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2% or Else...?

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Successive American governments have warned/cajoled/encouraged allies to contribute more significantly to NATO's collective defence efforts. In 2014, an auspicious year for NATO given Russian aggression against Ukraine, NATO Heads of State agreed to commit to a guideline to spend a minimum of 2% of their Gross Domestic Product (GDP) on defence and more than 20% of their defence budgets on major equipment procurement, including related research and development.¹ The 2% is preceded by "a minimum of" and the 20% pledge is preceded by "more than", and the minimum in both cases should be achieved within a decade. This means that Canada has, *in theory*, four more years to match these amounts. Currently, Canada spends approximately 1.3% of GDP on defence and 13% on procurement and research and development.²

These two targets and the timeline are puzzling. Why would NATO states agree, via consensus, to the targets many could not achieve? In 2014, 26 of NATO's 28 members were below the 2% spending level. Recent 2019 estimates indicate that 21 will fail to meet the level, although in all fairness 2 of these will be roughly within .1%. In 2014, 21 NATO members were also below the 20% target, and 11 will fail to meet this target in 2019.³ As for Canada, it ranked 18th in 2014 and 21st in 2019 relative to the spending target, and 13th and 25th respectively on procurement/R&D. If the 2017 Canadian Defence White Paper, *Strong, Secure and Engaged*, is accurate for the future, Canada will fail to meet 2% by 2024, with its projections placing spending at roughly 1.4%. As for procurement/R&D, with the fighter replacement, the new combat vessel, and North Warning System (NWS) modernization (although its costs and timeline are not included in current projections), Canada might get close to the 20% target, but much will depend on procurement timelines, and Canadian accounting procedures.

The NATO, and thus Canadian 2014 consensus, however, may not be as puzzling at it initially seems on the surface. On one hand, the need for political solidarity in response to Russian aggression relative to American leadership likely underpinned the consensus. The consensus, therefore, is simply designed as a political signal to Moscow. On the other hand, the spending 'lagards' likely feared few, if any consequences would befall them

¹ Wales NATO Summit 6 September 2014 https://www.nato.int/cps/ic/natohq/official_texts_112964.htm

² The authors are grateful to David Perry at CGAI for assistance on these figures.

³ NATO. *Defense Expenditures of NATO Countries (2012-2019)*. Press Release. June 25, 2019.

https://www.nato.int/nato_static_fl2014/assets/pdf/pdf_2019_06/20190625_PR2019-069-EN.pdf

in failing to meet the targets. Beyond public shaming, the probability that failure would result in punishment was likely considered near zero at the time. The United States, at least dating back to the 1960s in the context of the bruising alliance debate on Flexible Response, has consistently and pointedly raised the issue of burden sharing and the lack of allied defence investment, and there have been no significant consequences across successive Administrations. President Trump has been the most voracious and threatening from the beginning of his administration, and yet there have been no real consequences to speak of.

In effect, the United States has been all talk for decades, with no action. The reason is straightforward, and well understood by the allies. As long as the United States defines its national security and vital strategic interests beginning at the border of NATO, evident over time in successive National Security documents and recent statements by the President, there is no need to worry about consequences. As long as the United States does not go beyond rhetorical threats to abandon the alliance, or some allies, and start to reduce its forward military presence, the allies need not worry.

In addition, public shaming is only likely to have an impact if it generates domestic political pressures to increase spending. This is also unlikely to happen. Even with the highly popular President Obama, little resulted, although he did little in attempting to shame publically the allies. As for the overwhelmingly unpopular President Trump, especially within Western Europe, his public shaming likely has made it more difficult for allied governments.

As for Canada, the above all applies with two additional, unique considerations. First, Canadian governments have generally perceived American complaints about burden sharing primarily directed at the European allies. Fairly regular speeches in Canada by senior US officials, including the American Ambassador to Canada, on burden sharing in which no specific ally is directly pointed out, have simply been ignored. Second, American homeland defence and security is indivisible from Canada. Whereas the United States might abandon forward defence and return to isolationism, as many feared when President Trump came into office, it cannot abandon Canada without significantly undermining its own defence and security – the Canadian ‘trump’ card.

