



SECURITY & PROSPERITY

**THE ECONOMIC CASE FOR A DEFENCE
INDUSTRIAL BASE STRATEGY**



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Overview

Canada's national security is dependent on the vitality and resiliency of our economy. The converse is also true.

This report is the second in a series of recent major policy papers urging the Government of Canada to embrace this mutually reinforcing link by adopting an integrated approach to economic and national security that enhances Canadians' safety, security and prosperity in a period of heightened geopolitical risk and uncertainty.

The first, *Economic Security is National Security*, highlighted the threat that state-sponsored actors pose to the Canadian economy and, by extension, the lives and livelihoods of Canadians. It successfully advocated for several important reforms, including the development of a new national security strategy as well as the modernization of the *Canadian Security Intelligence Service Act*.

This report shifts gears to focus on national defence. It makes the economic case for the development and implementation of a defence industrial base strategy that would safeguard Canadians from foreign threats, enable the government to honour its international defence commitments, and drive prosperity for workers across the country.

Key Takeaways

1. Canada's military rivals are investing heavily in their armed forces, and the defence industrial bases which support them, to reshape the international order in ways that undermine Canadians' national and economic security.

2. Successive governments have failed to adequately invest in Canada's defence industrial base, depriving our military of the capabilities they need to contend with a far more dangerous world, as well as isolating Canada from its closest allies, such as the United States.

3. A strong and sovereign defence industrial base will not only allow the government to safeguard Canadians and support our allies, but also supercharge Canada's economic security and prosperity through increased innovation and job creation.

1 A new strategy will safeguard Canadians, help Canada honour its international commitments and increase workers' economic security and prosperity

As the Business Council of Canada (BCC) argued last year in its report, *Economic Security is National Security*, many of Canada's closest allies have developed integrated approaches to economic and national security that seek to enhance their safety, security, and economic prosperity in a period of heightened geopolitical confrontation.¹

Canada has not.

For decades now, successive Canadian governments have overlooked, taken for granted, or simply ignored the principle that Canada's national security is dependent on the vitality and resiliency of our economy.

The Government of Canada's failure to embrace this vital link applies not just to its inability to develop and implement an integrated national security strategy as we argued last year.

This lapse has also led to inadequate government support for the country's defence industrial base – that is, the network of businesses, infrastructure, and technologies that equip and support our military.

Simply put, the Government of Canada does not have the policies in place to build and secure the defence industrial base needed to effectively navigate a new and far more dangerous world.

Such neglect makes Canadians vulnerable. For decades, a relatively stable international order has led to a high level of safety, security, and economic prosperity for Canadians. Now, increased geopolitical tensions, if not carefully navigated, have the potential to impose terrible human costs on Canadians at home and abroad, as well as to directly threaten Canadian workers' livelihoods.

However, the Government of Canada's failure to adequately invest in Canada's defence industrial base means far more than our country being unprepared for a more tumultuous world. Increasingly, it means our country is also isolated from vital partners.

In the past decade, successive Canadian governments have made three fundamental commitments to their North Atlantic Treaty Organization (NATO) allies:

1. Invest at least two per cent of Canada's Gross Domestic Product (GDP) on defence,
2. Ensure that at least 20 per cent of Canada's defence expenditures are made on the acquisition of new major equipment and related research and development (R&D), and
3. Develop a national plan to strengthen Canada's defence industrial capacity.

The Government of Canada's failure to uphold these three fundamental obligations has damaged Canada's global standing and threatened the country's diplomatic relationships with its closest allies.

By way of example, senior officials from the United States have repeatedly warned that Canada’s preferential access to the U.S. export market – a market which supported the livelihoods of more than three million Canadian workers in 2022² – could be jeopardized if the Government of Canada fails to move with urgency to meet its NATO commitments.

Fortunately, it is not too late to act.

The Government of Canada can safeguard Canadians and honour its international commitments by investing in a strong and sovereign defence industrial base. By doing so strategically, it can also supercharge Canada’s broader economic security and prosperity.

To seize this generational opportunity, the BCC urges the Government of Canada to develop and implement a new Defence Industrial Base Strategy (DIB Strategy). Canada’s DIB Strategy must articulate a vision for how the public and private sectors can jointly achieve three strategic outcomes:

- 1.** Build and secure a sovereign, but internationally linked, defence industrial base capable of providing Canada and its allies with the capabilities needed to respond to challenges presented by increased geopolitical confrontation, advance our national interests at home and abroad free from external threats, and support our allies and partners in times of need.

- 2.** Honour Canada’s international defence obligations, including to invest in increased industrial capacity, by reprioritizing current government investments and making new investments so that:
 - By 2029/2030, Canada meets the commitment it made to its NATO allies to annually invest at least two per cent of GDP on defence with at least 20 per cent of that sum being dedicated to the acquisition of new major equipment and related R&D;
 - By 2034/2035, Canada’s defence expenditure surpasses the NATO alliance’s current median investment ratios such that the country annually invests at least 2.5 per cent of GDP on defence with at least 35 per cent of that total being dedicated to the purchase of new major equipment and related R&D; and
 - After 2034/2035, Canada’s annual defence expenditure continues an upward trajectory to three per cent of GDP, aligning Canada with key allies – like the U.S. – who have committed to a similar benchmark, as well as our country’s historical investment-levels during a period of heightened geopolitical confrontation.³

- 3.** Strengthen Canada’s broader economic security and prosperity by enhancing productivity and innovation within advanced dual-use sectors vital to the creation of high-skilled jobs, as well as the country’s long-term economic resiliency and competitiveness.

At a time when national and economic security are increasingly intertwined, Canada will be unable to sustain a healthy and prosperous economy without a defence industrial base capable of providing itself and its allies with the capabilities needed to safeguard our country, our continent, and the international order upon which we rely.

Now is the time for policymakers to recognize this vital linkage and come together with the private sector to protect Canadians from an increasingly dangerous world.

2 Canada's defence industrial base is no longer "fit for purpose"

Despite a growing acknowledgement among Canada's political leaders of the dangers posed by a new, more tumultuous geopolitical reality,⁴ Canada's defence industrial base has changed far too little to meet the oncoming challenge.

Indeed, much about the way the Government of Canada operates continues to reflect the geopolitical realities of the post-Cold War era.

In the aftermath of the Cold War, with the Soviet Union vanquished and our closest friend and ally, the U.S., reigning supreme as the world's sole superpower able to win wars and keep the peace, Canadian policymakers calculated that our country could afford to downsize its military to harvest the so-called peace dividend.⁵

The procurement holiday that followed saw dramatic cuts in military force size and structure, weapons development and production, as well as the stockpiling of munitions and other key resources.

Like any sector seeking to adjust to a new reality, Canada's defence industrial base pivoted. Instead of structuring itself to contend with the great-power rivalry that marked the Cold War, the sector shifted gears to address lower-intensity, but still dangerous, threats, such as terrorism and counterinsurgencies.⁶

During this same time, a series of factors converged to weaken our defence industrial base. This included a rapidly aging workforce⁷ and offshoring to low-cost jurisdictions abroad.⁸

It also included stagnating economic growth and innovation across the broader civilian economy, which supplies Canada's defence industrial base with capital as well as dual-use technologies and infrastructure.⁹

In fact, for many years now, Canada has underperformed its global peers in a range of areas essential to spurring innovation, scaling companies, and capturing global market share in advanced dual-use industries vital to our prosperity and security.¹⁰

A key contributor has been successive Canadian governments that indiscriminately subsidized companies across various sectors and regions without a clear and targeted strategy. This stands in contrast to rapidly industrializing nations that have adopted focused industrial policies aimed at enhancing productivity and innovation within advanced dual-use sectors where their country has a comparative advantage.¹¹

Finally, like many other segments of the economy, Canada's defence industrial base felt the impact of growing economic security threats, such as espionage,¹² economic coercion,¹³ and mercantilist trading practices,¹⁴ which displaced skilled workers and weakened key industrial capabilities.

Meanwhile, our military rivals went to work and made significant investments year-after-year to field a growing arsenal of capabilities designed to undermine our military strengths and to exploit our vulnerabilities.¹⁵

To develop these new capabilities, our military rivals adopted innovative industrial strategies that prioritized high-risk, high-reward research, as well as created new government-industry linkages, allowing them to more effectively harness advanced dual-use technologies initially developed by the commercial sector.

The upshot is that when it comes to supporting Canada and its allies' armed forces, our country is no longer the industrial powerhouse that it once was. In a broad range of advanced sectors essential to our national and economic security – from shipbuilding and photonics sensors to advanced biological manufacturing and microelectronics – our military rivals' industrial and technological capabilities vastly exceed our own.¹⁶

3

A strong and sovereign defence industrial base safeguards Canadians

Canada needs a strong and sovereign defence industrial base. By providing the foundational elements of military capability, a robust defence industrial base is essential to Canada's ability to respond to the challenges presented by increased geopolitical confrontation, to advance our national interests at home and abroad free from external threats, and to support our allies in times of need.

Russia's illegal invasion of Ukraine, the largest conflict in Europe since the Second World War, reinforces the importance of a strong and sovereign defence industrial base to preserving a country's national and economic security.

Earlier this year, the then-Secretary General of NATO, Jens Stoltenberg, described the war in Ukraine, now in its third year, as a "war of logistics" that "depends very much on production capacity."¹⁷

Stoltenberg argued that supply chain disruptions, production bottlenecks, limited workforce numbers, and a lack of workers with specialist skills – not just in Ukraine, but in allied countries like Canada – have significantly hampered Ukraine's ability to expel Russian invaders from its territory.¹⁸

The resulting cost has been immense. By 2026, Russia's illegal war is expected to have cost the Ukrainian people \$167 billion in lost economic output and \$1.4 trillion in lost capital stock.¹⁹

Meanwhile, despite staggering losses inflicted by Ukrainian forces, Russia's larger and more resilient defence industrial base has allowed Russia to recover far faster than expected to continue the fight.²⁰

A country's ability to defend itself depends on the health and vitality of its defence industrial base. Our military rivals understand this. In our own country, intelligence estimates have repeatedly warned that if an armed conflict broke out, Canadian industry would very likely be the target of attack.²¹ The goal: cripple our ability to mobilize for war.²²

It is time for the Government of Canada to also recognize the strategic importance of a strong and sovereign defence industrial base.

We have left behind the post-Cold War era where our primary opponents were terrorists and counterinsurgents. In our new and far more turbulent geopolitical reality, we must now contend with advanced nation states who can wage war on an industrial scale. That is an entirely different proposition.

To safeguard our country, our continent, and the international order from increasingly sophisticated and pervasive threats, the Government of Canada must recognize that we are unprepared and move forward urgently with a credible plan to strengthen our defence industrial capacity.

As Canada's Chief of the Defence Staff²³ and many of her foreign counterparts²⁴ have recently made clear, we do not have much time.

3.1. A strong and sovereign defence industrial base enhances Canadians' economic security and prosperity

The benefits of a more robust and resilient defence industrial base stretch far beyond protecting Canadians from a more dangerous world. If pursued strategically, investments in Canada's defence industrial base have the potential to significantly enhance Canadian workers' economic security and prosperity.

For example:²⁵

- Strategic investments in Canada's defence industrial base can have some of the greatest returns on investment when it comes to stimulating broad-based economic prosperity and security. This is because Canada's defence industrial base, spread across every province and territory,²⁶ includes some of the nation's most high-skilled, export-oriented, and R&D-intensive industries.²⁷ In addition, many of the innovations and human skills cultivated within the defence industrial base can find high-value commercial and academic application outside of it.²⁸ This means that government investments in the sector tend to drive far greater levels of innovation and productivity than in other sectors, leading to higher rates of economic growth and high-wage job creation.²⁹ Moreover, given the strategic value of many of the dual-use goods and services created by the sector, increased investments in Canada's defence industrial base also tend to disproportionately contribute to economic security by building greater domestic resiliency and reducing risks associated with excessive reliance on overseas industries and supplies.³⁰
- Strategic investments in Canada's defence industrial base can also translate into economically rewarding industrial partnerships that improve global relevance by solidifying relationships with important allies and trading partners. For instance, a stronger defence industrial base, more responsive to the defence requirements of Canada and its allies, would improve the country's ability to negotiate its admission into AUKUS Pillar II. Joining this capability-sharing coalition would have immense economic benefits for Canadian businesses and entrepreneurs seeking to develop and commercialize advanced dual-use technologies, including in the fields of cyber, space, cloud computing and artificial intelligence. Admission to this exclusive geopolitical club would also benefit the Government of Canada diplomatically by solidifying the country's collaboration with three of our closest security and trading partners – the U.S., United Kingdom, and Australia.
- Finally, by assisting Canada's military in securing NATO's northern and western flanks from growing aggression, strategic investments in Canada's defence industrial base can help reverse Canada's reputation as an unreliable partner that is either unwilling or unable to uphold its global security responsibilities. This should improve other pressing aspects of our bilateral relationships with key allies and trading partners. Take for example Canada's trading

relationship with the U.S., our most important economic partner. Senior American officials have warned that a smooth review of the *Canada-United States-Mexico Agreement (CUSMA)* – a trade deal ensuring the orderly flow of approximately \$3.6 billion of goods and services across our shared border each day – will be tied to the Government of Canada strengthening its defence posture, including stepping up its industrial contributions to NATO.³¹

3.2. Canada's closest allies are moving forward

Many of Canada's closest allies are pursuing the economic benefits associated with investing in their defence industrial bases.

In fact, as the global security environment continues to deteriorate, a large and growing majority of Canada's allies have independently assessed the increased likelihood of geopolitical confrontation and have decided that it is in their national interests to develop and implement new defence industrial base strategies.

These strategies are aimed at rebuilding their onshore defensive capabilities to contend with a far more dangerous world, as well as stimulating broad-based economic prosperity and security across their jurisdictions.

