

WEBVTT

00:00:03.860 --> 00:00:14.400

<v SPEAKER\_1>On this episode of the podcast, which we're recording on November 7th, 2025, talking to Charlotte Duval-Lantoine about budget 2025 and the implications for defense.

00:00:14.400 --> 00:00:42.520

<v SPEAKER\_1>We talk about the really significant injection of funding for the department, \$81.8 billion for different kinds of investment over five years, as well as the really extensive discussion of Defence Industrial Strategy in the front part of the budget focused on economic growth, as well as the \$6.6 billion being provided to fund the still-as-yet unreleased Defence Industrial Strategy, \$4.6 billion of which has already been allocated, and we get into some of that detail.

00:00:42.520 --> 00:00:49.360

<v SPEAKER\_1>One other thing to note, our annual State of Canadian Defence Procurement Conference is November 12th, so that's next week.

00:00:49.360 --> 00:00:53.660

<v SPEAKER\_1>The registration link for the conference is available at the CGAI website.

00:00:53.660 --> 00:00:54.700

<v SPEAKER\_1>Check it out and register today.

00:01:00.197 --> 00:01:03.917

<v SPEAKER\_1>Charlotte, welcome back to this side of the mic for Defence Deconstructed.

00:01:03.917 --> 00:01:06.337

<v SPEAKER\_2>Thanks for having me, Dave.

00:01:06.337 --> 00:01:13.437

<v SPEAKER\_1>So we were both in different, what's called in Ottawa, parliaments, lockups for the federal budget.

00:01:13.457 --> 00:01:18.257

<v SPEAKER\_1>So we wanted to chat about the implications of budget 2025 for defence.

00:01:20.037 --> 00:01:30.917

<v SPEAKER\_2>Yeah, and to start with that, since you are the budget expert, and I'm just here for entertainment, what would be your high-level assessment of the budget?

00:01:30.917 --> 00:01:37.957

<v SPEAKER\_2>Some parts of the language stuck out to me, including the

cover and the title of the budget.

00:01:37.957 --> 00:01:40.857

<v SPEAKER\_2>But I wanted to hear your thought on that.

00:01:40.857 --> 00:01:41.697

<v SPEAKER\_1>I'll get to that in a sec.

00:01:41.697 --> 00:01:50.537

<v SPEAKER\_1>I think maybe just for listeners, just to try and level set everything on how this exercise works, and then how the reporting afterwards happens the way it does.

00:01:50.537 --> 00:01:59.277

<v SPEAKER\_1>Because I do think that particularly given what happened with budget 2025, it's an interesting dynamic to understand.

00:01:59.277 --> 00:02:03.157

<v SPEAKER\_1>There's two different what's called lockups, where people get invited to go in.

00:02:03.157 --> 00:02:04.397

<v SPEAKER\_1>I think there might actually be more than that.

00:02:04.397 --> 00:02:15.617

<v SPEAKER\_1>But two that I'm aware of, the two that implicate the two of us, that involve people given access to the budget document before it's released publicly.

00:02:15.617 --> 00:02:30.317

<v SPEAKER\_1>I was in the media lockup, which happened at Old City Hall in Ottawa, where a whole bunch of journalists are invited to come in at 8.30, start as early as 8.30 in the morning, you get access to the budget documents, you can start reading them.

00:02:30.377 --> 00:02:38.277

<v SPEAKER\_1>Then at 10 o'clock, officials from the Department of Finance are available to start answering questions from the journalists.

00:02:38.757 --> 00:02:49.797

<v SPEAKER\_1>I don't know exactly how it works in terms of getting outside experts to come in with you, but different media outlets are able to request subject matter experts to come with them into the lockup.

00:02:49.797 --> 00:02:55.677

<v SPEAKER\_1>I had the privilege of going in with the CBC to work with Maren Brewster for this.

00:02:55.677 --> 00:02:57.517

<v SPEAKER\_1>What was your experience with this?

00:02:58.737 --> 00:03:06.137

<v SPEAKER\_2>Thanks to you, I received the invitation from the Finance Department to attend the Stakeholder lockup.

00:03:07.297 --> 00:03:11.697

<v SPEAKER\_2>You're going to the McDonald Building that is on Wellington.

00:03:11.697 --> 00:03:13.357

<v SPEAKER\_2>It is a massive room.

00:03:13.357 --> 00:03:21.577

<v SPEAKER\_2>I think we were several hundred people, mostly government-related folks attending the lockup.

00:03:22.557 --> 00:03:26.657

<v SPEAKER\_2>So we are asked to arrive for 1 p.m., 1 p.m.

00:03:26.657 --> 00:03:27.457

<v SPEAKER\_2>starts.

00:03:27.457 --> 00:03:32.137

<v SPEAKER\_2>We get a tiny USB key that we got to keep, that is in my hand.

00:03:32.137 --> 00:03:40.317

<v SPEAKER\_2>We get the budget and we are given three hours to read the budget, have our takeaways.

00:03:40.317 --> 00:03:55.997

<v SPEAKER\_2>And then for less than two hours, there are people from the Finance Department that make themselves available to answer any question and they are split according to themes.

00:03:55.997 --> 00:03:58.077

<v SPEAKER\_2>And yeah, and it works like that.

00:03:58.077 --> 00:04:00.617

<v SPEAKER\_2>It's a very packed room.

00:04:00.977 --> 00:04:13.257

<v SPEAKER\_2>It feels even more intimidating than a massive exam back in undergrad, in the gym, because we are also stuck in a very beautiful room.

00:04:13.257 --> 00:04:32.697

<v SPEAKER\_1>And as one other piece of context that's relevant to

this, at least my understanding of how Canada's budget process works, all departments basically submit their ideas, their plans, suggestions for what they would like to see go into the budget for their own respective department.

00:04:32.697 --> 00:04:43.597

<v SPEAKER\_1>And then there's a process that happens outside of the hands of the subject matter experts that write those proposals, and the budget is constructed by the Department of Finance.

00:04:44.917 --> 00:05:00.417

<v SPEAKER\_1>And that's relevant to this conversation because I think one of the dynamics that occurs as that transpires is that the people that are responsible for constructing the document and the folks in the media lockup actually were able to get a printed version, a piece of paper to flip through.

