



Forging Canada's Security: A Call for a Defence Industrial-Base Strategy

Lieutenant-Commander Julian Yates

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Forging Canada's Security: **A Call for a Defence Industrial Base Strategy**

In recent months, Canadian newspapers have been filled with articles lamenting Canada's current defensive posture. Canada's military preparedness is criticized and commentators are united in their calls for enhancements to Canada's security.¹ Experts are disparaging of previous Canadian tendencies to 'free-ride' and certain that though improving defence readiness may not be easy, it is a vital to Canada's future security.² These widespread comments reflect the contemporary consensus that a "Historical turning point in the global order" has occurred and defence investment must increase.³

The Canadian government has responded to public concerns and the changing geo-strategic context by releasing the new defence policy, *Our North Strong and Free* (ONSF, 2024). This policy calls for consequential investments in new equipment and programs for the Canadian Armed Forces (CAF), which represent a substantial enlargement from previously announced investments. However, without a comprehensive, deliberate strategy to deliver new CAF capability and capitalize on investments, Canada risks missing the full benefits. Correspondingly, the defence industry risks being unable to maximize returns from the investment's innovation potential. Therefore, this paper will argue that to ensure Canada's future security Canadians must respond to the geopolitical moment by developing a Defence Industrial Base (DIB) strategy. This will not be easy. Developing a new strategy will be complex given it must balance competing priorities. The strategy should enable the sovereign production of future Canadian defence

¹ James Snell, "Forget about Fighter Jets. The Future of War Is a Drone Force," *Globe and Mail*, April 5, 2025, sec. Opinion.

² Peter Armstrong, "How Can We Rebuild the Canadian Economy? Business Leaders Say There Are 4 Priorities," *CBC*, April 24, 2025, <https://www.cbc.ca/news/business/armstrong-economy-election-four-things-1.7516454>.

³ Wayne Eyre, "The Urgency Is upon Us: We Need to Defend Canada," *Globe and Mail*, April 5, 2025.

materiel by expanding strategic industrial capabilities. It will require political will to create and continued ministerial attention to come to fruition. However, while these challenges exist, to secure Canada's future, ONSF's spending must be paired with well-developed industrial strategy.

Assessing Canada's Defence Industrial Base

In order to understand how to enhance Canada's DIB, it is first necessary to define it. Canada's DIB is the network of industrial organizations, facilities and resources which support the Canadian government's defence requirements. This definition is consistent with other descriptions widely used in industry reports⁴ and among our allies.⁵ The Canadian government does not currently have a DIB definition and should consider adopting one as a first step to building further awareness. The concept of a national DIB is usually placed within the larger context of a National Technological and Industrial Base (NTIB), which further includes research and technology functions that support a nation's economy⁶. While Canada's NTIB must be considered when looking at overall industrial policy, this paper will focus on the narrower set of organizations and resources which directly support defence requirements.

ONSF highlights the importance of Canada's DIB, identifying "Building an innovative and effective defence industrial base" as one of six major themes of the policy. This is an important step to demonstrate the government's commitment to improving the CAF's industrial base, however it lacks the required detail to act as a strategy. In recent years the critical relationship between a DIB and national security has been fully explored by key ally DIB

⁴ Business Council of Canada, "Security and Prosperity: The Case for a Defence Industrial Base Strategy" (Ottawa, ON, November 25, 2024), thebusinesscouncil.ca/report/securityand-prosperity/.

⁵ Luke A Nicastro, "The U.S. Defense Industrial Base: Background and Issues for Congress" (Washington D.C., September 23, 2024).

⁶ Defense Acquisition University, "National Technology and Industrial Base," in *Glossary* (Fort Belvoir, Virginia, n.d.).

strategies (Including the United Kingdom's,⁷ Australia's,⁸ and the United States'⁹ (US)). Since the release of ONSF and allied strategies, Canadian public recognition of the importance of a robust and sovereign DIB has grown quickly.¹⁰ Observers have highlighted that the monetary investments envisioned by ONSF will not be sufficient to ensure Canada's defence without supporting industrial policy.¹¹ As public recognition that Canada's defence industry has weakened since the end of the Cold War, so has the recognition that this industry requires substantial expansion to meet Canadian defence needs.¹² This recognition has been bolstered by the recent trade and foreign policy disputes between Canada and its closest historic defence industrial partner.¹³ Given this perception change, the next step is to analyze how Canada's DIB is currently managed.

The Canadian Defence Industry and Government Policy

The Canadian DIB is supported by the federal department *Innovation, Science and Economic Development Canada* (ISED).¹⁴ ISED's efforts to support Canadian industry are

⁷ Secretary of State for Defence, "Defence and Security Industrial Strategy: A Strategic Approach to the UK's Defence and Security Industrial Sectors" (London, UK: HM Government, March 2021).

⁸ Australian Government, "Defence Industry Development Strategy" (Canberra, ACT: Commonwealth of Australia, 2024).

⁹ Department of Defense, "National Defense Industrial Strategy" (Washington D.C.: Government of the United States, 2023).

¹⁰ Phillipe Lagassé, "Canada's Military Has a Trump Problem," *The Atlantic*, March 28, 2025, https://www.theatlantic.com/ideas/archive/2025/03/canada-military-spending-trump/682224/?utm_source=facebook&utm_medium=cr&utm_campaign=2024_Content_InternationalTest_Prospecting_Sales_Standard&utm_content=032825_CanadaMilitary_NA_NA_NoCTA&utm_term=InternationalContentTest_Advantage&referral=FB_PAID&utm_id=6590373061077&fbclid=IwY2xjawJWueJleHRuA2FlbQEwAGFkaWQAAAYLuPS1ZQEdBHWlpJd-oIOirOfmMssMjCEun1vlgmRrpcBRFgh3LqONE3AjPHrmDQme_aem_NJQVQnhGX8swgG_3rn2l9Q.

