Canada’s Defence Industrial Strategy: New implications for Canadian defence procurement

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On Feb. 17, 2026, the Government of Canada released the latest iteration of Canada’s national defence strategy, *Security, Sovereignty and Prosperity: Canada’s Defence Industrial Strategy* (the Strategy), which follows a commitment in Budget 2025 to invest $81.8 billion into the Canadian Armed Forces by 2030, and institutional efforts to facilitate a Canada-focused approach to defence procurement.

The Strategy is centered upon a “Build-Partner-Buy” framework that prioritizes domestic procurement in areas of existing Canadian strength and capacity, as well as for areas of key sovereign concern. While the Strategy also seeks to continue defence procurement through partnerships with allies, and off-the-shelf investments, Canada’s concerted goal is to select investments that can flow back into the Canadian economy while generating sufficient sovereign control over Canada’s defence industry.

The Strategy rests on five pillars, including: industry engagement, the build-partner-buy framework, innovation, securing supply chains, and collaboration with domestic partners, including in the Arctic.

Notably, the Strategy identifies several ambitious goals over the next ten years, including a goal to increase the share of defence procurements awarded to Canadian firms to 70 per cent, increasing Canada’s investment in defence-related research and development by 85 per cent, and increasing total defence industry revenues by over 240 per cent.

Accordingly, the Strategy serves to further refocus Canada’s defence industrial base towards domestic acquisition alongside further concrete steps, investment, and objectives to grow Canada’s defence capabilities, innovation, and industrial partnerships. Successfully navigating these changes remains crucial for both Canada’s domestic industry as well as for suppliers from allied states.

Pillar I: Renewing our relationship with industry

The Strategy identifies that a longstanding challenge of Canada’s defence industry has been signaling and committing to long-term demand, allowing domestic industry to accurately forecast and invest accordingly.

The Strategy seeks to provide a clearer long-term commitment towards defence sector demand, engage more closely with industry, including by pursuing co-development of solutions, and providing regular touchpoints for industry partners to engage as part of defence procurement processes. There will be an effort to improve and streamline industry participation in defence procurement, including by better facilitating security clearances and accreditation of secure facilities, as well as providing more assistance to small and mid-sized Canadian businesses in this sector.

Among other commitments, the Strategy identifies the following key actions to renew relationships with domestic industry:

- Canada's new Defence Investment Agency will establish a permanent Defence Advisory Forum to provide a consistent venue to engage with industry. This Forum will be chaired by the Ministers for National Defence, and Industry, and the Secretary of State (Defence Procurement);
- Investments will be made to accelerate the security clearance and security accreditation process for defence sector personnel and secure facilities;
- Canada will create regularly scheduled "industry days" with the Department of National Defence, the Canadian Armed Forces, the Defence Investment Agency, and Innovation, Science and Economic Development;
- Canada will publish a regularly updated inventory of anticipated procurements to allow for earlier visibility of these forthcoming opportunities; and
- Canada will institute a dedicated "concierge" service for companies working on defence and dual-use technologies to facilitate better navigation of government processes.

Pillar II: Procuring strategically: The defence investment agency & "build-partner-buy"

In addition to facilitating more streamlined relationships with industry, the Strategy also seeks to engage with and grow domestic industry partnerships as well as Canadian industrial capability. The Strategy specifically seeks to build leading domestic "champions" that meet Canada's strategic and defence needs and continue to advance innovation and development.

To achieve this goal, the Strategy commits to the publication of a framework for the onboarding of Canadian defence firms as strategic partners by the summer of 2026.

The Defence Investment Agency is anticipated to play a key role in attaining this objective, in facilitating a more integrated and streamlined approach to defence procurement. Notably, the Strategy confirms that the government's intention is for the Defence Investment Agency to operate outside of Public Services and Procurement Canada, as a stand-alone entity, which appears to be intended to better coordinate inputs across the government, including National Defence, Innovation, Science and Economic Development, Public Services and Procurement Canada, and the Canadian Armed Forces.

