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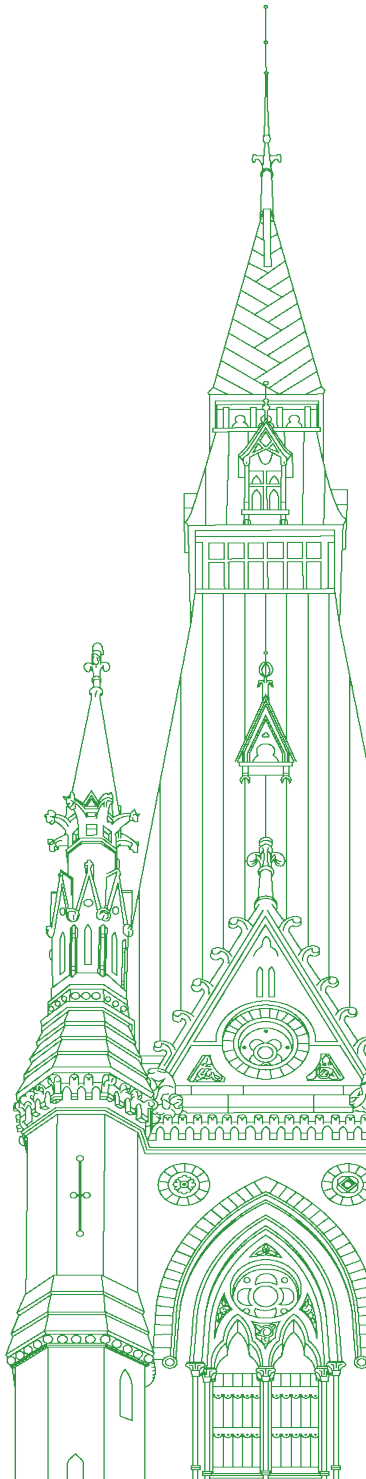

Chair: Ben Carr

Standing Committee on Industry and Technology

Wednesday, November 5, 2025

● (1630)

[*English*]

The Chair (Ben Carr (Winnipeg South Centre, Lib.)): Good afternoon, everybody.

[*Translation*]

We're here to continue our study on Canada's defence industrial strategy.

[*English*]

We have some witnesses here in the room with us today, as well as a few witnesses online. All witnesses have completed the required connection tests in advance of the meeting.

As a reminder for colleagues and witnesses, if you are using your earpiece and it's plugged in but not on your ear, kindly just place it on the sticker in front of you to protect the health and well-being of our interpreters. If it's not plugged in, that's okay; it can just be beside you.

Here with us today we have Christian Leuprecht, professor, Royal Military College and Queen's University.

From Sentinel Research and Development, we have Katheron Intson, chief executive officer.

Joining us virtually online we have Ben Hendriksen, who is the mayor of the City of Yellowknife, alongside Stephen Van Dine, who is the city manager of the City of Yellowknife.

I thank everybody for joining us.

Witnesses, you'll have up to five minutes for your introductory remarks.

With that, Professor, I will turn the floor over to you.

[*Translation*]

Christian Leuprecht (Professor, Royal Military College of Canada and Queen's University, As an Individual): Thank you, Mr. Chair.

I will give my opening remarks in English, but members may ask me questions in the official language of their choice.

I would note that I am speaking to the committee as a professor at the Royal Military College.

[*English*]

The rules-based international order has been the cornerstone of Canada's security, prosperity and democracy. That order is under duress and Canada is under existential threat because Canada has lost the initiative and is increasingly alone among allies and partners. Canada's political and economic sovereignty depends on its ability to take the initiative to shape the terrain. Manifestly, simply reacting has not served us well.

For this reason, the government is investing aggressively in instruments of statecraft, notably the Canadian Armed Forces, and the economic means to sustain that investment. However, the government also seems to understand that the federal civil service and Canada's economic ecosystem, including research and innovation, are not optimized to deliver on that agenda. The government standing up three new agencies in a matter of months is indicative that money is not enough; the government will need a restructure of the civil service, the country's economy and its knowledge infrastructure to deliver on its agenda.

By way of example, for 30 years, governments have put in place policies and procedures to shrink the Canadian Armed Forces and impede spending. The government cannot grow and re-equip the Canadian Armed Forces with policies that were intentionally designed to shrink and constrain it. To deliver on its agenda, the government will have to transform that architecture, which effectively means the government will have to assume greater political, financial and reputational risk. For a quarter of a century, governments have been unwilling to do just that. Instead, they had the CAF assume all the risk. That may have worked in a world where expeditionary military missions were discretionary and instruments of statecraft were dispensable. However, that approach has come at a cost, which is the trust of our allies.

Canada no longer has that luxury. To safeguard its sovereignty, Canada needs an industry that can deliver on defence priorities at speed, scale, mass and class. To that end, the government is confronted with three questions: what to buy, how to buy it and how to pay for it.

What Canada needs to procure is laid out in NATO's 2025 procurement requirements, on which allies currently fall 50% short. We have a lot of catching up to do in a very short time.

On some requirements, Canada and allies can only deliver on a longer timeline, while others, such counter-drone technology, require immediate investments. The European Union, for example, has increased its investments in this area by 400% year over year. If Canada is to be taken seriously in its supposed pivot to Europe, we must show that we are adding actual value to our allies.

The problem is that the shelves are empty. To this end, the Prime Minister touted a defence procurement agency during the election, but has now announced a Defence Investment Agency. Canada needs to invest in what it intends to procure.

An investment in defence is necessarily an investment in innovation and high technology, but Canadian universities, research and development and, to a lesser extent, industry are ill-postured to deliver on defence technology. Political priorities have tended to be on cutting steel and creating jobs. Instead, the priority needs to be on design authorities—that is the code, algorithms and AI that drive the armed forces of the 21st century.

Of course, that is incompatible with cozying up to China. To the contrary, Canada's defence investment strategy requires a research security framework far more robust than what the federal government currently has in place.

How to finance it all is a grand bargain that Canada's European and Indo-Pacific allies have been asking for over the past decade. Allies and partners looking to become less dependent on China have only Canada and Australia as their democratic options to turn to. The same is true for liquefied natural gas exports. Europe has traded energy dependency from Russia for the United States. Europe now procures half of its liquefied natural gas from the United States.

Exporting natural gas and critical minerals is the best way for Canada to be a loyal ally to European and Indo-Pacific allies and partners. The revenue will pay for investments in Canadian defence and industry, pay down the debt, enable new welfare spending and develop technologies to support the green energy transition.