00:05:00.417 --> 00:05:08.097

<v SPEAKER\_1>It's a little fascinating seeing dozens and dozens of people in a room doing sustained silent reading like you're back in elementary school.

00:05:08.097 --> 00:05:14.497

<v SPEAKER\_1>And as you're going through that, the officials are there afterwards to be able to answer questions.

00:05:14.497 --> 00:05:35.837

<v SPEAKER\_1>But we have an interesting dynamic where the people that actually were responsible for putting the words and the numbers into the final budget document aren't always people that have the same level of subject matter expertise about those specific proposals, how they're constructed, what the fine details are behind them, as the people that submitted it from line departments.

00:05:35.837 --> 00:05:49.097

<v SPEAKER\_1>And I think that was a dynamic that was reflected, I think, fairly extensively this year, probably more so than any of the dozen or dozen and a half of these have had the opportunity to go participate in over the last several years.

00:05:52.797 --> 00:06:04.977

<v SPEAKER\_1>So, okay, so without his context, to get back to your question of high-level take, I think I would have two, I think.

00:06:04.977 --> 00:06:09.177

<v SPEAKER\_1>And I'm not sure which order of precedents I would place them in.

00:06:09.177 --> 00:06:19.617

<v SPEAKER\_1>The way that the budget's normally written has a whole

bunch of financial, it starts out, it's got for folks that don't read all hundreds and hundreds of pages because you're regular.

00:06:19.617 --> 00:06:32.937

<v SPEAKER\_1>The first part of it starts out with essentially like a fiscal and economic assessment, some charts given direction on state of the Canadian economy, how much revenue the government's bringing in, anticipated spending, those kinds of things.

00:06:32.937 --> 00:06:55.657

<v SPEAKER\_1>And then usually the first couple of sections every year deal with like regular, I would say just air quotes, regular economic issues, focuses on growth, things the government wants to do to spur different parts of the economy, those types of issues and sections that deal with more specialized things like International Affairs or Defense generally tend to be towards the back.

00:06:55.657 --> 00:06:58.277

<v SPEAKER\_1>And that was the same thing this year.

00:06:58.277 --> 00:07:17.437

<v SPEAKER\_1>The one of the interesting takeaways I had is that this year, because of the focus that the government has placed on industrial strategy at large, and developing a defense industrial strategy in particular, I had to read way more of the first part of the budget because there was a really pretty extensive discussion of defense industrial strategy.

00:07:18.377 --> 00:07:23.197

<v SPEAKER\_1>It was woven in through a whole bunch of pieces earlier on, in addition to the actual budget document.

00:07:23.197 --> 00:07:31.937

<v SPEAKER\_1>That's part of the reason why one of the folks at the CBC, I think, pulled out, I didn't do the work out myself, said there was 155 references to the word defense in this budget.

00:07:31.937 --> 00:07:38.637

<v SPEAKER\_1>I have another time to go back and do a compare and contrast, but that's just anecdotally, that's a lot higher focus on defense at large.

00:07:38.637 --> 00:07:51.977

<v SPEAKER\_1>So it was a budget that was overall much more focused on defense than in the past, and focused specifically in a way that was connecting defense spending with the wider economic growth strategy of the government.

00:07:51.977 --> 00:07:54.077

<v SPEAKER\_1>So that would be takeaway number one.

00:07:54.077 --> 00:08:04.797

<v SPEAKER\_1>The second one would be that there was a very significant amount of money for national defense discussed, over \$80 billion in total.

00:08:04.797 --> 00:08:11.077

<v SPEAKER\_1>And the vast majority of that is apportioned over five years.

00:08:11.077 --> 00:08:25.537

<v SPEAKER\_1>The most notable thing over and above fairly substantial commitment to funding for a couple of operations, one in the Middle East, one in Eastern Europe, was a commitment of \$81.8 billion on a cash basis.

00:08:25.537 --> 00:08:28.497

<v SPEAKER\_1>And for those listening, a cash basis is real money.

00:08:28.497 --> 00:08:35.397

<v SPEAKER\_1>A cruel basis is the accounting format that gets used in the finance documents generally.

00:08:36.777 --> 00:08:51.497

<v SPEAKER\_1>That reflects differently how capital expenses are treated because it presents a view of how those capital expenses get amortized over time, whereas cash spending reflects annual in-year investments.

00:08:51.497 --> 00:09:06.057

<v SPEAKER\_1>So I generally like to think about it like that's real dollars, real money, things that are going to get spent year by year, that you could go then look to see how it gets reflected in the estimates that get published through separate mechanisms that actually provide money to departments.

00:09:06.057 --> 00:09:17.997

<v SPEAKER\_1>But to put \$81.8 billion in context, that is just to state that's inclusive of the \$9 billion in the current fiscal year that was announced back in June.

00:09:17.997 --> 00:09:24.917

<v SPEAKER\_1>But \$81.8 billion is an awful lot of money, especially because that's just over a five-year period.

00:09:25.757 --> 00:09:39.217

<v SPEAKER\_1>One of the ways that I was trying to contextualize this in talking to some of the journalists, Arnaud Strong and Free, the most recent Trudeau defense policy, which contained a big injection of cash, was much more backloaded.

00:09:39.217 --> 00:09:41.977

<v SPEAKER\_1>And the amount of money was almost the same.

00:09:41.977 --> 00:09:42.897

<v SPEAKER\_1>It was not quite the same.

00:09:42.897 --> 00:09:43.737

<v SPEAKER\_1>It was a little bit larger.

00:09:43.737 --> 00:09:49.837

<v SPEAKER\_1>It was \$103 billion in a cash basis, but it was that amount of money spread over a 20-year timeframe.

00:09:49.837 --> 00:09:53.837

<v SPEAKER\_1>And the five-year commitment of funding in Arnaud Strong and Free was only \$10.5 billion.

00:09:54.677 --> 00:10:20.177

<v SPEAKER\_1>So, if you want to compare what was put out and discussed on Tuesday this week with the most recent Defence Policy, looking at something like eight times more spending being committed in Budget 2025 to National Defence over a five-year period, then was the case with the most recent all-singing, all-dancing Defence Policy effort that came with a big funding increase from the government.

