

Canada's New Defence Industrial Strategy: What Business Needs to Know

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February 17, 2026

The federal government of Canada has launched a sweeping new [Defence Industrial Strategy](#) (DIS or Strategy) designed to modernize defence procurement, expand Canada's defence industrial base, and strengthen national self-reliance. The Strategy also aims to enhance national security by ensuring the Canadian Armed Forces have the resources and capabilities they need. This provides a significant opportunity for Canadian industries that are able to align themselves to deliver on the Strategy.

Backed by the [Canada Strong November 2025 Budget](#), which allocates **\$81.8 billion in new defence spending** along with additional multi-billion-dollar investments in infrastructure and innovation, the DIS represents a generational pivot toward strengthened sovereign capability, accelerated procurement, and domestic industrial growth.

The federal government will spend **\$6.6 billion** on the initial DIS investment and related initiatives, as well as **\$180 billion** in Canadian defence procurement by 2035. The government projects that these investments will generate **\$300 billion** in total public and private investment in Canada by 2035.

Key Milestones

In the next ten years, the DIS will:

- Build world-leading Canadian firms in key sovereign capability areas;
- Raise fleet serviceability levels to **75% for maritime, 80% for land, and 85% for aerospace** fleets;
- Increase the share of defence acquisitions awarded to Canadian industry to **70%**;
- Accelerate procurement pathways for successful Canadian defence R&D innovations;
- Boost federal defence R&D investments by **85%**;
- Increase total Canadian defence industry revenues by **more than 240%**;
- Grow revenues for Canadian defence SMEs by **over \$5.1 billion annually**;
- Increase Canada's defence exports by **50%**; and
- Create **125,000 new jobs** across the Canadian economy.

The Five Key Pillars of DIS

The DIS is built on the following five core pillars.

1. Renewing Relationship with Industry

Central to the implementation of the DIS is the creation of the **Defence Investment Agency (DIA)**, which will play a critical role in unlocking procurement opportunities, strengthening the domestic industrial base, and attracting new investment. The DIA will lead a permanent Defence Advisory Forum, co-chaired by the Ministers of National Defence, Industry, and the Secretary of State (Defence Procurement), providing a structured venue for regular engagement with the Canadian defence industry.

The government will invest in accelerating security clearances for defence-sector personnel and creating a standardized accreditation process for industry-run secure facilities.

Currently housed within Public Services and Procurement Canada (PSPC), the federal government intends to introduce legislation to establish the DIA as a stand-alone entity. With a mandate focused on delivering outcomes, the DIA will coordinate the efforts of the Department of National Defence (DND), Innovation, Science and Economic Development Canada (ISED), and Public Services and Procurement Canada (PSPC) to streamline processes, enhance incentives through the Industrial and Technological Benefits (ITB) program, and provide regulatory clarity and certainty to military and industry partners.

2. Procuring Strategically: The Defence Investment Agency and a New “Build–Partner–Buy” Framework

The DIA will lead the government’s new **“BUILD–PARTNER–BUY”** approach by integrating input from defence, industry, and procurement authorities to enable faster, coordinated capability decisions. DIA will prioritize building domestic defence capabilities wherever feasible, pursue structured partnerships with trusted allies where strategic, and procure “off-the-shelf” goods from abroad only under conditions that preserve Canadian sovereign control and ensure meaningful reinvestment into domestic industry.

i. BUILD Canadian-Made Critical Defence Capabilities

The DIA will prioritize Canadian suppliers and strengthen a resilient, innovative defence industrial base capable of designing, producing, and sustaining advanced equipment. “Buy Canadian” will be the guiding principle for defence acquisitions.

