

January 30, 2026

## Navigating the rewards and risks of higher Canadian defence spending

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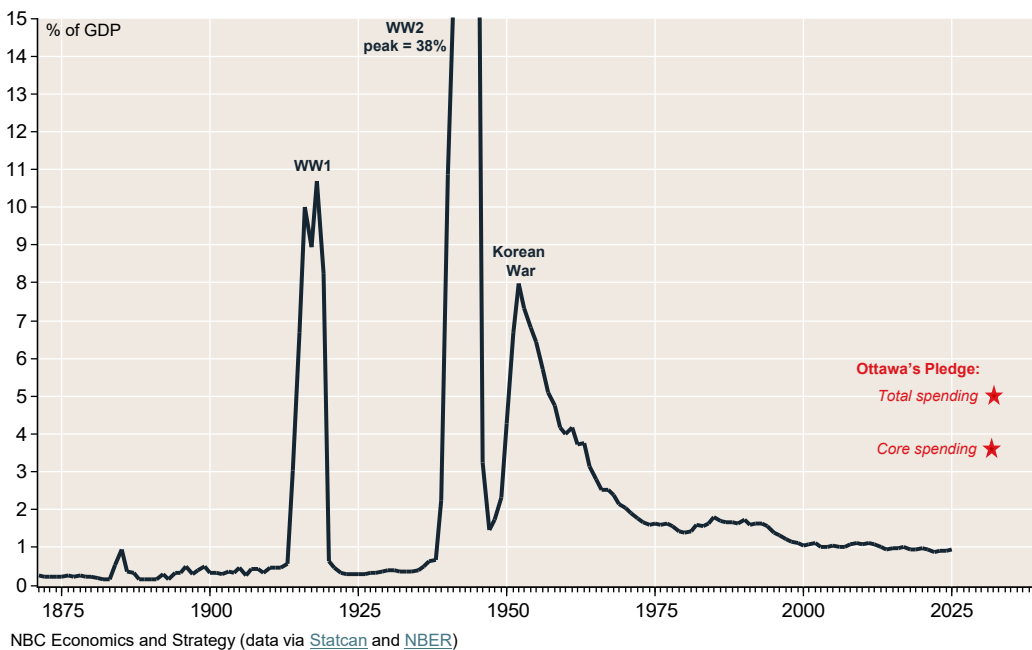
### Introduction

In its 2025 budget, the federal government announced its commitment to meeting the defence spending target of 2% of GDP by 2025 and revealed plans to raise the target to 3.5%–5% by 2035. This represents a significant policy shift for a country that allocated only 1.4% of GDP to defence in 2024. Canada has not devoted more than 3.5% of GDP to defence since the height of the Cold War in 1963.

It should be noted that approximately 1.5 percentage points of the 2035 target are to be used for defence-adjacent initiatives, such as transport infrastructure. This analysis focuses on the 3.5% of GDP to be allocated to core defence spending.

### Canada: Defence to command up to 5% of GDP by 2035

Defence spending as a share of GDP



To achieve this goal, an additional \$50–\$90 billion will need to be spent each year—more than doubling the current defence budget of around \$62 billion in 2025. The exact amount required will depend on future economic growth: the stronger the economy, the higher the spending needed to meet the target (i.e., % of GDP).<sup>1</sup> To put these amounts in context, Ottawa spent approximately \$88 billion on Old Age Security, \$50 billion on health transfers to the provinces, and a further \$50 billion on interest payments in Q3 of 2025 on an annualized basis. If the government follows through on its commitments as planned, defence spending will become one of the top expenditure items in the federal budget.<sup>2</sup>

This increased funding is critical to modernize and expand Canada's armed forces. It could potentially also provide significant economic stimulus. However, the federal government faces significant challenges in ensuring that its defence spending delivers maximum value. These include:

- Overcoming a history of cost overruns and project delays
- Political hurdles to implementing an efficient procurement process
- Sustaining public support for significant long-term spending increases
- Maximizing economic benefits while avoiding a backlash from the Trump administration

The extent to which these challenges are addressed will determine whether this military spending initiative is a success or failure.