00:10:20.557 --> 00:10:29.917

<v SPEAKER\_1>So, my two high-level takeaways, way more focus on Defence, including in the wider economic section, as well as a really significant commitment of funding.

00:10:31.157 --> 00:10:45.277

<v SPEAKER\_2>On top of all that commitment of funding, there was a lot of language, especially at the front end of the Defence and Security Chapter, around getting Canada to 3.5 percent of GDP in defence spending.

00:10:46.037 --> 00:10:56.037

<v SPEAKER\_2>And if you look at the table, you see that growth and it's part of like that front-loading of the 80 plus billion dollars that you're talking about.

00:10:56.037 --> 00:11:06.157

<v SPEAKER\_2>But what if your assessment on that pace of increased spending towards the 3.5 percent in comparison to the growth projection?

00:11:06.157 --> 00:11:11.397

<v SPEAKER\_2>Because like percent of GDP ends up being quite a bit of a moving target.

00:11:12.177 --> 00:11:23.277

<v SPEAKER\_2>And in my lockup, I was having a hard time getting an answer on like how the government is assessing the moving target to move.

00:11:23.277 --> 00:11:33.597

<v SPEAKER\_2>So I would be interested in hearing what you thought about how the government was doing this pathway to 3.5 percent of GDP in defense spending.

00:11:33.597 --> 00:11:44.257

<v SPEAKER\_1>Well, in a short answer, at least as every journalist that I was around, asking these questions characterized it, that there was no pathway presented to 3.5 percent.

00:11:44.257 --> 00:11:48.837

<v SPEAKER\_1>And this is where I get into some of the dynamics about how this particular budget lockup went.

00:11:48.837 --> 00:12:04.617

<v SPEAKER\_1>The journalists were about as frustrated as I think I've ever seen them, with an inability to get answers from the folks that were there about questions, including the one that you just raised, about how this budget actually mapped out year by year, Canada's path to 3.5 percent.

00:12:04.617 --> 00:12:06.977

<v SPEAKER\_1>But let me just start with a commitment to 3.5 percent.

00:12:07.997 --> 00:12:14.197

<v SPEAKER\_1>That was made back in June at the NATO Summit in The Hague by the Prime Minister.

00:12:14.197 --> 00:12:21.437

<v SPEAKER\_1>We have in the past seen commitments made in different contexts that didn't get reflected other where, other places, including in budget documents.

00:12:21.437 --> 00:12:40.017

<v SPEAKER\_1>So I think it's notable and a good indication and sign to see the government actually talking about 3.5 percent core defence spending being the target, as well as that extra 1.5 percent of GDP to get Canada and all NATO allies to 5 percent.

00:12:40.017 --> 00:12:41.777

<v SPEAKER\_1>We can come back to the 1.5 percent.

00:12:41.777 --> 00:13:06.057

<v SPEAKER\_1>So it's positive to see the commitment and reiteration in

the budget that Canada is going to spend 2 percent of GDP this year, our old NATO target from back in 2014, and a commitment that we will get to 3.5 percent on a core defence spending basis, the most similar basis of comparison to the old Wales Summit target of 22 percent by 2035.

00:13:06.057 --> 00:13:11.417

<v SPEAKER\_1>But you were talking about tables in the budget that showed increases year over year.

00:13:11.417 --> 00:13:20.757

<v SPEAKER\_1>My understanding is that those are presented on the accrual format that finance uses, which doesn't reflect cash-based spending.

00:13:20.757 --> 00:13:24.417

<v SPEAKER\_1>And my understanding is that what NATO measures is cash-based spending.

00:13:24.417 --> 00:13:30.417

<v SPEAKER\_1>So the actual real dollars that get spent every year, the amount of money that gets brought into the estimates.

00:13:30.417 --> 00:13:32.697

<v SPEAKER\_1>And that is what NATO measures.

00:13:32.697 --> 00:13:48.677

<v SPEAKER\_1>And while the budget was helpful in describing that \$81.8 billion over five years on a cash term, because that gives you more of a sense of the real magnitude of the investment being made, there was no year-by-year breakdown of how that \$81.8 billion was apportioned over that five years.

00:13:48.677 --> 00:13:57.957

<v SPEAKER\_1>And there was also no year-by-year breakdown of what the base amount at National Defense on a year-by-year basis was.

00:13:57.957 --> 00:14:19.177

<v SPEAKER\_1>So you could take what the existing plan was pre that \$81.8 billion that was reflected and talked about, and then add on year-by-year what's being added to get a sense of what the total expenditure on National Defense will be next fiscal year, the one after that, and all the way through the end of the five-year forecast.

00:14:19.177 --> 00:14:49.317

<v SPEAKER\_1>And since they don't have that, it's therefore impossible to actually, using the budget document itself, map out and get a sense for where that would take Canada to as Defence spending, if you make some assumptions about how much of what gets reported at NATO is going to go to other departments, because what NATO counts as a combination

of spending at National Defence proper and spending at other parts of the federal government that is include-able in that calculation.

00:14:49.317 --> 00:14:55.477

<v SPEAKER\_1>And the long and the short of all of that description is that you can't actually get that sense from this budget.

00:14:55.477 --> 00:15:04.457

<v SPEAKER\_1>And that was pretty frustrating to folks, especially all the journalists who were in there looking in particular to see where that would take us.

00:15:06.757 --> 00:15:12.677

<v SPEAKER\_2>And maybe to follow up on something that you mentioned related to the NATO reporting.

00:15:13.717 --> 00:15:27.917

<v SPEAKER\_2>For people like me who doesn't know that deeply in when and where NATO reports, what different countries are reporting in terms of defence spending.

00:15:27.917 --> 00:15:30.077

<v SPEAKER\_2>When would the Government of Canada report that?

00:15:30.077 --> 00:15:39.237

<v SPEAKER\_2>And when could we almost see from the NATO side what Canada is saying it's spending in defence as percentage of GDP?

00:15:39.237 --> 00:15:40.417

<v SPEAKER\_1>It's a good question.

