



2026

Defence Outlook

Foreword

Canada's defence sector is entering a period of transformation. Increased spending, evolving policy frameworks, and shifting geopolitical dynamics are changing how Canada procures, partners, and builds its defence capabilities.

Gowling WLG's *2026 Defence Outlook* highlights the forces driving these trends and what they mean for industry.

Building on the *Defence Forecast 2025*, this guide examines the issues at the centre of this transition, including the Defence Industrial Strategy, the evolution of the Industrial and Technological Benefits Policy, export compliance in a complex geopolitical environment, and the growing role of space and Arctic sovereignty in Canada's security agenda.



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We also explore Canada's expanding defence relationships, including deeper cooperation with European partners, and what this means for industrial integration and market access.

Taken together, these perspectives are intended to help industry participants understand key developments and where opportunities and risks are emerging.

As an international law firm with deep cross-border capabilities, Gowling WLG advises defence-sector clients on the legal, regulatory, and commercial challenges arising in today's landscape.

If you have questions or would like to discuss these topics in more detail, please contact our team.

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01

Canada's Defence Industrial Strategy

What businesses need to know

On February 17, 2026, Prime Minister Mark Carney announced Canada's Defence Industrial Strategy ("the Strategy"), a foundational policy framework that links Canada's national defence, economic security, and industrial growth. The Strategy is grounded in the government's view that Canada's sovereignty, military readiness, and long-term economic prosperity increasingly depend on a strong domestic defence industrial and technological base.

A central theme of the Strategy is that defence capability and economic strength reinforce one another.¹ Defence investment is framed not only as essential to equipping and sustaining the Canadian Armed Forces, but also as a catalyst for productivity, innovation, high-value job creation, and supply-chain resilience. In this context, defence procurement is treated as a long-term industrial signal rather than a series of individual investments.

The Strategy sets out clear results the government intends to achieve over the next decade, including:

- Raising fleet serviceability to 75% for maritime fleets, 80% for land fleets, and 85% for aerospace fleets
- Increasing the share of defence acquisitions awarded to Canadian firms to 70%
- Boosting government investment in defence-related research and development by 85%
- Increasing total Canadian defence industry revenues by more than 240%
- Growing defence revenues for Canadian small- and medium-sized businesses by more than \$5.1 billion annually
- Increasing Canada's defence exports by 50%
- Creating 125,000 new high-quality jobs across the Canadian economy

¹ [Government of Canada, Security, Sovereignty and Prosperity: Canada's Defence Industrial Strategy](#) (February 2026), pp. 5–9.

These outcomes are supported by projected investments of approximately \$180 billion in defence procurement, \$290 billion in defence-related capital investment, and \$125 billion in downstream economic benefits by 2035, amounting to more than half a trillion dollars in total economic impact to the Canadian economy.

To deliver these results, the Strategy is structured around five key pillars:

- **Pillar I** – Renewing Canada's relationship with industry
- **Pillar II** – Procuring strategically through the Defence Investment Agency and a new Build-Partner-Buy framework
- **Pillar III** – Investing purposefully to strengthen an innovative Canadian defence sector
- **Pillar IV** – Securing supply chains for key inputs and goods
- **Pillar V** – Working with key domestic partners, including in Canada's North and Arctic





Pillar I: Renewing Canada's relationship with industry

Under this pillar, the government commits to fundamentally changing how it works with Canadian defence companies.² Industry is positioned as a long-term partner in building and sustaining the Canadian Armed Forces, rather than as a transactional supplier responding to individual procurements. The Strategy acknowledges that past procurement approaches created uncertainty, discouraged investment, and limited the ability of Canadian firms to scale.

The government signals an intention to provide clearer and more predictable demand signals, earlier engagement with industry, and reduced regulatory burden, particularly for small- and medium-sized enterprises. This pillar is closely tied to the creation of new institutions and engagement mechanisms intended to normalize ongoing dialogue between government and industry.

Key commitments under the Strategy:

- Establish a permanent Defence Advisory Forum, led by the Defence Investment Agency, to enable structured and regular industry engagement.
- Accelerate security clearance and facility accreditation processes, beginning in 2026.
- Improve transparency and predictability of defence procurement pipelines.
- Position the Defence Investment Agency as a central point of contact to help industry navigate procurement, innovation funding, and industrial benefit programs.

² Government of Canada, *Security, Sovereignty and Prosperity: Canada's Defence Industrial Strategy* (February 2026), pp. 11.

Pillar II: Procuring strategically through Build-Partner-Buy

This pillar introduces the most consequential shift in defence procurement policy by formalizing Build-Partner-Buy as the governing framework for all future defence acquisitions.³ Under this approach, Canada will first build domestically where it has existing strength or where a capability is deemed essential to preserving Canada's sovereignty, prioritizing Canadian firms, manufacturing, and intellectual property (IP).

Where domestic capacity does not yet exist or where collaboration offers strategic advantage, Canada will partner with trusted allies through co-development, joint production, or shared sustainment arrangements. Only where neither domestic build nor partnership is feasible will Canada buy from allies, and then subject to conditions designed to ensure reinvestment in Canada, long-term sustainment capability, and sovereign control over operations and critical technologies.