For example:

- The U.S.' first-ever *National Defense Industrial Strategy*, published in January 2024, contends "that America's economic security and national security are mutually reinforcing, and ultimately, the nation's military strength depends...on our overall economic strength."³² In light of this important linkage, the U.S. strategy asserts that the "current and future strategic environment requires immediate, comprehensive, and decisive action in strengthening and modernizing our defence industrial base ecosystem to ensure the security of the United States, our allies, and our partners."³³
- For its part, the U.K.'s 2021 *Defence and Security Industrial Strategy* recognizes that the U.K.'s "global role requires us to retain Armed Forces equipped: to deter and where necessary defeat the military threats of the future; to be present and persistent; and to be agile and adaptable to the changing face of warfare and global engagement." To do that, the U.K.'s strategy asserts that the country must "sustain and grow onshore industrial capability and skills for the future in those areas most critical to defence and security, supporting economic growth across the Union, and improving the competitiveness of our companies in the global market."³⁴
- The European Union's first-ever *European Defence Industrial Strategy*, published in March 2024, follows the same logic. It contends that the bloc's "security and its ability to effectively support its partners depend on its capacity to swiftly mobilise defence equipment."³⁵ To deliver what is needed, in the right quantities and places, at the right time, the E.U.'s strategy states that Europe's defence industrial base "needs to undergo a paradigm shift and take more risks to be more responsive to the needs of all Member States."³⁶ The E.U. seeks to achieve this by encouraging member states to procure at least 50 per cent of their defence investments within the bloc by 2030 and at least 60 per cent by 2035.³⁷ The E.U.'s strategy also expressly acknowledges the economic advantages created by investing in Europe's defence industrial base: "[i]ncreased investments contribute to the Union's wider economic security, as the [defence industrial base] is a key driver of technological innovation and resilience across our societies."³⁸

3.3. Canada is falling further and further behind

Despite both Canada’s military rivals and allies strengthening their defence industrial bases to contend with a period of heightened geopolitical confrontation, no serious efforts are currently underway to do the same at home. Instead, Canada’s political leaders are still trying to cash-in on the so-called peace dividend.

This remains the case in spite of a strong and growing desire among Canadians to see their government invest more in Canada’s defence readiness,³⁹ NATO actively considering “industrial capacity” becoming a measured component of member states’ contributions to the alliance, and the Government of Canada signing a NATO pledge this July committing Canada to “developing national plans to strengthen industrial capacity.”⁴⁰

Two metrics are indicative of the Government of Canada’s unwillingness to invest in Canada’s industrial capacity: Canada’s investment in defence as a proportion of national GDP, as well as the share of that sum spent on new major equipment and related R&D.

Despite Canada first making a commitment to its NATO allies 10 years ago to invest at least two per cent of Canada’s GDP on defence,⁴¹ and Canada recommitting to that pledge last year with the additional criterion that at least 20 per cent of its defence expenditure be dedicated to the purchase of new major equipment and related R&D,⁴² the country has never honoured either of these fundamental promises.

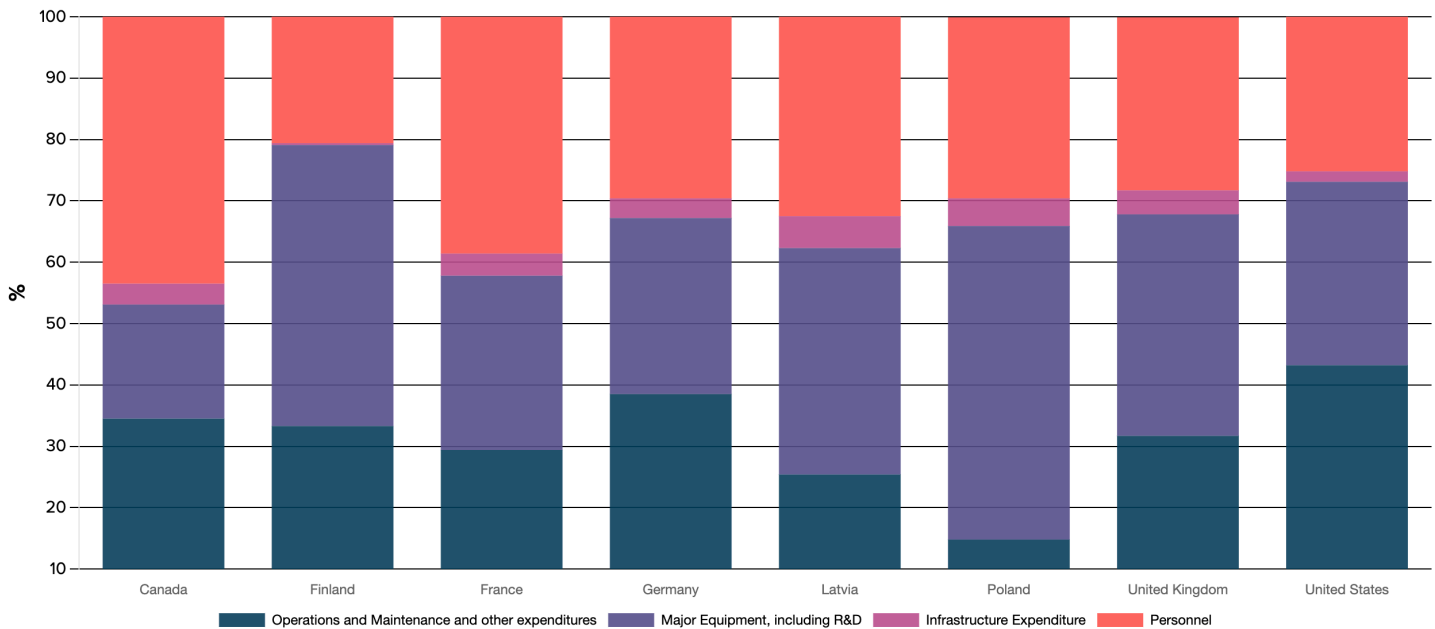
As of 2024, Canada’s investment-to-GDP ratio remains at a paltry 1.37 per cent – only two-thirds of NATO’s two per cent target, and even further behind the alliance’s median investment-to-GDP ratio of 2.11 per cent.⁴³

Canada performs better when it comes to the purchase of new major equipment and related R&D as a proportion of total defence expenditure. The country currently sits at a ratio of 18.6 per cent. However, Canada still performs well below the alliance’s median investment-to-equipment ratio of 30.85 per cent.⁴⁴

Figure: Canada underinvests in new major equipment and related R&D

THIS INTERACTIVE CHART IS ALSO AVAILABLE ONLINE: [THEBUSINESSCOUNCIL.CA/REPORT/SECURITY-AND-PROSPERITY/#UNDERINVESTS](https://thebusinesscouncil.ca/report/security-and-prosperity/#underinvests)

Main categories of defence expenditure as a share of total defence expenditure



Source: NATO, “Defence Expenditure of NATO Countries (2014-2024)”, June 12, 2024

Recent government announcements set out a “plan” to reverse the Government of Canada’s poor performance on these two metrics. In April, the Government of Canada claimed that by 2029/2030 Canada will reach an investment-to-GDP ratio of 1.76 per cent with 29.6 per cent of that total being spent on new major equipment and related R&D.⁴⁵ In July, after weeks of intense criticism of its April announcement,⁴⁶ the Government of Canada further claimed that it “expects” Canada’s defence expenditure to reach two per cent of Canadian GDP by 2032.⁴⁷

Yet, serious doubt remains as to whether Canada is currently capable of hitting NATO’s two-pronged investment “floor.” The Parliamentary Budget Office (PBO) has warned that, given historical gaps between the Government of Canada’s planned and actual expenditures on major equipment⁴⁸ as well as its overly pessimistic projections for GDP growth,⁴⁹ Canada’s investment-to-GDP ratio will fall well below the announced targets. For instance, in October, the PBO projected Canada’s investment-to-GDP ratio will more realistically sit at 1.58 per cent by 2029/2030.⁵⁰

The Government of Canada’s poor performance is deeply troubling on its own. But once compared to our allies, it is simply indefensible.

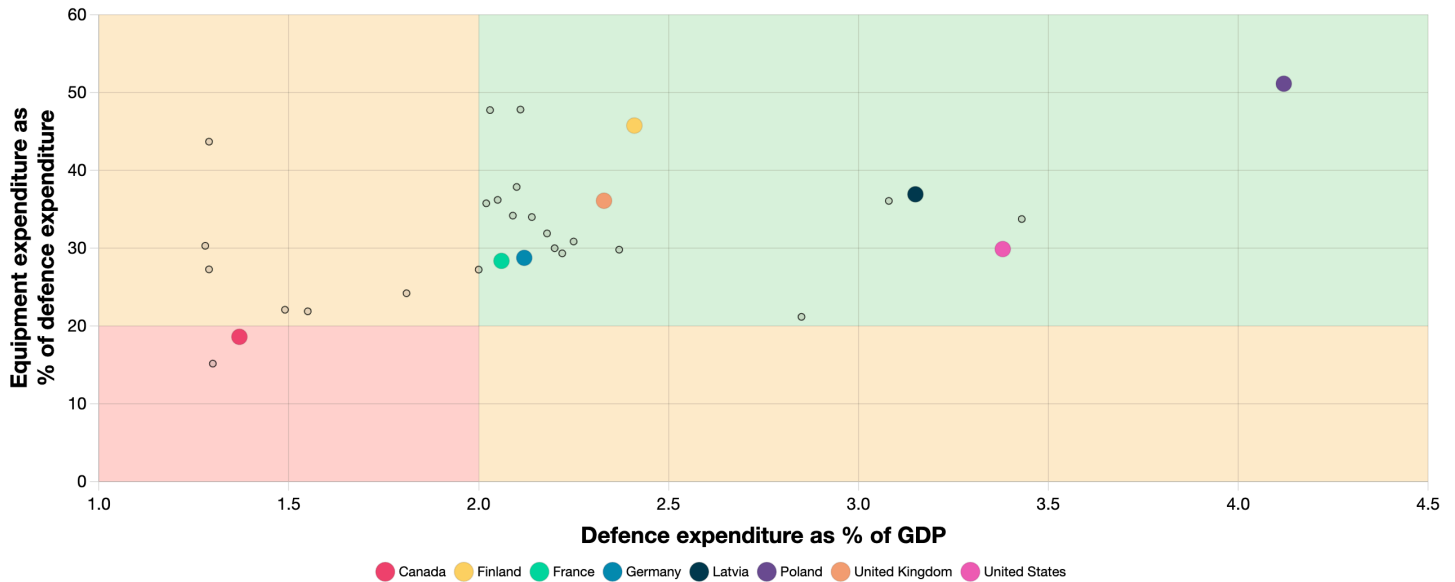
Despite Canada’s storied history as a founder and steadfast contributor to the NATO alliance, investing an average of 3.09 per cent of GDP annually on defence during the Cold War,⁵¹ in 2024, Canada’s investment-to-GDP ratio of 1.37 per cent meant that the country ranked 27th out of NATO’s 32 member-states for overall spending.³² When it comes to Canada’s investments-to-equipment ratio of 18.6 per cent, Canada ranked even worse: 31st out of NATO’s 32 member-states.³³

When our performance on both metrics is combined and charted on a graph, Canada is now only one of two NATO allies that exists within the so-called “Quadrant of Shame”:⁵⁴ an area reserved for those countries that have met neither prong of NATO’s investment “floor”.

Figure: The “Quadrant of Shame”

THIS INTERACTIVE CHART IS ALSO AVAILABLE ONLINE: [THEBUSINESSCOUNCIL.CA/REPORT/SECURITY-AND-PROSPERITY/#QUADRANT](https://thebusinesscouncil.ca/report/security-and-prosperity/#quadrant)

Defence expenditure as a share of GDP and equipment expenditure as a share of defence expenditure 2024



Source: NATO, “Defence Expenditure of NATO Countries (2014-2024)”, June 12, 2024

Meanwhile, the vast majority of NATO countries have not only met NATO’s two-pronged investment “floor” but believe that it is currently set too low to ensure the alliance’s collective security and prosperity.

For example:

- Poland, which leads the alliance in defence investments, is expected to hit an investment-to-GDP ratio of 4.12 per cent by the end of this year, with 51.1 per cent of that total being spent on new major equipment and related R&D.
- The U.S. and U.K., two of Canada’s closest economic and security partners, will have investment-to-GDP ratios of 3.38 per cent and 2.33 per cent, respectively, by the end of 2024. Of that amount, they are expected to invest 29.9 per cent and 36.1 per cent, respectively, on new major equipment and related R&D.
- Latvia, host to the largest deployment of Canada’s military anywhere in the world, will hit an investment-to-GDP ratio of 3.15 per cent this year, with 36.9 per cent of that sum spent on new major equipment and R&D.
- Finland, with whom Canada recently entered into a strategic partnership to build heavy icebreakers, will invest 2.41 per cent of its GDP on defence by year’s end, with 45.8 per cent of that total spent on new major equipment and related R&D.⁵⁵

In addition to most NATO countries now surpassing the alliance's current GDP investment "floor," a growing cohort are also calling for laggards – like Canada – to follow suit.

In fact, countries, such as the U.S., U.K., Poland, Lithuania, and Estonia, are proactively lobbying for a newer, much higher GDP investment "floor" – somewhere between 2.5 to three per cent – to be applied to the entire alliance.⁵⁶

U.S. President-elect Donald Trump, for example, has argued that "two per cent is the steal of the century," and that once in office he will "insist that every NATO nation must spend at least three per cent" of their national GDP on defence.⁵⁷

Yet, the Government of Canada still has no credible plan to ever meet the NATO alliance's current obligations. This undermines our industrial readiness as well as increasingly strains our relationships with key allies and trading partners.

3.4. Canadian "free riding" is not free

Critics of industrial mobilization may argue that Canada's defence industrial base does not require significant new investments. After all, in the event of an attack, our defence partners, especially our southern neighbour, would surely step in to protect us. Similarly, critics may contend that if Canada's allies are each investing more in their industrial capabilities, that takes the pressure off Canada to do the same.

This thinking misses the mark.

Canada's defence partnerships are indeed at the very core of Canada's ability to defeat aggression within its borders and territory. However, while our defence partnerships convey benefits, they also impose obligations.

And on meeting our obligations, Canada is a perpetual laggard, straining our bonds with key security partners and imperiling other important aspects of our relationships – like trade and investment.

NATO allies which meet their defence industrial obligations take a dim view of Canada not solely because the Government of Canada's dereliction of duty imperils the alliance's role as a source of global peace and stability.

They also view the Government of Canada's lack of investment as an "implied tax" on their own citizens to allow for Canada's security.⁵⁸

In the same vein, many NATO allies rightly complain that they had to make difficult trade offs – such as limiting spending on politically popular social programs – to meet obligations that the Government of Canada has conveniently avoided.⁵⁹

Further, just because investments in our NATO allies' defence industrial bases have increased in recent years, that does not mean that the alliance's collective capacity is anywhere near to satisfying the skyrocketing demand for defensive capabilities across the alliance.