00:15:40.417 --> 00:15:42.477

<v SPEAKER\_1>And it seems like there's been a bit of a change.

00:15:42.477 --> 00:15:51.237

<v SPEAKER\_1>So we had been previously on a cadence where NATO was making these numbers available twice a year.

00:15:51.237 --> 00:15:54.757

<v SPEAKER\_1>And I'm just up on their website since you asked this checking right now.

00:15:54.757 --> 00:16:00.297

<v SPEAKER\_1>Between 2016 and 2023, the Alliance would report twice a year.

00:16:01.817 --> 00:16:07.237

<v SPEAKER\_1>Every year, there's usually a snapshot of this presented around the NATO Summit.

00:16:07.237 --> 00:16:13.357

<v SPEAKER\_1>And then NATO used to do kind of another one, I think, tied to the publication of the Secretary General's annual report.

00:16:14.457 --> 00:16:18.817

<v SPEAKER\_1>And those figures still appear in the Secretary General's annual report, or at least they had been.

00:16:18.817 --> 00:16:21.677

<v SPEAKER\_1>So there used to be two times a year when that would happen.

00:16:21.677 --> 00:16:29.177

<v SPEAKER\_1>The last couple of years, both 2024 and 2025, that update's being provided in conjunction with the NATO Summit.

00:16:29.457 --> 00:16:33.097

<v SPEAKER\_1>And so generally in the May-June time frame.

00:16:33.097 --> 00:16:51.837

<v SPEAKER\_1>So basically, we're not going to know unless there's other information disclosed what that looks like for next year until the next reporting that goes, unless the government, which I would encourage them to, comes forward and tries to help paint that picture for us.

00:16:51.837 --> 00:16:53.117

<v SPEAKER\_2>Yeah, that would be convenient.

00:16:53.877 --> 00:17:12.877

<v SPEAKER\_2>And so on top of that significant increase in defense spending in the short and medium term, however, you want to describe that based on what you view five years to be.

00:17:14.437 --> 00:17:41.797

<v SPEAKER\_2>There's also something else is that the government has been doing a comprehensive expenditure review and has directed the Department of National Defense to cut up to 2% of its quote review base, which raises a lot of questions when we're increasing defense spending and while decreasing other things.

00:17:41.797 --> 00:17:58.337

<v SPEAKER\_2>I know that the government both in its budget but also like in its communication has been quite good at differentiating what it means when it's going to do budget cuts, like increasing capital spending while decreasing operating spending.

00:17:58.337 --> 00:18:05.037

<v SPEAKER\_2>So we can have an idea of like where that, where those cuts can happen.

00:18:05.077 --> 00:18:28.837

<v SPEAKER\_2>But accounting-wise, it gets very confusing for mathematically challenged people like me to talk about an increase in defense spending, what are the increase in another, especially that one of the measures that involve that spending cut is also retiring some of the fleet that has passed its life cycle.

00:18:29.357 --> 00:18:36.917

<v SPEAKER\_2>So I'd like you to explain that to me so that I can wrap my head around it, I guess.

00:18:38.377 --> 00:18:41.817

<v SPEAKER\_1>This episode of Defence Deconstructed is brought to you by Irving Shipbuilding.

00:18:41.817 --> 00:18:44.337

<v SPEAKER\_1>Canada's national shipbuilder is currently hiring.

00:18:44.337 --> 00:18:52.757

<v SPEAKER\_1>For more information on the many jobs and opportunities currently available, please visit [www.shipsforcanada.ca/careers](http://www.shipsforcanada.ca/careers).

00:18:54.777 --> 00:19:03.557

<v SPEAKER\_1>Yeah, so this is another section where beyond what was actually written, there wasn't an ability to get much more clarity on specifically what's being put through.

00:19:03.557 --> 00:19:19.177

<v SPEAKER\_1>And I think, at least my understanding is that because the whole process for doing the CER expenditure review is that hasn't been finalized exactly what, across the full government, which plans are going to be accepted in full detail.

00:19:19.177 --> 00:19:38.637

<v SPEAKER\_1>But what was described was that national defense's contribution is going to be a combination of fleet divestitures, infrastructure, rationalization or reorganization, as well as some other efficiency initiatives.

00:19:38.637 --> 00:19:52.717

<v SPEAKER\_1>On the first two components, I think it's significant because as I read that, it's going to, there is concern that on one hand, Defence will be getting more money, but then on the other, that it would be having it taken away.

00:19:52.717 --> 00:20:01.717

<v SPEAKER\_1>Not a new phenomenon that happened during the last couple of cycles of expenditure restraint exercises.

00:20:01.717 --> 00:20:16.317

<v SPEAKER\_1>Both the one announced a couple of years ago, where National Defence has given a target specifically of a little over 900 million to reduce as the overall spending was otherwise going up as a result of Strong, Secure, Engaged, No Rate of Modernization, and Our Owners, Strong and Free.

00:20:16.317 --> 00:20:21.497

<v SPEAKER\_1>And it also happened during the Deficit Reduction Action Plan timeframe.

00:20:21.497 --> 00:20:30.157

<v SPEAKER\_1>The Harper government, where while overall spending was increasing in some areas, they also had expenditure reduction targets.

00:20:30.157 --> 00:20:47.357

<v SPEAKER\_1>I think my read of what is happening with that expenditure review is that National Defence is going to be given an opportunity to do some things which, and my sense of it is that they've tried to suggest before as ways to save spending, but never actually been allowed to move forward.

00:20:47.357 --> 00:21:05.457

<v SPEAKER\_1>And that's use paying off fleets that are either old, an expense associated with them is significant because of age and operating circumstances, or where the assessment is basically that operating the fleet just isn't, is worthy of putting a dollar towards is something else.

00:21:06.077 --> 00:21:17.017

<v SPEAKER\_1>Those tend to be the kinds of things that have been rejected in past expenditure review exercises because it was a political dynamic to making fleet reductions.

00:21:17.017 --> 00:21:27.277

<v SPEAKER\_1>So reading that, I think, gives a path to have less money spent on some things in a way that aligns with things that the department and the CAF would like to do anyway.

