

Dollars and Sense: Slightly Delinquent: Canadian Defence Burden Sharing

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Is ‘slightly delinquent’ in President Donald Trump’s eyes when it comes to burden sharing a good thing, or a bad thing? That was his comment at the December 2019 NATO head of state meeting about how much of the defence burden Canada shares. While this was overshadowed by Prime Minister Justin Trudeau’s later ‘hot mic’ gossiping about the President that resulted in Trump referring to Trudeau as two-faced, the burden-sharing question had already surfaced, with Trump calling other allies falling short of NATO spending targets delinquent.

The 70th anniversary celebration of the NATO alliance in London in December was always going to place Canada in a tricky position. At the previous NATO head of state meeting, NATO’s burden-sharing arrangements had come under significant scrutiny from Trump, so whoever won the 2019 Canadian election could have expected once again to face scrutiny about how much of the collective defence tab Canada picks up. For years Canada (and many other allies) have fallen well short of the spending targets agreed to at the 2014 NATO summit in Wales. At this meeting allies committed to stop their declines in spending and spend 2% of Gross Domestic Product (GDP) on defence, and to spend 20% of this on equipment acquisition and related research and development by 2024.

To be sure, the burden-sharing commitments are more nuanced than this, as these ‘cash’ targets were only one of the three Cs – the other two were capability and commitments. In other words, allies, and certainly this is the Canadian version of events, did not just make a commitment to spend, they agreed to a set of spending targets that had couched language about the “aim to move towards the 2% guideline”¹ by 2024, but this went hand in glove with commitments to generate and use military capability in

support of alliance objectives. Canada has for years argued that in both capabilities and commitments, it measures up favourably alliance-wide. The dollars Canada does spend, Canadian officials argue, go to meaningful military capability and Canada has a strong track record of using it to conduct alliance operations and exercises. Canada, it is often noted, has participated in every NATO exercise and operation and, beyond that, it has been a heavy lifter in places like Libya and Afghanistan.

However valid, these arguments have historically only carried Canada so far, particularly with the United States which looks at Canada’s defence contributions in a North American context, in addition to the wider NATO commitments. While the Americans undoubtedly care about Canada’s capabilities and the contributions it makes with them, they also care about the cash. This was brought into stark relief with the news that in the fall of 2019 the Trump administration had issued a pointed formal *démarche*, or diplomatic note, to Canada reportedly highlighting the burden-sharing issue and spending specifically.²

So where does Canada stand in spending terms, and is it carrying an adequate share of the burden? Just ahead of the London gathering, NATO released updated spending statistics. Interestingly, during the media session between President Trump and Prime Minister Trudeau, neither Trudeau, nor the senior Canadian officials next to him, appear to have checked these publicly available statistics. When Trump put Trudeau on the spot and asked him ‘what’s your number?’ Trudeau flubbed the answer, and then was provided with an incorrect one by the Canadian officials with him.

The official NATO statistic show that Canada remains at the back of the NATO pack on both of the alliance’s formal