Not So Fast Canada

Perhaps, however, Canada should not be too sanguine here. Looking back to NATO Europe, it is notable that all the key frontline states facing Russia are projected to meet both NATO targets in 2019. With regard to the other two frontline states on the North Atlantic, the United Kingdom will meet both targets, and Norway will fall just .2% short of the spending target. That leaves Canada as the only frontline state to fail miserably on both counts. Of course, as a Cold War hangover, Canada does not perceive itself as a frontline state, and this is very problematic, especially with the emphasis being placed on deterrence and Homeland Defence emanating from NORAD and US Northern Command.⁴ Perhaps, then, Canada has come into the ‘crosshairs’, and the European only assumption needs to be re-thought, if not deleted.

⁴ NORAD USNORTHCOM Strategy Executive Summary. July 2019.

Of course, Canada can still fall back on the indivisibility of North American defence, concluding that US rhetoric might ramp up, but there is little that the US President or administration can really do without damaging American homeland defence and security. But even here, perhaps, the Canadian government needs to re-think this assumption.

Because of the highly integrated nature of the Canada-US defence relationship, there are military options, which the US could employ to threaten and punish Canada, without necessarily damaging American security. The extensive military exchange program, which sees Canadian officers posted into major US command positions, such as the Canadian Deputy Commander of the US Second (Atlantic) fleet, could be targeted. Canada's access to US intelligence might be limited or cut off, and Canadian participation in US exercises, or US participation in Canadian exercises affected. In the later case, the US and NATO allies might not agree to participate in the paused MAPLE FLAG exercise, which is pending upon upgrades to offer a more realistic training environment that even our expansive air spaces can not offset. In a worst case scenario, the US might re-think its willingness to fund the full 60% of North Warning System (NWS) modernization.

Also, led by President Trump, the current administration has had no compunction about employing trade as a weapon, and Canada's dependence on U.S. trade makes it exceptionally vulnerable. In the past, American administrations were not shy to employ economic threats for security gains that affect allied decision-making. For example, in the 1980s, the Reagan Administration employed economic threats related to access to the American market to derail the proposed Soviet (Russian) pipeline into Western Europe. Similar threats have been employed by the current Administration over its unilateral sanctions against Iran. In addition, perhaps defence spending and procurement levels reside beneath the surface of Trump's very recent threats to impose significant tariffs against Europe, even though publically these are linked to stalled trade negotiations with the European Union.

If the gruelling NAFTA re-negotiation process is any indication, and Trump's employment of tariffs against Canada is perceived as useful in its final outcome, perhaps the Trump Administration will conclude that such economic threats and actions may prove useful to get Canada to meet its NATO commitments. While the recent American ratification of the United States, Mexico, and Canada Trade Agreement (USMCA) might provide some measure of re-assurance for Canada, there remain elements of the economic relationship beyond the confines of USMCA. Softwood lumber, of course, is one longstanding exemption to Canada's trade agreements with the US. While the Canadian government might think it has recourse to the World Trade Organization (WTO) to prevent the US from using tariffs in those trade areas outside of USMCA to pressure Canada to meet its defence commitments, this Administration, as well as preceding ones, has been willing to simply ignore unfavourable WTO rulings. If perceptions that President Trump and his administration are undermining the rules-based global order, which the US created, are correct, Canada is clearly vulnerable to the US linkage of economic and trade issues to Canadian defence spending and investment.

What is to be done?

The simple answer, of course, is for the Canadian government to meet its commitment over the next four years. Of course, this is easier said than done on two counts. First, the government might publically commit to increased spending and investments, but National Defence will not be able to spend new money quickly enough. If the past is any indication, National Defence has returned money on a fairly regular basis at the end of the fiscal year simply because it is unable to spend it. It takes time to develop, absorb and implement spending priorities and projects for any bureaucracy.

Second, a public commitment will entail an overhaul of current defence policy and spending as laid out in the *Strong, Secure and Engaged* in 2017, and the *Defence Investment Plan of 2018*. Canadian governments usually only do defence reviews once, and early on in their tenure, and are loath to do so a second time. Certainly, the government could copy Mulroney's example of issuing a new defence policy statement after the political and economic collapse of his government's 1987 White Paper. But, if the current government is sincere about meeting its commitment, a statement or two will likely be insufficient to identify and explain the large increase of .6% of GDP over the next four years.

In this regard, the government also likely fears political 'blowback' as a minority government in trying to explain such a dramatic increase and the essential abandonment of its own defence policy. Its internal policy priorities might be derailed. While the government could certainly point to the domestic economic benefits of investment in terms of jobs and 'dual-use' R&D, such arguments have long been vulnerable to problematic arguments that a dollar spent on defence is less efficient and useful than a dollar spent elsewhere in terms of domestic economic return.