00:21:27.277 --> 00:21:30.717

<v SPEAKER\_1>And I would read the same thing into the infrastructure portfolio.

00:21:30.757 --> 00:21:36.517

<v SPEAKER\_1>The National Defense owns tens and tens of thousands of structures and buildings and works.

00:21:36.517 --> 00:21:39.917

<v SPEAKER\_1>And quite a bit of it is significantly old.

00:21:39.917 --> 00:21:45.077

<v SPEAKER\_1>And there's been a whole effort and initiative in various different ways over the last decades to try and rationalize that.

00:21:45.077 --> 00:22:00.317

<v SPEAKER\_1>So if they could do that, my read of that would be that depending on the ratio between fleet reduction, infrastructure rationalization and the other efficiency measures, that they can potentially go through and do that in a way that doesn't really impact their ability to operate.

00:22:01.037 --> 00:22:04.197

<v SPEAKER\_1>The way that some other reduction exercises would.

00:22:04.197 --> 00:22:10.497

<v SPEAKER\_1>But there really wasn't any information in the budget lockup available beyond what's in the document itself.

00:22:12.937 --> 00:22:23.617

<v SPEAKER\_2>Yeah, I guess that when I read that fleet divestiture portion, it put the retirement of the Kingston class in the new lands.

00:22:24.177 --> 00:22:36.937

<v SPEAKER\_2>And I guess that like if something is more expensive to try and maintain past its life cycle cost and like the fact that we're buying new platforms, it makes sense, but we'll have to see where that evolves.

00:22:38.337 --> 00:22:47.837

<v SPEAKER\_2>So maybe to go on towards a more positive note, and that is, again, the fact that we're spending a lot more on defence.

00:22:48.057 --> 00:22:54.897

<v SPEAKER\_2>And what has been very interesting is the emphasis on growing the defence industry in the budget.

00:22:55.937 --> 00:23:00.897

<v SPEAKER\_2>So there's money allocated to the defence industrial strategy.

00:23:00.897 --> 00:23:08.677

<v SPEAKER\_2>There's a \$1 billion fund for the Business Development Canada to support the development and growth of dual-use companies.

00:23:08.677 --> 00:23:12.697

<v SPEAKER\_2>And there's money allocated for Borealis.

00:23:12.697 --> 00:23:17.077

<v SPEAKER\_2>I cannot remember for the life of me what that acronym stands for.

00:23:17.077 --> 00:23:24.537

<v SPEAKER\_2>But it's the new innovation arm of Defence Research and Development Canada.

00:23:26.837 --> 00:23:28.577

<v SPEAKER\_2>What do you make of all of this?

00:23:28.577 --> 00:23:35.657

<v SPEAKER\_2>Obviously, we have a lot of language in the budget around generational change.

00:23:35.657 --> 00:23:46.237

<v SPEAKER\_2>But talk about a massive change in the direction of where defence spending is getting put and the fact that defence industry is very much put in the centre.

00:23:46.237 --> 00:23:51.037

<v SPEAKER\_2>Not necessarily in the centre of that, but as a strong component of it in a budget.

00:23:52.577 --> 00:24:02.957

<v SPEAKER\_1>So I'd say that it has been put quite centrally into the government's economic framing and now the government's proposing to strengthen the Canadian economy.

00:24:02.957 --> 00:24:05.337

<v SPEAKER\_1>So in that sense, I think it is in the frame.

00:24:05.337 --> 00:24:34.177

<v SPEAKER\_1>So overall, it's an allocation of, with specificity, 4.6 billion of the initiatives that are going to be contained in the not yet published defence industrial strategy, going to those different initiatives that you mentioned, and an indication that the budget is providing 6.6 billion, so there's another kind of two outstanding on my read, to come to the strategy that the money has been provided for, but don't have the detail on how it's going to get allocated.

00:24:36.157 --> 00:24:57.277

<v SPEAKER\_1>So it's going to be interesting to see how that fits within the actual strategy that we don't yet have, and I guess my interpretation of this is basically, notwithstanding the fact that the overall strategy hasn't hit print yet, that the Defence Industrial Strategy factors in consequentially to what the government is trying to do with its industrial strategy writ large.

00:24:57.277 --> 00:25:09.997

<v SPEAKER\_1>And so the logic of having the budget announcements without the whole strategy reflects to me how it is actually a fairly central part of how the current government's thinking about the

Canadian economy writ large.

00:25:10.637 --> 00:25:20.817

<v SPEAKER\_1>The word Defence has factored in to that thinking about growth and industrial strategy in a way that we really haven't seen in this country, certainly in my career and lifetime.

00:25:20.817 --> 00:25:42.217

<v SPEAKER\_1>Not old enough to remember back into the early Cold War, but if there was as much a focus back then, then you have to go about that far back to get a sense of really how those two concepts of defence spending and the defence industrial base in Canada have been as linked as they were in the Budget 2025 document.

00:25:43.357 --> 00:25:53.257

<v SPEAKER\_2>Yeah, and there's often a criticism around Canada not necessarily always thinking strategically, so bringing everything together.

00:25:53.257 --> 00:25:56.277

<v SPEAKER\_2>And here we're seeing it, right?

00:25:56.277 --> 00:26:09.717

<v SPEAKER\_2>Because we see even in the defence chapter, critical minerals, security of supply chains, the current trade circumstances in which we find ourselves.

00:26:09.717 --> 00:26:29.297

<v SPEAKER\_2>So it's been quite interesting to see that language a lot more global in what is necessary for defence than just like this small portion as if it was completely separated from the rest of the Canadian economy, but also Canada's place in the world and foreign-ish policy-ish.

00:26:30.317 --> 00:26:31.977

<v SPEAKER\_2>So it's been interesting to see from my point of view.

00:26:32.437 --> 00:26:33.617

<v SPEAKER\_1>That's right.

00:26:33.617 --> 00:26:38.157

<v SPEAKER\_1>And so I think there's two other things that I think that are significant to Merck with this.

00:26:38.177 --> 00:26:43.677

<v SPEAKER\_1>One is the documents that we're talking about, the NATO commitments, shares of GDP.