The Strategy focuses on fostering domestic industry involvement first and foremost in fulfilling key sovereign capabilities:

1. **Aerospace**: Aerospace Platforms, Avionics, Aircraft Communications;
2. **Ammunition**: Common Ammunition, Battle-Decisive Munitions, Small Arms, Missiles and Bombs;
3. **Digital Systems**: Secure Cloud, Artificial Intelligence, Quantum Computing and Communications, Integrated Command, Control and Communications, High-Assurance Communications Equipment;
4. **In-Service Support**: Naval, Air, Land;
5. **Personnel Protection**: Medical Counter Measures;
6. **Sensors**: Marine Sensors, Quantum Sensors, Electronic Warfare:
7. **Space**: Space-based Intelligence, Surveillance and Reconnaissance, Space Domain Awareness, Satellite Communications, Space Launch;
8. **Specialized Manufacturing**: Land Vehicles, Surface Ships, including Icebreakers, and Marine Systems;
9. **Training and Simulation**: Naval, Land, Air; and
10. **Uncrewed and Autonomous Systems**: Uncrewed and Autonomous Land, Aerial, Underwater and Surface Systems (including Uncrewed Collaborative Platforms).

In addition to focusing on domestic acquisitions and capability-building in these key strategic areas, the Strategy also confirms that Canada will continue to partner in defence procurement with trusted allies, including in areas where Canada cannot fully build or fulfill a capability alone.

These partnerships include a continuation of the close defence relationship with the United States, as well as strengthening partnerships with the European Union and the United Kingdom, Australia, New Zealand, Japan, and the Republic of Korea.

Lastly, in addition to domestic capabilities, and partnerships with allies, Canada will continue to consider direct acquisitions from foreign suppliers. However, the Strategy does seek to reduce the reliance on integrated defence platforms which necessitate ongoing reliance on ongoing software updates, IP, or schematics.

Additionally, while Canada will continue to work with multinational suppliers, including under its Industrial and Technological Benefits (ITB) Policy, going forward, Canada will require multinational suppliers to do a greater percentage of their work in Canada and with Canadian-controlled firms. The ITB Policy applies to certain major defence procurements, and broadly requires that suppliers awarded defence contracts undertake business activity in Canada equal to the value of the contract, in addition to assessing suppliers on economic benefit factors during the bid phrase. It appears that the Strategy envisions future restrictions that will limit the ability of multinational suppliers to meet their ITB Policy obligations investing into indirect work with their Canadian subsidiaries, rather than doing direct work in Canada with Canadian-controlled firms.

The Strategy identifies the following key actions to renew relationships to fulfill the “Build-Partner-Buy” framework for defence procurement:

1. Direct new defence procurements in areas of home-grown strength or key sovereign capabilities to Canadian firms, including through use of the national security exception in the applicable trade agreements governing procurement processes;

2. Diversity Canada's partnership opportunities with trusted allies, including particularly partnerships in Europe and the Indo-Pacific, to include joint work and the sharing of key technologies and IP;
3. Buy equipment from allies, with strong conditions that foster reinvestment into the Canadian defence industrial base and ensure Canadian sovereign control over the newly acquired assets;
4. Reform the ITB Policy to align with the Canada-focused procurement objectives for key sovereign capabilities, introduce mechanisms that incentivize investments that expand industrial output and development, including the creation of a Strategic Investment Transaction to credit certain investments, supporting Canadian industry in claiming exports and supply chain activities as credits; re-calibrating incentives for skills-development, and simplifying the operation of the Policy.

Innovation, Science and Economic Development will publish the revisions to the ITB Policy in early 2026, with certain proposed changes anticipated to include:

1. Introduce a new "Strategic Investment Transaction" to encourage investments that increase Canadian defence industrial capacity, strengthen sovereign capabilities, support infrastructure, or transfer intellectual property;
2. Enhanced multipliers for high-impact contributions that advance defence priorities;
3. Provide recognition for infrastructure investments that support long-term capability building;
4. Introduce a Canadian Company Boost to increase credits for investments in Canadian firms with 70-100 per cent Canadian Content Value;
5. Add a multiplier for direct work with small and medium-sized businesses;
6. Update the Future Sales Transaction, including with credit for investments that drive future sales to Canadian companies;
7. Create more flexibility and tools for small and mid-sized businesses;
8. Introduce a new multiplier for investments in skills development and training in the defence sector;
9. Increase the multiplier for indigenous workforce development in defence industries;
10. Increase the minimum discretionary threshold for applying the ITB Policy from $20 million to $25 million; and
11. Replace the current list of Key Industrial Capabilities with a new list of 10 Sovereign Capabilities.

