



Canada's Defence Industrial Strategy (“Security, Sovereignty and Prosperity”)

What it means for industry and how counsel can help

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On February 17, 2026, the Government of Canada released Security, Sovereignty and Prosperity: Canada's Defence Industrial Strategy (the DIS). The DIS is framed as a generational “rebuild, rearm and reinvest” effort that ties defence readiness to economic resilience and domestic industrial growth, supported by a new Defence Investment Agency (DIA) and a “Build, Partner, Buy” acquisition approach.

The government describes a major demand signal over the next decade, \$180B in defence procurement and \$290B in defence-related capital investment, with an estimated \$125B downstream economic benefit by 2035 and sets targets including 70% of defence acquisitions awarded to Canadian firms, a 50% increase in defence exports, and 125,000 new jobs.

A key driver is reducing reliance on foreign (particularly U.S.) suppliers, reported as ~70% of Canada's weapons budget today, with the stated goal of shifting that share toward Canadian firms over time.

Core architecture of the Strategy

1. A new procurement centre of gravity: the Defence Investment Agency

The DIS positions the DIA as the coordinating hub to “centralize expertise,” streamline decision-making, and speed delivery (including to the Canadian Coast Guard).

Government materials describe the DIA as a special operating agency within PSPC, led by the Secretary of State (Defence Procurement), with an operational mandate that includes “expanded contracting authorities,” testing new approaches, and driving industrial innovation and partnerships.

Practical implication: contractors should expect earlier industry engagement, more procurement “concierge” functions, and more emphasis on “fit-for-purpose” pathways, speed, and export potential (the DIA’s “FASTER” framing).

2. “Build, Partner, Buy” becomes the default decision framework

Under the DIS, Canada states it will:

1. BUILD in Canada where there are home-grown strengths and sovereign capabilities (including adjusting procurement authorities and using the national security exception where needed to direct work to Canadian firms);
2. PARTNER with trusted allies/multinational firms where Canada can’t build alone, with emphasis on diversifying partnerships (including Europe/UK and Indo-Pacific references in the DIS); and
3. BUY off-the-shelf where necessary, but on conditions designed to drive domestic reinvestment and preserve sovereign control over key capabilities and technologies.

3. Canada’s “Sovereign Capabilities” list

The DIS identifies an initial set of 10 “Sovereign Capabilities” that are intended to receive “build-in-Canada” priority (and that will evolve over time). These include, among others, aerospace, ammunition, digital systems (secure cloud/AI/quantum/C3), in-service support, space, training & simulation, and uncrewed/autonomous systems.

Practical implication: suppliers that can credibly map offerings to these categories, especially with Canadian IP, production capacity, and sustainment, should be positioning now.

The five pillars (and what industry should watch)

Pillar I: Renewing the relationship with industry

Key actions include creating a Defence Advisory Forum, investing to accelerate security clearances and standardize secure-facility accreditation, and providing navigation supports (industry days, procurement inventory visibility, single-window direction, and an ISED concierge for defence/dual-use tech).

Pillar II: Procuring strategically (DIA + Build Partner Buy) and modernizing ITB

The DIS confirms continued reliance on Industrial and Technological Benefits (ITB) but signals reforms to move away from compliance-only outcomes and better align incentives with sovereign capabilities, innovation, exports, skills, and SMB scaling.

Notably, the DIS states ISED will publish ITB changes in early 2026, and proposes (among other items):

1. A Strategic Investment Transaction category (including capacity, infrastructure, and IP transfer);
2. Enhanced multipliers;
3. A Canadian Company Boost tied to Canadian Content Value;
4. Updated SMB tools (e.g., “Small Mid Cap” eligibility concepts); and
5. Replacing 17 Key Industrial Capabilities with 10 Sovereign Capabilities, plus an updated ITB T&Cs release timeline.

Pillar III: Purposeful investment in innovation, IP, exports, and workforce

The DIS highlights major innovation mechanisms, including BOREALIS (a new defence research and innovation bureau), a Drone Innovation Hub at NRC, an NRC-IRAP “Defence Industry Assist” stream, and measures to prioritize Canadian IP ownership/protection/access in procurement.

It also emphasizes export enablement (trade commissioner/attaché support, bid teams) and a defence skills agenda tied to labour mobility and immigration pathways.

Pillar IV: Supply chain security and “protecting key Canadian assets and technology”

The DIS explicitly points to legal/policy tools relevant to hostile-state risk and sensitive-tech protection, Investment Canada Act, Export and Import Permits Act, and others, and signals a more security-driven posture around industrial capacity and research.