00:26:43.677 --> 00:27:13.897

<v SPEAKER\_1>There's language in the budget that basically says that

the one and a half percent of GDP that would be committed over and above, what's now being defined as core defence spending that would take Canada to five percent of GDP overall, is basically going to be spent anyway without requiring any additional investment, because the government expects the currently planned spending by federal, provincial, territorial, and municipal governments will meet this one and a half percent commitment.

00:27:13.897 --> 00:27:34.977

<v SPEAKER\_1>So a couple of things to note in that, for people that were expecting another one and a half percent of GDP would be available to various initiatives, I would read that comment in the budget is squashing that idea, because the government at my rate has said, we're going to meet this without actually committing additional dollars.

00:27:34.977 --> 00:27:47.437

<v SPEAKER\_1>The other thing I take from that is that unlike the prior approach on core defence spending, that new one and a half percent part of the NATO commitment is much more of a choose-your-own-national-adventure exercise.

00:27:48.657 --> 00:27:57.657

<v SPEAKER\_1>I'm a little surprised at how easily this prior commitment of dollars that are already baked in, checks that box.

00:27:57.657 --> 00:28:03.197

<v SPEAKER\_1>It had seemed fairly loose when it was announced back at the NATO Summit in the Hague.

00:28:03.197 --> 00:28:09.637

<v SPEAKER\_1>But I had expected there to be a bit more of a space to help define and refine this than appears to be the case.

00:28:09.637 --> 00:28:12.837

<v SPEAKER\_1>The government basically said, this is in hand, no biggie.

00:28:14.097 --> 00:28:32.557

<v SPEAKER\_1>The one other thing that I wanted to come back to, and this again goes into the frustration the journalists had in the lockup, was a very limited ability to get any more detail on where the \$81.8 billion of investment on a cash basis is going over a five-year period.

00:28:32.557 --> 00:28:40.437

<v SPEAKER\_1>There is language in the document that breaks out this spending into the following different lines of effort that are going to read off.

00:28:41.217 --> 00:28:50.817

<v SPEAKER\_1>So \$20.4 billion of that, these are all over five years, is to recruit and retain a strong fighting force, including the pay raises for the CAF and CAF healthcare.

00:28:50.817 --> 00:28:58.337

<v SPEAKER\_1>\$19 billion to repair and sustain CAF capabilities and invest in defence infrastructure, including expanding ammunition and training infrastructure.

00:28:58.337 --> 00:29:06.797

<v SPEAKER\_1>\$10.9 billion over five years for upgrades to national defence, CAF and communication security establishment, digital infrastructure.

00:29:06.797 --> 00:29:22.377

<v SPEAKER\_1>\$17.9 billion over five years to expand Canada's military capabilities, including investments in additional logistics, light utility and armoured vehicles, counter drone and long-range precision strike capabilities, and domestic ammunition production among other investments.

00:29:22.377 --> 00:29:26.737

<v SPEAKER\_1>\$6.6 billion over five years for the defence industrial strategy, which I already mentioned.

00:29:26.737 --> 00:29:35.997

<v SPEAKER\_1>\$6.2 billion over five years to expand Canada's defence partnerships, including expanded military assistance to Ukraine and increased military training in international policy programming.

00:29:35.997 --> 00:29:48.497

<v SPEAKER\_1>And finally, \$805 million over five years for the Canadian Coast Guard, Canadian Security Intelligence Service, and Public Services and Procurement Canada for quote, complementary initiatives to support Canada's defence capabilities.

00:29:49.657 --> 00:30:05.317

<v SPEAKER\_1>Of that list, the last part I just read about the Coast Guard, CSIS and PSPC, that is language that wasn't in the announcement of \$9 billion extra for the current fiscal year that was announced back in June.

00:30:05.317 --> 00:30:11.237

<v SPEAKER\_1>And we didn't have then have this nearly as much detail about the defence industrial strategy as we do now.

00:30:11.237 --> 00:30:26.277

<v SPEAKER\_1>But notwithstanding those two examples, that whole section is almost verbatim, as far as I could tell, the description of

how \$9 billion in this current fiscal year, that 12 month period was explained back in June.

00:30:27.877 --> 00:30:35.197

<v SPEAKER\_1>But now there's \$73 billion, roughly, additional dollars over four more years being added to that amount.

00:30:35.197 --> 00:30:42.097

<v SPEAKER\_1>And I presume that there might be a thing or two that you could do with \$73 billion extra.

00:30:42.097 --> 00:31:00.097

<v SPEAKER\_1>So one of the things I'm hoping that we can get some clarity on soon would be an explanation of where that full amount of money is going to be going, or a bit more of a breakout or expansion clarification of what was provided here for this overall commitment of \$81.8 billion.

00:31:00.097 --> 00:31:21.637

<v SPEAKER\_1>Recognizing that the amount that's committed and itemized here that got basically one page worth of elucidation is an overall magnitude comparable to the last fully published Defence Policy document, RNR Strong and Free, which you can remind me was something like 40 or 50 odd pages.

00:31:21.637 --> 00:31:27.757

<v SPEAKER\_1>And another way to look at it, we don't know where the spending commitment extends beyond the fifth year.

00:31:27.757 --> 00:31:33.137

<v SPEAKER\_1>The budgets normally, in this case, did only present a five year look.

00:31:33.137 --> 00:32:02.937

<v SPEAKER\_1>But if you were to make assumption that if we were to compare it on a 20 year basis, which is how we've been treating Defence policies back to the Canada First Defence Strategy in 2008, and just do like a simple crude thought experiment extrapolation and take a commitment of, call it \$82 billion over five years, and extrapolate that over 20, you'd be looking at a commitment of over \$300 billion, if in fact this has that long of a tail on it.

00:32:03.477 --> 00:32:13.937

<v SPEAKER\_1>I would argue for what it's worth from my point of view, a commitment that's potentially that long over a longer time period, I don't know, I'm just making some assumptions.

00:32:13.937 --> 00:32:22.717

<v SPEAKER\_1>Some of the language used by the government suggests that we're now going to be spending at at least the level reflected in the

budget, although it doesn't state those words.