The shortage of an all-important munition to the war in Ukraine – the 155-millimetre artillery shell – illustrates the challenge ahead. Despite NATO countries pouring billions of dollars over the last three years into increased production capacity, decades of policymakers failing to take serious warnings about the sorry condition of the alliance’s munitions industry has meant that NATO countries are still unable to adequately supply Ukraine with the thousands of shells they need daily to shift the war in their favour.⁶⁰

It is for these and many other related reasons that frustrations with Canada’s lack of seriousness have boiled over across the alliance, leading to a number of recent rebukes.⁶¹

Consider recent statements coming out of the U.S.

A scathing editorial by *The Wall Street Journal* last summer took aim at Canada’s failure to uphold its defence commitments. The editorial board of the second most-read newspaper in the U.S. labeled Canada a “military free-rider”⁶² and argued that “NATO needs members that keep their commitments.” The editorial board went on to argue that “nations of the G-7 have an obligation to lead the way” and “[i]f Canada doesn’t want to play that role, then the G-7 should consider a replacement.”⁶³

These frustrations are not limited to the U.S. media.

In May, a bi-partisan group of 23 U.S. Senators – over one-fifth of the powerful Senate – wrote to Canada’s prime minister expressing that they were “concerned and profoundly disappointed that Canada’s most recent projection indicated that it will not reach its two percent [NATO] commitment this decade.”⁶⁴ The group of influential lawmakers warned that “Canada will fail to meet its obligations to the Alliance, to the detriment of all NATO Allies and the free world, without immediate and meaningful action to increase defense spending.”⁶⁵

Nor are these concerns limited to one branch of the U.S. Government.

In August, Jake Sullivan, the U.S. National Security Advisor, principal advisor to the 46th U.S. President, Joe Biden, on national security issues, singled out Canada as failing to meet its NATO defence obligations. Sullivan urged the Government of Canada to reach NATO’s two per cent investment-to-GDP ratio “as rapidly as humanly possible.”⁶⁶

Such frustrations are far more than idle threats. They can dictate policy – including whether the U.S. will come to Canada’s aid in a crisis, or whether Canada will continue to benefit from its preferential access to the U.S. market, the destination for more than three-quarters of our exports.

For instance, in February, Donald Trump, the 45th and soon to be 47th U.S. President, explained what he would say to a NATO ally who suffered an invasion, but had not spent as much as the alliance requires: “You’re delinquent? No, I would not protect you. In fact, I would encourage [the invaders] to do whatever the hell they want.”⁶⁷

In October, both Elbridge Colby⁶⁸ and Ambassador Robert O’Brien,⁶⁹ two senior officials in the first Trump administration, and possibly the second, plainly stated that a successful renewal of CUSMA will be predicated on Canada meeting NATO’s investment-to-GDP ratio of two per cent.⁷⁰

Outside of the U.S., frustrations with the Government of Canada are also starting to dictate policy adverse to Canada's national interests.

The glacial pace by which the Government of Canada has sought to strengthen the country's defence capabilities has meant that Canada is often excluded from strategically important initiatives among some of our closest allies and partners.⁷¹ This includes the Quad Security Dialogue as well as the AUKUS security pact.

Both were formed without even a consideration that Canada should be at the table.⁷² This would have been unheard of in the previous century, when Canada was seen as a significant and respected contributor to global peace and stability.

The Government of Canada cannot afford to continue to shirk its defence industrial obligations. A strong and sovereign defence industrial base, capable of supporting Canada and its allies' armed forces, is key to allied solidarity and therefore Canada's national and economic security.

4 Canada must adopt a new Defence Industrial Base Strategy

4.1 Canada has done this before – we can do it again

While building a strong and sovereign defence industrial base will no doubt be accompanied by challenges, Canadians have confronted these challenges before and prevailed.

During the Second World War, from 1939-1945, Canadians built virtually from scratch one of the mightiest defence industrial bases in the world.⁷³

Despite being a minnow of a nation with a little more than 11 million citizens, Canada's war production at the end of the Second World War ranked 4th overall among the allies, behind only the major nations of the U.S., U.K., and the Soviet Union.⁷⁴

Through an astonishing feat of industrial organization and production, Canada's factories, mines, and agricultural fields supplied far more than Canada's million men and women in uniform needed to fight and win.⁷⁵ Two-thirds of Canada's war production – including arms, equipment, and food – was made available to our allies.⁷⁶

Canadians' industrial contributions brought us victory. And our efforts were richly rewarded. Canadian investments in industrial capacity ensured that the postwar years would be fundamentally different from the bleak decade of economic depression, insecurity, and hardship that preceded the war.⁷⁷ Indeed, from 1939 to 1945, the sum of all the goods and services created by Canadians more than doubled from a meager \$5.6 billion to \$11.8 billion.⁷⁸

4.2. Canada must adopt a new Defence Industrial Base Strategy

To protect our country, our allies, and the international order which has created so much safety, security, and economic prosperity, the Government of Canada must treat our country's defence industrial base as a vital strategic capability in its own right.

The Government of Canada must recognize that this sector does more than just supply our military with the often highly sophisticated systems we need to advance our vital security interests.

Our defence industrial base is critical to our ability to continuously adapt to, meet, and overcome new and evolving security challenges; maintain and strengthen defensive alliances and partnerships with key allies and partners; and promote Canada's broader economic security and prosperity.

The Government of Canada must therefore put in place measures that will help build and secure a strong and sovereign defence industrial base.

The first step down this road must be the development and implementation of a DIB Strategy. Canada's DIB Strategy must clearly articulate a vision of how the public and private sectors can achieve three strategic outcomes:

1. Build and secure a sovereign, but internationally linked, defence industrial base capable of providing Canada and its allies with the capabilities needed to respond to challenges

presented by increased geopolitical confrontation, advance our national interests at home and abroad free from external threats, and support our allies and partners in times of need.

2. Honour Canada's international defence obligations, including to invest in increased industrial capacity, by reprioritizing current government investments and making new investments so that:
 - By 2029/2030, Canada meets the commitment it made to its NATO allies to annually invest at least two per cent of GDP on defence with at least 20 per cent of that sum being dedicated to the acquisition of new major equipment and related R&D;
 - By 2034/2035, Canada's defence expenditure surpasses the NATO alliance's current median investment ratios such that the country annually invests at least 2.5 per cent of GDP on defence with at least 35 per cent of that total being dedicated to the purchase of new major equipment and related R&D; and
 - After 2034/2035, Canada's annual defence expenditure continues an upward trajectory to three per cent of GDP, aligning Canada with key allies – like the U.S. – who have committed to a similar benchmark, as well as our country's historical investment levels during a period of heightened geopolitical confrontation.⁷⁹
3. Strengthen Canada's broader economic security and prosperity by enhancing productivity and innovation within advanced dual-use sectors vital to the creation of high-skilled jobs, as well as the country's long-term economic resiliency and competitiveness.

4.3. Canada's DIB Strategy should have five key components:

The remaining portion of this paper identifies several of the key building blocks that the BCC believes are essential to achieving these three strategic outcomes.

The recommendations enumerated below by no means serve as a comprehensive or definitive list of actions that should be undertaken by the Government of Canada. Instead, they offer a starting point for a broader national discussion on how Canada's DIB Strategy can deliver for Canadians.

At a high level, the BCC urges that the Government of Canada:

1. Invest more in Canada;
2. Identify, develop, and maintain core defensive capabilities onshore;
3. Focus on advancing Canada's interest in the Canadian Arctic;
4. Boost the overall competitiveness of Canada's defence industrial base; and
5. Protect Canada's defence investments.

4.3.1. Invest more in Canada

Ultimately, an industrial ramp-up demands increased spending on Canadian defence equipment, R&D, and infrastructure. Such investments cannot be made without increased government defence budgets.

Canada has started to boost its defence spending. However, significantly greater investment, within a significantly shorter timeframe, is required.

The Government of Canada should therefore increase its investments in Canada's defence industrial base so that the country's total defence expenditure grows from a current investment-to-GDP ratio of 1.37 per cent to NATO's current GDP target ratio of two per cent by 2029/2030. Using the PBO's projections for economic growth, meeting this target in 2029/2030 would require an approximate annual investment of \$75 billion on defence, \$15 billion more that year than currently planned.⁸⁰

To maximize the domestic benefits of such investments, Canada's increased defence expenditure should be made primarily in the form of spending on new major defence equipment and related R&D as well as infrastructure. As a result, the BCC would expect that the Government of Canada not only meets, but surpasses, NATO's investment-to-equipment ratio of 20 per cent by the end of the decade.

However, the Government of Canada should not stop there.

Recognizing that the world is a far more dangerous place, the significant economic opportunities created by increased investments in Canada's defence industrial base, and growing pressure within NATO to raise the alliance's current GDP investment "floor" up to three per cent, the Government of Canada's annual defence expenditure should continue to grow.

In particular:

- By 2034/2035, the Government of Canada should surpass the NATO alliance's current median investment ratios such that the country annually invest at least 2.5 per cent of the country's GDP on defence, with at least 35 per cent of that total being dedicated to new major equipment purchases and related R&D. Meeting this target by 2034/2035 would require an approximate annual investment of \$110 billion on defence, \$55-60 billion that year over and above currently planned investments.⁸¹ Annual investments on new major equipment and related R&D that year would amount to approximately \$38.5 billion.
- After 2034/2035, the Government of Canada's annual defence expenditure should continue its upward trajectory to three per cent of GDP, aligning Canada with key allies – like the U.S. – who have committed to a similar benchmark, as well as our country's historical investment levels during a period of heightened geopolitical confrontation.⁸²

To ensure that the country can credibly meet these targets, such investments must be made fiscally sustainable. That can be done by three means.

First, the Government of Canada's investments can be allocated far more strategically with the aim of generating outsized returns on investment in terms of economic growth. As discussed in greater detail below, this can be done by prioritizing investments in dual-use capabilities which

have the potential for broad-based commercial application. By boosting Canada's economic prosperity, the Government of Canada can then generate additional tax revenues needed to help pay for its defence investments.

Second, the Government of Canada can retarget some of its current investments – such as its significant portfolio of R&D (\$9 billion in 2022/2023)⁸³ and infrastructure (\$33 billion in 2023/2024)⁸⁴ investments – so that these outlays contribute to strengthening Canada's defence industrial base and are therefore accounted for as a part of Canada's NATO contributions.⁸⁵

For instance, by shifting existing government programs to invest more in dual-use R&D – such as in the discovery of new anti-GPS spoofing aerospace technologies – and dual-use infrastructure – such as airfields and aids to navigation – Canada can include the defence component of these mixed civilian-military investments within its NATO contributions.⁸⁶

Current government investment intended to help Canada develop its natural resources – such as critical minerals (\$3.8 billion over eight years, starting 2022/2023)⁸⁷ – could be retargeted in a similar fashion.

By way of an example, Canada could follow the U.S.' lead in using the legislative authorities contained within its version of the U.S. *Defense Production Act* to stimulate the development of resilient and robust domestic supply chains for critical defence materials. This would reduce reliance on foreign manufacturing and correct domestic shortfalls of goods essential to Canada and its allies' defence industrial bases.⁸⁸ Once retargeted, these investments – which are already being made – could then contribute to Canada's NATO commitment.⁸⁹

Finally, the Government of Canada can immediately commit to a comprehensive review of its current programming, like the one initiated by the Chrétien government in 1995 or the one launched by the Harper government in 2011. This program review would ensure that the lion's share of new investments in Canada's defence industrial base are offset by a decrease in government spending elsewhere.

For context, the 1995 program review generated \$29 billion in savings over a three-year period.⁹⁰ If that program review were to occur today, at a time when federal spending is 70% greater than 1995 levels, it could generate nearly \$90 billion in savings over three years.⁹¹

4.3.2. Identify, develop, and maintain core defensive capabilities onshore

A larger defence budget will only strengthen Canada's defence industrial base if the funds are invested strategically in Canada.

To do this, the Government of Canada must abandon its default policy of acquiring defensive capabilities through an overreliance on competitive tenders using a very narrow interpretation of value for money, which has come to mean the lowest cost that meets the military's requirements.

The impact of this policy has meant that Canada too often acquires core defensive capabilities fundamental to its national and economic security from other nations as an alternative to the domestic development of such capabilities. It has also meant that Canadian taxpayer's money is too often spent fueling productivity, technological innovation, and high-skilled job creation abroad rather than right here in Canada.

To support the development of a strong and sovereign defence industrial base, the Government of Canada should broadly embrace the advice of the “Jenkins report,”⁹² and adopt a more nuanced and flexible approach to capability acquisition. This would allow Canada to rely on competition where it is in our national interest to do so, but to also opt for long-term strategic partnerships where those are needed to develop and maintain essential defensive capabilities onshore.⁹³

More specifically, Canada’s DIB Strategy should identify the core defensive capabilities that we, as a nation, need domestically to meet our major national security requirements.

From there, Canada’s DIB Strategy should then set out how the Government of Canada can develop and maintain these core defensive capabilities onshore by leveraging the full range of policy levers at its disposal. These policy levers should not just include procurement policy. Among other things, they should include information sharing, skills training, tax policy, investment screening, intellectual property laws, export promotion, and access to government facilities.

In deciding which core defensive capabilities to develop and sustain onshore, the Government of Canada should initially focus its finite resources on three to five areas of the greatest return on investment in terms of:

- meeting high-priority, core requirements,
- filling gaps in the NATO alliance’s suite of critical capabilities,
- generating new and improved high-value military goods and services in which Canada can be internationally competitive, and
- helping Canadian-owned firms move up global value chains and penetrate global export markets.

Furthermore, in developing core defence capabilities, the Government of Canada’s focus should be aligned as much as possible with existing areas of strength in the civilian economy so that Canada can take advantage of larger economies of scale and reduce the cost of developing and deploying new sovereign capabilities. This approach should also avoid the cost overruns and delays often associated with building national industrial capacity from scratch.

For instance, in an increasingly digital world, it is essential for the Government of Canada to be able to respond effectively to the contested nature of cyberspace by possessing a robust cyber capability. Given its strategic importance to Canada’s national security, as well as broad-based application in the civilian economy, core elements of Canada’s cyber capability should be cultivated and maintained onshore. This will drive increased productivity, technological innovation, and high-skilled job creation, as well as ensure that there exists no risk to our ability to deploy this vital capability at will, free from external intervention.