<sup>1</sup> "Carney commits Canada to biggest increase in military spending since Second World War, doubling budget by 2035," The Globe and Mail, June 25, 2025

<sup>2</sup> "Revenue, expenditure and budgetary balance - General governments (x 1,000,000)," Statistics Canada, November 11, 2025

## History of cost overruns and project delays

Canada has a long track record of cost overruns and delays when it comes to capital investments for defence purposes. Below are a few prominent examples.

### Modernization of Navy frigate fleet

Canada's National Shipbuilding Strategy is emblematic of Canada's military spending challenges. Since its launch in 2010, the strategy has been plagued by persistent cost overruns and delays. The frigate portion alone is now projected to cost \$85 billion—more than triple the original estimate—and the first of the 15 planned vessels is not expected to be delivered before 2035—nearly a decade past the initial target of 2026.<sup>3</sup>

The government reported last March that the first three frigates were expected to cost \$22.2 billion. It immediately raised concerns that the overall price tag could rise even further. However, officials stated that costs should decline for subsequent ships once design and systems issues were resolved.<sup>4</sup>

The Navy currently has 12 Halifax-class frigates nearing the end of their 30-year operational lifespan. At any given time, about half of these are either undergoing or scheduled for maintenance.<sup>5</sup>

### Purchase of CH-148 Cyclone helicopters

In November 2004, Ottawa signed a \$1.8-billion contract for the construction of 28 CH-148 Cyclone helicopters, excluding support provisions. At the same time, a separate 20-year \$3.2-billion contract was awarded for maintenance.<sup>6</sup>

However, in January 2024, the Department of National Defence revised its lifetime cost estimate for the CH-148 Cyclones to C\$15.9 billion.<sup>7</sup> The final helicopter was delivered in October 2025.

More recently, difficulties maintaining the helicopters' operability resulted in all 26 helicopters in service being grounded for 27 days last May.<sup>8</sup>

### New submarines urgently needed

Canada plans to replace its four ageing Victoria-class submarines by the mid-2030s. Introduced in the late 1990s, these are nearing the end of their service life. Moreover, spare parts are becoming difficult to find as many are no longer produced.<sup>9</sup> The need for constant repairs has meant that, over the past decade, there were more than 1,000 days when none was operationally available.<sup>10</sup>

The Canadian government is planning to acquire up to 12 conventionally powered submarines. Although no official cost estimate has been released, reports suggest they could total around \$60 billion.<sup>11</sup>

If Canada, which has the longest coastline in the world,<sup>12</sup> does not manage its submarine acquisitions effectively, it could end up without an operational fleet by 2035.

### Purchase of new fighter jets

In 2010, Canada initially selected the F-35 to replace its ageing CF-18s expected to reach the end of their service life around 2032. Although the decision was reconsidered soon afterwards, Canada ultimately reaffirmed its choice of the F-35 in 2023, 13 years after the initial selection.<sup>13</sup> However, in response to tariffs imposed on Canada by the current U.S. administration, the Canadian government announced that it would partially review its order for 88 F-35s. The country is contractually obligated to purchase only the first 16. The leading alternative to the F-35 is the Gripen, a fighter jet manufactured by the Swedish company Saab. **(The pros and cons of having a mixed fleet is discussed later in the report.)**

If the government sticks to the original deal, purchasing the full complement of F-35s will cost an estimated \$27.7 billion—up from \$19 billion cited in 2023—according to Canada's Auditor General.<sup>14</sup>

### A procurement system that must be reformed

The defence procurement challenges outlined above highlight the need to address the ongoing issue of cost overruns and delays in major projects, a problem common to most Western nations.

The Canadian government must decide how much equipment to purchase from abroad versus how much to produce domestically in order to stimulate the economy. The core question it must answer is the following: When is it worth prioritizing Canadian-made equipment to build industrial capacity despite higher costs and when does this approach become impractical?