¹¹ J Craig Stone, "Canada Still Needs a Defence Industrial Policy" (Ottawa, ON: Canadian Global Affairs Institute, 2024).

¹² Shaun Francis, "A Modern Military That Can Defend Canada," *Build Canada* (blog), April 4, 2025, <https://www.buildcanada.com/en/memos/modern-military>.

¹³ "Rebuild, Reinvest, Re-Arm' | Mark Carney Unveils Defence Spending Plan" (Halifax, NS: CP24, March 25, 2025), <https://www.youtube.com/watch?v=6k3COOmWP14>.

¹⁴ Government of Canada, "ISED Programs and Initiatives," *Innovation, Science and Economic Development Canada* (blog), April 22, 2025, <https://ised-isde.canada.ca/site/ised/en/programs-and-initiatives>.

implemented under several different programs, particularly the Industrial and Technological Benefits (ITB) Policy. The ITB's 'Value Proposition' applies on all major procurement projects and is used to encourage domestic defence industry investment.¹⁵ The Value Proposition focuses on five criteria: Work in the Canadian Defence Industry, Canadian Supplier Development, Research and Development, Exports, and Skills Development and Training. These criteria are used to increase the economic value of defence procurement to Canada, including by building the strength of the defence industry.

By nesting the program within the competitive defence procurement process, this policy encourages long-term domestic investment from procurement spending.¹⁶ While this is an effective approach during periods of major procurement spending, relatively low procurement spending in historic terms and relative to overall CAF expenditures has limited its effectiveness in recent decades.¹⁷ Furthermore, this strategy is implemented as part of individual procurements, therefore it does not take a holistic approach, limiting long-term achievements.¹⁸

Despite the drawbacks of ITB policy, Canada's DIB has been growing over the past decade. ISED's industry survey shows several important factors that indicate the industrial base's condition and future potential. The defence industry grew from 2018 to 2022 by ~20% in total employment and ~30% in revenues, despite decreases by both these metrics across other

¹⁵ Innovation, Science and Economic Development Canada, "Industrial and Technological Benefits Policy: Value Proposition Guide" (Ottawa, ON: Government of Canada, May 2022), <https://ised-isde.canada.ca/site/industrial-technological-benefits/en>.

¹⁶ Martin Auger, "Defence Procurement Organizations Worldwide: A Comparison," Background Papers (Ottawa, ON: Library of Parliament, April 28, 2020).

¹⁷ Dave Perry, "Putting the 'Armed' Back into the Canadian Armed Forces: Improving Defence Procurement in Canada" (Ottawa, ON: CDA Institute, 2015).

¹⁸ Stone, "Canada Still Needs a Defence Industrial Policy."

industries in Canada.¹⁹ Research and Development (R&D) by the defence industry has also grown by ~10%, with exports increasing ~20%. These growth areas enabled the Canadian defence industry to have an economic impact of \$7.4B CAD and 61,000 jobs in 2022.²⁰ This included an employment increase of 3,600 jobs. Overall, this data shows that the Canadian DIB is more substantial than many realize and has experienced growth well above national GDP. Further analysis supports the viewpoint that despite well-publicized challenges (highlighted even within ONSF), there is potential for substantial sector economic growth.

The Canadian Defence Industry

The Canadian defence industry is widely distributed geographically, with different regions focusing on different commodities. For instance, combat vehicle manufacturing is centered on southern Ontario's automotive heartland, while ammunition production occurs primarily in Quebec. Marine repair and overall activities are focused on the east and west coasts. During the period from 2018 to 2020, the marine activities saw the fastest growth (41% over two years), creating almost 11,000 jobs. Nationally, from 2020 to 2022, all regions experienced growth, with Ontario experiencing a slower growth rate than all other regions.

This regional fragmentation offers both benefits and disadvantages. On one hand, the industry as a whole is not overly exposed to any one commodity type and has flexibility in the services and goods it can provide. On the other hand, regions remain focused on one activity, so a reduction in a particular contract can have outsized impact in a small geographic area. Clearly, the substantial growth experienced by particular regions (for instance, marine repair and

¹⁹ Canadian Association of Defence and Security Industries, "State of Canada's Defence Industry 2022" (Ottawa, ON, Spring 2022).

²⁰ Canadian Association of Defence and Security Industries, "State of Canada's Defence Industry 2024" (Ottawa, ON, Spring 2024).

overhaul from 2018 onward²¹) is a function of increases in particular procurement activities, so closer attention to workforce and supplier management should be part of the procurement cycle. Moreover, by building on existing specialization and efficiency in the future, the development of regional industrial clusters can be used to improve existing competitive advantages. These objectives would benefit from a more considered industrial strategy.²²

Canada's defence industry is comprised of many companies, most of which are smaller than Canadians might believe. In 2022, over 85% of defence companies had less than 250 employees. Cumulatively, these firms employed over a quarter of the industry's workforce. This is a decrease of 3% in the number of firms (a similar decrease occurred in number of employees and revenues) from 2020,²³ likely due to business difficulties experienced by defence industry firms during the pandemic.²⁴ These firms also accounted for 23% of total R&D investment,²⁵ indicating that despite their small size, they are creating and supporting cutting edge capabilities. In fact, though the number and revenues of small firms decreased from 2020 to 2022, their total R&D remained the same, indicating increasing R&D intensity requirements for small firms. This strongly indicates owners and investors have confidence in the potential of their investments. Overall, high-tech small and medium sized firms in a specialized area such as defence have unique support requirements for capital, expertise and global trade which Canada should consider as part of a future DIB strategy.

²¹ Canadian Association of Defence and Security Industries, "State of Canada's Defence Industry 2022."

²² Mirlis Reyes-Salarichs, "Industrial Defense Clusters as Technological Innovation Drivers in Latin America," *Hemisferio Revista Del Colegio Interamericano de Defensa* 1 (2015): 100–114.