00:32:22.717 --> 00:32:34.477

<v SPEAKER\_1>We need more than a page worth of explanation for where that massive amount of money, which is going to make a huge difference to Canadian national defence, but we need to get a better sense where that's all going.

00:32:35.997 --> 00:32:36.397

<v SPEAKER\_2>I agree.

00:32:36.397 --> 00:32:54.917

<v SPEAKER\_2>And to go more into my little nook of interest is a lot of people in the conversation that I've had around the 20.4 billion dollars for personnel, people assume that it would be like, oh, we're going to recruit even more people than we already are.

00:32:54.917 --> 00:32:59.177

<v SPEAKER\_2>There hasn't been an increase of the total authorised strength.

00:32:59.177 --> 00:33:04.877

<v SPEAKER\_2>So we're looking at the money for 100,000 people.

00:33:05.777 --> 00:33:17.677

<v SPEAKER\_1>Well, to be pedantic, which I like to do sometimes, especially when discussing defence finances, we don't know that there has been a change to the authorised strength for the Canadian Armed Forces.

00:33:17.677 --> 00:33:19.397

<v SPEAKER\_2>True, true.

00:33:19.397 --> 00:33:24.157

<v SPEAKER\_1>There might have been, but there isn't one that was announced in the budget.

00:33:24.157 --> 00:33:26.657

<v SPEAKER\_2>So we don't know yet.

00:33:26.657 --> 00:33:27.517

<v SPEAKER\_2>We don't know yet.

00:33:27.517 --> 00:33:34.557

<v SPEAKER\_2>And the thing is that, of course, the 2 billion that were announced, we don't know if they were for this fiscal year.

00:33:35.217 --> 00:33:41.457

<v SPEAKER\_2>Like, that money is possibly going to grow because we're 13,000 people short.

00:33:41.457 --> 00:33:43.537

<v SPEAKER\_2>So there's going to be an increase in spending.

00:33:43.537 --> 00:33:47.577

<v SPEAKER\_2>But then, what does it mean to improve for health care?

00:33:47.577 --> 00:33:55.997

<v SPEAKER\_2>Are we talking about, in that money, are we talking about the civilian augmentation mentioned in our North Strong and Free?

00:33:55.997 --> 00:34:04.417

<v SPEAKER\_2>So there are a lot more variables that we are unaware of at the moment.

00:34:05.297 --> 00:34:24.257

<v SPEAKER\_2>And so I think it's been interesting seeing like those, even though it's like a big portion of those 80 plus billion dollars over five years, that we have very little detail, and that we need to be careful not to project necessarily what we think it means.

00:34:24.257 --> 00:34:33.557

<v SPEAKER\_2>Because right now, it's like, we might have some ideas based on the past defence policy and the announcement made in June.

00:34:34.097 --> 00:34:45.177

<v SPEAKER\_2>But we don't know if it is still the direction that the government wants to take on that front, and whether or not the DND CAF was given a certain leeway on how to implement that money.

00:34:46.357 --> 00:34:46.777

<v SPEAKER\_1>Right.

00:34:46.777 --> 00:34:53.257

<v SPEAKER\_1>And you could apply that same kind of frame to all the other sections for that big spending.

00:34:53.257 --> 00:34:57.417

<v SPEAKER\_1>We're just not clear yet about where specifically those dollars are going to go.

00:34:58.257 --> 00:35:07.397

<v SPEAKER\_1>And I think, given that overall, I would say, this is potentially a generationally impactful budget.

00:35:07.397 --> 00:35:11.037

<v SPEAKER\_1>I think it actually is a generationally impactful budget for Canadian Defence.

00:35:11.037 --> 00:35:14.117

<v SPEAKER\_1>We just don't know specifically what kind of impact it's going to have.

00:35:14.117 --> 00:35:23.637

<v SPEAKER\_1>But both the magnitude of the money, as well as what is itemized with some significant detail about industrial strategy is going to have a very transformative impact.

00:35:27.457 --> 00:35:31.657

<v SPEAKER\_2>There was one last thing that I wanted to hear your thought about.

00:35:32.817 --> 00:35:37.057

<v SPEAKER\_2>We had the announcement around the Defence Investment Agency.

00:35:38.237 --> 00:35:40.077

<v SPEAKER\_2>It's still being built.

00:35:40.637 --> 00:35:46.677

<v SPEAKER\_2>We hear very often in Defence, the plane is being built and is flying.

00:35:46.677 --> 00:35:51.197

<v SPEAKER\_2>It seems to me that we're in that dynamic also with the DIA.

00:35:51.197 --> 00:35:57.937

<v SPEAKER\_2>But I thought that the language around what it's going to do was particularly interesting.

00:35:57.937 --> 00:36:04.457

<v SPEAKER\_2>And I'm going to quote the overview of its mandate as described in the budget.

00:36:04.457 --> 00:36:22.557

<v SPEAKER\_2>And it's, quote, approved procurements to support strategic defense sectors in Canada, so that we are able to ensure the Canadian Armed Forces has the world-class equipment it needs, and at the same time create new careers, grow our economy, and support innovation in aerospace, shipbuilding, and advanced manufacturing.

00:36:23.917 --> 00:36:31.557

<v SPEAKER\_2>Again, tying defense in the larger industry strategy and policy that the government wants to pursue.

00:36:31.557 --> 00:36:44.837

<v SPEAKER\_2>But I thought it was very interesting that the number, like the first clause of the sentence, and I'm going back to like middle school level grammar.

00:36:44.837 --> 00:36:50.137

<v SPEAKER\_2>But the first clause is about approving procurements to support strategic defense sector.

00:36:50.137 --> 00:37:01.477

<v SPEAKER\_2>I thought that that was very interesting language, as everyone is going back to our previous point, kind of projecting what the DIA is going to do.

00:37:01.477 --> 00:37:15.737

<v SPEAKER\_2>So I wanted to hear your insights on how the mandate of the DIA was structured within this larger defense industry and procurement conversation that there is in the budget.

00:37:15.737 --> 00:37:25.897

<v SPEAKER\_1>So I don't actually know that I have much to add to the way that you would characterize that because I agree that the way that you looked at that framing, I think it suggests the exact same kinds of things to me.