3 "Canada vs. Italy: Guess which is better at military procurement?" The Globe and Mail, June 6, 2025

4 "Feds sign \$8B preliminary contract for new navy destroyers while Parliament sidelined," CBC, March 8, 2025

5 "Our Navy sinks toward impotence because Ottawa can't manage to procure ships," National Post, January 10, 2024

6 "Government of Canada awards contracts to Sikorsky for new Canadian forces maritime helicopter," Government of Canada, November 23, 2004

7 "Estimated life-cycle cost of military's Cyclone choppers rises to \$15.9B," CBC, January 26, 2024

8 "Lack of working Cyclones frustrates Canada's top sailor: 'The helicopter has been letting us down'," National Post, June 19, 2025

9 "Where is the money to replace Canada's aging submarines? It wasn't in the 2025 federal budget," CTV, November 9, 2025

10 "Canada needs submarines now, but shouldn't fall prey to the weaponization of economic benefits and scheduling," Financial Post, November 18, 2025

11 "Everything you need to know about how your tax dollars will be spent on new submarines," Ottawa Citizen, October 27, 2025

12 "Coastlines," Government of Canada, 2024

13 "Mixed fleet of fighter jets not the answer for Canada's Air Force," Macdonald-Laurier Institute, June 11, 2025

14 "F-35 program facing skyrocketing costs, pilot shortage and infrastructure deficit: AG report," CBC, June 10, 2025

Another issue is that military procurement oversight has been shared by several federal departments. These include Public Services and Procurement Canada, which is responsible for contracting; the Department of National Defence, which defines technical requirements; and Innovation, Science and Economic Development Canada, which enforces policies that require contractors to deliver domestic economic benefits.<sup>15</sup>

Frequent changes to equipment orders and specifications have also been a significant cause of cost overruns and delays. The debate over which fighter jets to purchase, ongoing since 2010, is a case in point. Another example is the procurement of frigates, where design modifications during production, such as changes to weapon systems, have contributed to cost increases and delays.<sup>16</sup> Finalizing specifications as much as possible before placing orders would help reduce these risks.

**The recent creation of the Defence Investment Agency is one of the most significant steps yet taken to address Canada's long-standing procurement challenges. By centralizing most defence procurement decisions within a single department, the initiative aims to streamline processes, reduce bureaucratic overlap, and, it is hoped, minimize design changes during the production phase. If implemented effectively, this could shorten timelines and reduce cost overruns.**

## Pros and cons of choosing a mixed fleet

One of the major challenges facing the Defence Investment Agency will be deciding whether to establish a mixed fleet of Gripen and F-35 fighter jets.

### Pros:

Saab, the aircraft's manufacturer of the Gripen, claims that its proposal could generate up to 10,000 manufacturing jobs and establish research hubs in Canada. The offer includes technology transfer, provided that Ottawa purchases the aircraft.

A significant proportion of Canada's defence sector involves foreign firms outsourcing lower-value manufacturing and maintenance work to Canada while retaining high-value jobs and intellectual property in their home countries. By manufacturing most of these aircraft domestically and retaining control of the intellectual property, Canada could develop the expertise needed to create a globally competitive fighter jet industry and strengthen its wider aerospace sector.

### Cons:

According to Lockheed Martin, about 30 Canadian companies are involved in the production of each F-35. This translates into employment for some 2,000 people and an estimated \$3.2 million worth of Canadian-made parts.<sup>17</sup> About 1,200 F-35s have been built so far, and a further 2,000 have been planned. If Canada does not follow through on its entire order of F-35s, these jobs and procurement contracts could be at risk.<sup>18</sup> Lockheed Martin noted that these benefits could increase if Canada fulfills its original order.