²³ Canadian Association of Defence and Security Industries, "State of Canada's Defence Industry 2022."

²⁴ David Perry, "15 Years On: The National Shipbuilding Strategy," *Defence Deconstructed*, accessed March 22, 2025, https://www.cgai.ca/dd_15_years_on_the_national_shipbuilding_strategy.

²⁵ Canadian Association of Defence and Security Industries, "State of Canada's Defence Industry 2024."

Current Industry Exports and Research Potential

In 2022, half of the defence industry's output was exported, a proportion that is higher than almost all industries that produce goods and similar with a service-based output model.²⁶ This level of exports has remained consistent since 2018, though the proportion of exports going to the US has increased from 49% to 63%.²⁷ The total value of defence exports has increased from \$5.5B in 2014 to over \$7.0B in 2022 (in constant 2010 CAD). Since the release of ONSF, industry representatives expect exports to grow at a slightly slower rate than domestic defence purchases, as Canadian defence spending rises. Despite this, exports will likely remain almost half of the market's value. Closer partnership with allies could increase these exports, as Canada's allies invest more heavily in their own security and see Canadian firms as high-tech suppliers.²⁸ This international growth will likely require government assistance, as most countries prefer defence sector partnerships with close government collaboration. This is particularly true for items that fall under the International Traffic of Arms Regulation licensing requirement. Canada should focus assistance on firms producing these types of goods.²⁹

²⁶ Tuan Tran, "Growing Canada's Exports to Overseas Markets by 50% – 2023 Update" (Ottawa, ON: Global Affairs Canada, June 2024).

²⁷ Canadian Association of Defence and Security Industries, "State of Canada's Defence Industry 2020" (Ottawa, ON, Spring 2020).

²⁸ Bill Sweetman, "US Allies Must Band Together in Weapons Development," *The Strategist* (blog), April 15, 2025, <https://www.aspistrategist.org.au/us-allies-must-band-together-in-weapons-development/?emci=901c48fb-aa1f-f011-8b3d-0022482a9fb7&emdi=6d865916-3220-f011-8b3d-0022482a9fb7&ceid=290839>.

²⁹ Becca Wasser and Philip Sheers, "From Production Lines to Front Lines" (Washington D.C.: enter for a New American Security, April 2025).

Future growth of defence exports can help defray domestic R&D and production costs, in addition to providing valuable high-tech employment opportunities for Canadians. This market is exposed to geostrategic considerations, however, as well as unpredictable export permitting. The obvious risks from Canada's current reliance on the US defence market (With ~ \$6B CAD of current defence exports annually) is one example of these types of risk. The defence industry does not currently enjoy significant Canadian diplomatic engagement that can overcome this type of risk. Furthermore, domestic procurements are not designed to encourage follow-on international sales.³⁰ These are areas where policy changes can improve the strength of the Canadian defence industry.

The Canadian defence industry is heavily dependent on high-tech products for securing new business and thus requires higher R&D allocations to create economic output than other industries.³¹ R&D funding is sometimes a contracted requirement (directly paid for by the government), however currently over 60% of these expenditures are funded by industry.³² This investment allows Canadian defence industrial base to compete on future contracts, but requires higher levels of capital support and investment expertise. This increases operating costs, which can lead to reluctance to invest in uncertain procurement environments. Providing procurement certainty, innovation support and reduced investment costs are some of the ways that other countries encourage defence investment when facing similar challenges.³³

³⁰ Business Council of Canada, "Security and Prosperity: The Economic Case for a Defence Industrial Base Strategy" (Ottawa, ON, 2024).

³¹ Canadian Association of Defence and Security Industries, "State of Canada's Defence Industry 2024."

³² Canadian Association of Defence and Security Industries, "Defence Innovation Report" (Ottawa, ON, May 2018), <https://www.defenceandsecurity.ca/media/proxyDocument&a=544&r=133&v=5e3f712ec8d4cbac3cd46e8f3a0a9d59>.

³³ Department of Defense, "National Defense Industrial Strategy."

Canada has a strong, research-driven industrial base to build upon, nevertheless additional government investment is required to expand this base and prepare for a changing international defence marketplace. Encouraging further exports and industry research will ensure a continued growth trajectory. Further government support for innovation and strategic management of capability development could see the current industry evolving into a strengthened structure similar to the American NTIB.³⁴ Achieving this type of world-class industry should be considered as the goal for a future DIB policy, while recognizing it would require a much greater fiscal commitment and a restructuring of Canadian defence procurement planning.

Why Canada needs a Defence Industrial Strategy

The global strategic situation has changed substantially.³⁵ The return of great power competition, autocratic states' challenges to the international order, climate change and disruptive new technologies are threatening the security of Canada.³⁶ A variety of recent Canadian policies clearly identified these trends,³⁷ as did numerous expert commentaries.³⁸ However, many of the proposed strategic responses are built upon the basis of the enduring Canada-US security and economic relationship, which has underpinned Canadian security since the 1940s. Indeed, Canada and the US have been the mostly closely integrated binational defence

³⁴ Heidi M Peters and Luke A Nicastro, "Defense Primer: The National Technology and Industrial Base" (Washington D.C.: Congressional Research Service, March 30, 2023).

³⁵ Lara Jakes and Berhard Warner, "Trump Shuns Europe, and Its Defense Industry Tries to Capitalize," *New York Times*, April 22, 2025, <https://www.nytimes.com/2025/04/22/world/europe/europe-weapons-investment.html>.

³⁶ Government of Canada, *Our North Strong and Free: A Renewed Vision for Canada's Defence* (Ottawa: National Defence, 2024).

³⁷ Vincent Rigby and Thomas Juneau, "A National Security Strategy for the 2020s: Report of the Task Force on National Security, Graduate School of Public and International Affairs" (Ottawa, ON: University of Ottawa, May 2022).