Updated ITB Terms and Conditions are also anticipated to be released in early 2026 with all of these Policy changes and their specific operationalization.

Pillar III: Investing purposefully to strengthen an innovative Canadian defence sector

The Strategy seeks to position Canada as a leader in defence research and development and innovation. To further this objective, the Strategy seeks to build upon investments in defence and dual-use technologies and innovation, by creating a new Science and Research Defence Advisory Council, which will include leaders from

Canada's post-secondary institutions with National Defence, Innovation, Science and Economic Development, and Canada federal research granting councils.

A particular area of development includes fostering innovation in the development of drones and drone technology, facilitated by a Drone Innovation Hub within the National Research Council. Other areas of focus include frontier technologies, such as AI, quantum, and cybersecurity, which will be coordinated through academia/government frameworks such as the Bureau of Research, Engineering and Advanced Leadership in Innovation and Science (BOREALIS).

The Strategy identifies the following key actions to foster defence innovation, research, and development:

1. Establish the new Science and Research Defence Advisory Council in 2026;
2. Invest $244 million in small and mid-sized businesses for advancing defence and dual-use technologies;
3. Create a Drone Innovation Hub at the National Research Council in 2026, with an investment of $105 million over three years;
4. Acquire a new research and development platform with an investment of $460 million over the next five years; and
5. Publish a roadmap for the standup of BOREALIS and select the first round of funded research projects by Q3 of 2026.

In addition to research and innovation objectives, the Strategy also seeks to increase development among small and mid-sized Canadian businesses. Budget 2025 already allocated a new $4 billion defence platform at the Business Development Bank of Canada. The Strategy also confirms and investment of $357.7 million to establish a Regional Defence Investment Initiative to support the growth of small and mid-sized businesses into both domestic and international defence supply chains.

Additionally, the Strategy seeks to strengthen Canada's intellectual property ownership, protection, and access through:

1. Empowering Canadian small and mid-sized businesses to manage and leverage IP through ElevateIP and other programs; and
2. Prioritize Canadian IP ownership, protection, and access in defence procurement processes.

In order to further foster innovation, the Strategy commits to actively pursuing opportunities to grow Canada's defence exports by improving whole-of-government coordination to prioritize supports for export opportunities and providing more supports for Canadian firms selling abroad, including through Trade Commissioners, Defence Attachés, and expanded Canadian presence at international defence and aerospace trade shows.

Lastly, the Strategy seeks to foster workforce development within Canada, by implementing a Canada Defence Skills Agenda, by investing in talent development, job opportunities, skills upgrading, labour mobility, and entering into partnership for skills development with the provinces, territories, and with First Nations, Inuit, and Métis rights holders.

Pillar IV: Securing supply chains for key inputs and goods

The Strategy also addresses priorities of safeguarding Canada's supply chains, including through the new Canadian Defence Industry Resilience program, which will support domestic businesses in expanding their production capacity, including for key components and materials. Canada also seeks to secure sources and production of critical minerals, steel, and aluminum.

The Strategy identifies the following key actions to foster defence innovation, research, and development:

1. Launch the Canadian Defence Industry Resilience program to secure key supply chains, including for domestic nitrocellulose production;
2. Publish a new strategy for expanding production, processing, stockpiling, and procurement of critical minerals by Q2 of 2026; and
3. Prioritize funding efforts to support key sectors, including steel and aluminum production, and the expansion of biodefence and medical countermeasures capability.

Pillar V: Working with key domestic partners, including in Canada's north and arctic

The Strategy emphasizes the importance of domestic collaboration with the provinces and territories and with First Nations, Inuit, and Métis rights holders, across a multitude of areas. The Arctic is a particular focus of these collaboration efforts, noting the importance of this region and its communities to Canada's defence and sovereignty.

The Strategy includes significant investment into the Northern Operational Support Hubs program, to provide critical infrastructure and logistical support for military operations in Canada's North, and collaboration with Indigenous partners and northern communities in the Arctic will be an emphasis. Canada currently projects a $2.67 billion investment into this program, including for both pure defence investment as well as dual-use infrastructure and capabilities.