This approach of identifying, developing, and maintaining domestic capacity to supply critical national security requirements is neither new nor novel. Many of the most industrialized countries – including key allies such as the U.S., U.K., South Korea, and France – have explicit strategies of promoting sovereign defence capabilities, recognizing that a robust and resilient defence industrial base contributes both to national sovereignty and to broader economic security and prosperity.⁹⁴

This is not to say that the Government of Canada should sole-source every procurement to Canadian industry. Canada cannot, and should not, attempt to actively maintain onshore industrial capacity across the full spectrum of capabilities needed by the military.

Where it is in Canada's national interests, Canada can, and should, continue to partner with, or import from, key allies to acquire and sustain many capabilities. This could be where our allies can offer Canada clear cost advantages, or where they can provide Canadian industry with access to vital technologies that we cannot yet feasibly develop ourselves.

Moreover, even where it is in Canada's national interest to possess core capabilities onshore, Canada must continue to welcome and attract overseas-based companies from key allies to invest in the development and sustainment of those capabilities on Canadian soil.

Yet, these two considerations do not distract from the fundamental point: countries can either have their own sovereign defence industrial base strategies, or they can import others'.

4.3.3. Focus on advancing Canada's interest in the Canadian Arctic

As a smaller nation whose national security is tied closely with membership in security alliances, Canada's DIB Strategy should be designed and implemented in ways that maximize our contributions and influence within such alliances to enhance our national interests.

At the same time, Canada's DIB Strategy must reflect and prepare Canada to respond to the greatest external threats facing Canadians' safety, security, and economic prosperity.

In both cases, this means Canada's DIB Strategy should prioritize Canada's ability to advance its national interests in the Canadian Arctic, the northern flank of the NATO alliance and a region of growing economic importance.⁹⁵

In particular, the Government of Canada should prioritize the development of capabilities which address the security imperatives of the Canadian Arctic, including the monitoring of our vast, harsh, and sparsely populated land and sea territory on a near-real-time basis, while being able to rapidly deploy and support our military.

Some progress has already been made in this area, including through the gradual modernization of the North American Aerospace Defense Command's systems. However, far more work is needed to advance Canada's national interests in this strategically important region from a range of growing threats – including submarines, long-range bombers, and hypersonic missiles.⁹⁶

In delivering new capabilities, special consideration should be given to the development of dual-use technologies and infrastructure, which may significantly defray the high costs of building such capabilities while materially improving the economic prosperity and security of Canadians – especially Indigenous peoples – living in the Canadian Arctic.

Examples of potentially relevant dual-use technologies include nuclear reactors, patrol aircraft, heavy icebreakers, and low-earth-orbit satellite constellations. Each capability holds potential for significant military and civilian application in the Canadian Arctic and beyond. Examples of potentially relevant dual-use infrastructure include major roads, harbours, and airstrips.

4.3.4. Boost the overall competitiveness of Canada's defence industrial base

As already noted, a series of factors over the last three and a half decades have converged to sap the competitiveness of Canada's defence industrial base.

Adding to this challenge has been the actions of successive Canadian governments. Uncertain funding, low-volume buying patterns, changing procurement priorities, program pauses, and lengthy periods between military modernizations – amongst many other factors – have made the Government of Canada an unreliable customer for Canada's defence industrial base.

Canada's DIB Strategy must bring forward a comprehensive package of legislative reforms, policy changes, and internal transformations that will improve the Government of Canada's standing as a key customer to the sector.

This package must deepen industry engagement, drive innovation, expand and reinvigorate international defence partnerships, build robust talent pipelines, and fix government procurement.

Deepening industry engagement:

The Government of Canada must “reset” its relationship with the private sector to develop a deeper, more strategic and sophisticated relationship.

Recommendations:

- The Government of Canada must meaningfully enhance the defence industrial base's “voice” in government policymaking, including in the development and implementation of Canada's DIB Strategy. This will better drive a common focus on the challenges ahead and provide much-needed clarity on the respective roles and responsibilities of the public and private sectors in strengthening Canada's defence industrial base. Industry can be given an enhanced “voice” by the Government of Canada expanding, or creating new, fora for proactive and ongoing public-private dialogue.
- The Government of Canada must engage with Canada's defence industrial base far earlier when it comes to procurement. Too often the Government of Canada does not engage with Canadian industry when the military's needs and requirements are being identified and defined. This regularly results in the Government of Canada adopting a procurement approach geared towards acquiring imported off-the-shelf products that do little to strengthen Canada's defence industrial base. Before launching a procurement process, the Government of Canada should follow the example set by its allies and engage with Canada's domestic industry to determine whether there may be a homegrown solution. This will ensure that Canada does not squander opportunities to become a leader, instead of a follower, in developing and adopting advanced technologies.
- Major private sector investments in Canada's defence industrial base have multi-decade amortization periods. To give companies the confidence needed to plan and invest in developing new technologies, facilities, products, and services, the Government of Canada must provide a clear, certain, and consistent “demand

signal” to the defence industrial base. The Government of Canada can do so by making more substantial, stable, and sustained financial investments, as well as by improving its communication of defence priorities, requirements, and procurement pipelines to industry.

Driving innovation:

Canada has fallen dangerously behind its military rivals when it comes to the adoption of new and disruptive technologies. This is especially true of dual-use technologies initially developed and marketed by commercial companies for commercial motives.

Such technologies can often be developed at a fraction of the cost of conventional military technologies. They can also have a profoundly transformative effect on Canada’s military, providing critical operational advantages.

Some important steps have been taken to foster greater defence innovation in Canada. This includes the Government of Canada’s creation of the Innovation for Defence Excellence and Security (IDEaS) program, or its participation in NATO’s Defence Innovation Accelerator for the North Atlantic (DIANA) scheme.

Dedicated defence innovation programs are vital as they are generally sheltered from the obligations of trade agreements. This provides the Government of Canada with ample leeway to support strategic sectors.

However, both the IDEaS and DIANA programs are too small to accelerate Canadian defence innovation in any significant way. Further, neither program sufficiently harnesses the brainpower of the commercial sector, which includes most of the world’s best scientists, engineers, and technologists.

At the same time, many of the Canadian companies that have much to offer Canada’s military have soured on doing business with the Government of Canada.

They do not need the headache of dealing with a customer that takes years to close a sale and then even more time to start using their product and paying for it.

Moreover, many companies offering dual-use products will simply not allocate scarce resources to supply the Canadian military when doing so will only yield three to seven per cent margins compared to margins of 15 to 20 per cent within the commercial sector.

To address these twin challenges, the Government of Canada must help Canadian companies de-risk their investments in defence innovation by boosting support for high-risk, high-reward research. In addition, the Government of Canada must reform its processes to ensure that Canada’s military fully leverages the ideas and expertise of non-traditional commercial partners.

By getting these two things right, the Government of Canada can drive increased economic prosperity and security by enhancing productivity and technological innovation in advanced and high-value dual-use sectors.

Recommendations:

- The Government of Canada should stimulate high-risk, high-reward research with the potential to deliver breakthrough technological advances in fields essential to Canada's national and economic security, while integrating such technologies within our military, through the strategic use of government procurement. With the Government of Canada spending an amount equivalent to approximately 13.4 per cent of GDP on procurement each year, government procurement offers Canada a powerful innovation policy lever.⁹⁷ In using this lever, the Government of Canada should emulate the U.S.' Defense Advanced Research Projects Agency (DARPA). In the six-and-a-half decades since its founding, DARPA has been responsible for developing many of the world's most successful dual-use technologies, such as the Internet, GPS, and unmanned aerial vehicles.
- To provide Canada's military with new and innovative capabilities as well as to create new business opportunities for Canada's advanced dual-use sectors, the Government of Canada must improve its ability to integrate non-traditional commercial partners – such as technology start-ups, venture capital firms, and major corporations – into Canada's defence industrial base.

In the short run, the Government of Canada should:

- » Send a clear message to non-traditional commercial partners of the high-risk, high-reward research in which our government and military intend to invest significantly over the next five years by having the Minister of Defence and Chief of the Defence Staff jointly announce a set of “big technological bets.”
- » Ensure that the Minister of Defence and Chief of the Defence Staff meet quarterly with leaders of Canada's most innovative and successful commercial businesses, including the chief executives of major companies, influential venture capitalists, and unicorn company founders, to break down silos by building and strengthening personal and corporate ties between the defence and commercial worlds.
- » Establish a high-profile talent exchange allowing non-traditional commercial partners to rotate through relevant branches of the government and military to build new linkages and help strengthen the public sector's work culture by infusing it with new and innovative ideas, methods, and practices from the private sector.
- » Establish and sufficiently staff and resource a “concierge service” aimed at providing non-traditional commercial partners with a one-stop-shop for obtaining the government, technical, and business assistance necessary to successfully navigate entry into the defence industry.
- » Create flexible procurement processes and tools tailored to rapidly prototype and field advanced dual-use capabilities originally developed by non-traditional commercial partners. In developing this new approach, contractual terms and conditions – including with respect to companies' return on investment – must be designed to be as close as possible to those within the commercial sector.

As a longer-term solution, the Government of Canada should establish a special commission consisting of senior representatives from government and non-traditional commercial partners to identify and put forward actionable recommendations on how to eliminate the significant barriers that disincentivize new entrants from contributing novel ideas, business strategies, and technologies to Canada's defence industrial base.

- The Government of Canada should emulate the U.S.' Defense Innovation Unit by establishing an independently run, professionally staffed venture capital fund, with a footprint in each of Canada's commercial innovation hubs, that would enable our military to fund, access, and deploy advanced dual-use technology in three to five strategically important portfolio areas, such as energy, artificial intelligence, and aerospace. With Canada's military as an early user, commercial startups would get up and running. With the promise of future revenue the military could provide, venture capital firms would be more likely to invest.
- The Government of Canada should grant trusted industry and academic partners access to its unique datasets, scientific expertise, technology, laboratories, and test and evaluation facilities, which are not otherwise available to the private sector, but are essential to pushing the boundaries of science and technology within the extreme operating environments of armed conflict. By granting access to these critical assets, the government can enable new discoveries, innovations, and spin-off companies, that will enhance the Canadian military's access to advanced capabilities, while driving increased private sector investment, high-skilled job creation, and innovation across the country.

Expanding and reinvigorating international defence partnerships:

Canada's defence partnerships with key allies are some of the country's most important strategic assets. By providing a platform for greater defence industrial cooperation, Canada's international defence partnerships act as a force multiplier, amplifying the country's capacity to respond to an increasingly dangerous world and advance its economic security and prosperity.

Recommendations:

- A highly integrated, reliable, and scalable North American defence industrial base is a strategic asset for Canada and the U.S. It enables both countries to better respond to new and emerging challenges posed by heightened geopolitical confrontation, strengthens the resiliency of both nations from external economic shocks, and fuels increased economic prosperity across the continent by increasing companies' global competitiveness as well as creating high-skilled jobs.⁹⁸ To further strengthen this vital cross-border partnership,⁹⁹ the Government of Canada should work closely with U.S. government officials to reduce barriers to greater defence industrial integration, including by coordinating and streamlining export controls; aligning defence industrial base planning; and removing obstacles to the secure flow of knowledge, goods, and services between both countries' militaries, industries, and research institutions. In addition to these measures, the Government of Canada should help Canadian businesses better leverage bilateral defence production-sharing agreements between Canada and the U.S., which have for decades given Canadian defence firms unique and privileged access to the U.S. defence market,¹⁰⁰ a market approximately 31 times the size of Canada's own.¹⁰¹

Despite its special access to this large and highly strategic market, the Government of Canada has largely undervalued the geostrategic advantages of Canada's unique market access to developing Canada's own defence industrial base. To capitalize on this singular opportunity, and in the process build a stronger and more robust North American defence industrial base, the Government of Canada should roll-out a dedicated suite of business supports that assist Canadian defence companies in better pursuing U.S. defence opportunities and more fully integrating into continental defence supply chains, including for major projects like the NORAD modernization.

- While Canada must compete vigorously with its allies for business in the global defence marketplace, the complexity of modern military capability development means that in certain cases, the Government of Canada must enter into “capability coalitions” with allies to meet Canada's defence requirements and develop a strong and sovereign defence industrial base. Capability coalitions allow allies to defray the high developmental costs of building onshore defensive capabilities by pooling demand for such capabilities. They also allow for the sharing of scientific knowledge and technical expertise, supplier networks and infrastructure, as well as programs for training and retaining a skilled workforce. Where it is in Canada's national interests, the Government of Canada should seek to enhance existing (e.g., ICE PACT),¹⁰² or join new (e.g., AUKUS pillar II),¹⁰³ capability coalitions to strengthen the capabilities of Canada's defence industrial base.
- Canada is uniquely positioned to bolster its defence industrial base, as well as those of its allies through the provision of critical defence materials: the raw and processed resources needed for everything from night vision goggles to fighter jet engines. The COVID pandemic, the Russian invasion of Ukraine, and our military rivals' increased use of coercive trade tactics have all highlighted the extent to which Canada and its allies' supply chains are susceptible to geopolitical disruptions. In response, Canada must evaluate what materials – from energetics and rare earth metals to munitions and microprocessors – it can provide to displace unstable sources in allied defence supply chains. As a part of this initiative, the Government of Canada should follow the U.S.' lead in using the legislative authorities contained within its version of the U.S. *Defense Production Act* to stimulate and streamline the development of critical defence supply chains.
- Special focus must be placed on critical minerals, recognizing they are a vital resource, contributing to both the economic and national security of Canada, the U.S., and other important allies. Canada is in the fortunate position of possessing significant amounts of many of the world's most critical minerals. In addition, Canada is home to the workers, businesses, and communities that know how to explore, extract, and process these critical economic inputs at scale. Canada must therefore do far more to position itself as the trusted and reliable leader in responsibly sourced and processed critical minerals. To do that, the Government of Canada will need to assist the private sector in overcoming unfair competition from foreign producers that benefit from an intentional, state-directed policy of overcapacity and oversupply, as well as a lack of rigorous labour and environmental standards. The Government of Canada will also need to reform project approval and permitting processes, including to allow for streamlined approvals where a

project is deemed essential to Canada and its allies' national security interests. The current approval and permitting system is far too slow and unpredictable, creating the single greatest disincentive to investment in new critical mineral projects.