³⁸ Francis, "A Modern Military That Can Defend Canada."

industrial base since the Ogdensburg Agreement.³⁹ Despite this integration, recent Trump Administration statements and the Canadian response clearly indicate that the bilateral relationship can no longer be assumed to provide a foundation for Canadian security.⁴⁰ Canada must now respond to emerging security threats while managing upended US relations. This will challenge many areas of Canada's defence, but perhaps none so much as the DIB, given the deep Canada-US connections that must now be reconsidered. For this reason, a contemporary national DIB policy which enhances Canadian sovereignty and responds to emerging security challenges is vital.

An up-to-date industrial strategy is needed to respond to other pressing considerations too. Canada must urgently strengthen its overall defensive capabilities given an increasingly dangerous global situation.⁴¹ Fortunately, this trend of declining security was foreseen in the 2010s and the defence policy *Strong, Secure and Engaged* (SSE) was released in 2017 to respond. While the recapitalization of the CAF has progressed since the release of SSE, progress has been slower than anticipated.⁴² Significant SSE programs will deliver increased capabilities to the CAF prior to 2030, including the Future Fighter program, the Strategic Tanker Program, the Logistics Vehicle Modernization and Joint Support Ship, but these will not be enough to allow Canada to act as an independent defence partner. Furthermore, many further SSE capabilities remain early in the planning and development cycle, with years of development to come.⁴³

³⁹ Wasser and Sheers, "From Production Lines to Front Lines."

⁴⁰ Eyre, "The Urgency Is upon Us: We Need to Defend Canada."

⁴¹ Rob Huebert and Philippe Legassé, "Strategic Outlook: Canada in Dangerous Times" (Conference of Defence Associations Institute, March 2025).

⁴² Huebert and Legassé.

⁴³ David Perry et al., "Assessing SSE and Anticipating the Defence Policy Update" (CDA Institute, Ottawa, ON, September 21, 2023), <https://cdainstitute.ca/assessing-sse-and-anticipating-the-defence-policy-update/>.

Recent strategic shocks must prompt the Canadian government to refocus efforts on urgently procuring and delivering the critical CAF capabilities envisioned in SSE. Significant expansion in the CAF budget and extensive reforms to the procurement system are the current steps to which the government has committed.⁴⁴ These steps will increase project delivery speed, but more political focus on this issue is likely required.⁴⁵ Together with accelerating the delivery of critical CAF capability, the government must also commit to increasing the total amount of CAF capability beyond what was envisioned by SSE and ONSAF, given the changed strategic situation.⁴⁶ Recent comments by Minister of National Defence (MND) Bill Blair indicate the government is well aware of the strategic necessity.⁴⁷ A government commitment to speeding delivery of new capabilities while increasing the total amount a capability available to the CAF will require the type of engaged political support that is built through a strategy creation process.

As it manages emerging security challenges, Canada must strike a balance in sustaining current capability while improving domestic production capacity and cultivating new partnerships. This is a tension many of our allies are also currently managing.⁴⁸ In the short-term, Canadian defence must rely on existing capabilities and contracts that are in progress. A quick switch to new suppliers would cause significant capability degradation while increasing costs to

⁴⁴ Government of Canada, *Our North Strong and Free*.

⁴⁵ Stone, "Canada Still Needs a Defence Industrial Policy."

⁴⁶ Eurasia Group, "Top Risks 2024: Implications for Canada," January 8, 2024, <https://www.eurasiagroup.net/issues/Top-Risks-2024-Implications-for-Canada>.

⁴⁷ National Defence, "Minister Blair Hosts Roundtables with Canadian Defence Industry Partners," March 8, 2025, <https://www.canada.ca/en/department-national-defence/news/2025/03/minister-blair-hosts-roundtables-with-canadian-defence-industry-partners.html>.

⁴⁸ Rajiv Shah, "Sovereign Capability Can Benefit Australia—up to a Point," *The Strategist* (Canberra, NSW: Australian Strategic Policy Institute, April 17, 2025), <https://www.aspistrategist.org.au/sovereign-capability-can-benefit-australia-up-to-a-point/>.

an unsustainable degree.⁴⁹ Longer-term, a structural rebalancing of the DIB can occur to prioritize Canadian development and production of new defence capability. This will be a challenging proposition, however, as it faces quantitative and qualitative barriers.⁵⁰ Due to these factors, managing differing short and long-term imperatives of increasing capability and autonomy while minimizing cost requires careful consideration. Similarly, creating new partnerships with existing allies and expanding partnerships is critical, but also requires significant time and disruption to existing norms to implement. This is the case even where partners are engaged⁵¹ and incentives aligned.⁵² This indicates significant Canadian political will and ministerial oversight are required to successfully guide this transition. Achieving greater Canadian defence production autonomy can be achieved, but it is not without challenges, especially if perceived by the US as a challenge to American hegemony.⁵³ Well-considered moves towards production independence and allied interdependence while maintaining low costs and high capability availability are essential, but require political will to balance short and long-term strategic goals.⁵⁴ A clear strategy to guide the defence industry through this period is vital.

Another consideration that indicates the need for a new policy is a changed risk management environment. The defence industry presently manages many different types of risks. However, one new type of risk that requires urgent attention is risk of ‘competitor leverage.’

⁴⁹ Peter Jones and Philippe Legassé, “Can Canada-U.S. Defence Ties Survive Trump?,” *Globe and Mail*, March 21, 2025, sec. Opinion, <https://www.theglobeandmail.com/opinion/article-can-canada-us-defence-ties-survive-trump/>.

⁵⁰ Major Cory Durant, “Deficiencies of the Canadian Defence Industrial Base in the 21st Century Geo-Strategic Environment,” Solo Flight (Canadian Forces College, 2022).

