suite of naval drone and counter-drone capabilities will similarly enhance the capabilities of the RCN in this increasingly important element of warfare. As the war in Ukraine and attacks in the Red Sea have demonstrated, the proliferation of drone technology has provided adversaries with a potent new weapon with which conventional maritime defences are not well positioned to cope if deployed at scale or in combination with missiles

or other airborne weapons. As well, the low barrier to achieve drone capability allows actors with modest means and sophistication to employ it effectively.

Finally, exploring further options for integrated air defence of Canada and North America could mean that the *River*-class destroyers take on an enhanced role in extended missile defence. Their Aegis combat system and cooperative engagement capability, along with a design decision to acquire vertical launch cells capable of firing the entire family of Standard Missiles could allow the ships to play a consequential role in missile defence, including against ballistic missiles. If configured properly, the *River*-class could provide an air-defence bubble around Canada's coast and into the Great Lakes. Even if such coverage was geographically limited, it would be a significant enhancement over what currently exists.

Of course all of these potential capabilities depend on the government actually coming through with the money to make 2% of GDP a reality. The fact that the results of a funding decision to do so have not been produced is worrisome. After all, the Department of National Defence just went through the process of reviewing Canadian defence policy over a two-year period, during which options to spend 2% of GDP were presented to Cabinet, and the resulting policy indicated only that Canada would reach 1.76% of GDP. Certainly, given the government's fiscal track over the next four years forecasted in the 2024 Budget, increasing spending to meet the 2% target would be difficult, with a deficit estimated to be \$40 billion this fiscal year, and debt servicing payments already over \$50 billion and projected to climb. Absent other information,

external pressure to do better than *ONSAF* in terms of defence spending seems more likely to have led to the commitment made by the Prime Minister in Washington than anything else. It is unclear what new information to substantiate the decision could have been brought forward in the three months since *ONSAF* was published that was not presented over the two years during which the document was developed. It is also doubtful that much work could have been conducted to develop detailed plans to reach the 2% threshold in that time frame.

By identifying 2032 as the year by which Canada expects to spend 2% of GDP on defence, the government has bought itself significant flexibility – politically, fiscally and from policy development and implementation standpoints. Politically, the current government will not be the one to deliver on the commitment unless public opinion changes radically and Trudeau somehow manages to stay in office. Fiscally, 2032 falls outside the Finance Department forecast, so determining the magnitude of defence spending required to reach 2% and the choices required to fund spending at that level are both unclear and there is plenty of time to make necessary adjustments.

Lastly, delivering on 2% of GDP will require a paradigm shift in Canada's ability to administer defence. Eight years may be a long time by normal standards, but it is about half the time currently required to complete new capability procurements. The year 2032 is also the one when, in the languid pace outlined in *ONSAF*, the Canadian Armed Forces are expected to return to the Authorized Strength of 71,500 regular forces – the assessed military establishment needed to support its 2017 defence policy. That force size does not account for the new capabilities funded under NORAD modernization, *ONSAF* or a 2% of GDP Canadian military. Other improvements will similarly be needed in Canada's approach to sustainment, real property management and the adoption of digital technologies. Reaching 2% of GDP will represent a financial paradigm shift, and it will not be realized by administration as usual. 🇨🇦

#### Notes

1. Prime Minister Justin Trudeau, Press Conference, 11 July 2024, Washington DC.
2. Judy Trinh, "Canada to Announce Plan to Reach NATO Target, Spend 2% of GDP on Defence: Sources," CTV News, 11 July 2024.
3. Chris Sands, "2024 NATO Summit in Vignettes," Canadian Global Affairs Institute (CGAI), Defence Deconstructed Podcast, 12 July 2024.
4. Michael Taube, "It's up to Pierre Poilievre to Clean up Trudeau's NATO Mess," *National Post*, 19 July 2024.
5. Canada, Department of National Defence, "Canada Launching Process to Acquire up to 12 Conventionally-powered Submarines," News Release, 10 July 2024.
6. *Ibid.*
7. Ian Brodie and Alex Salt, "RIMPAC 2024," CGAI, Defence Deconstructed Podcast, 9 August 2024.

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Credit: Commodore Dave Mazur

One of 21 *Spyder Mk III* drones is destroyed during a West Coast RCN counter-drone exercise in June 2024.