00:37:25.897 --> 00:37:29.137

<v SPEAKER\_1>What I would actually offer is about the money that was tied to the agency.

00:37:29.977 --> 00:37:41.857

<v SPEAKER\_1>There is money being committed, 30.8 million over four years, starting next fiscal year, and then 7.7 million recurring to PSPC to establish the organization.

00:37:41.857 --> 00:37:49.977

<v SPEAKER\_1>That suggests to me that despite that consequential mandate for the organization, it's going to be pretty small.

00:37:49.977 --> 00:38:05.077

<v SPEAKER\_1>If you were just to do simple math and say that the full cost of employing, which is different than the salary going to people working for those organizations, I mean, just for the sake of easy math, you assume it's like 200,000 a year.

00:38:05.077 --> 00:38:18.057

<v SPEAKER\_1>Again, the whole cost of government and Canada to employ somebody working there, not just their salary and compensation, then you're looking at an organization that's only going to be a few dozen people big based on the funding being provided to there.

00:38:18.057 --> 00:38:26.237

<v SPEAKER\_1>One other thing that's not directly tied to the Defence Investment Agency, but also notable I think would be interesting for the listeners to note.

00:38:26.237 --> 00:38:38.317

<v SPEAKER\_1>In the same section of the budget, there was a discussion that there's 52.5 million being provided over five years to modernize and increase capacity for the industrial security program.

00:38:38.317 --> 00:38:54.177

<v SPEAKER\_1>Again, I don't know exactly where that's going to go, but I wonder whether or not that's part of an effort to help improve the ability to get companies' security clearances to be involved in defense arrangements that require access to classified material.

00:38:54.177 --> 00:39:03.637

<v SPEAKER\_1>If that is the case, that 52.5 million dollars, I think, will be fairly well-received because that's something that folks in the industry have been asking about for quite some time.

00:39:03.637 --> 00:39:14.017

<v SPEAKER\_1>It's been a chronic pain point that people can't get cleared in a timely fashion or can't get enough people cleared because of it for them to participate in the way that they think they could otherwise.

00:39:16.037 --> 00:39:28.477

<v SPEAKER\_2>Yeah, it's been something that we keep on hearing across the country when we're doing our industry roundtables on the triple helix and thinking back of the OAG report on recruitment.

00:39:28.477 --> 00:39:31.997

<v SPEAKER\_2>We're just on recruitment and reliability clearance.

00:39:31.997 --> 00:39:42.077

<v SPEAKER\_2>We're dealing with a 23,000 applications backlog at that level and then 8,500 for secret.

00:39:42.657 --> 00:39:46.657

<v SPEAKER\_2>So we really need deep investments on that front.

00:39:46.657 --> 00:39:58.097

<v SPEAKER\_2>So hopefully, that's where the money is going so that we can move procurement a little bit and projects with certain companies a lot faster.

00:39:59.217 --> 00:40:15.957

<v SPEAKER\_2>And if I remember well, talking about how small the agency is going to be, I think that there's language around the fact that it's going to be involved in projects that are above 100 million dollars.

00:40:15.957 --> 00:40:20.077

<v SPEAKER\_2>So that also limits the amount of projects that the DIA will be responsible for.

00:40:20.077 --> 00:40:22.237

<v SPEAKER\_2>I don't know how many that is.

00:40:22.237 --> 00:40:30.637

<v SPEAKER\_2>And in a modernization of the military framework, will the organization be big enough?

00:40:30.677 --> 00:40:43.157

<v SPEAKER\_2>We'll see, because the government is also trying to improve efficiencies and include more digital and IT solutions in order to mainstream and make processes faster.

00:40:43.157 --> 00:40:50.877

<v SPEAKER\_2>So hopefully, all of that taken into account, it's going to make the DIA a successful agency knocking on wood.

00:40:52.137 --> 00:40:55.797

<v SPEAKER\_1>At a minimum, and now has some money to get rolling.

00:40:55.797 --> 00:40:59.757

<v SPEAKER\_1>So Charlotte, thanks for joining me to chat through all of this.

00:40:59.937 --> 00:41:02.477

<v SPEAKER\_1>A very consequential budget for National Defense.

00:41:02.477 --> 00:41:05.937

<v SPEAKER\_1>We just don't know exactly in what ways yet.

00:41:07.017 --> 00:41:11.777

<v SPEAKER\_1>But in addition to cracking through this multi-hundred page document, what are you reading these days?

00:41:12.837 --> 00:41:15.457

<v SPEAKER\_2>Oh man, what am I reading these days?

00:41:15.457 --> 00:41:27.357

<v SPEAKER\_2>I'm working now on the first chapter of my dissertation, so that I wouldn't lose my mind trying to go through a hundred thousand archival documents.

00:41:27.357 --> 00:41:38.257

<v SPEAKER\_2>And so I'm reading about unification, everyone's favorite period in military history, back when all the services were brought under one unified chief of the defense staff.

00:41:38.257 --> 00:41:42.297

<v SPEAKER\_2>So, you know, typical fun readings for me.

00:41:42.297 --> 00:41:46.857

<v SPEAKER\_1>OK, all right, well thanks for joining us on this side of the mic for Defence Deconstructed.

00:41:46.857 --> 00:41:49.037

<v SPEAKER\_2>Thanks for having me and thanks for your insights.

00:41:50.057 --> 00:41:51.777

<v SPEAKER\_1>Thanks for listening to Defence Deconstructed.

00:41:52.277 --> 00:41:57.717

<v SPEAKER\_1>For more of our work, go to [cgai.ca](http://cgai.ca) or follow us on LinkedIn, Twitter, Instagram or Facebook.

00:41:57.717 --> 00:42:04.317

<v SPEAKER\_1>If you like what we do and want to keep us going, think of donating to us at [cgai.ca](http://cgai.ca) slash support.

00:42:04.317 --> 00:42:06.917

<v SPEAKER\_1>Defence Deconstructed is brought to you by our team in Ottawa.

00:42:06.917 --> 00:42:10.557

<v SPEAKER\_1>Music credits go to Drew Phillips and this episode was produced by Jordyn Carroll.