Key commitments under the Strategy:

- Apply the Build-Partner-Buy framework to all future defence procurements.
- Introduce legislation in 2026 to establish the Defence Investment Agency as a standalone entity with consolidated procurement authority.
- Increase the share of defence acquisitions awarded to Canadian firms to 70% within a decade.
- Reform the Industrial and Technological Benefits (ITB) Policy in early 2026 to align credits with sovereign capability, innovation, exports, and workforce development.⁴
- Establish a framework by summer 2026 to identify and onboard select Canadian defence firms as strategic industrial partners.
- Use national security and sovereign capability considerations to prioritize Canadian suppliers where appropriate.



³ Government of Canada, *Security, Sovereignty and Prosperity: Canada's Defence Industrial Strategy* (February 2026), pp. 13.

⁴ Read more on this point in "Industrial and Technological Benefits Policy: What defence suppliers should be watching" by J. Suri and P. Pilote.

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

This pillar reflects the government's view that future defence capability will be driven by innovation in areas such as artificial intelligence, cyber, quantum, space, uncrewed systems, and advanced manufacturing.⁵ The Strategy emphasizes the need to better align Canada's research ecosystem with defence priorities and to accelerate the transition from research to deployable capability.

Commercialization, scale-up, and export readiness are the government's central themes. The Strategy also treats intellectual property as a strategic asset, with a clear preference for Canadian ownership and sovereign access to defence-related IP.

Key commitments under the Strategy:

- Establish Bureau of Research, Engineering and Advanced Leadership in Innovation and Science (**BOREALIS**) to coordinate defence research and accelerate innovation in frontier technologies.
- Create a Drone Innovation Hub at the National Research Council.
- Launch a \$4 billion Defence Platform at the Business Development Bank of Canada to improve access to capital for defence firms.
- Provide targeted funding to support development and commercialization of defence and dual-use technologies.
- Create a dedicated defence export promotion team and expand Trade Commissioner support in the United Kingdom and key European markets.
- Prioritize Canadian ownership, protection, and sovereign access to defence-related IP in procurement and partnership structures.

Pillar IV: Securing supply chains for key inputs and goods

This pillar positions supply-chain resilience as a national security imperative.⁶ The Strategy highlights the risks posed by global supply disruptions and foreign dependence for critical materials, components, and energetic inputs, and commits to rebuilding domestic production capacity in priority areas. Workforce availability is also addressed as a supply-chain issue, with explicit links between industrial growth, skills development, and labour mobility.

Key commitments under the Strategy:

- Launch the Canadian Defence Industry Resilience Program in 2026.
- Establish domestic production of nitrocellulose, a critical energetic material used in ammunition.
- Increase domestic production capacity for Canadian defence businesses.
- Accelerate development of Canadian supply chains aligned with the North Atlantic Treaty Organization (NATO) and allied requirements.
- Support development of defence-critical minerals projects.
- Maintain and strengthen investment screening and export control frameworks to protect sensitive technologies.
- Launch a Canada Defence Skills Agenda to strengthen the defence workforce pipeline and address urgent skills shortages.

Pillar V: Working with key domestic partners, including in Canada's North and Arctic

The final pillar emphasizes that defence industrial growth requires a whole-of-country approach. The Strategy commits to closer coordination with provinces, territories, and Indigenous rights holders to align defence infrastructure, workforce development, and industrial investment. Significant emphasis is placed on Canada's North and Arctic, where defence investments are framed as both security necessities and economic development opportunities, especially through dual-use infrastructure.⁷

This aligns with the goals set out in the Arctic Foreign Policy, released in December 2024, as highlighted in our [Defence Forecast 2025](#).

Key commitments under the Strategy:

- Work with provinces and territories to align defence infrastructure and industrial development priorities.
- Engage Indigenous rights holders in defence-related economic opportunities.
- Expand dual-use infrastructure, including Northern Operational Support Hubs, to strengthen Arctic logistics and sovereignty.
- Coordinate national efforts on critical minerals, technology development, and industrial investment.

Outlook

The Defence Industrial Strategy marks a decisive shift from policy intent to operational execution. The government's stated aim is for defence procurement and investment decisions to be more centralized, more deliberate, quicker, and more closely aligned with long-term industrial objectives. Domestic capability, sovereign control over critical technologies, supply-chain resilience, and workforce readiness are expected to play a far more prominent role in how procurements are designed, evaluated, and awarded.

For defence, aerospace, and dual-use technology companies, the Strategy presents a valuable roadmap on how to strengthen their relationship with government. Firms that are positioned to build in Canada will be best placed to benefit. How companies align their investment, governance, and growth strategies with these priorities will shape access to opportunities as the Strategy moves from commitment to implementation over the coming decade.



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⁵ [Government of Canada, Security, Sovereignty and Prosperity: Canada's Defence Industrial Strategy](#) (February 2026), pp. 23.

⁶ [Government of Canada, Security, Sovereignty and Prosperity: Canada's Defence Industrial Strategy](#) (February 2026), pp. 32.

⁷ [Government of Canada, Security, Sovereignty and Prosperity: Canada's Defence Industrial Strategy](#) (February 2026), pp. 36.