Analysts have also been warning about the higher cost of maintaining two separate fleets.<sup>19</sup> This concern was highlighted in an opinion piece co-penned by Lieutenant-General (retired) Yvan Blondin, former commander of the Royal Canadian Air Force (2012–2015), and UQAM political science professor Justin Massie. According to the authors:

"A mixed fleet designed to fulfill the same roles for Canada's defence would require considerable duplication of infrastructure, maintenance, personnel training, training aircraft and specialized personnel, while also requiring more fighter pilots, a resource that the RCAF already sorely lacks. Such a decision would result in a four-to-five-year delay in ramp-up, just as the CF-18s reach the end of their service life around 2032."<sup>20</sup>

However, they also argue that the Gripen should be considered as a strategic complement beyond 2035. This would reduce dependence on the United States and allow for greater integration with European military technology.

## Reaction of the Trump administration

Beyond the economic impact of its decision, Canada must consider how the United States would react to it. U.S. Ambassador to Canada Pete Hoekstra has implied that if Canada decides not to purchase the F-35, concluding a trade deal with the Trump administration could become significantly more challenging.<sup>21</sup>

Speaking at a Canadian Manufacturers and Exporters conference in November, Hoekstra candidly discussed what the next iteration of the trade agreement might look like.<sup>22</sup> Referring to the F-35 and other issues, he stated:

- "Well, on a number of these issues, we are, we're actually waiting to see exactly where the Canadian government is going to come out on this."
- Saudi Arabia "yesterday bought about \$5 billion worth of F-35s," adding that this represented "a significant amount of money to a lot of Canadian companies."

In an interview with CTV last May, Hoekstra also warned that the North American Aerospace Defense Command (NORAD)—the defence alliance between Canada and the United States—could be at risk if Canada backs out of its plan to purchase the remaining F-35 jets. "If Canadians are flying one airplane, we're flying another airplane, it's no longer interchangeable," he added. "And so, that might even threaten NORAD without talking about new alliances that promise even more security and safety to our people."<sup>23</sup>

<sup>15</sup> "Feds risk derailing major projects unless they chart a clearer course for defence procurement, experts say," The Hill Times, November 27, 2025

<sup>16</sup> "Feds sign \$8B preliminary contract for new navy destroyers while Parliament sidelined," CBC, March 8, 2025

<sup>17</sup> "Think F-35 fighter jets are all-American? Canada actually plays a major role in production," CBC, October 16, 2025

<sup>18</sup> "Carney foolish to consider replacing F-35s with Saab jets," Toronto Sun, November 18, 2025

<sup>19</sup> "Building military aircraft in Canada would create more than 12,000 jobs, Saab tells Ottawa," The Globe and Mail, December 16, 2025

<sup>20</sup> "The idea of a mixed fleet of Canadian fighter jets should not take flight," The Globe and Mail, November 17, 2024

<sup>21</sup> "Will U.S. threats force Canada to buy the F-35?" Ottawa Citizen, November 26, 2025

<sup>22</sup> "Future of trade talks depends on Canada's purchase of American fighter jets, U.S. ambassador says," Toronto Star, November 19, 2025

<sup>23</sup> "U.S. ambassador calls F-35s 'phenomenal success' as Canada considers Swedish fighter jets," CTV News, November 20, 2025

## Is there a middle path to dampen the risks of an American backlash?

One option reportedly being considered to reduce the risk of a U.S. backlash is to acquire additional F-35s alongside the Gripen aircraft. For instance, instead of the original plan of 88 F-35s, Canada could order, say, an additional 30 alongside the 16 already committed to. Although operating two fleets would increase costs, this could be offset by the long-term benefits of developing new skills and establishing a domestic defence aerospace industry. However, such a compromise might not satisfy the Trump administration.