An alternative is to try to communicate to the US Administration that Canada will continue in the direction established from the 2017 White Paper and slowly continue the increase beyond the current projected 1.4%. Perhaps here, the government could communicate the increased spending that is not accounted for related to the modernization of NORAD and NWS. In other words, tell Washington to just wait, and once the architecture is developed for NWS, Canadian spending will go up.

A third option, especially related to NWS modernization and the Arctic, is to play with the accounting of defence spending. In the Cold War, Canada's response to burden sharing was to shift from percentage of GDP to absolute spending, which made Canada look better. More recently, the strategy has been to shift attention to Canada's operational commitments to NATO in Eastern Europe. Perhaps now, the government should point out the large amount of spending by other government departments and agencies that support defence. For example, the Canadian RCAF base in Winnipeg is co-located with the civil international airport, and thus the costs of maintaining the base by the civilian authorities should be included in defence spending. The same can be said of NWS and Forward Operating Locations in the far north. Both, in need of reimagining, can have capabilities that benefit civilians and military as well. Think, for example, of improved communication in the Arctic that also allows better telehealth, the capability to track drones, and changing weather patterns that aids NAVCAN and Environment and Climate Change Canada. The same may hold true for non-defence R&D spending, which might

be spun-off into defence capabilities. Overall, non-defence contributions to such investments might provide a different spending picture.

Alternatively, DND could re-categorise the large components of its operations and maintenance (O&M) spending envelope. In many cases, the line between O&M and major procurement is somewhat arbitrary to begin with. There are also differences among the allies in accounting, and Canada could seek to promote a more favourable, standardized accounting system for all the allies. Perhaps there are other costs, which Canada accrues, that can be considered part of the direct or indirect funding contribution to NATO?⁵

Closely related, Canada could seek to engage the allies in re-considering the current targets. Expanding upon its argument of Canadian operational deployments to NATO, as well as its commitments to NATO 'out-of-area' operations in Iraq, not all allied defending spending is devoted to NATO *per se*. While nearly all of front-line NATO Eastern European defence is for NATO, and a significant portion of Canadian defence spending is NATO-related as a function of the geo-strategic link between North American (NORAD) and NATO Europe, many NATO members commit significant portions of their defence spending to non-NATO missions, particularly the US and to a lesser degree France. While this would be complicated, arbitrary and difficult to obtain consensus, at least the attempt might alter the political climate.

The fourth option is simply to wait the Administration out. The President and his Administration dominated by impeachment and the election, he is unlikely to pay attention to Canada and its failure to meet its commitments. Besides, Canada can delay by simply telling the Administration it has four years to go before punishment should be meted out. With any luck, the Democrats will regain the Presidency, and maybe even control of the Senate, and the Democrats are less likely to punish Canada, or any of the allies, for failure as publically as has Trump.

Conclusion

No one can predict what the American or Canadian government, never mind the other allies, will do as the 2024 deadline approaches. The American government may wait until 2024 before it metes out punishment, and in the process, gradually communicate threats of what is to come. Of course, the American government, regardless of political stripe, and specifically Department of Defense (DoD) officials are well aware that Canada will not be able to meet the targets, at least in terms of defence spending. Even if the budget expanded quickly, the Canadian Department of National Defence would be unable to spend it. Thus, then perhaps the best option to allay a bad outcome is to provide a long term, formal, commitment to meeting 2% of GDP with a target date set some years after 2024, which should have been done in 2017.

Of course, making such a commitment and meeting it are two different things, especially with the forecast of an economic recession are correct. Nonetheless, to continue as in the past to ignore the US is a much more dangerous path to follow. American demands for all allies to meet their spending and investment commitments

⁵ Funding NATO (19 December 2019). https://www.nato.int/cps/en/natohq/topics_67655.htm

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cannot be simply attributed to President Trump. It now likely extends much deeper within the American government, including within DoD, such that it will not go away even if Trump does. For the US, the new challenging defence environment of managing China and Russia globally is clearly seen as demanding greater allied burden sharing, in Europe and the Pacific. As regards NATO, the alliance might have been a luxury in the 1990s, it is now an imperative and will be for the foreseeable future.

Of course, whatever threats and punishments the US might level for allied failure will hurt, to some degree, the US. But, for Canada to rely upon its significance to the defence and security of the US especially in North America as a hedge forgets one other significant reality. Canada depends upon the US equally, if not more, and the costs for Canada if the relationship is damaged may be much higher than the NATO targets in the long term.