⁵¹ Sweetman, “US Allies Must Band Together in Weapons Development.”

⁵² Francis, “A Modern Military That Can Defend Canada.”

⁵³ Richard Shimooka, “Switching from the American to the European Defence Market Sounds Good—but It’s a Terrible Idea in Practice,” *The Hub* (blog), April 11, 2025, <https://thehub.ca/2025/04/11/richard-shimooka-switching-from-us-to-europe-defence-market-is-a-terrible-idea-in-practice/>.

⁵⁴ Xavier Delgado, “Can Canada Reduce Its Dependence on the U.S?,” Expert Series, CDA Institute, accessed March 27, 2025, <https://cdainstitute.ca/can-canada-reduce-its-dependence-on-the-u-s/>.

Previously, while Canada had a defence supply chain that was deeply integrated with partners,⁵⁵ the greatest potential risk was from interruptions and abuse within the international supply chain that supported industry.⁵⁶ Risk of a partner exerting negative influence using a defence materiel supply chain was not a material consideration. Recent changes in the Canada-US relationship indicates that the development of a DIB strategy which limits even close partners exerting a preponderance of influence over Canada's defence requirements is now necessary. Canadian independence is now a concern equal to cost and capability.⁵⁷

While domestic economic benefit promotion has long been part of ITB policy, this policy was not designed to reduce foreign dependence. A new strategy which elevates sovereignty is needed to foster this increased industrial independence. This strategy will likely focus on many goals similar to the ITB, but should elevate industrial independence to a primary consideration. This type of policy will require difficult choices between competing factors (cost, capability and independence may form a new 'iron triangle'),⁵⁸ but must reduce adversary leverage over Canadian defence capabilities as a clear end state.⁵⁹ Minimizing the ability of any one nation to constrain Canadian capability deployment is critical to maintaining the credibility of the CAF to operate in an independent and sovereign manner.⁶⁰

⁵⁵ Dani Belo and Joshua Hayes, "The Impact of the Trade War on Defence" (Ottawa, ON: CGAI, April 2025).

⁵⁶ John Louth and Trevor Taylor, "A Defence Industrial Strategy for the UK" (London, UK: Royal United Services Institute, April 2018).

⁵⁷ Jones and Legassé, "Can Canada-U.S. Defence Ties Survive Trump?"

⁵⁸ Benjamin Steven, "Jagmeet Singh Says NDP Would Cancel F-35 Contract and Build Fighter Jets in Canada," *CBC*, March 16, 2025, <https://www.cbc.ca/news/politics/ndp-f-35-contract-1.7485207>.

⁵⁹ Philippe Lagassé, "Why Is Canada Buying so Much American Military Equipment?," *The Line* (blog), January 10, 2024, https://www.readtheline.ca/p/philippe-lagasse-why-is-canada-buying?utm_source=publication-search.

⁶⁰ Belo and Hayes, "The Impact of the Trade War on Defence."

A new strategy is also required to focus industry investment and ensure maximum benefit from the allocated funds. This is especially important given near-term government resource constraints that indicate spending cuts and tax increases would both be needed to hit defence spending targets.⁶¹ Given the unlikelihood of this occurring, the CAF budget available to invest in maturing the required industrial base will grow, but faces significant fiscal pressures.⁶² Current efforts are ongoing to focus defence investments on high-priority areas,⁶³ which has increased available capital to invest in critical defence capabilities.⁶⁴ These efforts must continue in order to support strategic choices that maximize CAF capability and continue DIB growth. Future defence investments must be made which expand productivity, capacity and innovation in the most valuable areas to the CAF.⁶⁵ Furthermore, it is critical that investment choices are clearly communicated industry and research partners, in order to guide and focus collaborative efforts.⁶⁶ Under SSE and ONSF, defence spending increased, however the number of potential beneficial investment areas continues to exceed resource availability.⁶⁷ Ensuring future investment is targeted at the most productive areas while concurrently increasing CAF capability and the DIB

⁶¹ Sean Boynton, “What Would It Take for Canada to Hit NATO’s 2% Defence Spending Target?,” *Global News*, February 27, 2025, <https://globalnews.ca/news/11050336/canada-defence-spending-nato-target-money-explained/>.

⁶² Senate Standing Committee on National Security, Defence and Veterans Affairs, “State of the Canadian Armed Forces” (Ottawa, ON: Senate of Canada, April 8, 2024).

⁶³ Chief of the Defence Staff Mandate and Priorities, “House Standing Committee on National Defence - Defence Spending” (Ottawa, ON: House of Commons, September 26, 2024), <https://www.canada.ca/en/department-national-defence/corporate/reports-publications/proactive-disclosure/cds-mandate-priorities-26-sept-2024/defence-spending.html>.

⁶⁴ Murray Brewster, “Defence Department Reallocating \$810M, in Part to Fund Major Equipment Purchases,” *CBC*, February 29, 2024, <https://www.cbc.ca/news/politics/dnd-defence-estimate-budget-1.7129886>.

⁶⁵ Jimmy Jean, “Done Right, Increased Defence Spending Could Boost the Canadian Economy,” *Desjardins Weekly Commentary* (blog), March 21, 2025, <https://www.desjardins.com/qc/en/savings-investment/economic-studies/canada-economy-defence-spending-21-march-2025.html>.

⁶⁶ Business Council of Canada, “Security and Prosperity: The Economic Case for a Defence Industrial Base Strategy.”

⁶⁷ Senate Standing Committee on National Security, Defence and Veterans Affairs, “State of the Canadian Armed Forces.”

is now even more vital and will require a strategy that can efficiently allocate resources in future years.⁶⁸

Overall, the Canadian government's approach to the DIB is reliant on balancing the interplay between competing demands. These include the necessity of rapidly increasing defence capacity, a changing relationship with the US, managing short and long-term requirements, reducing competitor leverage risk and maximizing defence investment. There is no perfect solution to concurrently maximize the benefits to Canada in all these areas. All paths forward will have downsides as well as strengths. A comprehensive DIB strategy is needed to coordinate resources, communicate objectives and optimize effectiveness in this complex environment.