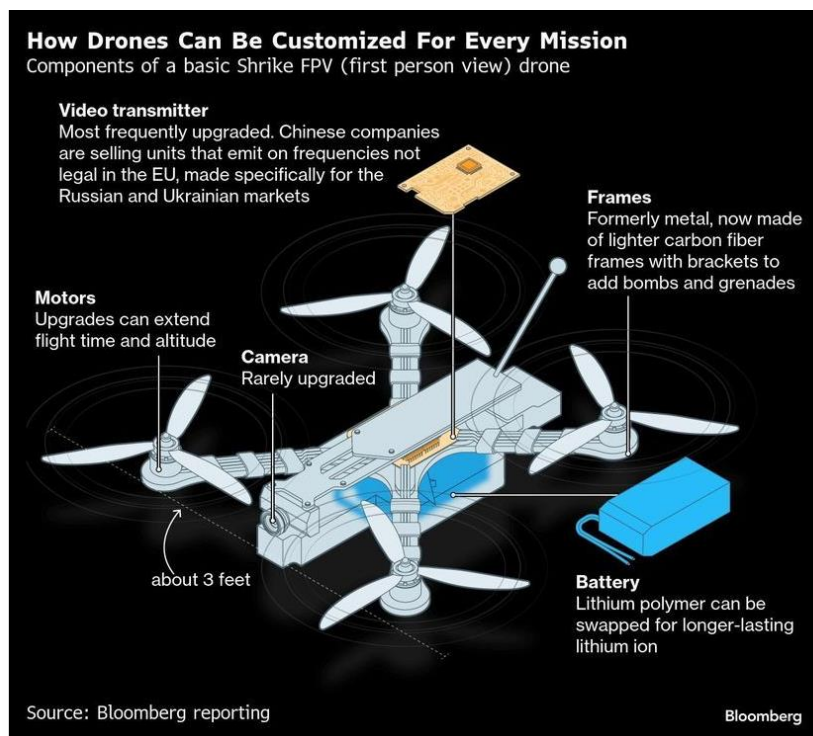
## Paradigm shift: Drones forcing rethink of defence needs

In addition to the challenges of making major defence purchases timelier and more cost-efficient, the emergence of drone warfare is prompting a rethink of Canada's heavy reliance on expensive defence platforms. The following recent events clearly illustrate the new state of affairs:

- U.S. Navy destroyers used SM-2 missiles, each costing about US\$2.1 million, to shoot down Houthi-launched attack drones over the Red Sea, each costing about US\$2,000.<sup>24</sup>
- In 2025, Russia repeatedly flew low-cost Geran drones, each valued at about US\$10,000, into NATO airspace over Poland and Romania. Several of these drones were shot down by fighter jets reportedly with AIM-120C-7 missiles, each costing well over US\$1 million.<sup>25</sup>

Such glaring price gaps are unsustainable, especially in the context of a prolonged conflict where thousands of drones are deployed. Equally pressing is the challenge of mass-producing drones within months when Canada's procurement systems are designed for the acquisition of costly weaponry over a much longer time period.

One strategy for Canada would be to learn from Ukraine, which has offered to teach Canada how to build drones quickly and cost-effectively. Alternatively, Canada could specialize in producing the key components shown in the picture below, thereby becoming an integral part of the global drone supply chain.



Source: "Ukrainian Drone Industry's Next Target Is NATO Markets," Bloomberg, November 11, 2025

## Sustaining public support: The looming guns vs. butter debate

As Canada eventually approaches its 3.5% defence spending target, future trade-offs will likely be required. These could involve larger deficits, cuts to federal programs, and/or higher taxes. For years, both the government and Canadians have grown accustomed to borrowing cheaply in order to avoid making tough decisions. That era is now over.

Recent public opinion polls show that the majority of Canadians support significant increases in defence spending. However, these surveys rarely address the key question of whether public support would still be there if defence spending was increased at the expense of social programs.