02

Export compliance for Canadian aerospace & defence

Latest developments in 2025–2026

As geopolitical tensions continue to shape global trade and security dynamics, export controls remain a critical area of compliance for Canada's aerospace and defence industries. In our *Defence Forecast 2025*, we reviewed key changes in the regulatory environment proposed in Global Affairs Canada's (GAC) Forward Regulatory Plan 2025–2027. Since then, Canada has moved forward with implementing expanded autonomous and multilateral export controls in areas of strategic importance and national security concern, including aerospace and defence.

The recent changes, summarized in this article, expand the scope of the goods and technology subject to export permit requirements. Further, guidance recently published by GAC also reflects increased scrutiny by regulators on intangible transfers of technical data, including a particular focus on exports via cloud-based services.

As the export control regime continues to evolve, it is important for organizations in the aerospace and defence sectors to conduct regular reviews of applicable export controls and permit requirements to ensure they have in place a tailored and up-to-date Canadian export compliance program, including in respect of sensitive technical data.

New controls on strategic goods and technology

The *Export Control List* ("ECL"), maintained by GAC, is periodically revised to reflect new security concerns, emerging threats, and international treaty obligations. Beginning in mid-2024, Canada began phasing in tighter controls on select "strategic" technologies. The expansion initially focused on quantum computing and advanced semiconductors, and then expanded in 2025 to capture equipment, materials, and processes related to manufacturing those and other advanced systems.

The major updates to the ECL were primarily implemented through the creation and then expansion of a new category of the ECL: Group 5, Item 5506 – Other Strategic Goods and Technology ("Item 5506"). The new controls under Item 5506 came into force on July 20, 2024, and April 25, 2025. Goods and technology controlled under this heading are controlled for export to all destinations other than the United States.

What is controlled under Item 5506 includes a number of goods and technology vital to the development, production, and deployment of advanced aerospace and defence systems—especially in sectors such as propulsion, thermal protection, and avionics. They include:

- **Enabling hardware for advanced quantum computing systems:** controls on specified quantum computers, cryogenic Complementary Metal Oxide Semiconductor (CMOS) devices, quantum-limited parametric signal amplifiers, high-performance cryogenic cooling systems, cryogenic wafer probing equipment, and raw ingredients used in the production of qubits, including isotopically enriched silicon/germanium.



- **Technology and equipment for advanced semiconductor manufacturing:** controls on Gate-All-Around Field-Effect Transistor (GAAFET) technology, and on Extreme Ultraviolet (EUV) lithography inputs such as masks, reticles, and pellicles.
- **Metal additive manufacturing equipment:** controls on certain advanced 3D printing equipment designed to produce metal parts, and meeting a specific set of advanced metrics (i.e. laser, electron beam or electric arc consolidation source, a controlled process atmosphere, in-process monitoring equipment like a coaxial imaging camera, and a closed-loop control system).
- **Technology for the development of high-temperature coatings:** controls on high-temperature coating technology with potential applications in gas turbine engines and missile structures, designed to protect ceramic matrix composites.

In May 2025, Canada finalized the latest amendment to “A Guide to Canada’s Export Control List” (the “Guide”), incorporating both of these expanded unilateral export control measures, and Canada’s latest commitments in the various multilateral export control regimes in which it participates. The new version of the Guide came into force on June 30, 2025.

In addition to the new controls in Item 5506, the 2025 updates to the Guide also included additional controls on certain equipment and material for ultrasonic atomization, and sub-orbital craft designed for military use. In March 2025, the Automatic Firearms Country Control List, listing the countries to which it is authorized to export prohibited firearms, weapons, and devices from Canada, was also updated to add two additional countries—Brazil and Montenegro.

Cloud and data handling: Updated guidance

Canada’s export controls are not limited to governing only physical shipments of goods. Critically, an “export” includes transfers or disclosures of controlled technology outside Canada, including by email, screen share, cloud access, or other remote means.

GAC recently issued [updated guidance](#) in late 2025 on the movement and storage of controlled technology in the cloud, which may result in storage of data on servers located in a number of foreign jurisdictions. Key takeaways from the guidance, which are relevant to any organization making use of cloud services to store or transfer controlled technical data, include that:

- Controlled technology stored in the cloud will be considered to have been transferred outside Canada, and therefore an export permit is required, if there is more than a remote possibility that the controlled technology may be examined by a person outside of Canada in a usable form. Evidence of access or certainty of access is not required. This includes the following situations:
 - Persons outside Canada hold data decryption keys or otherwise have access rights in a way that creates more than a remote possibility of access.
 - Technology is transferred abroad without sufficient safeguards to prevent unauthorized access (i.e. inadequate encryption or access restrictions).
 - Exceptions from applicable controls exist in disaster or recovery scenarios that permit the creation of copies of cloud servers that are not subject to the same necessary access restrictions.
- Technology owners (e.g., companies or researchers) and Cloud Service Providers (CSPs) share responsibility for preventing unauthorized foreign disclosure, and can adopt security practices to make the likelihood of disclosure remote such that no export permit is required.

- The appropriate applicant for an export permit related to a cloud transfer depends on the particular transaction. However, in general, the appropriate applicant is the person or organization who is responsible for the transfer that is the subject of the application. It is expected that in most cases this would be the cloud service user and not the CSP.