- Many of Canada's allies – including France, Sweden, and South Korea – have recognized that their domestic defence markets are often too small to incentivize domestic defence firms to expand their operations and to develop industrial capabilities which are core to their country's national security. As a result, such nations have developed defence export strategies and institutions¹⁰⁴ that have helped many of their defence companies become major exporters.¹⁰⁵ This has helped these companies achieve the scale required to make large domestic investments. Despite the importance of foreign defence sales to strengthening Canada's defence industrial base, the Government of Canada's export support for Canadian firms is haphazard at best and non-existent at worst.¹⁰⁶ The Government of Canada must therefore reorient itself for export success to ensure that overseas customers will turn to Canada's defence industry as a supplier of choice. This can be done by the Government of Canada following the lead of our top military exporting allies by establishing a dedicated export agency within the Department of Defence. Among other things, this new agency should be tasked with improving Canada's understanding of its allies' defence requirements, playing a more active role in international bodies that set standards for interoperability, accelerating government export permitting processes, ensuring that Canada's procurement processes are fully aligned with our export ambitions, improving contracting support, and facilitating high-level diplomatic and political support for sales to allies and partners. For instance, instead of hoping for an enthusiastic trade commissioner, Canadian companies should come to expect high-level support at the top echelons of power for their foreign sales. We have seen other world leaders, including the President of France, travel abroad to help close major export deals.¹⁰⁷ This should be common in Canada, too.
- Overseas-based companies support our military and defence industrial base, not solely through their goods and services, but by creating high-skilled employment, investment, and R&D within Canada. Despite these clear benefits, Canada is one of the least open environments for foreign direct investment among both the G7 and G20.¹⁰⁸ To enhance the overall capacity of Canada's defence industrial base, the Government of Canada must encourage and support greater legitimate foreign direct investment into Canada's defence industrial base, including by eliminating unnecessary regulatory burdens.

Fixing defence procurement:

It often takes many years – and sometimes more than a decade – for the Government of Canada to procure new major defence equipment.¹⁰⁹ As a result, it is not uncommon to hear experts describe Canada's defence procurement processes as being “broken” or in a “state of crisis.”¹¹⁰

Procurement delays act as a disincentive for companies to invest in Canada's defence industrial base. They also have at least two consequences for Canada's military readiness.

First, procurement delays severely limit Canada's ability to effectively invest in new capabilities. In fiscal year 2020/2021, the Government of Canada failed to spend more than \$855 million,

or 17 per cent, of its allotted capital budget for new equipment, primarily due to delays in the purchase of such equipment.¹¹¹ This was no outlier. Year after year, similar budgetary lapses occur because of procurement delays.

Second, procurement delays create a perpetual “capability gap” between Canada and its military rivals. Owing to rapid technological advancements, extensive procurement delays can lead to new defence capabilities becoming outdated and obsolete before they are deployed.

The unfortunate reality is that fixing defence procurement will not be easy. As one expert has argued: “there are no silver bullets” for “reforming one of the most difficult and complex functions of public administration.”¹¹²

What this means is that meaningful reform will require strong political support coupled with laborious, painstaking, and cooperative work by the various government departments involved in defence procurement as well as Canada’s defence industrial base.

After years of too few results, the Government of Canada must finally make reforming defence procurement a national priority.

Recommendation:

- Working in close partnership with the private sector, the Government of Canada must overhaul defence procurement processes to reflect modern business practices so that Canada’s defence industrial base can provide critical goods and services to Canada and its allies at speed, cost, and scale. Alongside a long list of other changes, the Government of Canada should streamline procedures, adopt more performance-based requirements, minimize political intervention, empower procurement teams to take calculated risks, enhance transparency and accountability, and involve industry partners earlier in the procurement process such as in the development of requirements.

Building robust talent pipelines:

The lack of a sufficiently skilled and staffed workforce within both the public¹¹³ and private sectors presents a significant challenge to developing and maintaining a strong and sovereign defence industrial base.

The shortage of skilled labour spans fields as diverse as cybersecurity and precision-machining to chemistry and aeronautical engineering.

Like other skilled segments of the economy, the labour crunch impacting Canada's defence industrial base is worsening year-over-year as baby boomers retire, and younger generations show lower levels of interest in defence-related careers or lack the technical skills needed for such work.¹¹⁴

While industry and academia play an important role in building robust talent pipelines, the Government of Canada also needs to provide support.

Recommendations:

- To increase the public sector's ability to support the defence industrial base, including by growing its pipeline of acquisitions, expediting procurement timelines, and ensuring that investments are being maximized to support economic prosperity and security, the Government of Canada must increase its commercial contracting capacity, including by hiring additional government employees with the specialized skills and training to contract in an agile and flexible manner. Given the extensive growth of the Canadian public service in recent years, the Government should first seek to reassign staff before adding net new employees to its payroll.
- To incentivize increased private sector investments in Canada's defence industrial base, the Government of Canada should scale proven workforce development programs, both academic and occupational, to better meet the sector's needs. With the vast majority of Canada's labour market growth being driven by economic immigration, the Government of Canada should also seek to refocus Canada's immigration programs to ensure that employers within the defence industrial base have quick and reliable access to the trusted, specialized, and high-skilled international talent they need.
- Women and racialized Canadians' representation within Canada's defence industrial base remains low.¹¹⁵ This limits the available pool of talent from which industry can draw. To create high-paying economic opportunities for women and racialized Canadians, as well as to significantly expand Canada's pool of skilled workers available to support the defence industrial base, the Government of Canada should scale organizations with a proven track record of advancing the recruitment, training, and retention of underrepresented groups in fields like science, technology, engineering, and mathematics which are essential to the defence industrial base. This should include organizations like Women in Defence and Security, which aims to promote and support the advancement of women in careers related to Canadian defence and security.

- To increase Canada's ability to attract, cultivate, and retain scarce talent within Canada's defence industrial base, the Government of Canada should make it easier for highly skilled, specialized, and trusted personnel to move freely across government, industry, and academia by either enhancing existing interchange programs or creating new ones.
- To address a major barrier to the recruitment of personnel both within the public and private sectors, the Government of Canada must significantly reduce the time it takes to process security clearances. It currently takes months, sometimes years, for individuals seeking employment in the defence industrial base to obtain the required security clearances.

4.3.5. Protect Canada's defence investments

Everyday, Canada's military rivals launch an array of economic attacks against Canada which shift the economic playing field in ways that damage the health and vitality of Canada's defence industrial base.

Such attacks also slow Canada's engines of economic growth, reducing government tax revenues. This constrains the Government of Canada's ability to adequately invest in the modernization of the country's defence industrial base.

The current safeguards deployed by the Government of Canada to guard against these increasingly pervasive and sophisticated attacks are insufficient. They do not provide the full spectrum of defences needed to ensure that growing investments in Canada's defence industrial base are preserved.

Failure to adequately safeguard Canada's economic security undermines Canada's industrial readiness for an era of increased geopolitical confrontation. It can also advance the military prowess and ambitions of Canada's military rivals. For instance, if economic security considerations – such as measures to tackle industrial espionage – are not baked-in to the Government of Canada's defence investments, then taxpayers' hard-earned money could end up subsidizing the defence industries of Canada's military rivals.

Canada must also be mindful of its global reputation. If the Government of Canada appears unwilling or unable to protect Canada's industrial assets from attack, then Canada could lose the trust and confidence of its allies. This would undermine Canada's defence industrial base by limiting the Government of Canada's ability to attract much-needed foreign investment, engage in two-way exchanges of knowledge and expertise, or enter into strategic industrial partnerships with allies.

At the same time, as an open and market-oriented economy, any new economic safeguards adopted in Canada ought to be balanced against our economy's reliance on foreign ideas, talent, and capital. To develop a strong and sovereign defence industrial base, the Government of Canada must therefore ensure that legitimate market participants are confident that Canada continues to welcome trusted foreign investment, and that trusted foreign-owned companies will continue to play an essential role in supporting our military.

Recommendations:

- To ensure that Canadian companies are aware of, and can build resiliency against, new and emerging economic security threats, the Canadian Security Intelligence Service (CSIS) should work with industry to immediately operationalize the new information sharing powers that CSIS was granted in June through the enactment of *The Countering Foreign Interference Act*.¹¹⁶ In particular, these new powers should be operationalized through the creation of a formalized threat exchange based on the model established by the U.S. Domestic Security Alliance Council (DSAC). Through the timely exchange of threat intelligence, DSAC advances the U.S. Government's mission of protecting America's national and economic security, while assisting the American private sector in protecting their employees, assets, and proprietary information.
- To improve the Government of Canada's ability to investigate, and where necessary, intervene in mergers, acquisitions, and other major transactions that could threaten the integrity of our defence supply chains and sensitive dual-use technologies, the Government of Canada needs to put greater resources into the administration of the *Investment Canada Act*.¹¹⁷ With only 13 full-time-equivalent government employees reviewing foreign investments on national security grounds – well short of the U.K.'s 80 employees or Australia's 100 employees – there is the real risk of problematic transactions being inadvertently overlooked.¹¹⁸ A lack of government staff also contributes to lengthy delays in the national security review process – on average 174 days in 2022/2023¹¹⁹ – which unduly prolongs the realization of the many recognized benefits of legitimate foreign investment, adds to the cost of raising capital, and discourages investment in Canada's defence industrial base in the first place.
- To protect Canada's defence industrial base from mercantilist economic practices, Canada must take greater defensive actions to level the playing field for Canadian companies. Among other things, the Government of Canada, in close coordination with key allies, should create new legal mechanisms to block the import of foreign goods and services that have benefitted materially from unfair economic practices. However, as it is in Canada's national interests to uphold the rules-based economic order, these measures must always remain compliant with Canada's international legal obligations.
- To safeguard the defence industrial base's access to critical economic inputs from economic coercion and other unfair trade practices, the Government of Canada should:
 - » Work with companies vulnerable to coercive trade practices to strengthen the depth and resilience of Canada's critical supply chains, including by conducting vulnerability reviews, sharing threat information, developing robust mitigation strategies, curbing excessive dependence on problematic actors, and increasing the availability of commercial free-market alternatives;
 - » Leverage existing, and create new, relationships with allies to reduce Canada's reliance on military rivals for critical defence materials; and
 - » Create and enhance plurilateral measures to collectively deter, withstand, and counter economic coercion and other unfair trade practices, such as through a "NATO for trade" whereby allied nations agree to come to the aid of each other when they are economically threatened.

- To enhance the cybersecurity and resiliency of Canada's defence industrial base, the Government of Canada should:
 - » Follow the U.S.' lead and legislate safe harbour protections that eliminate legal obstacles preventing Canadian companies within the defence industrial base from working voluntarily with each other and governments to address cyber challenges.¹²⁰
 - » Work closer with its Five Eyes partners and other like-minded allies to undermine malicious cyber actors, including by:
 - › Jointly deterring, attributing, and responding to cyberattacks which breach global rules and norms in cyberspace.
 - › Shutting down illegal online markets for cyber tools and services, which lower the threshold of sophistication and start-up time necessary for malicious actors to target Canadian companies.
 - › Better regulating crypto assets and exchanges, which are used by malicious actors to conceal their identities and obfuscate their activity from national security and law enforcement agencies.
 - › Increasing diplomatic and economic pressure on countries with lenient or non-existent laws and law enforcement related to cybercrime and other malicious cyber activities.
 - » Establish a centre of excellence within the Canadian Centre for Cyber Security (CCCS) to:
 - › Encourage more meaningful, two-way information sharing between government and the defence industrial base, including on emerging threats to critical cyber systems, the safety record of current technologies, and the relative benefits of different security measures.
 - › Convene and support regular tabletop and threat-hunting exercises where companies within the defence industrial base and government work through simulated events to improve their collective responses to major cyber incidents.
 - › Establish a systemized process to review major cyber intrusions to capture and share lessons learned as well as make concrete recommendations for improving cybersecurity and resiliency.
 - › Offer onsite incident response services to companies in the defence industrial base that require immediate assistance.

- Based on the model established by the U.S. Federal Bureau of Investigation's Chief Information Security Officer Academy,¹²¹ the Royal Canadian Mounted Police (RCMP), CSIS, and CCCS should jointly establish and operate a semi-annual, week-long residential program hosted at their headquarters for small groups of senior private sector security executives to gain a first-hand understanding of the RCMP, CSIS, and CCCS's mandate, mission, and authorities, as well as how each organization works with private sector organizations before, during, and after a national security incident. The overarching goal of this program should be to increase the public and private sector's awareness of shared challenges, their respective roles and responsibilities, and to create and sustain long-term partnerships that safeguard Canadians from growing economic security threats.

5 Execution and review will be critical

Canada's DIB Strategy will only fulfill its purpose when its contents are fully executed. While this may sound obvious, execution is a major challenge for the Government of Canada. Far too often new security initiatives are announced, only for the actual funding and implementation to move slowly or fail to materialize all together.

Strengthening Canada's defence industrial base will also necessitate much closer coordination and collaboration with the Canadian private sector. Deep and sustained partnerships with Canadian businesses, from the strategic to the tactical level, will be required to achieve success. Consultations will not suffice.

Lastly, to stay relevant in a rapidly evolving threat environment, Canada's DIB Strategy should not be fixed in stone. Rather, it should be subject to regular reappraisal – such as every four years – to adapt to changing threats.

To ensure that these measures are taken and given adequate priority, the BCC urges that:

- The Prime Minister amend the mandate letters of all relevant ministers, including public safety, foreign affairs, defence, industry, treasury board, procurement, and finance, to ensure that each of their priorities are aligned and support the development and implementation of Canada's DIB Strategy.
- The Government of Canada establish a dedicated planning, decision-making, and coordination unit within the Privy Council Office (PCO) under the auspices of the newly established National Security Council to engage Canadian businesses as well as organize, integrate, and direct the Government of Canada's responses across the numerous government departments and agencies with competing mandates and responsibilities for Canada's defence industrial base. Currently, no single government department or agency has the clear authority, responsibility, or instruments to effectively promote and sustain the defence industrial base in partnership with industry.
- The Government of Canada task its new coordination unit within PCO to liaise with Canada's broader security and intelligence community, as well as other government departments and agencies which might not have a defence or security mandate, but which have a significant interest in advancing and securing Canada's defence industrial base and broader economic security and prosperity.
- The Government of Canada publicly release annual implementation plans setting out the specific measures it intends to carry out within a given calendar year to implement Canada's DIB Strategy.
- The Government of Canada mandate that all relevant senior government and military leaders drive forward the implementation of Canada's DIB Strategy across their organizations, including by clearly articulating a vision of how the strategy will be adopted, offering sustained and forward-looking leadership and decision-making, ensuring buy-in from managers at multiple levels, revising incentive

structures to realign behavior toward desired outcomes, and ensuring a greater emphasis on holding people accountable for results.