Canada's DIB Strategy Priorities

A review of Canada's current DIB shows that it is robust, providing a wide range of critical support to the CAF. Despite this, more is being asked from industry and the environment in which it operates has decisively changed in recent years. Some argue that past government neglect has led to a current DIB that does not meet Canada's needs,⁶⁹ but this is likely too harsh an assessment. A fairer picture is of a well-established and highly technical industry that is responsive to the needs of its clients, but is also buffeted by the changing nature of the demands placed upon it.⁷⁰ Canada's industry has the basis to support increased defence requirements and the technical acumen to cement Canada's international reputation as an innovative defence supplier, however it does require increased clarity about how it should continue to evolve. ONSF

⁶⁸ Roger Zakheim et al., "National Security Innovation Base Report Card" (Simi Valley, CA: Ronald Regan Institute, March 2024).

⁶⁹ Durant, "Deficiencies of the Canadian Defence Industrial Base in the 21st Century Geo-Strategic Environment."

⁷⁰ Canadian Association of Defence and Security Industries, "Industry's View on Our North, Strong and Free" (Ottawa, ON, April 8, 2024).

committed the government to “Building and innovative and effective DIB” however beyond information on highly specific issues, it did not provide a strategic vision of the types of DIB investments. This has been previously identified as a critical deficiency by academics.⁷¹ This paper has already established what the industrial base consists of and why a national defence industrial strategy is essential. It will now propose some of the most critical areas of focus.

Collaborative Relationship with Industry

The first focus of a new DIB should be to ensure that the relationship between industry and government is functioning as effectively as possible. While there is always a profit motive at work for businesses, strengthening Canada’s defence industry is also in the government’s interest. A more stable and responsive relationship would have benefits to “the CAF, Canadians and Canadian workers.”⁷² The MND highlighted that this will require a change in approach from previous methods of directive government contracting towards a more collaborative partnership. There have been changes already implemented that indicate that the relationship is improving⁷³ however it is important these changes are formalized to ensure progress. Additionally, it is important that labour and union representation be included in this future relationship, a step that Australian and European Union (EU) industrial strategies have already taken.⁷⁴

Analysis indicates that a new type of collaborative relationship will lower costs, improve productivity and expand Canadian production in critical investment areas, like defence marine

⁷¹ Stone, “Canada Still Needs a Defence Industrial Policy.”

⁷² David Perry, “A Vision for Defence at 2% of GDP,” Defence Deconstructed, accessed January 2, 2025, https://www.cgai.ca/a_vision_for_defence_at_2_of_gdp.

⁷³ National Defence, “Minister Blair Hosts Roundtables with Canadian Defence Industry Partners.”

⁷⁴ EU High Representative for Foreign Affairs and Security Policy, “A New European Defence Industrial Strategy: Achieving EU Readiness through a Responsive and Resilient European Defence Industry” (Brussels: European Union, March 5, 2024).

construction.⁷⁵ Canadian initiatives currently being trialed are also replicated in many of our allies' strategies, such as the Australian industrial focus on "Creating enduring strategic partnerships based on trust and mutual respect."⁷⁶ The US National Defence Industrial Strategy discusses improving American industry collaboration, as well as internationalizing the idea to focus on "strengthen[ing] international defence production relations" between allied governments and their respective defence bases.⁷⁷ Canadian industry is highly receptive to these types of initiatives as well as other industry engagement.⁷⁸ These policies have the potential to improve innovation and reliability, as mutual understanding reinforces decision-making for both producer and consumer of defence goods.⁷⁹ Codifying and clarifying these efforts in strategy will allow Canada to start to manage the DIB as a strategic capability, rather than simply a unpredictable supplier.

Enhanced Support for Defence Research, Innovation and Production

It has been noted that defence research and production, especially in technologically advanced fields, requires higher capital investment than in most other business,⁸⁰ as well as having a unique sector structure with only limited final customers (government departments).⁸¹ For these reasons, government interventions, including financial support, are necessary to

⁷⁵ David Perry, Arianne Reza, and John McCarthy, "15 Years On: The National Shipbuilding Strategy," Defence Deconstructed, accessed April 2, 2025, https://www.cgai.ca/dd_15_years_on_the_national_shipbuilding_strategy.

⁷⁶ Australian Government, "Defence Industry Development Strategy."

⁷⁷ Department of Defense, "National Defense Industrial Strategy."

⁷⁸ Canadian Association of Defence and Security Industries, "At a Crossroads: Canadian Defence Policy and the Canadian Defence Industrial Base" (Ottawa, ON, April 21, 2024).

⁷⁹ Business Council of Canada, "Security and Prosperity: The Economic Case for a Defence Industrial Base Strategy."

⁸⁰ Ethan Ilzetzki, "Guns and Growth: The Economic Consequences of Defense Buildups," Kiel Report (Kiel, Germany: Kiel Institute for the World Economy, February 2025).

⁸¹ Bo Leimand, "Canada's Defence Industry: Exports and Partnerships," *European Security and Defense* (blog), May 29, 2024, <https://euro-sd.com/2024/05/articles/38360/canadas-defence-industry-exports-and-partnerships/>.

encourage domestic sector growth, especially in areas where significant civilian-sector demand may not exist (munitions are a good example).⁸² While significant private DIB investment is ongoing, including in non-civilian sectors,⁸³ enhancing further business-related government resource (including training, networking and business-development) support will encourage greater private investment.⁸⁴

Government support can have outsized impact on Canadian defence research and innovation, especially at smaller and more R&D-focused companies. Research has found these businesses face higher barriers to accessing finance but yield much higher potential returns.⁸⁵ Public investment and risk-sharing mechanisms can also encourage the development of spare production capacity and resilient industry capacity, a critical hedge against changing strategic conditions.⁸⁶ This is especially important for the production of assets likely to be destroyed or consumed at higher rates during conflict, such as vehicles and munitions.⁸⁷ Furthermore, there are indications that increased defence spending can increase national productivity, as defence innovation is adopted into other sectors of the economy.⁸⁸ Government support should be expanded as part of the new strategy and utilized to encourage high-tech defence investment, spurring greater private capital access and innovation.