It also introduces supply-chain programs such as Canadian Defence Industry Resilience (CDIR) (including a domestic nitrocellulose production priority with production targeted to start in 2029) and commits to plans around defence-critical minerals by Q2 2026.

Pillar V: Domestic partners, including the North and Arctic

The DIS stresses coordination with provinces/territories and Indigenous rights holders, and a dual-use infrastructure lens in the North and Arctic (climate-resilient, strategically located, and delivering socio-economic benefits alongside defence utility).

What this means for companies engaging with the DIS

1. “Canadian-ness” becomes strategic, not just political.

Expect closer scrutiny of where IP sits, where manufacturing/sustainment occurs, and how supply chains are controlled, especially for the 10 sovereign capabilities.

2. Procurement risk profile changes.

If Canada uses national security mechanisms to direct work domestically, bidders and incumbents will need to manage the intersection of procurement law, trade agreement exceptions, debriefing/challenge risk, and fairness in solicitations.

3. ITB/Value Proposition strategies will likely need a re-tool.

With proposed reforms (Strategic Investment Transactions, multipliers, Canadian Company Boost, redefined capability lists), primes and key subcontractors should treat ITB as an integrated deal strategy, not an afterthought, because it can drive bid scoring and delivery obligations.

4. Security compliance is a gating item.

The DIS explicitly calls for faster clearances and accredited secure facilities, which signals more opportunity, but also more compliance pressure (personnel screening, secure workspaces, handling sensitive tech/data).

How McLeod Law can assist

Practical, high-value workstreams:

A. Procurement, bid strategy, and challenges

- Corporate structuring/restructuring for new and existing entities to support procurement, bid strategy, maximizing efficiencies, and risk mitigation;
- Bid/no-bid counselling tied to sovereign-capability fit and “Build, Partner, Buy” pathways.
- Drafting/reviewing RFI/RFP responses, compliance matrices, and negotiation of solicitation terms.
- Debriefs, procurement integrity issues, and (where applicable) bid challenge strategy and record-building.

B. ITB / Value Proposition / Canadian content execution

- Structuring ITB/VP commitments and subcontracting plans to be auditable and deliverable (including Canadian Content Value concepts, supplier development, R&D, workforce and Indigenous participation).
- Drafting the commercial paper that makes ITB real: teaming agreements, supply agreements, IP/tech-transfer instruments, investment documents, and governance for consortium bids.

C. Security, controlled goods, and sensitive-tech compliance

- Clearance readiness planning and contract terms that allocate security obligations and breach consequences.
- Policies for secure facilities, access controls, incident response, and flow-downs to subs.

D. IP, data rights, and “sovereign control” contracting

- Building an IP strategy that balances: Canadian ownership expectations, exportability, background/foreground IP, licensing, escrow/access rights, and open-source risk.
- Negotiating data rights and cyber/security obligations in supply and sustainment contracts.

E. Investment, M&A, and foreign investment review

Structuring strategic partnerships and acquisitions (including Investment Canada Act risk triage and deal-timing strategies) given the DIS focus on supply chain security and hostile actor screening.

F. Export controls, sanctions, and cross-border supply chains

- Export-control classification, end-use/end-user diligence, sanctions screening, and contract clauses for re-export, audits, and termination.
- Supporting “partner” scenarios (e.g., joint production with allies) without losing control of key IP or violating compliance restrictions.

G. Indigenous and Northern project structuring

Drafting partnership frameworks and economic participation arrangements for Northern/Arctic infrastructure and defence-adjacent projects consistent with the DIS emphasis on local participation and dual-use benefits.

H. Disputes and performance risk

Advising on contract delivery, change management, remedies, limitations of liability, and dispute resolution frameworks, especially for long-term sustainment and serviceability commitments.

Immediate “next steps” for clients

1. Map products/services to the 10 Sovereign Capabilities and identify any “Canadian control” gaps (IP ownership, manufacturing, sustainment).
2. Start security readiness now (personnel clearance pipeline; secure facility planning).
3. Build a live ITB/VP playbook (supplier bench, investment options, R&D pipeline, workforce plan).
4. For foreign primes and investors: pre-assess Investment Canada Act and sensitive-tech exposure early in deal planning.
5. Watch for near-term government deliverables called out in the DIS (e.g., ITB reforms “early 2026,” critical minerals strategy Q2 2026, strategic partner framework by summer 2026).

Need help navigating Canada’s Defence Industrial Strategy?

If you are pursuing defence or security opportunities in Canada—or looking to invest, partner, or scale within the DIS framework—we can help you move forward with confidence.

Contact JP to discuss how these changes may affect your organization, including procurement strategy, investment considerations, compliance requirements, and the risks, opportunities, and next steps under the DIS.

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