Best practices for export compliance

Given the evolving regulatory landscape and the expanding scope of export controls, organizations in the aerospace and defence sectors should consider the following best practices to maintain robust compliance programs:

- Export control classification should be evaluated with regard to the newest version of the Guide and be reviewed early in any project’s lifecycle.
- In performing export control assessments, organizations should be vigilant about technical triggers, as even small details such as wafer diameter, temperature capability, or sensor configuration can determine whether a permit is required to export relevant goods or technology.
- Access controls and other safeguards, such as industry-standard encryption, should be implemented and enforced for shared drives, design software, and manufacturing toolchains to prevent inadvertent intangible exports.
- Training is critical in cross-border teams, and all parties involved must understand relevant export control obligations.
- Records should be maintained of all export control assessments and permit applications to ensure ongoing compliance can be demonstrated.



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03

Industrial and Technological Benefits Policy

What defence suppliers should be watching

Amid heightened geopolitical uncertainty, Canada is renewing its focus on defence, boosting NATO commitments, accelerating spending, and modernizing infrastructure and industrial capacity. For defence suppliers, this expansion brings increased opportunity, but also a heightened emphasis on compliance with the Industrial and Technological Benefits (“ITB”) Policy.¹

In this article, we examine how the ITB Policy is currently applied, how it is shaping bid strategy and contract execution today, and what suppliers should be watching as the policy continues to evolve in 2026.

What is the ITB Policy

Canada’s ITB Policy is an economic-benefits framework applied to major defence and Canadian Coast Guard procurements. At its core, it contractually requires companies awarded certain defence and security contracts to undertake business activity in Canada equal to the value of the contract awarded.

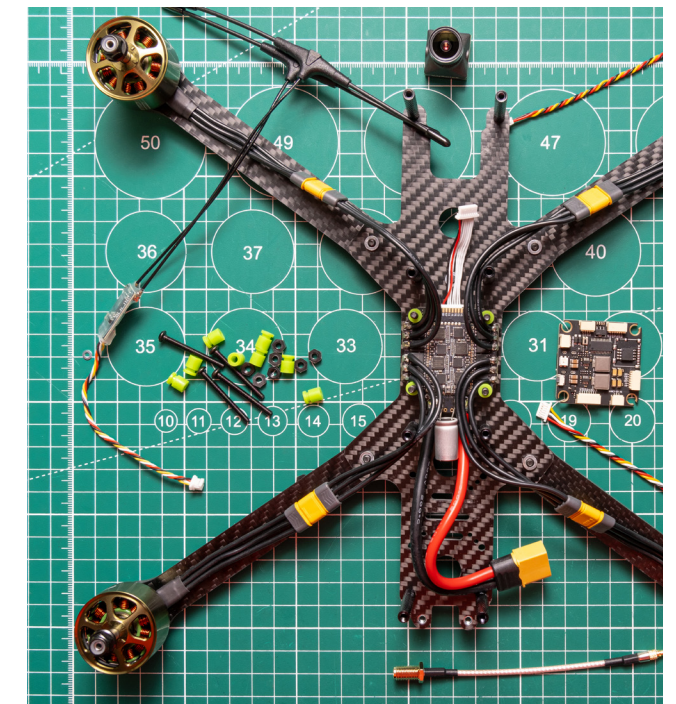
The objective of the policy is to deliver jobs, innovation, and long-term economic growth in Canada.

When and how the ITB Policy applies

The ITB Policy applies automatically to defence and Coast Guard procurements valued at over \$100 million that are not subject to trade agreements or where a national security exception is invoked.²

Procurements valued between \$20 million³ and \$100 million may also be reviewed for possible application of the policy.⁴

In practice, this captures many of the government’s significant procurements, often tying ITB obligations to contracts that extend over decades.



¹ Government of Canada, “Industrial and Technological Benefits (ITB) Policy.” (July 5, 2025).

² *Ibid.*

³ Canada’s Defence Industrial Strategy (released February 17, 2026) signals the government’s intent to raise the ITB Policy’s minimum discretionary threshold from \$20 million to \$25 million. Until revised ITB terms are formally issued, the existing \$20 million threshold continues to apply.

⁴ Government of Canada, “Industrial and Technological Benefits (ITB) Policy.” (July 5, 2025).

ITB within bid evaluation

ITB commitments are assessed through the bidder's Value Proposition, which is a weighted and rated component of bid evaluation, scored alongside technical and financial criteria.⁵

The Value Proposition sets out how a bidder proposes to deliver economic benefits in Canada, typically across the following five pillars⁶:

1. Long-term growth and sustainability of Canada's defence industry
2. Development of Canadian suppliers
3. Research & Development ("R&D") performed in Canada
4. Exports and international competitiveness of Canadian firms
5. Skills development and training

The weighting assigned to the Value Proposition is determined on a procurement-by-procurement basis and will generally represent at least 10% of the overall bid score.⁷

As a result, the strength of a bidder's commitments to Canada's economic development can play a meaningful role in award decisions. In cases where bidders are closely aligned on price and technical merit, a stronger Value Proposition may act as a key differentiator, and, in some circumstances, may allow a bidder offering a higher price but stronger benefits for Canada to be selected.

