

Intelligence MEMOS



From: James Pierlot
To: Trade and Defence Policy Observers
Date: June 30, 2025
Re: **LET'S TRADE US DEFENCE PURCHASES FOR REMOVAL OF TARIFFS**

Canada's defence spending has long been a source of friction with our allies. Now Ottawa is finally showing a sense of urgency.

The commitment to meet NATO's 2-percent target this fiscal year, earmarking \$62.7 billion, and doubling it again by 2035 at NATO's Brussels meeting last week is an historic shift.

But while the security rationale for this is clear, the economic one is less so – especially when we consider Mr. Carney's stated desire to seek closer defence ties to the European Union.

At a time when US tariffs are crippling Canadian exporters and small businesses, a defence pivot of this magnitude should be focused on the United States and also be used as leverage as I argued in my recent C.D. Howe Institute [paper](#). If we're going to invest billions more in continental security, it's time we got something back: Stable, tariff-free trade with our largest ally.

As Samuel Johnson famously observed, "when a man knows he is to be hanged in a fortnight, it concentrates his mind wonderfully." The Prime Minister may well have had this aphorism in mind when he set a 30-day deadline for a bilateral economic and security agreement with Washington. But deadlines, while useful for focus, don't create outcomes. In trade negotiations with an unpredictable counterparty, only credible leverage does. Defence commitments, properly structured, could provide that leverage.

As we commit to spending more on defence, and we should be using that commitment in trade talks, presenting it as an inducement to the United States. We should also explicitly raise the possibility of buying more from them, to gain leverage on trade negotiations.

Perhaps the government is thinking along those lines, even if that does not show in its messaging of diversifying from the United States. Perhaps Ottawa is pursuing a sensible, phased approach: Leading with a sovereignty-based rationale that surfaces the well-demonstrated need for greater defence capability in a way that resonates politically, while keeping strategic options open on procurement. If so, that would be a prudent way to balance domestic imperatives with broader continental goals.

If this is indeed the government's strategy, it has yet to be clearly articulated. In the absence of a transparent plan linking defence posture to economic objectives, it risks appearing reactive and mercantile rather than strategic – potentially undermining both its leverage and its perceived commitment to enhancing Canadian sovereignty.

Regardless of the framing, the strategic calculus remains unchanged: While tariff-free trade stands on its own merits, the current US posture suggests that a more transactional and comprehensive approach – particularly in light of its longstanding concerns over defence burden-sharing – may create the conditions for a return to rules-based trade.

Leveraging defence spending to get to tariff-free trade reflects the reality that defence and trade are pillars of sovereignty and prosperity for both nations. Now is the time to act decisively: Not as a reluctant party yielding to pressure, but as the first to make a move and shape the rules of engagement.

And there is a strong case to spend more to catch up for decades of neglect and to protect our sovereignty and economic assets in an increasingly dangerous world. Achieving the new 3.5-percent target by 2035 would mean boosting spending by about US\$154 billion over the next 10 years, depending on GDP growth.

Canada should allocate 30 per cent of that increase (about US\$46 billion) for US defence procurement – with conditions. In order for spending to be released, tariffs should be lifted and the previous rules-based system restored.

A commitment of US\$46 billion would provide significant bargaining power. Mr. Carney has said we "send three-quarters of our defence capital spending to America." But this is true only in certain years, when we make big purchases such as F-35s. When we zoom in on the data, our spending on US procurement isn't that much. From 1950 to 2022, US government figures show military sales to Canada were under US\$15 billion.

For the United States, the benefits of a more militarily capable neighbour coupled with a US\$46-billion procurement commitment are easy to see. A new Canada-US trade and defence pact would support shared strategic objectives, strengthen North American supply chains and provide the US administration with a much-desired export market.

For Canada, there are few drawbacks. The US-directed share of new Canadian defence spending could prioritize systems that enhance continental security, such as early-warning infrastructure, NORAD modernization, missile defence, interoperable Arctic surveillance platforms and cybersecurity capabilities. Recent announcements signalled that we would focus on those areas anyway.

Connecting a strong defence commitment with a return to tariff-free trade would be a huge win for Canada. It would allow us to safeguard our economic well-being, boost security, meet NATO guidelines and mend fences with our largest trading partner. We must show we're ready to invest in our own defence capabilities and Canada-US relations.

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