Key takeaways

1. Shift towards domestic procurement continues

For suppliers, the Strategy continues a recent trend of Canada prioritizing domestic defence procurement and sovereign capability-building. The Strategy specifically references an increased willingness to invoke the national security exception in defence procurement processes to achieve this objective, in addition to multiple changes to Canada's ITB Policy.

These changes will likely facilitate greater priority being given to Canadian suppliers in defence procurement and shifts in the ways that Canadian Content is credited under the ITB Policy. The Strategy specifically emphasizes that some of these shifts are targeted

at multinational suppliers to incentivize substantial and long-lasting investment into domestic Canadian industry and reduce merely technical compliance and indirect investments with Canadian subsidiaries.

Given the Strategy's identification of 10 key sovereign capabilities where domestic supply and acquisition will be prioritized, the emphasis on domestic suppliers and domestic industry-building, is likely to be far-reaching, given how broadly some of these sovereign capabilities are defined.

Finally, Canada's prioritization of defence-sector projects has already begun to have ripple effects through applicable regulatory agencies. Wait times and processing lag at agencies responsible for vetting applicable security clearances, controlled goods access, and regulatory reviews for national security purposes have dramatically increased. For suppliers, especially those looking to enter the defence-sector, getting ahead regulatory compliance to minimize the risk of further regulatory delay must be a top priority. Developing applicable policies, conducting security audits, defining key roles and responsibilities for employees, and preparing security screening materials in advance are an effective way to mitigate delays associated with obtaining applicable clearances.

2. New administrative frameworks and government partners

The Defence Investment Agency has yet to begin its work, and the exact nature of how its coordinating role in facilitating defence procurement will function is unknown. To date, Canada's defence procurement industry has encountered difficulties due to various bureaucratic and regulatory barriers associated with multiple governmental entities being directly involved in defence procurements.

The Strategy does confirm that the Defence Investment Agency will be operating independent of Public Services and Procurement Canada, but what this will mean for suppliers in practice is unclear. Having a clear understanding of the roles and authority of the stakeholders within a certain procurement process is vital to ensuring that participants understand the process, where they can clarify or confirm additional information, and what rights of recourse they have.

Simultaneously, the Strategy also identifies a number of other government programs, entities, and roles that will take larger roles in investing in industry, research, and even in fostering Canadian defence exports. There are additional opportunities identified for regular industry-government consultation, such as the Defence Advisory Forum. Remaining aware of policy guidance, consultation sessions, and new resources available will be helpful to existing suppliers, as well particularly for small and mid-sized Canadian businesses who are entering into or increasing their participation in the defence industry.

3. More details and policy updates to come

The Strategy confirms that there will be several new initiatives and policy changes made throughout 2026. In particular, the ITB Policy will be undergoing revisions, which are anticipated to be published in early 2026, and will include an update to the ITB Terms and Conditions.

Other policy developments to watch for in 2026 include:

1. The publication of a framework for the onboarding of Canadian defence firms as strategic partners;
2. The publication of a new strategy for expanding production, processing, stockpiling, and procurement of critical minerals;
3. Establishment and publication of new research funding incentives, including the Science and Research Defence Advisory Counsil, the NRC Drone Innovation Hub, and the BOREALIS roadmap; and
4. Establishment of new investments in small and mid-sized businesses in the defence sector.

Broadly, the Strategy represents a general framework that primarily serves to identify strategic priorities and guiding principles for Canada's defence sector. While some policy changes and investments have been confirmed, either through Budget 2025 or this Strategy, many specific details on how the Strategy's objectives will be attained remain forthcoming.

The specifics on the role and function of the Defence Investment Agency, the updates to the ITB Policy and the Terms and Conditions, and how multinational suppliers with Canadian subsidiaries will integrate within the Strategy's procurement framework all will require further assessment as more details are confirmed.

4. Engage counsel

The Strategy implements a number of significant changes to the Canadian defence sector. To get ahead of these changes, engage legal counsel early to discuss how to best adapt and move forward to avoid regulatory uncertainty and administrative delays.

How we can help

Please contact our Defence and Security team to discuss the Strategy's implications, assess potential impacts, and determine how your organization can best position itself moving forward.

Our team is prepared to provide informed guidance and support your next steps.

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