Credit multipliers and banking

Credit multipliers are a key feature of the ITB framework, designed to amplify the impact of qualifying investments. They allow contractors to claim ITB credits worth more than the actual cash or in-kind contribution, making each dollar go further. Multipliers are most commonly applied to activities that are considered of high-value and the amount of the multiplier varies depending on the nature of the investment and typically ranges from five to nine times its value.⁸

For instance, a \$1 million cash investment in an eligible R&D project with a 9x multiplier can generate \$9 million in ITB credits toward a contractor's obligation. Other typical examples, based on the ITB Model Terms and Conditions, include⁹:

- In-kind contribution of a licences for intellectual property other than trademarks (9x)
- Cash to purchase, or in-kind transfer of, equipment (7x)
- In-kind transfer of knowledge or marketing/sales support through the lending of an employee (4x)
- In-kind contribution of a licence for brands or trademarks (4x)

These incentives are further enhanced through banking,¹⁰ which is designed to address the practical reality that government procurement cycles and business investment timelines do not always align. Banking allows companies to earn and retain ITB credits outside the timing of a specific contract, encouraging early investment in Canadian industry and supporting the continuation of successful business relationships beyond existing contractual obligations. ITB credits may be banked either in advance of an upcoming procurement or as overachievement on a completed ITB obligation.¹¹

⁵ Government of Canada, *Industrial and Technological Benefits Policy: Value Proposition Guide* (May 2022) at p.3.

⁶ *Ibid.* at p. 6.

⁷ *Ibid.* at Annex A3.

⁸ Government of Canada, *Industrial and Technological Benefits: Model Terms and Conditions* (September 2025), at s. 7.

⁹ *Supra* note 9, ss. 7.9.4.2.

¹⁰ *Ibid.*, s. 12.

¹¹ Government of Canada, "Introduction to banking" (August 12, 2020).

Eligible participants, including potential contractors and tier-1 subcontractors, may open ITB bank accounts with the public authority prior to a procurement and apply to bank specific qualifying activities, which are then available to be applied toward future ITB obligations. Banked activities may generally be retained for up to 10 years, providing companies with flexibility to align long-term investment strategies with future procurement opportunities.¹² Used strategically, multipliers and banking can support early supplier engagement, reduce compliance risk, and strengthen bid competitiveness.

Upcoming updates to Canada's ITB Policy

In Canada's Defence Industrial Strategy,¹³ released on February 17, 2026, the government confirmed that the ITB Policy will remain a core lever to ensure that defence procurements deliver tangible benefits to Canada's defence industrial base, particularly where major contracts are awarded to a foreign prime contractor. The strategy also signals a clear intent to modernize the ITB framework to maximize value for Canada's industrial capacity.¹⁴

The modernization is framed as a shift from a largely compliance-driven model toward a more outcomes-oriented approach. Innovation, Science and Economic Development Canada (ISED) is expected to publish updated ITB terms in early 2026, and the strategy identifies five reform areas:

1. Alignment with key sovereign capabilities,
2. Strengthening Canadian innovation and industrial capacity,
3. Supporting exports and deeper integration into allied supply chains,
4. Rewarding skills development, and
5. Simplifying administration.¹⁵

¹² *Ibid.*

¹³ Government of Canada, *Canada's Defence Industrial Strategy* (February 2026).

¹⁴ *Ibid.* at p. 20.

¹⁵ *Ibid.*, at p.22.

The annex, "ITB Policy – Key Proposed Changes," already points to concrete tools, including a new Strategic Investment Transaction to credit investments that expand sovereign capabilities, improved multipliers for high-impact contributions, and enhanced incentives to drive direct work with Canadian firms, particularly SMBs.¹⁶ We expect the updated ITB terms to directly affect bid strategy and contract execution under the ITB program.

Gowling WLG will continue to monitor developments related to the ITB Policy and its application as Canada's defence procurement framework continues to evolve.



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¹⁶ *Ibid.*, at p. 55.

04



The influence of space technology will be felt in every home in Canada... It is therefore an inescapable conclusion that the elements of space technology vital to Canada must be under Canadian control.”

– Chapman Report, 1967¹

¹ Science Council of Canada, *Upper Atmosphere and Space Programs in Canada: Report of the Space Research Advisory Committee*. Chapman Report, Ottawa: Queen's Printer, (1967).

Building on Budget 2025

Space as strategic infrastructure for Canada's security and sovereignty

Budget 2025 has refueled Canada's space ambitions. It introduced a broad suite of investments aimed at rebuilding domestic defence capacity, accelerating dual-use innovation, strengthening industrial resilience, and expanding Canada's ability to participate in allied security architectures. Several of these measures carry direct and indirect implications for the growth, competitiveness, and global positioning of Canada's space sector.¹ In this article we outline some notable space-related spending commitments from Budget 2025.

Dual-use innovation and technology development

- \$656.9 million over five years to Innovation, Science and Economic Development Canada to develop and commercialize dual civilian-military technologies across aerospace, cyber, artificial intelligence, biodefence, life sciences, automotive, and marine sectors.
- A new policy direction that prioritizes domestic innovation and encourages Canadian firms to scale technologies with both commercial and national security applications.