Europe's energy costs are two to four times as high as they are in Canada. Canadian energy exports make Europe more productive, competitive and innovative and reinforce European democratic institutions. Canadians need to realize that failure to export energy to Europe amounts to subsidizing Russia's war of aggression on Ukraine.

● (1635)

For the government's defence industrial strategy to succeed and transform the Canadian economy, and for Canada to take the initiative and regain its standing with allies and respect in the world not only requires only a bold commitment to a multi-year plan; it also requires a multipartisan approach in Parliament. For Canadian sovereignty to prevail, political parties need to forge a broad consensus to pull together on the same side of the rope. Canada's defence industrial strategy is the litmus test to that end.

The Chair: Professor, that's a significant challenge. I appreciate your putting it forward.

Ms. Intson, we'll give you the floor for the next five minutes.

Katheron Intson (Chief Executive Officer, Sentinel Research and Development Inc.): Thank you, Mr. Chair.

Thank you to the committee for this invitation to speak.

My name is Katheron Intson, and I'm the CEO of Sentinel Research and Development, based in Hamilton, Ontario.

Sentinel is a venture capital-backed composites manufacturing company, and our first product is a vertically integrated, 25-kilogram, fixed-wing, payload-agnostic and attritable UAV designed and built here in Canada.

In 1917, before satellites and sensors and before software-defined battlefields, a Canadian engineer with a talent for physics quietly changed the art of war. At Vimy Ridge, he neutralized the German artillery by knocking out 83% of the enemy's artillery guns before the first wave of infantry left their trenches. Using wire tangles and microphones, Major-General Andrew McNaughton's innovations in sound ranging and flash spotting transformed artillery from blunt instrument into surgical tool. His work not only shaped the allied playbook; it proved that Canada, when called, could punch far above its weight in the high-stakes theatre of war.

Did you know that we also invented long-range artillery and the first robotic system used on crewed spacecraft? Today, we produce some of the best robotics, AI and aerospace engineers in the world, and they are ready to get to work, but the world they are building for is very different from the world we inherited.

Industrial capacity, not just military capability, is now one of the leading indicators of national security. The battlefield is being reshaped by autonomous systems and attritable platforms. UAVs have almost entirely replaced artillery and other tactical norms. They inform reconnaissance, strike targets with precision and scale in numbers that no traditional platform can match. These systems are transforming traditional military roles.

For example, we hold much pride in the proficiency of our Canadian snipers; our global records are only surpassed by the Ukrainians. Now, many functions historically associated with sniper units—long-range target acquisition, precision engagement and covert reconnaissance—are today being performed by low-cost, first-person view drones.

I have every confidence that the CAF will meet this moment. International partners never fail to praise our members as highly competent, capable and collaborative. However, a critical question remains: In the process of this retraining and rearmament on drones, who will Canada choose to enrich? Will we depend on low-cost, imported systems from adversarial states; will we purchase secure but high-cost systems from allied suppliers; or will we choose to support our homegrown, scalable and attritable innovation to build sovereign manufacturing capacity and capability in systems that we can export to NATO and scale into the commercial sector? That is the inflection point we are now standing on.

The government and the public cannot withstand another Avro Arrow-scale failure. Many of my colleagues will tell you that Avro was shuttered because our own administration made a backdoor deal with the American government to suppress Canadian innovation, but the truth is that, firstly, we made a highly sophisticated product that failed to address the transitioning threat from missiles to bombers and, secondly, the company lobbied Ottawa so successfully for funding that the product's international market was never validated. Therefore, in the rush to deploy 2% of our GDP on defence spending, I urge you all to consider the following.

One, government's largest defence investments must go to companies with validated international markets. The CAF alone cannot sustain or scale a modern defence manufacturer. If public dollars only support companies serving Canadian procurement, we are funding industrial dependency, not capability.

Two, governments should also prioritize supporting companies building original Canadian IP, not just those that assemble or produce foreign tech. Canada does not need more assembly lines for foreign-designed systems. We need anchor firms developing new platforms and technologies that Canada owns, controls and exports.

Three, government-backed venture capital must stop excluding defence. Many of the venture funds that receive public money have formal or informal policies against investing in defence even when those companies serve national priorities and have export potential.

To give one example, the MaRS investment accelerator fund, whose capital comes largely from the Government of Ontario, informed Sentinel last week that they decided not to invest because we were a defence-first company. Most of Sentinel's funding has come from U.S. investors who offer founder-friendlier terms and understand the sector. The result is simple: We are exporting ownership of Canadian IP because our own public capital will not invest in it.

● (1640)

Thank you very much.

The Chair: Thank you very much.

In Winnipeg, we refer to the Mayor as His Worship. I don't what it is Yellowknife. Mr. Hendriksen, I was just there a couple of weeks ago, and it's a warm, welcoming place. I'm guessing that “Ben” is probably what you go by, but I'm going to call you—

Ben Hendriksen (Mayor, City of Yellowknife): You know it well, then, already, Chairperson Carr.

The Chair: I'm going to call you “Mr. Mayor” for now.

I'm going to turn to floor over to you for up to five minutes.

Ben Hendriksen: Thanks very much.

Good afternoon, Chairperson Carr and members of the committee. My name is Ben Hendriksen, and I serve as the mayor of Yellowknife, a city that stands at the crossroads of Canada’s northern resilience and sovereignty. We are a city with a long history of welcoming and collaborating with the Canadian Armed Forces, Joint Task Force North, the Canadian reserves and the proud Canadian Rangers.

I join you today from Chief Drygeese territory, which is the traditional land of the Yellowknives Dene First Nation, the traditional land use area of the Tlicho and the home of the North Slave Métis. It is with respect for this land, the indigenous peoples whose land I call home and all the people I represent as mayor that I offer my remarks.

Due to our geography, Yellowknife is no stranger to the challenges of climate change, geopolitical uncertainty and economic transformation, but our story is not just one of reaction and recovery. It is one of renewal.

In my recent state of the city address, I spoke about the need for a new northern playbook for prosperity, rooted in strategic infrastructure, economic diversification and community resilience. I believe that Canada’s defence industrial strategy must reflect these same principles. As the deputy premier and finance minister of the NWT has said recently and often, “It can't be on the backs of 45,000 Canadians to support Arctic security or to unlock the wealth of the North.”

In December of last year, the Yellowknife city council unanimously supported a resolution welcoming investment in Yellowknife from the Department of National Defence. The Arctic economic and security corridor, which our council also endorsed unanimously by resolution earlier this year, is a nation-building opportunity that aligns defence priorities with climate resilience, indigenous partnership and economic sovereignty. It is a project of national interest that the city is pleased to see on the short list of potential projects for future consideration. As a Yellowknifer, it is great to see the leadership of indigenous governments on this potential project, to see the collaboration across territorial borders with Nunavut and the West Kitikmeot Resources Corp, and to see the sense of urgency from the federal government.