- Within eighteen months of the roll-out of Canada's DIB Strategy, the National Security and Intelligence Committee of Parliamentarians initiate, and the Government of Canada publicly respond to, a special study on the effectiveness of Canada's overall framework for building and securing Canada's defence industrial base.

6 **The time to act is now**

Canada faces a new, far more turbulent world, marked by growing geopolitical confrontation.

The military dimensions of this intensifying confrontation are clear. Canada's military rivals are investing heavily in their armed forces, and the defence industrial bases which support them, with the goal of reshaping the international order in ways that can, and do, undermine Canada's national and economic security.

At the same time, the Government of Canada's failure to uphold the country's NATO commitments has aggravated the threat by isolating our country from its closest partners.

With the Government of Canada's ability to address these twin challenges being directly tied to the strength and resiliency of Canada's defence industrial capabilities, the time has come for policymakers to move forward and adopt a new DIB Strategy.

By doing so, the Government of Canada has a unique opportunity to also supercharge Canada's broader economic security and prosperity by enhancing productivity and innovation within dual-use sectors vital to the creation of high-skilled jobs, as well as the country's long-term economic resiliency and competitiveness.

The recommendations contained in this report offer a path to help government and businesses develop and implement this strategy together.

Endnotes

¹ For instance, Australia's 2013 national security strategy identifies key economic imperatives, such as the protection of intellectual property, critical infrastructure and supply chains, as being essential to its national security. Australia's strategy notes that "there is a mutually reinforcing link between our national security and our economic well-being,... [a] healthy economy underpins our stability and security, which in turn is conducive to the pursuit of our personal and national economic goals." See Government of Australia, "Strong and Secure: A Strategy for Australia's National Security", 2013, page 4, link: <https://www.files.ethz.ch/isn/167267/Australia%20A%20Strategy%20for%20National%20Securit.pdf>.

² See The Brookings Institute, "USMCA initiative: Canadian jobs supported by exports of all goods and services to the United States", Data from 2022, link: <https://www.brookings.edu/articles/usmca-trade-tracker/#/goods>.

³ Canada invested an average of 3.09 per cent of GDP annually on defence during the Cold War. See Stockholm International Peace Research Institute, "SIPRI Military Expenditure Data: Canada, Defence Expenditure as Share of GDP", link: <https://milex.sipri.org/sipri>.

⁴ For instance, in the opening paragraphs of Canada's latest defence policy, Canada's Minister of National Defence asserts: "[t]oday [Canadians] are confronted with a complex, generational challenge. The world is at an inflection point. Democracy, free trade, and the rules and values that underpin them are increasingly being contested by authoritarian states." In the same policy document, Canada's Minister of Foreign Affairs contends that: "[w]e can no longer rely on Canada's geography – surrounded by three oceans – to protect us. As our competitors adopt an increasingly assertive role on the world stage, including through increased investments in their militaries and new military technologies, the range of threats to Canada and Canadians has expanded." See Government of Canada, "Our North, Strong and Free: A Renewed Vision for Canada's Defence", National Defence, April 8, 2024, pages v-vii, link: <https://www.canada.ca/en/department-national-defence/corporate/reports-publications/north-strong-free-2024.html>.

⁵ By 2013, the Government of Canada's spending on defence fell to 1% of Canadian GDP. See Government of Canada, "Our North, Strong and Free: A Renewed Vision for Canada's Defence", National Defence, April 8, 2024, page iv, link: <https://www.canada.ca/en/department-national-defence/corporate/reports-publications/north-strong-free-2024.html>.

⁶ Canada's defence industrial base has grown in recent years. However, it has not regained the capacity needed to contend with major inter-state conflict. See Government of Canada, "State of Canada's Defence Industry Report: Spring 2024", Innovation, Science and Economic Development Canada, 2024, page 5, link: https://ised-isde.canada.ca/site/aerospace-defence/sites/default/files/documents/State_of_Defence_2024_eng.pdf.

⁷ For instance, the manufacturing workforce is aging rapidly—more than one-quarter of workers are aged 55 years and over—See Canadian Manufacturers and Exporters, "Manufacturing Canada's Future", November 2023, page 14, link: https://cme-mec.ca/wp-content/uploads/2023/11/2023-CME-Report-Manufacturing-Canadas-Future_Final-2_web.pdf

⁸ With increased trade liberalization, Canadian industries have purchased an increasing share of material and service inputs from abroad. The share of imports in material inputs almost doubled while the share of imports in service inputs almost tripled from 1961 to 2003. See Government of Canada, "Outsourcing and Offshoring in Canada", Statistics Canada, May 2008, link: <https://www150.statcan.gc.ca/n1/en/pub/11f0027m/11f0027m2008055-eng.pdf?st=3cDL0cME>.

⁹ Canada is predicted to have the worst performing economy amongst industrialized nations between 2020 and 2030. See Organization for Economic Co-operation and Development, "The Long Game: Fiscal Outlooks to 2060 Underline Need for Structural Reform", October 19, 2021, page 13, link: <https://www.oecd-ilibrary.org/docserver/a112307e-en.pdf?expires=1687548464&id=id&accname=guest&checksum=D17CE43CD7BF119FB92D4E3A68B5A310>.

¹⁰ This includes corporate expenditure on research and development, intellectual property commercialization, and talent retention. Canada ranked 22nd out of 44 nations tracked by the Organisation for Economic Co-operation and Development in domestic expenditure on research and development as a proportion of GDP in 2020. See Organisation for Economic Co-operation and Development, "OECD Main Science and Technology Indicators Highlights", March 2022, page 2, link: <https://www.oecd.org/sti/msti-highlights-march-2022.pdf>. Canada ranked 17th in the World Intellectual Property Organization's Global Innovation Index 2020. Canada's innovation input rank (9th) exceeded its innovation output rank (22nd) substantially. See Government of Canada, "IP Canada Report 2019", Canadian Intellectual Property Office, September 2019, page 6, link: [https://www.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/vwapj/IP_Canada_Report_2019_eng.pdf/\\$file/IP_Canada_Report_2019_eng.pdf](https://www.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/vwapj/IP_Canada_Report_2019_eng.pdf/$file/IP_Canada_Report_2019_eng.pdf). In the 2022 Global Talent Competitiveness Index, Canada fell to 15th place, down from 9th place in 2015, with its lowest scores for immigrant retention (19th). See INSEAD, "The Global Talent Competitiveness Index 2022", November 2022, page 32, link: <https://www.insead.edu/sites/default/files/assets/dept/fr/gtci/GTCI-2022-report.pdf>.

¹¹ See Robert Asselin, “Engines of Growth”, Business Council of Canada, September 5, 2024, link: <https://www.thebusinesscouncil.ca/report/engines-of-growth/>.

¹² Economic espionage – such as state theft of confidential business plans or proprietary manufacturing processes – have resulted in foreign companies gaining unauthorized access to Canadian ingenuity. Without having to make decades worth of costly investments to develop and commercialize such innovations, state theft has enabled foreign actors to undercut and undermine our defence industrial base’s competitive edge. See Business Council of Canada, “Economic Security is National Security: The Case for an integrated Canadian Strategy”, September 7, 2023, pages 11-12, link: https://www.thebusinesscouncil.ca/wp-content/uploads/2022/07/Economic-Security-is-National-Security-Report_digital.pdf.

¹³ Rival states’ disproportionate ownership and influence over supply chains critical to serving Canada’s defence industrial base – such as information technology components or critical minerals – compromises critical national infrastructure and makes us vulnerable to supply chain disruptions aimed at immobilizing Canadian industry. See Business Council of Canada, “Economic Security is National Security: The Case for an integrated Canadian Strategy”, September 7, 2023, pages 10-11, link: https://www.thebusinesscouncil.ca/wp-content/uploads/2022/07/Economic-Security-is-National-Security-Report_digital.pdf.

¹⁴ Mercantilist trading practices in violation of international rules – such as the showering of massive subsidies on foreign state champions so that they may engage in unprofitable, market-distorting activities – have displaced highly trained Canadian workers and hollowed out our defence industrial capabilities. These practices have done so by pushing market-oriented Canadian firms out of international markets and by creating insurmountable barriers to entry for Canadian businesses seeking to commercialize new technologies. See Business Council of Canada, “Economic Security is National Security: The Case for an integrated Canadian Strategy”, September 7, 2023, page 9, link: https://www.thebusinesscouncil.ca/wp-content/uploads/2022/07/Economic-Security-is-National-Security-Report_digital.pdf.

¹⁵ Indeed, driven by escalating geopolitical tensions, rival nations’ increased military expenditures have pushed total global military spending to its highest level ever recorded. See Nan Tian, Diego Lopes da Silva, Xiao Liang and Lorenzo Scarazzato, “Trends in World Military Expenditure, 2023”, Stockholm International Peace Research Institute, April 2024, link: https://www.sipri.org/sites/default/files/2024-04/2404_fs_milex_2023.pdf.

¹⁶ Canada leads in none of the forty-four advanced technology categories identified by one think tank as being essential to a country’s national and economic security. See Australian Strategic Policy Institute, “Critical Technology Tracker, Appendix 1.1: Top 5 country visual snapshot”, April 2023, link: https://ad-aspi.s3.ap-southeast-2.amazonaws.com/2023-03/PB69-CriticalTechTracker-Appendix-1.1_0.pdf?VersionId=A_QAiK_ps0.4cYJ.qfJB1eoEk15SlqYq; United States Government, “National Defense Industrial Strategy”, Department of Defence, January 2024, page 8, link: <https://www.businessdefense.gov/docs/ndis/2023-NDIS.pdf>.

¹⁷ See General Jens Stoltenberg, “Joint press conference: NATO Secretary General and the National Security Advisor of the United States”, NATO, February 7, 2024: link: https://www.nato.int/cps/en/natohq/opinions_222506.htm#:~:text=NATO%20Secretary%20General%20Jens%20Stoltenberg,-%20welcome%20the&text=%20think%20it%20also%20demonstrates,becomes%20a%20war%20of%20logistics.

¹⁸ *Ibid.*

¹⁹ Due to Russia’s illegal invasion and occupation of Ukraine, non-belligerent countries, such as Canada, are expected to face economic losses of approximately \$347 billion over that same period. See Kiel Institute for the World Economy, “The Price of War”, Kiel Working Papers, 2262, February 2024, link: <https://www.ifw-kiel.de/publications/the-price-of-war-32534/>.

²⁰ See Murray Brewster, “Ravaged by war, Russia’s army is rebuilding with surprising speed”, CBC News, February 23, 2024, link: <https://www.cbc.ca/news/politics/russia-army-ukraine-war-1.7122808>.

²¹ Such an attack would likely include large-scale cyberattacks against commercial targets; missile strikes targeting critical infrastructure; as well as the disablement or destruction of space-based assets, such as civilian communication satellites. Each underpin critical functions of our economy, including our ability to mobilize and equip our military. Given the interconnected nature of Canada’s critical infrastructure with the United States, an attack on our southern neighbour would also have severe implications for Canadians. See Government of Canada, “National Cyber Threat Assessment: 2025-2026”, Canadian Centre for Cyber Security, October 30, 2024, pages 5, 13, 37, link: <https://www.cyber.gc.ca/sites/default/files/national-cyber-threat-assessment-2025-2026-e.pdf>; Government of Canada, “National Cyber Threat Assessment: 2023-2024”, Canadian Centre for Cyber Security, October 22, 2022, page 4, link: <https://www.cyber.gc.ca/sites/default/files/ncta-2023-24-web.pdf>; United States Government, “2023 Annual Threat Assessment of the U.S. Intelligence Community”, Office of the Director of National Intelligence, February 6, 2023, page 10, link: <https://www.dni.gov/files/ODNI/documents/assessments/ATA-2023-Unclassified-Report.pdf>.

²² *Ibid.*

²³ Canada’s Chief of the Defence Staff warned that the Government of Canada has five years to prepare for emerging threats to the country’s security. See Ashley Burke and Darren Major, “New chief of the defence staff says Canada has 5 years to prepare for emerging threats”, CBC News, July 18, 2024, link: <https://www.cbc.ca/news/politics/new-chief-of->

[defence-staff-change-in-command-ceremony-1.7266382](#).

²⁴ In July 2024, the United Kingdom’s Chief of the Defence Staff warned that the British have three years to prepare for a war. See Larisa Brown, “We’ve got three years to prepare for war, says head of the army”, *The Times*, July 23, 2024, link: <https://www.thetimes.com/uk/defence/article/weve-got-three-years-to-prepare-for-war-says-head-of-the-army-2tgcscmk6>. In March 2024, Poland’s Prime Minister warned that Europe is in a “pre-war era” and that Europe must be prepared for a major war. See Sarah Rainsford and Paul Kirby, “War a real threat and Europe not ready, warns Poland’s Tusk”, *BCC News*, March 29, 2024, link: <https://www.bbc.com/news/world-europe-68692195>. In September 2023, Australia’s foreign minister warned the United Nations General Assembly of the existential threat posed by a major conflict in the Indo-Pacific region. The foreign minister cautioned that the region is undergoing an unprecedented military build-up, making the risk of conflict increasingly real. See United Nations General Assembly, “Statement by Her Excellency Penny Wong, Australian Minister for Foreign Affairs, at UN General Assembly”, September 22, 2023, link: <https://gadebate.un.org/en/78/australia>. In October 2023, Germany’s defence minister warned that this country must urgently become “fit for war” given the deteriorating global security environment in Europe – a striking departure from Germany’s postwar pacifism. See Ben Knight, “German military must be ‘fit for war’”, October 31, 2023, link: <https://www.dw.com/en/bundeswehr-must-be-fit-for-war-says-german-defense-minister/a-67268608>. In January 2024, Sweden’s Minister for Civil Defence, after remarking that Sweden has experienced peace for almost 210 years, bluntly warned that “[t]here could be a war in Sweden.” See Government of Sweden, “Speech by Minister for Civil Defence Carl-Oskar Bohlin at Folk och Försvars annual national conference in Sälen on the 7th of January 2024”, January 7, 2024, link: <https://www.government.se/speeches/2024/01/speech-by-minister-for-civil-defence-carl-oskar-bohlin-at-folk-och-forsvars-annual-national-conference-in-salen-on-the-7th-of-january-2024/>.