Financing and mobilization of small- and medium-sized enterprises

- \$1 billion in 2025 to establish the Defence and Security Business Mobilization Program at the Business Development Bank of Canada (BDC), providing loans, venture capital, and advisory services for SMEs contributing to defence and security capabilities.

¹ Government of Canada, *Budget 2025: Building One Canadian Economy*. Ottawa: Department of Finance Canada, (2025).

- Buy Canadian Policy that directs federal procurement officials to select Canadian suppliers by default, wherever possible, in order to reinforce domestic supply chains and strengthen local industrial capacity.

Defence industrial restructuring and procurement reform

- Creation of a national Defence Industrial Strategy backed by \$6.6 billion over five years to rebuild production capacity, increase supply-chain resilience, and foster long-term growth in strategic manufacturing sectors.
- Establishment of the Defence Investment Agency to streamline procurement, accelerate program approvals, reduce administrative delays, and prioritize industrial activity in aerospace, advanced manufacturing, and shipbuilding.

Digital, security, and infrastructure modernization

- \$10.9 billion over five years for digital infrastructure upgrades across the Department of National Defence (DND), the Canadian Armed Forces (CAF), and national security agencies.
- Investments aimed at strengthening secure communications, cyber readiness, data management, and the digital backbone needed for modern military and space-enabled operations.

Sovereign access to space and orbital capability

- \$182.6 million over three years to the DND to establish a sovereign space launch capability within Canada.
- Support for infrastructure, regulatory development, early-stage launch operations, and integration with broader Arctic, surveillance, and communications missions.

These investments are situated within a broader government commitment of \$81.8 billion over five years to reinforce national sovereignty and security. Canada faces rising strategic demands to monitor its northern and Arctic territories, protect remote and critical infrastructure, secure communications, maintain situational awareness, and safeguard data sovereignty. Space assets are now foundational to delivering on these responsibilities, including satellites, Earth observation systems, secure links, ground infrastructure, and reliable launch pathways.

Investing in sovereign launch and space capabilities

“Canada’s struggle to retain an independent identity...leads us to develop competitive technologies, to train and educate scientists and engineers, and to resist firmly the erosion of national control over the essential fabric of our national structure.” – Chapman Report, 1967

Through the aptly named Innovation for Defence Excellence and Security (IDEaS) program, Canada is advancing its space and defence capabilities through targeted initiatives such as the Launch the North and Shields Up! Challenges. Led by the DND and the CAF, Launch the North is focused on accelerating the development of Canadian-designed launch vehicles and enabling technologies, with the objective of launching Canadian payloads from Canadian soil and achieving an initial light-lift operational capability as early as 2028. The challenge made available up to \$100 million per project, and the first round of proposals closed on January 9, 2026.

Recognizing that militaries of Western democracies, including Canada, are increasingly dependent on capabilities that are delivered or enabled by space-based systems and their associated space and ground infrastructure (e.g., communications, surveillance, environmental monitoring, and navigation), DND and CAF have also launched a complementary initiative focused on developing new and innovative capabilities that can be incorporated into the design and operation of Canada’s space-based systems to defend and protect satellites from a range of natural and human-made threats. Results for this challenge are being published on the IDEaS [website](#).

These innovation efforts are complemented by recent federal action to strengthen space-enabled defence infrastructure in operational environments. In December 2025, the federal government announced a strategic partnership with Canadian space and satellite companies to enhance military satellite communications in the Arctic under the Enhanced Satellite Communications Project – Polar.²

Moreover, as climate change accelerates, the Arctic is attracting increasing strategic attention due to expanding access to natural resources, longer navigable seasons, and the growing viability of Arctic shipping routes, particularly the Northwest Passage (NWP).

While Canada considers the NWP to be internal waters subject to full Canadian sovereignty, the United States and others consider the waterway through Canada’s Arctic Archipelago as an international strait. In this context, the development of credible defence and space capabilities is essential to Canada’s ability to assert sovereignty in the North, where, given the re-emergence of Realpolitik as a dominant feature of global geopolitics, effective control and sustained presence increasingly outweigh legal claims alone.

² Government of Canada, “Government of Canada announces strategic partnership to strengthen military communications in the Arctic.” Ottawa: Public Services and Procurement Canada, (December 9, 2025).

These concerns are reinforced by findings highlighted in a June 2023 parliamentary report, Arctic Security Under Threat.³ This report acknowledged that satellites are essential to Arctic surveillance and communications, and noted that although DND has committed to procuring next-generation capabilities through initiatives such as the Defence Enhanced Surveillance from Space Project (DESSP), initial operational capability is not expected until 2035.⁴

DESSP is intended to deliver next-generation space-based surveillance by integrating radar and identification capabilities, with a focus on low-latency, all-weather Arctic monitoring and interoperability with allied systems.⁵

In the context of heightened strategic competition in the Arctic, where China has classified itself as a “Near-Arctic State,”⁶ and where the current U.S. administration has actively sought to expand its presence in Greenland based on claims of national security⁷, much to the consternation of its traditional allies⁸, it is critical that the federal government effectively implement the space-related measures announced in Budget 2025 to ensure Canada is positioned to assert effective control over its Arctic territory.