To make this opportunity a reality, the north needs the investments in municipal infrastructure and in dependable, affordable power. Investments that strengthen Yellowknife and other communities across the north for sovereignty are dual-use and really triple-use investments. Infrastructure investments in the north are investments that support sovereignty but also support daily life, including access to water, sewer and traditional ways of life. If done right, they can and should also help to mitigate and adapt the north and Canada against the ever more real and frequent climate threats.

A defence industrial strategy with a northern lens must empower communities to thrive in a changing world. That means prioritizing clean energy, housing and infrastructure because, ultimately, without land that is kept healthy and that balances the needs of today with the needs of the next seven generations, what are we seeking to maintain sovereignty over?

In closing, I ask this committee to recognize the north not as a distant concern but as a central pillar of Canada’s north. With that political lens, I'm going to pass it over to our city manager for the remainder of our joint five minutes.

Go ahead, Stephen.

● (1645)

Stephen Van Dine (City Manager, City of Yellowknife): Thank you, Mayor Hendriksen.

Thank you, Mr. Chair.

Canada's new defence industrial strategy is focused on rebuilding, rearming and reinvesting in our armed forces. That means strengthening our ability to operate in the north, because Arctic readiness isn't optional; it's essential.

Yellowknife isn't just remote; it's ready. It offers the most capacity in Canada at its northern position. Today I want to share six reasons that Yellowknife is an ideal location for defence industry development and cold-weather testing and that it must be part of a national strategy that includes the north.

First, Yellowknife has a stable economy, higher than average household incomes and low unemployment. It's already a hub for Arctic logistics and mining and the strategic centre of the Canadian north, which means that the supply chains, expertise and infrastructure are in place. The Northwest Territories is rich in critical minerals—25 of Canada's 34 essential minerals—making it a key player in Canada's green transition and global partnerships. Leveraging these assets for defence makes sense. It strengthens sovereignty, supports innovation and ensures that our forces are ready for northern operations.

Second, Yellowknife is the northern and Arctic logistics hub. It sits on the shores of Great Slave Lake, right in the heart of Canada's north. From here, you have year-round access through a 24-7 airport and all-weather roads. The airport is just five minutes from downtown and connects directly to major cities like Edmonton, Calgary, Toronto and Vancouver. Seasonal ice roads extend the reach even further, providing cost-effective access to remote areas that are perfect for simulating real Arctic deployment conditions. The Northwest Territories is the strategic centre for military operations and satellite communications and houses critical infrastructure like the North Warning System and the only road to the Arctic Ocean. Yellowknife's location supports not only regional but national defence priorities, including sovereignty, cybersecurity and diplomatic outreach with pan-Arctic partners.

Third, when we talk about testing Arctic equipment for Arctic operations, we need real-world conditions. Yellowknife delivers that. Winters here are long, harsh and unforgiving, but beautiful, with extreme temperatures and challenging terrain including taiga and tundra ecosystems. These diverse landscapes provide ideal conditions for testing gear, vehicles and technology in true subarctic and Arctic environments. We should also consider the potential for a dedicated training and testing facility in Yellowknife, one that serves military, allied and industrial research purposes. This would position Yellowknife as a centre of excellence for cold-weather innovation.

Fourth is infrastructure and support services. Yellowknife has built infrastructure and expertise that remote operations demand. The city has reliable power, communications, health care and emergency services. It's home to businesses that specialize in logistics, transportation, engineering and environmental services. These companies are already supporting mining and Arctic operations, and they understand what it takes to move people and equipment safely and efficiently in northern conditions. Strategic investment in dual-use infrastructure, such as runways, satellite stations, roads and energy can simultaneously advance military readiness, community resilience and economic development.

Fifth, the region has over 80 years of mining and exploration experience. This means a workforce that knows how to operate through tough conditions. Aurora College and the NWT Mine Training Society provide specialized training and programs, ensuring a steady supply of skilled labour for technical and logistical roles. Over 800 individuals have been placed in mining jobs through these programs, and that experience translates directly into defence projects.

Finally, Yellowknife is a strong collaborator with indigenous governments and organizations. These partnerships are not just good practice; they're essential for sustainable development that aligns with Canada's reconciliation commitments. Joint ventures like Det'on Cho and Tlicho Investment Corporation show that indigenous participation drives growth and strengthens community ties. Modern treaty and self-government agreements contain rights, jurisdictions and authorities that can be honoured and leveraged to promote economic resilience and sustainable Arctic security.

In closing, when we talk about rebuilding and reinvesting in Canada's defence capabilities, Yellowknife isn't just a good option; it's a strategic asset. While we must think nationally, not just regionally, about our defence industrial strategy, the inclusion of the north is vital. We may not have a homegrown defence sector due to our size, but we can bring industry here. This aligns with federal policies like the Arctic and northern policy framework. What better way is there to exercise sovereignty than to establish an industrial presence and build technical expertise here?

Choosing Yellowknife means shaping Canada's Arctic advantage through innovation, collaboration and strategic investment.

Thank you.

● (1650)

The Chair: It's a pleasure to hear from you. I think it's very important for us to hear northern voices.

Mr. Mayor, thank you as well.

We're going to get into our line of questioning.

Madame Dancho, the floor is yours for six minutes.

Raquel Dancho (Kildonan—St. Paul, CPC): Thank you to the witnesses for being here. I appreciated your opening remarks.

Mr. Leuprecht, I'll start with yours.

You kicked off with lots of things in your remarks that I wanted to ask you about today. I was listening to you, I believe, in June on The Line Podcast. I encourage others to listen to it. You gave quite a robust assessment of where we're at and where we need to be. I did want to pull out one of the comments you made earlier. I thought it was quite informative. You said that “The Prime Minister is going to have to sell Canadians on a grand new bargain, a new social contract where we're going to build pipelines to export hydrocarbons in particular to our allies—to some extent in Asia but particularly Europe—because effectively we need to explain to Canadians that we've been subsidizing Russia's war of aggression on Ukraine by keeping energy prices high in Europe because we're refusing to export hydrocarbons. And we're going to use that revenue to pay for defence”.

You went on to say other things as well.

Can you elaborate further for the committee? It sounds like you believe having pipeline infrastructure to export to Europe and other places would be key to a defence industrial strategy. Is that a fair assessment of what you said?