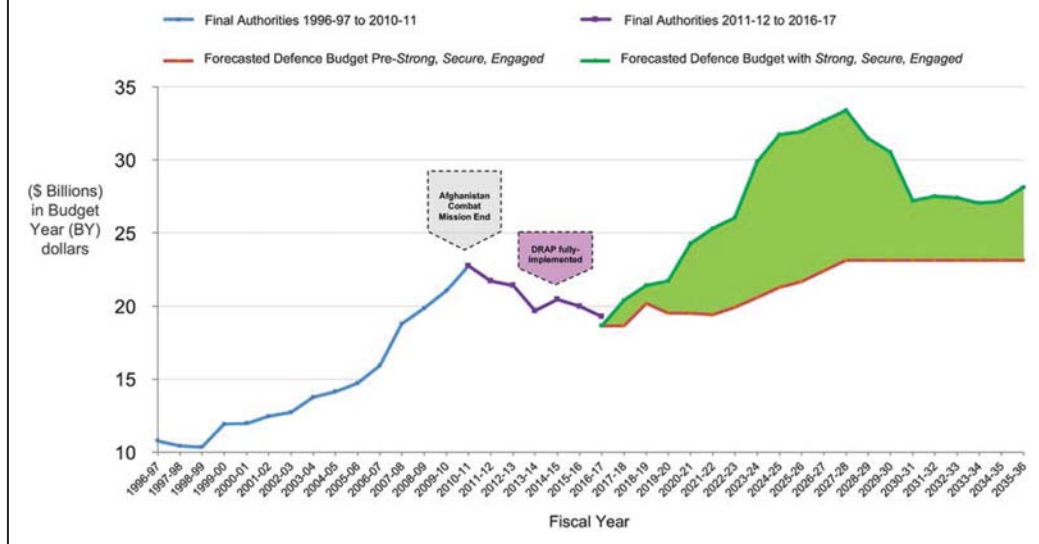
Table 2: Defence expenditure

Million US dollars

	2013	2014	2015	2016	2017	2018	2019e
United States	680,856	653,942	641,253	656,059	642,936	672,255	730,149
United Kingdom	62,258	65,658	59,492	56,154	55,672	60,308	60,761
Germany	45,931	46,102	39,813	41,590	45,374	49,725	54,751
France	52,316	51,940	43,474	44,191	46,036	50,459	50,729
Italy	26,658	24,448	19,566	22,373	23,852	25,004	24,482
Canada	18,221	18,150	18,685	17,711	23,704	22,400	22,485
Turkey	14,427	13,583	11,957	12,649	12,972	14,145	13,919
Spain	12,607	12,614	11,090	9,971	11,864	13,187	13,156
Netherlands	10,226	10,332	8,668	9,108	9,622	11,162	12,478
Poland	9,007	10,104	10,596	9,405	9,938	11,857	11,902

In absolute terms, Canada’s defence spending within NATO is fairly high, ranking 6th in the 2019 dataset from NATO. (Note that this table shows only the top 10 of the NATO members.)

Credit: NATO, with data sorted by Timothy Choi

Figure 2: Actual and Forecasted Defense Budget (Cash Basis)

Although Canada's defence spending is expected to rise for the next several years, it will peak and level off as major procurement programs reach a steady state as shown in this graph in *Strong, Secure, Engaged*.

spending metrics. On overall spending, the share of GDP going to defence is estimated to be 1.31% for 2019. This is the same share as 2018, although actually lower than two years ago, when a one-time pension adjustment pushed the share of GDP above 1.4%. On the equipment spending side, Canada is at 13.1%, slightly above where it had been the year prior. On each measure, Canada falls in the lower third of the alliance, falling at 20th of 29 allies on overall share of spending devoted to defence and 24th on the share of that going to equipment. Interestingly, on the

overall spending measure Canada is actually doing well when compared to *Strong, Secure, Engaged* (SSE) which had shown a smaller share of GDP going to defence spending in 2019 – 1.22%. On the equipment share, the reverse is true, as the spending on equipment was supposed to have reached 16.8%. At the same time, it should be noted that in absolute dollars, Canada compares favourably, ranking 6th in the alliance in absolute spending, which clearly shows that the unfavourable ranking as a share of GDP is in part the result of a strong economy.

A notable feature of the forecasted spending figures in SSE which outlines expected shares of GDP going to defence, is that they stop in 2024 when the share of GDP was supposed to reach 1.4% – presumably because that was the time target for the Wales summit. The policy, however, projected spending forward for a number of years, and the graphical depiction clearly indicates that spending under SSE is forecast to peak in 2027/2028 after which it is intended to decline over five years before remaining relatively unchanged over time. As the graphics were presented without any inflation adjustment, this indicates that Canada is forecasted to experience a significant decline in spending as a share of GDP, assuming the economy grows beyond 2027/2028.

If we look through the other financial data in Canada's published defence policy, we can see that the spending spike culminating in 2027/2028 is driven by spending on capital equipment projects. That spending has lagged behind the forecast outlined in the policy, however, as noted above. The Department of National Defence has to this point been spending roughly two-thirds as much as intended on this aspect of the budget. Of the projects itemized in the Defence Capabilities Blueprint, 70% are showing a delay of one year or more in their major milestones, which

is the case even for those projects that have had a major milestone achieved within the last year. In other words, 70% of projects are delayed, even those that are making progress. The probable reality of spending associated with SSE is that the rate at which spending increases will start to lag, flattening out the spike in spending that was predicted, and stretching it out over more years. That matters in the burden-sharing context because the part of Trudeau's response to the 'what's your number?' question he did deliver accurately was that "we like to talk about a 70% increase in spending." Until such time as equipment spending gets moving as intended, that total increase is in peril.

How much this matters is tough to say. There was certainly much evidence leading up to London to show that Canada was going to face increasing pressure on this issue. But being judged 'slightly delinquent' is likely a win for the government that may have expected a worse verdict. It is safe to say the Americans will remain attentive to this issue, so a Canadian government concerned with managing this aspect of Canada-US relations should be paying careful attention to the implementation of the procurement projects laid out in *Strong, Secure, Engaged*. 🇨🇦

Notes

1. NATO, "Wales Summit Declaration," 4 September 2014, available at https://www.nato.int/cps/en/natohq/official_texts_112964.htm.
2. Mercedes Stephenson and Kerri Breen, "U.S. Sent 'Blunt' Letter to Canada Criticizing Defence Spending: Sources," Global News.ca, 24 November 2019.

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