Canadas Defence Industrial Strategy Opportunity for SMEs Imperative to Primes

Paris, France – June 2026 – Canada's first Defence Industrial Strategy (DIS) marks one of the most significant shifts in the country's defence procurement philosophy in decades.

Rather than viewing defence spending purely through a procurement lens, the strategy positions defence investment as a catalyst for domestic industrial capability, economic growth, and technological sovereignty. For Canada's manufacturing and technology sectors, particularly small and medium-sized enterprises (SMEs), the implications could be profound.

But the strategy also carries important consequences for prime contractors and the broader defence supply chain.

A Strategic Shift Toward Domestic Capability

At the centre of the Defence Industrial Strategy is a fundamental shift in procurement philosophy. Canada's approach is framed around a **Build–Partner–Buy model**, prioritising domestic capability wherever possible, partnering internationally where necessary, and procuring from overseas only when capability cannot be sourced domestically.

The strategy also sets an ambitious benchmark: **a target for Canadian firms to receive 70% of defence procurement spending**. For a country whose defence supply chains have historically relied heavily on foreign primes and imported systems, this represents a clear policy direction.

Canada intends to strengthen its sovereign capability and expand its domestic industrial base. If implemented effectively, this could reshape how defence programs are delivered and sustained across the country.

A Supply Chain Imperative for Prime Contractors

For prime contractors operating in Canada, the implications are equally significant.

A stronger emphasis on sovereign capability and domestic procurement means program success will increasingly depend on the strength of Canadian supply chains. Access to capable domestic partners across areas such as advanced electronics, computing platforms, sensors, manufacturing, and integration will become critical to delivering programs while meeting Canadian content requirements.

As programs expand, primes will need trusted domestic subsystem suppliers capable of supporting long-term production, integration, and sustainment.

In this context, the depth and maturity of Canada's industrial ecosystem will play an increasingly important role in program delivery.

The Emergence of Sovereign Capability Areas

The strategy identifies ten Sovereign Capability Areas outlined within the Defence Industrial Strategy. These include:

- Aerospace systems and avionics
- Ammunition and munitions
- Digital systems and secure communications
- In-service sustainment for naval, land, and air platforms
- Personnel protection technologies
- Sensor technologies
- Space and satellite communications
- Specialised manufacturing for land vehicles and marine systems
- Training and simulation systems
- Uncrewed and autonomous platforms

Together, these areas span many of the sectors where Canada has already established research, engineering, and manufacturing capabilities. For SMEs operating in fields such as advanced electronics, computing platforms, sensors, robotics, and advanced manufacturing, the strategy signals a clear intent to anchor these capabilities within Canada's industrial base.

Industry Reaction Signals Alignment

Early responses from industry suggest broad support for the direction of travel.

Canadian aerospace and defence company CAE has welcomed the strategy as an important step toward strengthening sovereign capability in areas such as digital systems, training, and mission readiness. Similarly, Davie Shipbuilding has expressed support for the strategy's focus on domestic industrial capacity and resilient supply chains, particularly in relation to Arctic sovereignty and future naval programs.

The alignment between policymakers and major industrial players sends a clear signal.

The strategy is not intended as a theoretical statement of intent. Its success depends on active participation across the entire defence ecosystem, including SMEs that provide the technology, components, and specialised engineering capability on which larger programs depend.

Opportunities for Canadian SMEs

If procurement reform follows through on its stated ambitions, several opportunities could emerge for Canadian SMEs.

Greater Access to Procurement

A shift toward awarding a greater proportion of defence contracts domestically would increase the likelihood of SMEs participating in major programs, either directly or through prime contractor supply chains.

Supply Chain Localisation

A stronger emphasis on sovereign capability will require more domestic suppliers across key technology domains. These include areas such as:

- Ruggedised electronics
- Embedded computing platforms
- Sensor systems
- Cybersecurity technologies
- Simulation systems
- Marine and robotics technologies
- Advanced manufacturing capability

Many Canadian SMEs already operate in these domains, providing the specialised subsystems and engineering capability required for complex defence platforms. Companies such as Captec, which develops specialised computing platforms in Cambridge, Ontario, illustrate the type of domestic capability that could support future defence supply chains.

Retention of Canadian Intellectual Property

The strategy also places increasing emphasis on Canadian ownership and control of intellectual property.

For technology-focused SMEs, this could help ensure that innovation developed in Canada remains anchored within the national industrial base as programmes evolve.

Taken together, these developments point toward a possible shift in how Canada builds and sustains defence capability.

The Challenges That Remain

Despite the optimism surrounding the strategy, several uncertainties remain.

Procurement Reform Must Deliver

While the DIS signals a desire for more agile procurement processes, the specific mechanisms and timelines for implementing these reforms remain unclear.
For SMEs and primes alike, practical access to opportunities will depend on how quickly these changes translate into working procurement frameworks.

The Role of National Champions

The strategy also highlights the potential role of national industrial champions.
While this strengthens domestic capability at scale, it may also concentrate major program leadership among larger organisations. SMEs will therefore need to position themselves within these supply chains rather than lead them directly.

Workforce Constraints

Canada's defence and advanced manufacturing sectors already face tight labour markets. The availability of suitably qualified and security-cleared personnel may become one of the defining constraints on how quickly domestic capability can scale.

ITB Reform

Reform of Canada's **Industrial and Technological Benefits (ITB) framework** could potentially make it easier for SMEs to participate in major defence programs. However, with limited detail currently available, many companies will be waiting to see how these changes translate into practical opportunities

A Defining Moment for Canada's Industrial Base

Even with these uncertainties, the Defence Industrial Strategy represents a clear signal of intent. Canada is seeking to strengthen domestic capability, build more resilient supply chains, and ensure that defence investment contributes more directly to national economic growth.

Companies already operating within Canada's defence technology landscape are watching these developments closely. Among them are organisations such as Captec, which has manufactured specialised computing platforms in Cambridge, Ontario, since 2006, supporting defence, marine, and industrial applications. If the strategy delivers on its ambitions, Canadian SMEs could play a far more visible role in Canada's future defence supply chains.
The real question now is not whether the opportunity exists. **It is whether the system can move fast enough to realise it.**

Delivering end-to-end, like no one else.

Captec is an award-winning designer and end-to-end provider of specialised computing platforms, integrated systems and subsystems engineered to support complex defence applications across naval, subsea, airborne and land environments.

From modernising mission systems and integrating high-performance and secure compute platforms to supporting edge processing, sensor integration and data-intensive defence applications, Captec's experienced teams are ready to support your organisation evaluate, engineer and deploy systems aligned to operational objectives and long-term program requirements.

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