Christian Leuprecht: We're going to need to pay for it somehow. We've all seen the debt and the structural deficit that we have. If we're not prepared to raise taxes and we're only prepared to make modest concessions on cuts to services.... We want to maintain our triple-A credit rating. I always point out that if Canada joined the European Union it would be the sixth country in the European Union with a triple-A credit rating. These ratings are in high demand among allies. It's in our interest to preserve that so we can borrow at lower rates. Then, this is the way to generate the revenue, and I think we can do this in a way to bring all Canadians on board, because with this revenue, as I say, we can pay for new social services, pay down the debt, pay for the defence and pay for the energy transition.

I think we can all win.

Raquel Dancho: Thank you. I appreciate that.

You made comments about the importance of supporting our allies in Europe, and one of those tools...not only being just what we typically think in defence, but also supporting them with exporting gas to Europe.

Can you comment on the importance of that?

Christian Leuprecht: I just spent six months in Brussels and had considerable opportunity to exchange with some of the key leadership including on the commission in the European Parliament. If you go around European capitals, what is the challenge? Energy prices being two to four times as high...are not just undermining Europe's competitiveness, they are fundamentally undermining European democratic institutions, because just like in Canada, but only to a much higher degree, people are frustrated with the prices they are paying. We are not just supporting our European allies in their efforts to keep their economies competitive; we are also protecting their democratic integrity. By being idiosyncratic about our hydrocarbons and our critical minerals, we are undermining our own geostrategic interests, because we are not delivering for this key to European allies. Of course, for decades we have used European allies to counteract the vagaries of U.S. unilateralism. The silence by European partners has been stunning when our sovereignty, political and economic, has been threatened by a U.S. administration. That is because we have not delivered.

I think we can strike a bargain that delivers for us and for our European allies and preserves what has made us safe, prosperous and democratic for the last 75 years.

● (1655)

Raquel Dancho: Thank you.

I'm just switching gears a little bit.

You had also mentioned on another podcast, theBreaker, that “I think we have learned that China can never be counted on as a trusted partner, and so we will always need to hedge on that relationship.”

Mr. Leuprecht, what do you think of this recent rapprochement between Prime Minister Carney and the Communist Party in Beijing? How do you think that impacts our defence and security policy?

Christian Leuprecht: Supposedly, if we're a middle power and we have interests to assert—although I think in terms of our GDP we have not been leveraging our middle-power status internationally—clearly, as a country we will always have to work with China. I think China has shown itself time and again not to be a trustworthy partner and not to be a trustworthy ally. Given our trade relationship with China, I think we have an opportunity to push back and stand up for ourselves. I think other allies such as Australia have done that much more systematically and strategically than Canada has.

Raquel Dancho: On the defence industrial strategy you also feel, from my assessment of what you're saying, that not only should we be considering energy as part of that, but our foreign policies, obviously should be key when we're thinking about our defence. I think this is obvious, but I think we need that as part of this report. I appreciate your putting this on the record.

Just further to that, you also said that Canada's “instruments of statecraft” have really atrophied. Our “international reputation” has taken a hit. You went on to say that “Canada's government instead embraced a 'values-based' foreign policy. In effect it made foreign policy an extension of domestic policy”. You also said that we've let our allies down on things that matter—energy, security, defence and investments in the defence industry.

You went on to also link that to what you said earlier—that European allies aren't really coming to our defence with the U.S.

In the concluding few seconds, drive home the point of tying this all together and how important this is for our defence strategy.

Thank you.

Christian Leuprecht: Canada and allies pay two to four times as much per piece of equipment that we procure than the United States does because we don't have the economies of scale. NATO works by national defence procurement ecosystems, but there are opportunities for collaboration that are not just about the sort of innovation that my colleagues have talked about but also ensuring that we get the best return, the best value for money for the Canadian taxpayer. I think our European colleagues are very much able to underwrite some of the key critical infrastructure and major project investments that we are looking to make in Canada in return for our delivering for them. We can do this with long-term 20-year to 30-year contracts the way other allies have done this, which is in a way that requires relatively little government investing and provides the sort of security for the capital that is being invested that will generate the collective payoffs that we're all looking for.

That's what a strategy is about. What are our ends? What are the ways available, and what are the means to finance that? We need to do this in collaboration in particular with our European partners.

The Chair: Thank you very much, Madam Dancho.

Mr. Bains, the floor is yours for six minutes.

Parm Bains (Richmond East—Steveston, Lib.): Thank you, Mr. Chair, and thank you to all of our witnesses for joining us today on this important study.

I'm going to go to Mayor Hendriksen. I will talk a bit about what we've learned from yesterday's budget. It proposes to spend $1 billion over four years, starting this year, with Transport Canada creating an Arctic infrastructure fund. This will invest in major transportation projects. I know you talked a bit about that in your opening statements.

We heard a lot about the dual-use applications for civilian and military use, including airports, seaports, all-season roads and highways. If you can speak a bit to that.... As a representative of Richmond, British Columbia, I would note that major investments have been made that come out of some of the defence capabilities, everything from the Poseidon aircraft, which also has Arctic capabilities, to icebreakers in our Seaspan shipyards in Vancouver and a marine industry that's very important to our province of British Columbia, and of course this country. The SkyGuardian drone also has Arctic capabilities. It's something that's being assembled in partnership with MDA Space, which has geospatial intelligence capabilities, a lot of the AI pieces that Ms. Intson spoke about.

Taking all of those investments that you've heard about plus the recent ones that have been announced, as representatives of Yellowknife, could you talk about specific projects that you think will be helpful to the region and other infrastructure projects you might want to see up there?

● (1700)

Ben Hendriksen: Sure. Thanks very much for the opportunity.

We look at it from a northern perspective. It's hard for a lot of southern Canadians if they've never been north. If somebody was born in southern Canada and moved north, it's a mind shift to understand the scope of our landscape in the north.

Taking it back, the last major infrastructure investments in the north were in the 1950s and 1960s, when the federal government was investing heavily in northern infrastructure. That's what we need to see again.

We look at the defence industrial strategy and what that could be. Mr. Van Dine talked about how we are a strategic location. We already have JTFN—Joint Task Force North—headquartered in Yellowknife. We have a strong connection with the military. Many Yellowknifers are members of the military or have family in the military.

When we look at the infrastructure needs of the north from a community perspective and look at the dual use aspect, we see that the Mackenzie Valley Highway is one piece of infrastructure that's been talked about for decades. We have the Arctic economic and security corridor, which is its modern name. It often used to be called the Slave Geological Province Corridor because the critical minerals in our territory are found in that region in vast quantities. One of the challenges of accessing those minerals is a lack of infrastructure, and that also leads to potential opportunities to link in communities that would be along that road.