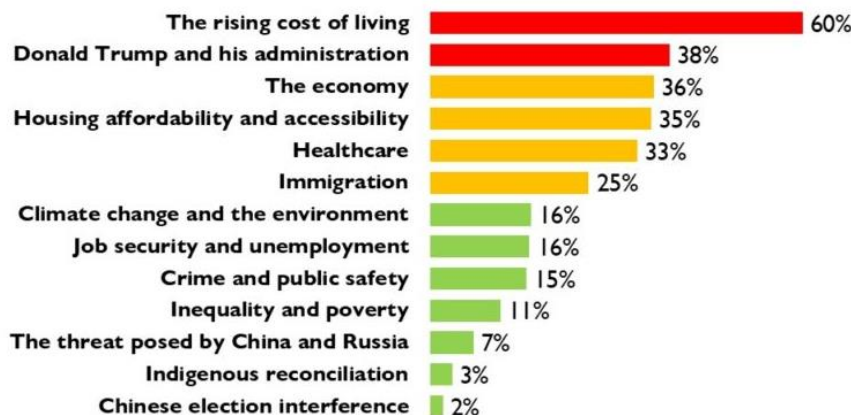
A survey conducted by Abacus Data in September 2025 found that cost of living, the economy, healthcare, and the Trump administration were the top concerns among Canadians. This suggests that cuts to certain social programs in order to fund defence spending could face strong public opposition.

<sup>24</sup> "A \$2M missile vs. a \$2000 drone: Pentagon worried over cost of Houthi attacks," Politico, December 19, 2023

<sup>25</sup> "Putin has a new strategy to render Nato's defences useless," The Telegraph, November 21, 2025

What are the 3 most important issues facing Canada today? Please select 3 issues

## TOP ISSUES FACING CANADA



Source: Abacus Data Poll: Conservatives Edge Ahead as Cost of Living Dominates and Trump Fades, August 24, 2025

For Canadians to continue supporting increased defence spending in the long term—and to accept cuts to other programs—the economic benefits must be clear. This requires minimizing the risk of cost overruns and delays by learning from past mistakes.

## Key factors that could enhance Canada's military strategy

Canada's ambition to strengthen its military sector could be supported by its recent decision to join global defence initiatives.

### *Defence, Security and Resilience Bank*

Canada is among several countries being considered to host an international security bank for financing the defence needs of some 40 member states that will provide the capital required to secure a triple-A credit rating. The headquarters are expected to create over 3,500 jobs. The bank is set to be operational by the end of 2026.

Aside from the possible creation of jobs at home, the bank would enable Canada to access low-cost financing for strategic projects in partnership with the private sector and to boost its profile in the global defence sector.

### *Access to European defence procurement program*

Canada is the first non-EU country officially to join the European Union's €150-billion Security Action for Europe program. This should allow Canada to participate in jointly financed defence projects and bid for EU-supported procurement initiatives. Canada paid an initial entry fee of €10 million and will contribute further fees "in proportion to the benefits" it receives from the program.<sup>26</sup>

### *Canada's geographic advantage should not be overlooked*

Canada not only provides Europe with opportunities to procure critical resources, such as minerals, oil, natural gas and fertilizers, from an ally rather than an adversary like Russia, it also offers a strategic geographic advantage, situated as it is far from the front lines of conflict.

Jamie Shea of the United Kingdom, who served as NATO's Deputy Assistant Secretary General for Emerging Security Challenges from 2010 to 2018, emphasized the advantage of locating defence production in Canada. "We've seen in Ukraine just how much industry can be obliterated by constant missile attacks," he said. "Europe is going to invest in air and ballistic missile defence, but you'll never have complete coverage. Canada provides defence in depth. It's much harder to hit this country with missiles."<sup>27</sup>

Together, these factors give Canada additional leverage in accessing defence markets in Europe and among allied nations.

## Conclusion

Canada's strategy to rebuild its defence industry presents an opportunity to strengthen security and boost the nation's economy. This is reinforced by Canada's ability to manufacture essential defence equipment for allied countries in a location far away from geopolitical flashpoints.

However, success hinges on reforming the procurement system and striking the right balance between efficiency and economic development. Failure to learn from past procurement mistakes would not only undermine economic benefits, but also risk eroding public support for increased defence spending, particularly if cuts were to be made to essential programs as an offset.

<sup>26</sup> "Canada clinches deal to join Europe's €150B defense scheme," Politico, December 1, 2025

<sup>27</sup> "As Europe rearms, Canada has what it needs. That can be the basis of a post-NATO alliance," Radio Canada International, March 20, 2025





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