Given that, initiatives such as IDEaS and Shields Up! are important steps in the right direction to ensure Canada develops the domestic capacity to independently protect and advance its national interests in a shifting global order.

To stay up to date on the latest developments in Canada’s space policy, regulatory framework and capabilities, visit our [Space topic page](#).

³ Senate of Canada, Canada, Parliament, Senate, Standing Committee on National Security, Defence and Veterans Affairs, “Arctic Security Under Threat: Urgent needs in a changing geopolitical and environmental landscape.” (June 28, 2023).

⁴ Ibid.

⁵ Government of Canada, National Defence, Defence Enhanced Surveillance from Space Project (DESSP), [Defence Capabilities Blueprint](#).

⁶ Government of the People’s Republic of China, State Council of the People’s Republic of China, [China’s Arctic Policy](#) (January 26, 2018).

⁷ CBC News, “Trump’s appointment of special envoy to Greenland sparks diplomatic backlash.” CBC, (December 22, 2025).

⁸ Miranda Bryant, “Denmark sets up ‘night watch’ to monitor Trump after Greenland row.” The Guardian, (November 27, 2025).



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05

Canada and the EU-SAFE Partnership

Strengthening defence cooperation and industrial integration

Strategic and geopolitical context

President Trump's return to the White House has reignited tensions within the North Atlantic Treaty Organization (NATO) over the distribution of the Alliance's financial burden, with the President arguing that the United States shoulders a disproportionate share of collective defence spending. Recently, the Alliance was placed under considerable strain following statements by the U.S. regarding the potential annexation of Greenland, a territory of Denmark (a NATO member), framed in terms of U.S. national security interests. At the same time, the war in Ukraine remains ongoing, conflicts in the Middle East continue to raise concerns about potential regional escalation, and the North American Aerospace Defence Command (NORAD) continues to track Russian and Chinese aviation assets operating in the Alaskan Air Defence Identification Zone (ADIZ) with more frequent occurrences.

Within the context of heightened geopolitical tensions and growing pressure on the rules-based international order, Canada finds itself in an inherently ambiguous position. On the one hand, Canada must continue to collaborate with the U.S., its closest and most consequential ally, in NATO and NORAD. On the other, it must begin laying the groundwork for credible alternatives should Washington pursue a more unilateral disengagement from collective security commitments.

This dual imperative was reflected in the federal budget tabled in November 2025. The Carney government pledged to significantly increase defence spending, with Budget 2025 allocating \$81.8 billion over five years to rebuild and reinvest in the Canadian Armed Forces, including over \$9 billion for 2025-26, as announced by the Prime Minister in June 2025.¹ In March 2025, the European Parliament announced an increase in its own defence spending with € 800B in defence spending over four years under the banner of Readiness 2030 (formerly ReArm Europe).² On December 1, 2025, Prime Minister Carney announced the conclusion of negotiations for Canada's participation in Security Action for Europe' ("SAFE")—a key pillar of the EU's Readiness 2030 plan—unlocking billions of dollars in potential defence opportunities for Canadian businesses.³

The EU-SAFE Partnership appears to operationalize the political commitments made by Canada and other NATO members to increase their share of collective defence spending. Considering Prime Minister Carney's speech at Davos on January 20, 2026⁴, this partnership may also serve as a means for Canada to diversify its defence relationships beyond the U.S. Prime Minister Carney is taking action through "variable geometry" to build "different coalitions for different issues, based on common values and interests"⁵ with the aim of strengthening defence-industrial integration with Europe.

¹ Government of Canada, "Budget 2025: Protecting Canada's sovereignty and security," last modified November 4, 2025.

² European Parliament, "Briefing ReArm Europe Plan/Readiness 2030," March 4, 2025.

³ Canada, Office of the Prime Minister, "Prime Minister Carney secures Canada's participation in the European Union's SAFE initiative," December 1, 2025.

⁴ World Economic Forum, "Davos 2026: Special address by Mark Carney, Prime Minister of Canada," January 20, 2026.

⁵ World Economic Forum, "Davos 2026: Special address by Mark Carney, Prime Minister of Canada," January 20, 2026.



The EU-SAFE Partnership: Structure and operation

Background

EU member states have approved a bilateral agreement with Canada under the SAFE regulation. On December 1, 2025, Canada became the first non-European country to join SAFE, a €150 billion defence initiative that helps EU countries invest in shared defence production and key capabilities. The agreement reflects the EU and Canada's shared goal of deepening security and defence cooperation, as outlined in the Security and Defence Partnership signed at the EU-Canada Summit in June 2025.⁶

The European Council has emphasized the need for Europe to become more self-reliant in defence, close capability gaps, and strengthen its defence industry to respond quickly to threats. SAFE is the first part of the EU's ReArm Europe/Readiness 2030 plan. Other measures include increasing national defence funding, making EU financial instruments more flexible for defence investment, leveraging European Investment Bank funding, and mobilizing private capital. SAFE also supports Ukraine's integration with Europe's defence industry, boosting collective defence readiness. By the November 2025 deadline, 19 countries submitted their National Defence Investment Plans, which are now being reviewed by the European Commission. The SAFE regulation allows the EU to enter agreements with third countries, like Canada, to extend participation in its defence programs.⁷

⁶ Canada, Office of the Prime Minister, "Canada announces new, strengthened partnership with the European Union," June 23, 2025.