When we look at look at the diamond mining industry, we see that it is on a planned wind-down at this time, as Mr. Van Dine was noting. Significant populations working in those diamond mines will be looking for new employment opportunities. These are skilled individuals who have the ability to build Canada. These diamond mining companies also have infrastructure that they're leaving behind and looking to divest, and that's an opportunity along the Arctic economic and security corridor: There's potential for the Government of Canada to work with those companies on transferring assets that could be of use to the government from a security standpoint in the Arctic region.

Ultimately, I think it's important to understand that while things can be dual use in southern Canada, often, as I've mentioned, northern infrastructure can be of triple, quadruple or often quintuple use. There are always multiple ways of using infrastructure in the north from a community aspect, from use in mitigation and adaptation to use in environment and climate change to the military purposes that we're discussing here.

Yellowknife has a beautiful, cold climate, in my opinion, and that really does lend itself to cold-weather testing and consistency that is not always available in other places and combined with a city. In Yellowknife, we have the highest disposable incomes in the country and a very educated population that's ready to serve our country in different ways, but we need the investments to make that happen. As a northerner, it's good to see that the government is turning its eyes our way.

● (1705)

Parm Bains: Thank you for that.

We had a witness here, Madeleine Redfern, who is a northern director of CanArctic Inuit Networks. She talked about the need to be climate change-proofed, saying, “What we often saw was that the extra 10% in an infrastructure project to climate change-proof was well worth the investment.”

Do you agree with this?

Ben Hendriksen: She would have better stats on it than I would. As a former mayor of Iqaluit, she knows these issues very well.

The extra investment in climate change-proofing is incredibly important for our communities. As you know, we evacuated Yellowknife in 2023 due to wildfire threats. We've had several communities evacuate and move again this year as a result of flooding. The biggest fear I always have is what may happen with our infrastructure—especially power generation, if it fails on a -35°C or -40°C day.

Making sure that our infrastructure is climate-proof generally is an extremely important thing. I think those extra investments are always important for the Government of Canada to recognize, because ultimately, not climate-proofing our infrastructure will often cost us more in the long run as we respond to those emergencies, rather than having planned for them.

The Chair: Thank you very much.

[*Translation*]

Mr. Ste-Marie, you have the floor for six minutes.

Gabriel Ste-Marie (Joliette—Manawan, BQ): Thank you, Mr. Chair.

I'd like to welcome all the witnesses.

My first question is for the mayor, but I'll ask the witnesses in the room to answer it as well.

My question is about the budget that was presented yesterday.

Mr. Mayor, I don't know if you've had the time or the chance to look at it. Announcements were made about defence and the plan for the Arctic, and broader measures were included.

I would like to hear your reactions to the budget.

[*English*]

Ben Hendriksen: Thank you very much.

I apologize. I am not bilingual, so I will be answering in English.

Like many of us, I got my first glance and first reactions. Obviously, there are always opportunities to see more investment in the north. There's always that opportunity when there's a serious infrastructure gap in northern infrastructure needs, but I completely understand the limitations that currently exist.

I think the biggest take-away for myself and a lot of my colleagues in discussing it over the last 24 hours is seeing the attention to the north in a way that seems genuine and is not just a photo op. Now, does the rubber hit the road? As a northerner, it's key to see that now. It's good to have the chance to speak with you all today and to keep that conversation going.

That would be the first blush. The need is great in terms of infrastructure investment, but it's about how to leverage what was announced with private investment and investment with indigenous development corporations.

From an aspect of reconciliation as well, seeing those equity partnership opportunities and the opportunity for private investment more broadly from across the country, as was referenced by one of your other witnesses today, it's how we leverage the investments from the federal government beyond what was announced. We can't always look to Ottawa for every answer, so how do we start and build upon that?

[*Translation*]

Gabriel Ste-Marie: Thank you. That was very clear.

What I note is that there is a lack of infrastructure in your region.

Mr. Leuprecht, have you looked at the budget presented yesterday? We can see that a large amount is allocated to defence, but we don't have a lot of details. Do you want to respond to that?

Christian Leuprecht: First, I'll talk about investments in the Arctic. It's about 10 times more expensive to build in the Arctic than it is to build in the south. The calculation of spin-offs is very different in the far north.

Second, we need infrastructure investments in the north. Economies of scale are very different. If the government is not there to subsidize the required infrastructure, there will be no economic spin-offs for private sector investors.

The budget is ambitious. As I said, it's not just a matter of money, but of how the money is spent. Policies, procedures and architecture also need to be adapted.

Quebec, in particular, is an integral part of any industrial strategy and any defence investment strategy. On the one hand, Quebec has the closest port to Europe. The government has already said that it will invest in the Port of Montreal. On the other hand, Quebec would be indispensable if ever we wanted to invest in critical infrastructure to export liquefied gas, in particular, to Europe. It has to go directly through Quebec. We could also ship it through New Brunswick and export it directly from there.

Quebec benefits enormously from equalization payments from the Canadian federation. Therefore, it also has a certain obligation to help generate revenue for Canada in order to meet expectations.

● (1710)

Gabriel Ste-Marie: Thank you for that. Obviously, I don't agree with your analysis of the last part, but we'll be able to debate that at another time.

Ms. Intson, I'll ask you the same question.

I don't know if you had time to read the budget that was presented yesterday, but I'd like to hear your comments, if you have any.

Katheron Intson: Forgive me for answering your question in English. I need to practise my French, but I won't do it today or here.

[*English*]

I have skimmed the budget and I'm cautiously optimistic, as are many others in this room. I am thrilled by the amount of investment that will be going into this sector.

How that capital is actually deployed remains to be seen, but I'm cautiously optimistic. I do hope that the pendulum swings a little bit from historically supporting the international community in the development and production of their own IP toward our intellectual property, sovereign industrialization and capability.

Otherwise, I would say I'm cautiously optimistic.

[*Translation*]

Gabriel Ste-Marie: Thank you.

Thank you, Mr. Chair.

[*English*]

The Chair: Mr. Falk, you have five minutes.

Ted Falk (Provencher, CPC): Thank you, Mr. Chair.

Thank you to our witnesses, both online and here in person, for your testimony.

Dr. Intson, I'll start with you. You talked about our IP capabilities here in Canada and how that's all being exported and nobody is capitalizing on that here.

Can you briefly expand on that?

Katheron Intson: I have many friends who are incredibly talented entrepreneurs who have not been able to get Canadian investors on their capitalization tables.