²⁵ Other benefits include:

- Advancing Canada’s commercial interests: strategic investment in Canada’s defence industrial base supports a stronger and more dependable military, meaning our country is better able to exercise sovereignty within our territory and project our power and influence globally without exposing ourselves to threats or retaliation. This can enable Canada to more flexibly and effectively advance key interests at home and abroad. This includes our strategic commercial interests, such as deterring economic threats, like attempts by our rivals to deny us access to critical economic inputs.
- Creating the conditions for economic growth: strategic investment in Canada’s defence industrial base helps guarantee peace and stability across the globe by deterring conflict. As an open and trade-exposed nation, with one out of every five jobs in Canada being tied directly to international trade, Canadians’ economic prosperity is disproportionately linked to high levels of global security, such as freedom of navigation on the open sea.

²⁶ Canada’s defence industrial base is spread out across Canada, with each region of the country having areas of strength. Atlantic Canada has particular strengths in naval missions systems and naval shipbuilding and design; Central Canada has particular strengths in combat vehicle manufacturing, space, munitions production, and aircraft and aircraft part manufacturing, and Western and Northern Canada have particular strengths in aircraft and naval maintenance, repair and overhaul. See Government of Canada, “State of Canada’s Defence Industry Report: Spring 2024”, Innovation, Science and Economic Development, 2024, page 9, link: https://ised-isde.canada.ca/site/aerospace-defence/sites/default/files/documents/State_of_Defence_2024_eng.pdf.

²⁷ *Ibid*, pages 11, 12, 14; 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”, February 2013, pages xiii-xiv, link: <https://www.tpsgc-pwgsc.gc.ca/app-acq/amd-dp/samd-dps/eam-lmp-eng.html>.

²⁸ Many of the world’s most innovative and commercially successful technologies today – from the Internet and GPS to self-driving vehicles and AI-powered chatbots – have their roots in government defence investments. See The Australian Industry Group and Strategic and Defence Studies Centre at the Australian National University, “Defence Industry in National Defence: Rethinking the future of Australian defence industry policy”, December 2023, page 22, link: <https://www.aigroup.com.au/globalassets/news/reports/2023/ai-group-sdsc-dind-report.pdf>.

²⁹ See 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”, February 2013, pages xiii-xiv, link: <https://www.tpsgc-pwgsc.gc.ca/app-acq/amd-dp/samd-dps/eam-lmp-eng.html>.

³⁰ See European Union, “A new European Defence Industrial Strategy: Achieving EU readiness through a responsive and resilient European Defence Industry”, European Commission, March 5, 2024, page 2, link: https://defence-industry-space.ec.europa.eu/document/download/643c4a00-0da9-4768-83cd-a5628f5c3063_en?filename=EDIS%20Joint%20Communication.pdf.

³¹ Discussions with the Business Council of Canada, October 10-11, 2024.

³² See United States Government, “National Defense Industrial Strategy”, Department of Defence, January 2024, page 8, link: <https://www.businessdefense.gov/docs/ndis/2023-NDIS.pdf>.

³³ *Ibid*, page i.

³⁴ See Government of the United Kingdom, “Defence and Security Industrial Strategy: A strategic approach to the UK’s defence and security industrial sectors”, March 2021, page 14, link: https://assets.publishing.service.gov.uk/media/60590e988fa8f545d879f0aa/Defence_and_Security_Industrial_Strategy_-_FINAL.pdf.

³⁵ See European Union, “A new European Defence Industrial Strategy: Achieving EU readiness through a responsive and resilient European Defence Industry”, European Commission, March 5, 2024, page 16, link: https://defence-industry-space.ec.europa.eu/document/download/643c4a00-0da9-4768-83cd-a5628f5c3063_en?filename=EDIS%20Joint%20Communication.pdf.

³⁶ *Ibid.*

³⁷ *Ibid.*, page 15.

³⁸ *Ibid.*, page 2.

³⁹ In a survey conducted between December 6-15, 2023, among a representative randomized sample of 2,608 Canadian adults, 83 per cent of respondents “strongly” or “somewhat” agreed that “[i]t is important that Canada has a strong and successful defence industry” while 13 per cent “strongly” or “somewhat” disagreed with this notion. In November 2017, only 71 per cent of respondents “strongly” or “somewhat” agreed that “[i]t is important that Canada has a strong and successful defence industry, while 24 per cent “strongly” or “somewhat” disagreed with this notion. See EKOS Research Associates, “Canadian Attitudes to the Defence Industry,” January 31, 2024, link: <https://www.defenceandsecurity.ca/UserFiles/Image/PAC/CADSIEKOSReport.pdf>. In a survey conducted between February 28-29, 2024, among a representative randomized sample of 2,427 Canadian adults, 53 per cent of respondents said Canada should increase its spending on the military to two per cent of GDP or beyond, while 30 per cent said Canada should maintain current spending (1.38 per cent of GDP), and 16 per cent said Canada should reduce military spending. In November 2019, only 43 per cent of respondents said Canada should increase military spending to two per cent of GDP or beyond, while 40 per cent was happy with the status quo, and 17 per cent supported the Canadian government decreasing spending. Further, between September 15 2023 and February 2024, the proportion of respondents who believed that “military preparedness and presence on the world stage” should be Canada’s top priority when it comes to foreign affairs, more than doubled from 12 per cent to 29 per cent. See Angus Reid Institute, “As NATO calls on allies to increase defence spending, Canadians prioritize importance of military readiness”, March 5, 2024, link: <https://angusreid.org/nato-defence-spending-ukraine/#gsc.tab=0>. In a survey conducted between April 30 and May 3, 2023, among a representative randomized sample of 1,080 Canadian adults, 64 per cent of respondents said that Canada should increase its military spending to reach NATO’s target of two per cent of GDP, while 21 per cent said that Canada should maintain current spending levels, and seven per cent said Canada should spend less than its current spending levels. See Nanos Research and CTV News, “About two thirds of Canadians support increasing defence spending to reach NATO Target: Nanos”, May 2, 2023, link: <https://www.ctvnews.ca/canada/about-two-thirds-of-canadians-support-increasing-defence-spending-to-reach-nato-target-nanos-1.6386522>.

⁴⁰ See NATO, “Allied leaders adopt new NATO defence industrial pledge”, July 10, 2024, link: https://www.nato.int/cps/en/natohq/news_227685.htm.

⁴¹ See NATO, “The Wales Declaration on the Transatlantic Bond”, September 10, 2014, paragraph 5, link: https://www.nato.int/cps/en/natohq/official_texts_112985.htm.

⁴² See NATO, “Vilnius Summit Communiqué”, July 11, 2023, paragraphs 26-27, link: https://www.nato.int/cps/en/natohq/official_texts_217320.htm.

⁴³ See NATO, “Defence Expenditure of NATO Countries (2014-2024)”, June 12, 2024, page 3, link: https://www.nato.int/nato_static_fl2014/assets/pdf/2024/6/pdf/240617-def-exp-2024-en.pdf.

⁴⁴ *Ibid.*

⁴⁵ See Government of Canada, “National Defence Funding and Projected Canadian Defence Spending to GDP”, National Defence, April 8, 2024, link: <https://www.canada.ca/en/department-national-defence/corporate/reports-publications/north-strong-free-2024/addendum-national-defence-funding-and-projected-canadian-defence-spending-to-gdp.html>.

⁴⁶ See Alexander Panetta, “Elephant in the room at NATO summit: The return of Trump”, CBC News, July 10, 2024, link: <https://www.cbc.ca/news/world/trump-nato-summit-analysis-1.7258865>; Andrian Morrow and Markieke Walsh, “U.S. plans to press Canada, other NATO allies at summit to meet 2% spending target”, The Globe and Mail, July 8, 2024, link: <https://www.theglobeandmail.com/world/us-politics/article-us-plans-to-press-canada-other-nato-allies-at-summit-to-meet-2/>. Murray Brewster, “Trudeau says Canada can meet NATO’s military spending benchmark by 2032”, CBC News, July 11, 2024, link: <https://www.cbc.ca/news/politics/nato-canada-trudeau-1.7260649>.

⁴⁷ See Government of Canada, “Prime Minister strengthens defence and security partnerships at the NATO Summit”, Prime Minister’s Office, July 11, 2024, link: <https://www.pm.gc.ca/en/news/news-releases/2024/07/11/prime-minister-strengthens-defence-and-security-partnerships-nato-summit>.

⁴⁸ The Parliamentary Budget Office identified a cumulative shortfall nearing \$12 billion between what the Department of National Defence spent on capital projects and what was originally planned under its defence policy issued in 2017-

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⁴⁹ See Government of Canada, “The Fiscal Implications of Meeting the NATO Military Spending Target”, Parliamentary Budget Office, October 30, 2024, link: <https://www.pbo-dpb.ca/en/publications/RP-2425-020-S--fiscal-implications-meeting-nato-military-spending-target--repercussions-financieres-atteinte-cible-depenses-militaires-fixee-otan>.

⁵⁰ *Ibid.* See also Government of Canada, “Update of Canada’s Military Expenditure and the NATO 2% Spending Target”, Parliamentary Budget Office, July 8, 2024, link: <https://www.pbo-dpb.ca/en/additional-analyses--analyses-complementaires/BLOG-2425-005-S--update-canada-military-expenditure-nato-2-spending-target--mise-jour-depenses-militaires-canada-objectif-depenses-2-otan>.

⁵¹ See Stockholm International Peace Research Institute, “SIPRI Military Expenditure Data: Canada, Defence Expenditure as Share of GDP”, link: <https://milex.sipri.org/sipri>.

⁵² See NATO, “Defence Expenditure of NATO Countries (2014-2024)”, June 12, 2024, page 4, link: https://www.nato.int/nato_static_fl2014/assets/pdf/2024/6/pdf/240617-def-exp-2024-en.pdf.

⁵³ *Ibid.*

⁵⁴ See Murraray Brewster, “NATO at 75: Is Canada losing its grip on the world’s greatest military alliance?”, April 4, 2024, link: <https://www.cbc.ca/news/politics/nato-75-years-anniversary-canada-russia-ukraine-1.7162757>.

⁵⁵ See NATO, “Defence Expenditure of NATO Countries (2014-2024)”, June 12, 2024, page 4, link: https://www.nato.int/nato_static_fl2014/assets/pdf/2024/6/pdf/240617-def-exp-2024-en.pdf.

⁵⁶ See Noah Keate, “UK wants NATO defense target upped to 2.5 percent”, Politico, April 24, 2024, link: <https://www.politico.eu/article/uk-wants-nato-defense-target-2-5-percent-shapps-sunak/>; Vanessa Gera, “Poland’s president calls on NATO allies to raise spending on defense to 3% of GDP”, American Press, March 11, 2024, link: <https://apnews.com/article/poland-nato-defense-duda-tusk-us-visit-f6d25e41709e9757f7d40ce33add74de>; Bryant Harris and Noah Robertson, “As more NATO countries meet spending targets, some push to raise goals”, DefenceNews, July 10, 2024, link: <https://www.defensenews.com/pentagon/2024/07/10/as-more-nato-countries-meet-spending-targets-some-push-to-raise-goals/>.

⁵⁷ See Theresa Hitchens, “Trump promises to create Space National Guard, demands more NATO spending”, Breaking Defense, August 26, 2024, link: <https://breakingdefense.com/2024/08/trump-promises-to-create-space-national-guard-demands-more-nato-spending/>.

⁵⁸ See JD Vance, “Europe must stand on its own two feet on defence”, Financial Times, February 19, 2024, link: <https://www.ft.com/content/3c87ef13-122f-4e78-a7af-54c75c30a91d>.

⁵⁹ To invest three per cent of their GDP on defence, spending on all other expenditures will have to fall by three per cent in Germany and Italy, and two per cent in Britain and France. See The Economist, “Europe faces a painful adjustment to higher defence spending”, February 22, 2024, link: <https://www.economist.com/finance-and-economics/2024/02/22/europe-faces-a-painful-adjustment-to-higher-defence-spending>.

⁶⁰ See Stephen Grey, John Shiffman and Allison Martell, “Years of miscalculations by U.S., NATO led to dire shell shortage in Ukraine”, Reuters, July 19, 2024, link: <https://www.reuters.com/investigates/special-report/ukraine-crisis-artillery/>.

⁶¹ See Paul McLeary, “NATO is losing patience with one of its own members — and it’s not who you think”, POLITICO, August 8, 2024, link: <https://www.politico.com/news/2024/07/08/nato-summit-canada-commitment-00166648>.

⁶² Canada is more aptly described by a term used by Professor Thomas Juneau: “easy-rider”. Canada has been very creative in finding ways to do “just enough” militarily. However, as we and Professor Juneau have argued, this strategy has become unsustainable.

⁶³ See Editorial Board, “Canada Is a Military Free-Rider In NATO”, The Wall Street Journal, July 12, 2023, link: <https://www.wsj.com/articles/canada-military-defense-spending-justin-trudeau-lithuania-nato-summit-bd1771d9>.

⁶⁴ See United States Government, “Letter to the Honourable Justin Trudeau, Prime Minister of Canada regarding Canadian defence spending”, United States Senate, May 23, 2024, link: https://www.romney.senate.gov/wp-content/uploads/2024/05/shaheen-tillis_canada_defense_spending_letter.pdf.

⁶⁵ *Ibid.*

⁶⁶ See John Paul Tasker, “U.S. wants Canada to hit military spending target ‘as rapidly as humanly possible’: Biden’s adviser”, CBC News, August 25, 2024, link: <https://www.cbc.ca/news/politics/canada-military-spending-jake-sullivan-1.7304665>.

⁶⁷ See Jill Colvin, “Trump says he warned NATO ally: Spend more on defense or Russia can ‘do whatever the hell they want’”, The Associated Press, February 10, 2024, Link: <https://www.theglobeandmail.com/world/article-trump-says-he-warned-nato-ally-spend-more-on-defense-or-russia-can-do/>.

⁶⁸ Elbridge Colby served as the U.S. Deputy Assistant Secretary of Defense for Strategy and Force Development from 2017 to 2018.

⁶⁹ Ambassador Robert O'Brien served as the 27th U.S. National Security Advisor to the President from 2019 to 2021.