⁷ European Council, "SAFE: member states endorse agreement on the participation of Canada," December 19, 2025.

Details of the agreement

SAFE provides up to €150 billion in loans to EU Member States—and eligible partners such as Iceland, Liechtenstein, Norway, and Ukraine—for investments in defence capabilities and joint military procurement. It supports the acquisition of priority defence products divided into two categories.

- **Category 1** includes ammunition and missiles, artillery systems (including deep precision strike), ground combat capabilities and their support systems, small drones (NATO class 1) and anti-drone systems, critical infrastructure protection, cyber capabilities, and military mobility including counter-mobility.⁸
- **Category 2** covers more advanced systems such as air and missile defence, maritime surface and underwater capabilities, larger drones (NATO class 2 and 3) and anti-drone systems, strategic enablers like strategic airlift, air-to-air refueling, C4ISTAR systems, space assets and services, space protection, artificial intelligence, and electronic warfare.⁹

Across both categories, no more than 35% of component costs can come from outside the EU, EEA-EFTA, or Ukraine, and Category 2 projects must meet stricter rules, including the ability for contractors to modify equipment without non-EU restrictions.¹⁰ Exceptions can be made through agreements with strategic partners, such as Canada, allowing Canadian entities to participate more fully in SAFE, subject to a financial contribution.¹¹ The partnership is expected to give Canadian contractors significantly improved opportunities to bid for SAFE contracts, representing a major milestone for Canada's defence industry and potentially affecting European firms working with Canadian suppliers, as well as competitors from other parts of the world.

⁸ European Commission, "SAFE | Security Action for Europe."

⁹ European Commission, "SAFE | Security Action for Europe."

¹⁰ European Commission, "SAFE | Security Action for Europe."

¹¹ European Council, "SAFE: member states endorse agreement on the participation of Canada," December 19, 2025.

Benefits for Canada

Canada's accession to SAFE signals a major strategic milestone. It marks the first time a non-European G7 country has been integrated in to an EU defence-financing architecture. Its entry extends SAFE beyond Europe, suggesting that the EU's pursuit of strategic autonomy is not isolationist but built around industrial interoperability, shared procurement, and common technology standards with like-minded democracies. For Canada, SAFE offers a way to diversify defence ties beyond the United States, giving Canadian firms access to the €150 billion European market, low-interest EU loans, and opportunities to participate in joint procurements, while strengthening its industrial sovereignty and meeting its NATO commitments in new ways.

SAFE strengthens and reinforces the long standing Canada EU partnership in security and defence. Since 2005, Canada has a Framework Participation Agreement with the EU as well as a security of Information Agreement, which has been in force since 2018.¹²

The EU and Canada Security and Defence Partnership of June 2025 spans long-term support for Ukraine, including military, civilian, and law enforcement assistance, as well as collaboration in international peacekeeping, crisis management, and conflict prevention. The partnership prioritizes interoperability and the secure movement of personnel, equipment, and supplies, while advancing maritime security, cyber defence, countering hybrid threats, space security, and the responsible development of emerging and disruptive technologies. Beyond immediate operational concerns, the EU and Canada aim to strengthen societal resilience, integrate gender perspectives across all security and defence activities, and address the nexus of climate change, human security, and economic stability.¹³

¹² Global Affairs Canada, "Security and defence partnership between the European Union and Canada," last modified June 23, 2025.

¹³ Global Affairs Canada, "Security and defence partnership between the European Union and Canada," last modified June 23, 2025.

Canada's recent \$664.6 million cooperation agreement with the European Space Agency (ESA) further cements the Security and Defence Partnership by laying the groundwork for a defence industrial strategy, including programs that develop technologies and capabilities essential to the advancement of research and development of Canadian-made space technologies for both civilian and defence purposes. Strengthening Canada's collaboration with ESA will position Canadian businesses to compete for high-value contracts on the European space market and position Canada's businesses to collaborate with leading European partners.



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Implications for the world order

The EU and Canada are committed to comprehensive and multidimensional partnership in security and defence.

What started as a technical funding mechanism is rapidly becoming the backbone of Europe's defence strategy. Recent developments—Canada joining, the UK leaving, and Türkiye missing the entry window—show that SAFE is evolving into a geopolitical tool, determining who can align with Europe's defence core and on what terms. These events highlight the political, strategic, and industrial tensions that will influence Europe and Canada's defence future.¹⁴

Politically, the inclusion of a major G7 economy enhances SAFE's credibility and positions the program as a model for global democratic defence cooperation, potentially attracting other partners like Japan, Australia, and South Korea, and demonstrating that European strategic autonomy can coexist with strong transatlantic and global partnerships.¹⁵

¹⁴ Transatlantic Task Force, "SAFE Mechanism: Reshaping EU Defence Integration," Beyond the Horizon, December 3, 2025.

¹⁵ Transatlantic Task Force, "SAFE Mechanism: Reshaping EU Defence Integration," Beyond the Horizon, December 3, 2025.





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