⁸² Government of Canada, “Report of the Special Adviser to the Minister of Public Works and Government Services: Canada First: Leveraging Defence Procurement Through Key Industrial Capabilities” (Ottawa, ON, February 2013), <https://www.tpsgc-pwgsc.gc.ca/app-acq/amd-dp/samd-dps/eam-lmp-eng.html>.

⁸³ Canadian Association of Defence and Security Industries, “State of Canada’s Defence Industry 2024.”

⁸⁴ “Carney Unveils Costed Liberal Platform,” Online, *CBC News* (Whitby, April 19, 2025), <https://www.cbc.ca/player/play/video/9.6729681>.

⁸⁵ European Commission Directorate General for Defence Industry and Space, “Access to Equity Financing for European Defence SMEs” (Brussels: European Commission Publications Office, January 11, 2024), <https://data.europa.eu/doi/10.2889/698738>.

⁸⁶ Department of Defense, “National Defense Industrial Strategy.”

⁸⁷ Michael Brown, “The Empty Arsenal of Democracy,” *Foreign Affairs*, no. May/June 2025 (April 22, 2025).

⁸⁸ Paul Haavardsrud, “Could Defense Spending Boost Our Economy?,” *Cost of Living*, accessed April 18, 2025, <https://www.cbc.ca/listen/live-radio/1-379-cost-of-living/clip/16141203-could-defense-spending-boost-economy>.

Canadian Sovereign Defence Industrial Priorities

Previous actions by the government to encourage Canadian defence production have been narrowly focused on specific capabilities limited to individual projects.⁸⁹ An essential part of a DIB strategy must move from supporting individual programs to holistic support for indispensable capability groups. This should occur where Canada is well-positioned to build production capacity for the long-term.⁹⁰ This effort must leverage previous ITB policy and evolve it towards a more independent, outcome-based industrial strategy that has relevancy across decades.

Australia has had success with this type of effort in its *Defence Industry Supply Strategy* (2024), labeling these focus areas as “Sovereign Defence Industrial Priorities.” Australia has defined these requirements as those where the government “may need to intervene to ensure they are done in Australia rather than being sourced from an overseas supply chain.” The government has accepted greater risk, utilized greater resources and reformed its capability development system to support each of these priorities. Early and ongoing industry engagement beyond previous norms is highlighted by Australia as paramount in ensuring the on-time delivery of these priorities. This extensive effort by Australia should be duplicated by Canada. It offers clear lessons on the necessity of forecasting and prioritization, as well as good implementation that Canada should seek to emulate.

⁸⁹ Stone, “Canada Still Needs a Defence Industrial Policy.”

⁹⁰ Adam Chapnick and J. Craig Stone, “From Policy and Strategy to Outcomes,” in *Canadian Defence Policy in Theory and Practice*, ed. Thomas Juneau, Philippe Lagassé, and Srdjan Vucetic, Canada and International Affairs (Cham: Springer International Publishing, 2020), 81–97, https://doi.org/10.1007/978-3-030-26403-1_6.

As part of the priority setting process, it is important that Canada prudently assess which technologies and capabilities it will choose to invest in. The UK's efforts in its *Defence Industrial Strategy* (2024) to identify "Key technology 'families' that will be critical to the development of future military capability" offers the most relevant example of this type of effort. The Ministry of Defence's *Science and Technology Strategy* identified the five most pressing technology areas, which were then given access to priority funding and assistance. The US has identified similar areas by analyzing patent quality and volume where increased assistance should be focused.⁹¹ By overlaying this data on national goals such as 'Indo-Pacific Deterrence' and 'Supply Chains' a forecast can be made which integrates technology and strategic priorities.⁹²

The great number of areas of critical emerging technology mean that difficult decisions are required in order to focus investment and support on the most acute requirements of the future. Not all the predictions will be correct, but careful assessment of allied efforts in this regard, as well as wide communication with a diverse array of expert sources, will increase the probability of accurate forecasting. Canada currently limits the effectiveness of its efforts to encourage both innovation and CAF capability development by failing to utilize a strategic science-driven process in setting procurement priorities. The number and diversity of potential technological investments indicates that the current haphazard force development process will decline in efficiency. A renewed prioritization has the potential to improve national outcomes for Canadian security. Engaging in this type of quantitative prioritization process is even more important considering that government focus on a particular technology area will likely further

⁹¹ Zakheim et al., "National Security Innovation Base Report Card."

⁹² Assistant Secretary of Defense - Industrial Base Policy, "National Defense Industrial Strategy Implementation Plan" (Washington D.C.: Department of Defense, October 29, 2024).

incentivize significant additional private investment in associated areas.⁹³ A comprehensive effort to improve defence requirements and production forecasting is therefore urgently needed.

Sustainable Production and Procurement

After determining priority investment areas, it will be important to sustain these industrial sectors by ensuring consistent demand. Joint (Across multiple elements) program management and coordination across projects can assist with supporting steady demand over a long time frame.⁹⁴ Partnering with willing allies is also crucial to creating this steady demand.⁹⁵ These types of efforts allow industry to invest to increase overall capacity, driving down per unit costs and amortizing high levels of R&D across multiple years and units.⁹⁶ This increases DIB productivity, which in turn should allow further foreign sales, thus further reducing costs to the CAF.⁹⁷ Consistent and clear forecast production orders, in the same vein as has been done as part of the National Shipbuilding Strategy, is also critical to enabling industry to invest to meet CAF requirements and improve productivity. The government should commit to enabling this type of stability as part of a DIB strategy, especially by working more closely with a wide group of partners and ensuring a more coordinated production approach across elements and projects.