I'll step back for a second. Venture capital as a whole is a model that was proven out in defence. This is something that's not talked about at all, but a Harvard professor actually started the first venture capital fund after World War II to invest in World War II technologies. The return on those investments is what really kicked off the model as a whole.

Now, Canada and Europe and everywhere else were slower to adopt this type of model, so we don't think about that history in the context of our defence spending and our investment. We will see huge returns on that investment if we do invest in Canadian defence but, without that history and without having been part of that start at the inception of VC, we don't yet understand that.

Two of my Canadian friends—I think of Matt at Aalo and Cam at Sentradel—are building defence companies, and they are backed by American investors. The other thing is that since we don't have well-funded start-ups here in Canada, the new talent is going to the States.

I actually often recommend Canadian recent grads with amazing résumés to start-ups in the States that are building defence technologies, because we simply don't have spaces here for them.

Ted Falk: That's good. Thanks.

Dr. Leuprecht, thank you for your testimony.

Back in 2022, you were at the government operations committee and you made a comment about how just throwing money at something doesn't fix the problem, and you were specifically talking about defence procurement. We've seen a lot of money thrown at it in this budget. There aren't a lot of details, but this defence procurement agency is known now as a defence investment agency.

Do you see that as a solution, or is that adding one more level of bureaucracy that is going to make it even more difficult to be successful?

Christian Leuprecht: You probably know what Chairman Mao said about the consequence of the French Revolution, when he was asked. His famous reply was that it was too early to tell, so we'll need to see.

I think, on the one hand, the defence investment agency has the potential to underwrite precisely the challenges that Dr. Intson has laid out. In particular, we're not good at underwriting those, especially for small and medium enterprises, and especially in the defence sector. When we do have a successful company, what happens? It gets bought by the Americans, so we just become the start-up pool that then ultimately.... We invest tax dollars and then it gets bought up, so we need to do better.

The defence investment agency has the potential to underwrite. We've done this a little bit with the IDEaS program in National Defence, but I think we need something equivalent to the U.S. DARPA, with high-risk, high-return investments in defence.

We have a very low risk tolerance in general in Canada when it comes to capital, politics and finance, and done well, the defence investment agency can change that.

● (1715)

Ted Falk: I think it will really depend on the mandate and the policies established within that agency.

Christian Leuprecht: If the agency is simply about generating jobs in ridings across the country, as often these development agencies are, I think we might create a few jobs, but it's not going to generate the sort of transformation—

Ted Falk: It doesn't address the real issue.

Christian Leuprecht: —that we ultimately need to safeguard our sovereignty.

Ted Falk: The other thing you indicated to the government operations committee at that time is that you thought the F-35 goes a long way to meeting our needs as a deterrent.

Are you still of that opinion?

Christian Leuprecht: This is absolutely key, what you just pointed out, because we talk about defence and defence investments, but we don't want to invest in defence. We don't want to defend anything. This is the whole point: We want to deter our adversaries and we want to change their minds because when we have to defend, that's going to be exceptionally costly—politically, economically and socially.

We know this as Canadians. We were there from day one in World War I and World War II. That is the reason we know what happens in Europe when the Europeans decide to fight their wars right down to the last Canadian, and we don't want to go there again. This is ultimately why we're investing in deterrence with the sort of no-harm capabilities that we have in collaboration with our European allies. We can provide a lot of the ecosystem that they are looking for.

Ted Falk: Does the F-35 provide that deterrence?

Christian Leuprecht: The F-35 is a critical signal to the United States that we are a trusted and loyal ally when it comes to the defence of the continent. The defence of the continent is about protecting our sovereign decision-making, and it's about protecting extended nuclear deterrence. If we can't protect extended nuclear deterrence, we'll get nuclear proliferation among allies and partners. That can't possibly be in our interest. The F-35 is indispensable to this end.

The Chair: Thank you very much, Mr. Falk.

Madame Acan, the floor is yours for five minutes.

Sima Acan (Oakville West, Lib.): Thank you very much, Mr. Chair.

Dr. Intson, first of all, thank you very much for being here. It's great to see a woman from a technical background and an entrepreneur in the defence industry. It's amazing. That's my interest area as well.

Your company, Sentinel Research and Development, represents the kind of Canadian innovation that the committee is keen to explore, being technologies that are developed and manufactured domestically and aligned with Canada's long-term defence and aerospace priorities.

To begin, could you share how Sentinel Research and Development contributes to Canada's defence industrial ecosystem and what sets your UAV technology apart from the conventional systems currently deployed or manufactured by allied countries?

Katheron Intson: First of all, thank you for your kind words.

At Sentinel, we build on a legacy of trade secrets, talent and legacy in composite manufacturing. Between Windsor and Montreal, we have one of the largest aircraft manufacturers in the world. We have the know-how, especially in the type of manufacturing we do, to secure the supply chain in order to scale a company like ours.

We focus on what we call a payload-agnostic drone, meaning you can put whatever you'd like on it. What we've learned on the ground in Ukraine is that the vast majority of first-person view drones that are being used in attacks are retrofitted commercial drones. We see that they have moved from being something that can fly a few feet, a few hundred feet, to several kilometres to hundreds of kilometres.

We have kept an eye on that space. In fact, our chief technical officer was spying on Russia in Telegram channels for 18 months keeping an eye keenly on this space and their manufacturing techniques, capabilities and success against Ukraine in order to field the kind of technology we would develop.

We also see that there is a massive influx of drone production, particularly in the vertical takeoff and landing space and the small drone landscape. We need something that bridges the gap between the aforementioned SkyGuardian and these small DJI quadcopters. We have chosen that mid-sized landscape to focus on.

Besides our cost and our payload agnosticity, we also have a very good performance. Our drone was originally developed in order to be able to dodge and weave in very sophisticated fashions that I have not seen in any other UAVs with similar capabilities, period.

● (1720)

Sima Acan: What types of missions are Sentinel UAVs currently designed to support? Could you please also walk us through a typical deployment scenario for Canada?

Katheron Intson: Again, because they're payload-agnostic, the idea is that these could serve anything from ISR—intelligence, surveillance and reconnaissance—which is what Canada has typically used drones for in the past, to carrying a strike package, which the Ukrainian military is most focused on in terms of use of our system, to carrying electronic warfare jamming capabilities to serving as a decoy. There are 20 different mission sets that our systems are designed for. It really depends on who you're talking to.

Within any of the Canadian Armed Forces' perspectives, we're just having those conversations very early as we've mostly focused our attention on Ukraine, where there's the greatest and most urgent need. Our conversations with the CAF have been very illuminating in terms of how they're thinking about something that bridges the gap between a one-way drone and a drone that comes back many times.

