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Canada's Effort to Boost Defense Spending May Be Too Little, Too Late

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Shaun McDougall, *International Military Markets Analyst with Forecast International*, has written a piece exploring Canada's recent defence budget. We are pleased to repost it here on our S&D Blog.

Ottawa has announced a plan to provide the military with sustained annual budget growth of three percent beginning in 2017, providing a cumulative CAD11.8 billion in additional spending through 2026.

Previously, the government had planned budget growth of around two percent per year during that time. Under the revised plan, the defense budget will have increased by CAD2.3 billion by 2026, according to budget documents. The move is an attempt to offset recent cuts shouldered by the military as the government slashed expenditures to eliminate the deficit.

The government has finally balanced the budget after many years of deficits, announcing a projected CAD1.4 billion surplus in 2015. However, the defense increases may not be enough to offset the damage that has already been done to the military, if the government is even able to follow through with the plan at all.

The new spending plan is reminiscent of the 2008 Canada First defense strategy, which set out to provide the military with stable long-term budget growth. That growth ultimately came to a halt due to fiscal instability brought on by the financial crisis. As the pressure grew, the government initially set out to curtail the Canada

First out-year spending plan while ensuring at least moderate budget growth, but even that effort was brought down by deficit reduction measures.

Ironically, the recent decline in defense spending results from a combination of budget cuts and the military's inability to spend all of its allocated resources. Just as with Canada First, there is no guarantee that the military will see the extra money in the latest budget. The plan spans multiple elections, and future governments may have different priorities. Another economic slowdown could also derail any projected spending increases.

The military has already seen its budget gutted over the last few years, resulting in fewer flying hours for the Air Force, docking or early retirement of ships for the Navy, and the delay of multiple acquisition programs, among other things. Last year alone, the Canadian Department of National Defence said it was deferring CAD3.1 billion in procurement funding due to delays and an effort to reduce the deficit.

The procurement cuts came as little surprise, as the DND has faced significant delays throughout its acquisition portfolio, including major programs such as buying new fighter aircraft, fixed-wing search-and-rescue aircraft, Navy supply ships, and Arctic Offshore Patrol Ships. The DND's acquisition budget could be strained as these programs get back on track, though a lot of work is needed to fix Canada's procurement process in the first place.

For now, the acquisition funding deferral means Canada's defense budget will still decline between 2016 and 2017 before the new growth rates are set to kick in. The latest government estimates show defense spending of CAD18.9 billion in 2015, CAD19.2 billion in 2016, and CAD18.7 billion in 2017.

The scope of ongoing military operations is another uncertainty that will impact military spending. Canada recently expanded its six-month operation against ISIS (Islamic State of Iraq and Syria) by one year. The new budget plan will provide up to CAD360.3 million to support this extension, plus another CAD7.1 million to help train Ukrainian security forces.

The government will have to find additional funding if the mission is extended beyond March 2016, or if the scope or pace of operations is increased.

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