⁷⁰ Business Council of Canada roundtable discussions with Elbridge Colby and Ambassador Robert O'Brien, October 10-11, 2024. See generally Alexander Panetta, "Elephant in the room at NATO summit: The return of Trump", CBC News, July 10, 2024, link: <https://www.cbc.ca/news/world/trump-nato-summit-analysis-1.7258865>. Like Canada's business community, Canada's premiers have taken these threats to heart. For instance, earlier this year Manitoba Premier, Wab Kinew, joined several other premiers in arguing that the Government of Canada must urgently meet NATO's two per cent investment-to-GDP ratio to avoid jeopardizing the successful renewal of CUSMA. See Catharine Tunney, "Manitoba premier urges Trudeau to move up NATO spending timeline to save Canada-U.S. relationship", CBC News, July 17, 2024, link: <https://www.cbc.ca/news/politics/wab-kinew-nato-trudeau-1.7266035>.

⁷¹ See Murray Brewster, "PM's former adviser says there's no indication Canada was invited to join AUKUS defence pact", CBC News, May 10, 2023, link: <https://www.cbc.ca/news/politics/aukus-u-s-australia-u-k-nuclear-subs-canada-defence-spending-1.6837792>.

⁷² *Ibid.*

⁷³ See Dr. J. L. Granatstein, "Arming the Nation: Canada's Industrial War Effort", Business Council of Canada, May 27, 2005, page 9, link: <https://thebusinesscouncil.ca/report/arming-the-nation-canadas-industrial-war-effort-1939-1945/>.

⁷⁴ *Ibid.*, page 1.

⁷⁵ *Ibid.*

⁷⁶ *Ibid.*, page 13.

⁷⁷ *Ibid.*, pages 1-2.

⁷⁸ *Ibid.*

⁷⁹ Canada invested an average of 3.09 per cent of GDP annually on defence during the Cold War. See Stockholm International Peace Research Institute, "SIPRI Military Expenditure Data: Canada, Defence Expenditure as Share of GDP", link: <https://milex.sipri.org/sipri>.

⁸⁰ Based on an analysis performed by Dr. David Perry, President and Chief Executive Officer of the Canadian Global Affairs Institute using Parliamentary Budget Office projections for economic growth.

⁸¹ Based on an analysis performed by Dr. David Perry, President and Chief Executive Officer of the Canadian Global Affairs Institute using Department of Finance projections for economic growth.

⁸² Canada invested an average of 3.09 per cent of GDP annually on defence during the Cold War. See Stockholm International Peace Research Institute, "SIPRI Military Expenditure Data: Canada, Defence Expenditure as Share of GDP", link: <https://milex.sipri.org/sipri>.

⁸³ See Government of Canada, "Federal Science and Technology Expenditures and Personnel, 2022/2023 (actual), 2023/2024 (preliminary), and 2024/2025 (intentions)", Statistics Canada, June 27, 2024, <https://www150.statcan.gc.ca/n1/daily-quotidien/240627/dq240627h-eng.htm>.

⁸⁴ See Government of Canada, "Federal Infrastructure Spending, 2016-17 to 2026-27", Parliamentary Budget Office, March 3, 2022, link: <https://www.pbo-dpb.ca/en/additional-analyses--analyses-complementaires/BLOG-2122-008--federal-infrastructure-spending-2016-17-2026-27--depenses-federales-infrastructure-2016-2017-2026-2027>.

⁸⁵ See NATO, "Defence expenditures and NATO's 2% guideline", June 18, 2024, link: https://www.nato.int/cps/en/natohq/topics_49198.htm

⁸⁶ *Ibid.*

⁸⁷ See Government of Canada, "Budget 2022", Department of Finance, April 7, 2022, page 66, link: <https://www.budget.canada.ca/2022/home-accueil-en.html>.

⁸⁸ See Alexander Panetta, "What's behind a historic, unusual U.S. military cash transfer to Canadian mines" CBC News, May 26, 2024, link: <https://www.cbc.ca/news/world/us-dpa-money-mines-canada-analysis-1.7214664>.

⁸⁹ See NATO, "Defence expenditures and NATO's 2% guideline", June 18, 2024, link: https://www.nato.int/cps/en/natohq/topics_49198.htm

⁹⁰ See Government of Canada, "Budget 1995", Department of Finance, February 1995, page 4, link: <https://publications.gc.ca/collections/Collection/F1-23-1995-3E.pdf>.

⁹¹ *Ibid.*

⁹² See 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", February 2013, link: <https://www.tpsgc-pwgsc.gc.ca/app-acq/amd-dp/samd-dps/eam-lmp-eng.html>.

⁹³ Proof of the importance of strong government intervention in building a successful defence industrial base is that there is no example of a successful Canadian defence company at scale that did not get its start with a Government of Canada contract. The first government contract is vital to the success of any emerging defence company, not only in refining the cost and performance characteristics of its products, but also to validate it beyond the domestic market. See 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”, February 2013, pages xii, 5, link: <https://www.tpsgc-pwgsc.gc.ca/app-acq/amd-dp/samd-dps/eam-lmp-eng.html>.

⁹⁴ *Ibid*, pages ix-x; See The Australian Industry Group and Strategic and Defence Studies Centre at the Australian National University, “Defence Industry in National Defence: Rethinking the future of Australian defence industry policy”, December 2023, pages 16-18, link: <https://www.aigroup.com.au/globalassets/news/reports/2023/ai-group-sdsc-dind-report.pdf>.

⁹⁵ For clarity, a focus on the Canadian Arctic does not mean that Canada should not play a meaningful role elsewhere in the world, such as in the Indo-Pacific or Eastern and Central Europe. However, it does mean that Canada should prioritize its lines of efforts in the domain that has the greatest significance to Canadians’ safety, security and prosperity.

⁹⁶ See Government of Canada, “Our North, Strong and Free: A Renewed Vision for Canada’s Defence”, National Defence, April 8, 2024, page vi, link: <https://www.canada.ca/en/department-national-defence/corporate/reports-publications/north-strong-free-2024.html>.

⁹⁷ See Organisation for Economic Co-operation and Development, “General government procurement spending as a percentage of GDP, 2021”, 2021, link: <https://www.oecd.org/en/topics/public-procurement.html>.

⁹⁸ For instance, when the Government of Canada sells equipment to the U.S., the sustainment and in service support for that equipment in the U.S. also creates significant economic opportunities to American workers.

⁹⁹ As an example, a Canadian company, CAE, trains every single U.S. Air Force pilot using their U.S. Air Force Initial Flight Training Program. See CAE, “U.S. Air Force Initial Flight Training (IFT)”, link: <https://www.cae.com/defense-security/what-we-do/training-centres/usaf-initial-flight-training-ift/>.

¹⁰⁰ AUKUS, the trilateral security partnership between Australia, the U.K., and the U.S., has now expanded this access to Australia and the U.K.

¹⁰¹ See NATO, “Defence Expenditure of NATO Countries (2014-2024)”, June 12, 2024, page 8, link: https://www.nato.int/nato_static_fl2014/assets/pdf/2024/6/pdf/240617-def-exp-2024-en.pdf.

¹⁰² See Government of Canada, “New Canada, Finland, and the United States partnership”, Prime Minister’s Office, July 11, 2024, link: <https://www.pm.gc.ca/en/news/backgrounders/2024/07/11/new-canada-finland-and-united-states-partnership>.

¹⁰³ See Government of Australia, “AUKUS Defence Ministers’ Meeting Communique”, Ministry of Defence, September 26, 2024, link: <https://www.minister.defence.gov.au/statements/2024-09-26/aukus-defence-ministers-meeting-communiqué>.

¹⁰⁴ France’s Direction Générale de l’armement, South Korea’s Defense Acquisition Program Administration and Sweden’s Defence Materiel Administration, each are mandated with supporting their domestic defence companies’ exports. For example, Sweden’s Defence Materiel Administration has it as their mission to “support defense exports that will help maintain and develop industrial capabilities which are of strategic importance for the Swedish defense.” See Government of Sweden, “Defence exports, Defence Materiel Administration, link: <https://www.fmv.se/english/supplier-information/defence-export/>; Government of France, “Les missions de la DGA”, Direction Générale de l’armement, link: <https://www.defense.gouv.fr/dga/nous-connaître/missions-dga>.

¹⁰⁵ See Gordon Arthur, “How South Korea’s defense industry transformed itself into a global player”, Breaking Defence, November 6, 2022, link: <https://breakingdefense.com/2023/11/how-south-koreas-defense-industry-transformed-itself-into-a-global-player/>; Tatiana Kanunnikova, “South Korea’s defense export growth: a success story”, Asia Times, July 22, 2024, link: <https://asiatimes.com/2024/07/south-koreas-defense-export-growth-a-success-story/>.

¹⁰⁶ For example, approvals of export permits are highly unpredictable, putting Canadian firms at a significant disadvantage relative to their peers in other NATO countries. Moreover, other NATO countries with defence industries which export also enjoy considerable diplomatic support direct by government, including at fora at NATO where businesses’ commercial interests are advanced.. This is rare in Canada. Finally, unlike in countries like France, South Korea and Sweden, defence procurements and export functions are unaligned, meaning that procurement requirements are not designed with subsequent export in mind.

¹⁰⁷ See Reuters, “France’s Macron hopes to clinch sale of 12 Rafale fighter jets to Serbia this week”, August 28, 2024, link: <https://www.reuters.com/world/europe/frances-macron-hopes-clinch-sale-12-rafale-fighter-jets-serbia-this-week-2024-08-28/>.

¹⁰⁸ The most recent data show that Canada is over three times more restrictive than the average G7 country. See Organisation for Economic Co-operation and Development, “OECD Foreign Direct Investment Regulatory Restrictive Index”, 2020, link: <https://goingdigital.oecd.org/en/indicator/74>.

¹⁰⁹ See Government of Canada, “A Time For a Change: Reforming Defence Procurement in Canada”, House of Commons Standing Committee on National Defence”, June 2024, pages 12-13, link: <https://www.ourcommons.ca/Content/Committee/441/NDDN/Reports/RP13203590/nddnrp12/nddnrp12-e.pdf>.

¹¹⁰ *Ibid.*

¹¹¹ See Lee Berthiaume, “Defence Department failed to spend \$1.2B in funding last year, most due to delays”, The Canadian Press, February 10, 2022, link: <https://nationalpost.com/pm-news-pmn/canada-news-pmn/defence-department-failed-to-spend-1-2b-in-approved-funding-last-year-due-to-delays>.

¹¹² See Government of Canada, “A Time For a Change: Reforming Defence Procurement in Canada”, House of Commons Standing Committee on National Defence”, June 2024, page 23, link: <https://www.ourcommons.ca/Content/Committee/441/NDDN/Reports/RP13203590/nddnrp12/nddnrp12-e.pdf>.

¹¹³ According to external experts, including Yves Giroux, Dr. David Perry and Dr. Philippe Lagassé, the Government of Canada lacks sufficient numbers of defence personnel, impacting the country’s ability to deliver new capabilities to the country’s military. See Government of Canada, “A Time For a Change: Reforming Defence Procurement in Canada”, House of Commons Standing Committee on National Defence”, June 2024, pages 18-21, link: <https://www.ourcommons.ca/Content/Committee/441/NDDN/Reports/RP13203590/nddnrp12/nddnrp12-e.pdf>.

¹¹⁴ See Canadian Manufacturers and Exporters, “Manufacturing Canada’s Future”, November 2023, page 14, link: https://cme-mec.ca/wp-content/uploads/2023/11/2023-CME-Report-Manufacturing-Canadas-Future_Final-2_web.pdf; Government of Canada, “Canadian youth attitudes towards the trades: results from PISA 2015”, Employment and Social Development Canada, link: <https://www.canada.ca/en/employment-social-development/corporate/reports/research/canadian-youth-attitudes-trades-summary.html>.

¹¹⁵ Women are currently underrepresented in STEM occupations: they make up less than 30% of people currently employed in a professional STEM field. See Government of Canada, “Occupation (STEM and non-STEM) by major field of study (STEM and BHASE, detailed) and highest level of education: Canada, provinces and territories”, Statistics Canada, November 30, 2022, link: <https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=9810040201>. The share of manufacturing jobs held by women has remained essentially flat, fluctuating between 27 and 29 per cent since the mid-1980s, with no clear trend in any direction. See Canadian Manufacturers and Exporters, “Untapped Potential: Attracting and engaging women in Canadian manufacturing”, 2017, pages 6-7, link: <https://cme-mec.ca/wp-content/uploads/2018/11/CME-WIM-Summary-Report.pdf>.

¹¹⁶ See *The Countering Foreign Interference Act*, S.C. 2024, c. 16, link: https://lois-laws.justice.gc.ca/eng/AnnualStatutes/2024_16/page-1.html. The Act, better known as Bill C-70, received Royal Assent on June 20, 2024, link: <https://www.parl.ca/legisinfo/en/bill/44-1/c-70>.

¹¹⁷ See *Investment Canada Act*, R.S.C., 1985, c. 28, 1st Supp., link: <https://laws-lois.justice.gc.ca/eng/acts/i-21.8/index.html>.

¹¹⁸ See David Reevely, “Canada a ‘weak link’ among allies on economic security: Federal documents”, The Logic, May 16, 2024, link: <https://thelogic.co/news/public-safety-canada-on-canadas-economic-security/>.

¹¹⁹ See Government of Canada, “Annual Report: Investment Canada Act, 2022-2023”, Innovation, Science and Economic Development, 2023, page 27, link: <https://ised-isde.canada.ca/site/investment-canada-act/sites/default/files/attachments/2022-23-annual-report-en-v4.pdf>.

¹²⁰ For instance, the Government of Canada should make explicit in the Competition Act that collaborations among competitors that have no anti-competitive impacts are permissible.

¹²¹ See Government of the United States, “Cyber Academy Focuses on Partnerships with Private-Sector Information Security Leaders”, Federal Bureau of Investigation, December 7, 2021, link: <https://www.fbi.gov/news/stories/cyber-academy-focuses-on-partnerships-with-private-sector-information-security-leaders-120721>.



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Acknowledgment

The Business Council of Canada would like to thank the external experts who contributed to this report by offering valuable and constructive feedback during its development. Although the Business Council of Canada alone bears responsibility for this report, their insights and perspectives helped shape the thinking behind it. Thank you for being so thoughtful with your comments and generous with your time.

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Report Citation

Business Council of Canada (2024, November 25). *Security & Prosperity: The economic case for Canada's first modern Defence Industrial Base Strategy*. thebusinesscouncil.ca/report/security-and-prosperity/

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