We have started to think about one-way attack drones, but we also have deployed the vast majority of our capital on drones that fly for hundreds of thousands of hours. It's really within that gap. For Canada, our drones will serve as the intersection between ISR and strike. Which way they will be weighted will depend on the mission set.

Sima Acan: Your company was just founded a couple of years ago. Still, you have made very significant progress. I have seen your product. In developing scalable platforms with defence applications, you took a huge road.

Canadian SMEs have experienced barriers in this space, particularly in accessing capital and scaling advanced manufacturing in the past—

The Chair: Ms. Acan, I'm just going to pop in here for a minute.

You're out of time, but there is one more Liberal question. I'm going go to the Bloc here. Perhaps you and your colleagues can discuss, if we can come back to you, if you'd like to get that question in. Otherwise, we're going to run ourselves over.

[*Translation*]

Thank you.

Mr. Ste-Marie, go ahead, please.

Gabriel Ste-Marie: Thank you, Mr. Chair.

Ms. Acan, I'm sorry.

I have a question for Mr. Hendriksen and his colleague the city manager, Mr. Van Dine.

In your opinion, what are the most significant technological and industrial gaps in terms of supporting defence operations in the Arctic, including surveillance, logistics and energy infrastructure? What is your take on that as a northerner?

[*English*]

Ben Hendriksen: I'll start and then I'll pass it over to Stephen.

First of all, to highlight that, the investments we're looking at now are the biggest investments in more than a generation. That's an extremely positive thing to see. What we need to do is recognize what infrastructures gaps we currently have.

Power, as you just mentioned, is a big one for the Northwest Territories. As you may or may not know in the committee, we're disconnected from the rest of the North American grid, as are Nunavut and the Yukon. That creates real challenges from a community perspective and also from an industrial perspective.

When we talk regularly with our colleagues in the Canadian Armed Forces and the JTFN, it's...as investments come, make sure they're tying into the community needs and having those dual and multi-use needs met. Yellowknifers and northerners are going to want to see the benefits to themselves alongside the military aspect in terms of ensuring that the security and sovereignty is real for all of us.

Power is definitely a big one. In terms of actually moving equipment, that gets down to roads, and roads to smaller communities. Yellowknife has a road. It's a single road in and out. It creates logistics.

For telecoms, we have one fibre line to the city, so it creates concerns around losing that again, as we had threats of in 2023. Other communities lost it in 2023 during the wildfires.

Those are the immediate needs. We're doing well day to day, but any time there's a threat to those key pieces of infrastructure, we don't have the redundancies.

Stephen, I'll pass it over to you for anything you'd like to add.

● (1725)

The Chair: I'm going to have to go to the next line of questioning.

Mr. Van Dine, if there is a member who wants to afford you the opportunity to provide that response, they'll certainly be allowed to do so.

[*Translation*]

Gabriel Ste-Marie: Mr. Chair, I would like to thank the witnesses and ask them to send us their answers in writing.

The Chair: Absolutely, they can always send their answers in writing to the committee.

[*English*]

Mr. Guglielmin, go ahead.

Michael Guglielmin (Vaughan—Woodbridge, CPC): Thank you, Mr. Chair.

Mr. Leuprecht, you've written in the past how Canada has allowed instruments of statecraft to decay, leaving us unable to act decisively abroad. You've also been quite direct in suggesting that governments have allowed domestic political constituencies to dictate foreign and defence policy choices.

Do you believe this has shaped procurement priorities for our country? What detriment do you think it's had on the Canadian Armed Forces' operational readiness?

Christian Leuprecht: I think we make policy backwards in this country. We make a whole bunch of policies and we hope that it somehow adds up to a grand strategy for the country. Other countries have a national security strategy and then they make a bunch of smaller policies to align with that national security strategy.

Ours dates, as you likely know, from 2004. The world has changed significantly, so maybe we can actually establish a common target and then align what we're trying to do. Otherwise, the whole is never going to be greater than the sum of the parts and we're going to live with this fallacy of composition.

Michael Guglielmin: You've also previously highlighted how development of infrastructure in our north is critical for national security. Would the establishment of a permanent base in the north strengthen sovereignty and economic presence?

Christian Leuprecht: I think, as you just heard from our colleagues in the north, when we talk about defence and security in the south, it means something very different to us than it does when you ask local populations in the north. I think what we heard also is that, in the north, these are communities that are not very resilient. Certainly, as a defence industrial strategy, it behooves us to make sure that we have resilient northern communities that can also withstand both the kinetic threat we are facing in this country now that the north is in play and also the foreign interference threat and the threat to our social fabric that is very active and very real, not just in the south but also in the north.

Michael Guglielmin: Thank you.

Ms. Intson, do you feel the current defence industrial strategy does enough to integrate small and medium-sized firms into the procurement supply chains?

Katheron Intson: I don't, simply because—

Michael Guglielmin: What would you suggest, if asked to elaborate?

Katheron Intson: Again, I think this is something.... I apologize for belabouring this point, but we do need to focus less on the integration of small Canadian business and more on the integration of sovereign Canadian IP, and using that as the backbone of all that we do. I hope that makes sense. It doesn't mean that I think small business should be discounted but more that, fundamentally, we need to focus more on building our own sovereign capabilities and strengthening our IP in defence overall.

Michael Guglielmin: In your opening remarks, you mentioned Canadian domestic innovation. What lessons do you think we can learn from our allies about rapid acquisition or to help us facilitate rapid acquisition of innovation in this space?

● (1730)

Katheron Intson: I would look to the Ukrainian KOROVAI and Brave1 marketplaces as amazing examples of how Ukraine shifted its procurement to allow for rapid prototyping, a changing battlefield and quick procurement. These are the sorts of things we need to move towards.

I want to make something clear. Everyone takes a hard stance that our procurement is ineffective, but the truth is that war changed so quickly with the introduction of UAVs. When this last happened, it was artillery, and it happened over 300 years. FPV drones were introduced 10 years ago, and we have to change procurement very quickly.

I would say that we can borrow lessons from Ukraine. I know that U.S. WARCOM, for example, is also moving its procurement models in a way that basically allows for more rapid iteration, prototyping and procurement of the systems we need on an as-needed basis.

Michael Guglielmin: Thank you very much.

Mr. Leuprecht, really quickly, on the political risk aversion that we were discussing a little earlier, how do you think that's negatively impacted..., or do you believe it has contributed to procurement paralysis in some way?