The following is the initial set of sovereign capabilities the DIA will prioritize for build-in-Canada. This list will evolve as threats, capability needs, technology, and domestic industrial capacity change: Aerospace;

Ammunition; Digital Systems (AI, quantum, secure communications); In-Service Support; Personnel Protection; Sensors; Space Systems; Specialized Manufacturing; Uncrewed and Autonomous Systems.

ii. PARTNER with Allies

The government will pursue defence partnerships when full domestic production is not feasible, working with trusted allies and multinational firms to deliver needed capabilities while creating commercial opportunities, strengthening supply-chain roles, securing IP, and supporting domestic capacity. Canada will maintain its strong defence relationship with the United States while expanding industrial partnerships with the European Union, the United Kingdom, and key Indo-Pacific partners such as Australia, New Zealand, Japan, and South Korea, always prioritizing sovereign control and the development and retention of critical IP.

iii. BUY from Others with Domestic Reinvestment and Sovereign Control

When it is not feasible to build domestically or partner with an ally, Canada will buy equipment from allies, with strong conditions that spur reinvestment into the Canadian defence industrial base and ensure Canadian sovereign control over the operation and sustainment of the newly acquired assets.

To maximize defence procurement's contribution to Canada's industrial base, the government will advance reforms to the ITB Policy. ISED will publish the updated policy in early 2026.

3. Investing to Strengthen an Innovative Canadian Defence Sector

The DIS earmarks significant investments to partner with industry that are aimed at innovation, skills development, capital access, supply chain resilience, sectoral supports and IP protection.

To advance these objectives, the federal government has committed to the following initiatives:

- Expanding defence-focused R&D through a new Science and Research Defence Advisory Council
- a **\$244 million** NRC–Industrial Research Assistance Program (IRAP) stream for small and medium-sized enterprises (SMEs)
- a **\$105 million** Drone Innovation Hub
- a **\$460 million** new R&D platform and the accelerated rollout of BOREALIS
- SMEs will benefit from a **\$4 billion** Business Development Bank of Canada (BDC) Defence Platform and a \$357.7 million Regional Defence Investment Initiative
- Intellectual property protection and Canadian IP retention will be embedded directly into procurement under the BUILD–PARTNER–BUY framework
- Export growth will be supported by a dedicated whole-of-government unit and new international deal teams

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- A Canada Defence Skills Agenda that includes **\$383 million** in sectoral workforce investments
- **\$5 billion** Strategic Response Fund will complement supply chain measures, including the new Canadian Defence Industry Resilience program and domestic production initiatives for ammunition inputs, steel, aluminum, and defence-critical minerals

4. Securing Supply Chains for Key Inputs and Goods

To secure supply chains for key defence inputs, the government will launch the Canadian Defence Industry Resilience (CDIR) program in 2026 (including building domestic nitrocellulose production by 2029), prioritize Strategic Response Fund and Life Sciences Fund investments to support sectors like steel, aluminum, and biodefence, and publish a strategy to expand production, processing, stockpiling, and procurement of defence-critical minerals in coordination with allies by Q2 2026.

5. Working with Key Domestic Partners, Including in Canada's North and Arctic

The government intends to coordinate with provinces, territories, Indigenous Peoples, and northern communities to strengthen defence-industry development and invest in resilient, dual-use northern infrastructure, including the \$2.67 billion Northern Operational Support Hubs program to build a network of hubs to strengthen military logistics while improving transportation, energy, and economic opportunities across northern and Indigenous regions.

Implications for Business

For Canadian and international businesses operating in defence, aerospace, advanced manufacturing, digital technologies, critical minerals, life sciences, and Arctic infrastructure, the implications are **immediate and material**. Companies will need to reassess procurement strategies, partnership and teaming structures, intellectual property positioning, supply chain configurations, ITB compliance approaches, and foreign investment considerations to remain competitive and aligned with the evolving policy landscape.

How Cassels Can Help

Cassels is closely monitoring the legislative and regulatory developments associated with the establishment of the DIA and the implementation of the DIS. We are advising clients on corporate and strategic positioning, partnership and investment structures, defence trade controls, export controls, government

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engagement, industrial development and compliance with Canada's evolving national and industrial security legislation.

Our approach integrates the appropriate commercial, regulatory, and industry expertise from across our practice areas to deliver effective, practical guidance. This ensures that clients in the defence, aerospace, technology, and security ecosystems receive comprehensive, multidimensional support from every angle.

This publication is a general summary of the law. It does not replace legal advice tailored to your specific circumstances.