⁹³ Jean, “Done Right, Increased Defence Spending Could Boost the Canadian Economy.”

⁹⁴ Wasser and Sheers, “From Production Lines to Front Lines.”

⁹⁵ Admiral Paparo, “Statement of Admiral Samuel J. Paparo” (U.S. Indo-Pacific Command Posture, Washington D.C., April 2025), https://www.armed-services.senate.gov/imo/media/doc/testimony_of_adm_paparo.pdf.

⁹⁶ William Greenwalt, “Leveraging the National Technology Industrial Base to Address Great-Power Competition: The Imperative to Integrate Industrial Capabilities of Close Allies” (Washington, DC: Atlantic Council, Scowcroft Center for Strategy and Security, 2019).

⁹⁷ David Perry and J Craig Stone, “Economic Benefits of Defence Spending” (Ottawa, ON: Canadian Global Affairs Insitute, 2021).

Since 2014, Canada has cautiously implemented new procurement protocols aimed at increasing the effectiveness of the procurement system.⁹⁸ Unfortunately, while there have been some improvements, even ONSF indicated that “Defence procurement takes too long in Canada and needs to be faster and more effective.” Given this, the government is currently conducting a review of the procurement system and has committed to significant changes to speed procurement and reduce complexity.⁹⁹ ONSF highlighted “Defence industrial initiatives and strategies to build resilient supply chains, incentivize private industry to scale up or open new production lines” as part of procurement reform initiatives. This is similar to how the UK and Australia view the intersection of procurement policy and DIB support. For both countries, reforming procurement policy (including expanding sole source contracting), industry consultation as part of the contracting process, simpler procurement risk management and new contracting models are all part of improving the defence industrial production. Perhaps most notably, the UK has committed to moving away from ‘competition by default’ and towards a more nuanced approach that places industrial strategy at the heart of procurement.¹⁰⁰ Providing clarity about potential moves towards ‘strategic partnerships with industry’ to improve national capacity, productivity and security would be well received by Canadian industry and should be considered by any new strategy. Overall, Canada should adopt a framework of more flexible procurement policy as a critical part of a new DIB strategy.

International Industrial Collaboration

⁹⁸ Perry, “Putting the ‘Armed’ Back into the Canadian Armed Forces: Improving Defence Procurement in Canada.”

⁹⁹ Government of Canada, “Government Response to the Standing Committee on National Defence” (Ottawa, ON: House of Commons, 2024), https://www.ourcommons.ca/content/Committee/441/NDDN/GovResponse/RP13331316/441_NDDN_Rpt12_GR_PDF/441_NDDN_Rpt12_GR-e.pdf.

¹⁰⁰ Secretary of State for Defence, “Defence and Security Industrial Strategy.”

In the new era of strategic uncertainty, close international defence industrial collaboration is an important part of the competitive, secure and resilient DIB which enables Canadian security. In many ways, allied defence industry connections forms essential connective tissue to align priorities and build trust on a daily basis. Current challenges from the US must reaffirm the importance of working with a wide array of partners. Canada should commit to collaborating with a more diverse group of defence industrial partners in the future, instead of focusing on a single ally.¹⁰¹ Canada should consider increasing the number of partner ‘capability coalitions’ to allow technical knowledge sharing, reduced cost and increased CAF capability.¹⁰² This will potentially lead to increased defence imports, which is reasonable if it increases Canadian security capability at reduced cost with a diverse group of reliable partners.

The opportunities for this enhanced collaboration are currently increasing, as a multitude of traditionally US-aligned western countries find themselves in the same strategic situation as Canada. Increasing engagement with these highly-interested partners could yield very beneficial defence industrial collaboration if Canada acts quickly.¹⁰³ Canada must make clear its strategy in this regard in order to encourage international industrial coordination. Canada must also commit to comprehensive improvement in the magnitude and dexterity with which it supports Canadian defence exports. This is an area with the potential for significant improvement that would offer considerable domestic benefits both to Canadian industry and the CAF.¹⁰⁴

¹⁰¹ Jones and Legassé, “Can Canada-U.S. Defence Ties Survive Trump?”

¹⁰² Business Council of Canada, “Security and Prosperity: The Economic Case for a Defence Industrial Base Strategy.”

¹⁰³ William Freer and Paul Mason, “Securonomics: The Contribution of a Defence Industrial Strategy” (London, UK: Council on Geostrategy, March 2025).

¹⁰⁴ Christian Leuprecht, “Understanding the Role of Weapon Exports in Canadian Foreign Policy” (Ottawa, ON: MacDonald Laurier Institute, May 2021).

Conclusion

Canada has seen the basis of its defence tested strongly in the first months of 2025. The essential Canadian security partner has expressed doubts about our continued sovereignty, which may pose the most serious threat to Canada in a century. Concurrently, threats to Canada's security are increasing from adversarial states that continue to challenge our interests. Finally, the very nature of the international political system seems to be returning to its historic basis of force and turning away from a rules-based system of international law. The release of ONSF in 2024 accurately diagnosed many of these problems and continued the defence recapitalization begun by SSE. At this moment, it is vital that Canada invest heavily to recalibrate its defence industry in order to meet Canadian defence requirements. Canada's DIB is not so small or unproductive as many believe, however it requires care and attention to ensure it can provide the tools to protect Canadian sovereignty. Canada must pair its existing defence policy with a new, comprehensive DIB strategy to transform Canada's defence industrial base and meet the threats of tomorrow.

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