Christian Leuprecht: Well, it certainly hasn't helped our defence innovation system. If you look at the Ukrainian military, you'll see that the innovation cycle is now six to eight weeks, whereas our innovation cycle is two years.

We're not going to win with that type of innovation cycle. It requires, as Dr. Intson pointed out, changing the entire structure that underpins the way we think, fund and procure innovation and what it is that we procure. Are we procuring drones, or are we procuring the IP and the algorithms that drive the platforms?

Michael Guglielmin: Thank you.

The Chair: Ms. Acan, you have five minutes.

Sima Acan: Thank you very much.

I'll come back to you if I have any time left, Dr. Intson.

Mr. Leuprecht, thank you very much for coming again today. It's good to see you again.

You were mentioning that our defence industry problems are not new. They've been lingering for 20 to 25 years. I want to understand your stance today after seeing the budget yesterday and the budget investments marked for our defence to build “Our North, Strong and Free” and our country's defence industry. What's your take since seeing the budget yesterday and our pledge for defence investments?

Christian Leuprecht: As you know, we are not alone. There are many European allies that find themselves in the same boat as we are where the world moved on a lot faster than their willingness to invest in instruments of statecraft, but as allies, we have a collective $20-trillion deficit over the last 35 years relative to investment by the United States. If we believe we need to become more sovereign, as our U.S. allies also want us to be so that we can pick up some of that slack, then it means we will need to make up for some of those deficits and some of those lags that we have had.

I am encouraged by what is being put forward, but I would be much more encouraged if the government would, at least on defence, do what our key allies do—Norway, France and Australia, for instance—and forge a multipartisan defence policy so that, irrespective of who is in charge, we will broadly agree on the trajectory forward. That, I think, also sends a signal to our population and gives us the social licence for the types of investments that governments are looking to make in the sovereignty of this country.

Sima Acan: Thank you very much, Mr. Leuprecht.

Dr. Intson, as I was saying, Sentinel Research and Development just recently came about a couple of years ago, yet you have already made significant progress in developing scalable platforms with defence applications. Canadian SMEs have experienced barriers in this space, particularly in accessing capital and scaling advanced manufacturing, in the past. With our budget and our plans, we are planning to overcome those obstacles for our industry.

Could you please speak to what enabled your company to move quickly and what lessons or supports you believe are critical for other innovators trying to do the same?

Katheron Intson: Without rehashing too many points from my opening address, I would say that it was our number one priority to validate the size of the market. When Canadian entrepreneurs are approaching international investors, particularly VC, VC are looking to make bets on baby billion-dollar businesses—those that have billion-dollar markets although they may not have all of the contracts that make them billion-dollar businesses at that time.

We had to make sure we had a billion-dollar market before we could approach investors, and that's true both within Canada and outside of Canada.

When it comes to the investor piece, and this is true for both government investors and institutional investors, you need to make sure your market is big enough. It was a lot of international business development and a lot of international investor strategy on our part. I think that mostly answers your question.

● (1735)

Sima Acan: Yes, it does.

What role do the universities or research institutions play in your innovation pipeline or in any other defence innovator's pipeline?

Katheron Intson: I am so excited about working with Canadian universities on special projects, special AI projects and special robotics projects. That is where the talent is going to come from and where we build that kind of IP. Some of our existing IP we've built from the talent that we already had in-house, but I have several projects in mind with specific Canadian institutions and, indeed, research labs to better develop that research into Canadian business IP.

Sima Acan: Thank you very much.

Do I have any time left?

The Chair: No.

Those were good questions.

Colleagues, we're going to wrap up here. We're running slightly over time, so in the second hour, we're not going to have time for the final three allocated spots, but I'll repeat that when we get to it.

Thank you very much to the witnesses who joined us both virtually and in the room today. We very much appreciate your insight. It's an incredibly important time, of course, for Canada's defence, and having your guidance and your expertise frame the conversation around our industrial strategy is of great use to us, so thank you very much.

Colleagues, we're going to suspend quickly before turning over to the next round.

● (1735)

_____(Pause)_____

● (1740)

The Chair: Colleagues, we're going to continue in our second hour here.

We have three witnesses with us who are appearing as individuals. From the Macdonald-Laurier Institute, we have Richard Shimooka, senior fellow. From the Defence, Security and Resilience Bank Development Group, we welcome Kevin Reed, president. From Carleton University, we have Philippe Lagassé, associate professor.

I want to start by acknowledging that Phil is the best-dressed witness we have ever had at the industry committee. He says that he's going to a gala later, but I don't believe it.

I also want to note that about 22 years ago, a young Ben Carr was about to fail political philosophy at Carleton University, and a somewhat younger Phil Lagassé was there to hold his hand and make sure he could understand whatever it was that professor was talking about. I owe it all to him. Don't hold it against him, please.

Professor Lagassé, we'll start with you. You have up to five minutes for your introductory remarks.

● (1745)

[*Translation*]

Philippe Lagassé (Associate Professor, Carleton University, As an Individual): Thank you, Mr. Chair.

Thank you to the committee for the invitation. My remarks this evening will focus on the tradeoffs Canada faces as it prepares its defence industrial strategy.

The tradeoffs Canada faces are between three considerations: alliances and operational advantage; sovereignty and industry; and money. I wish to focus on these tradeoffs because they have not been properly acknowledged in our national discussion about our new defence investments.

[*English*]

I wish to focus on these trade-offs, because it has not been a wise approach to not consider them. As we move forward with significant investments in defence, we should be mindful of the opportunity costs that we face.

Let us begin with the trade-offs between our alliances and operational advantage on the one hand and our national sovereignty and industry on the other. We should be clear-eyed that moving away from American capability will likely affect allied interoperability with the United States military and our ability to maintain an operational advantage against peer competitors such as China and Russia. The reason for this is simple: No other ally spends as much on advanced military technology, and NATO interoperability leverages systems underpinned by the United States.

[*Translation*]

Building more sovereign Canadian capabilities and domestic industrial capacity will be costly and result in less advanced capabilities, in many cases. Take a sovereign cloud. Creating one will be expensive and leave us with less capability than cloud services offered by the major American cloud service providers, such as Amazon Web Services, or AWS.

In the defence space, in particular, a truly sovereign cloud would also diminish our interoperability with the United States, United Kingdom and Australia, who are relying on the major American cloud service providers.

[*English*]

Acknowledging this reality is not meant to cast aspersions on Canadian know-how or ingenuity. Companies like AWS simply spend far more and are much further ahead in this field. I am also not suggesting that a sovereign cloud is bad policy. Controlling our own data is, all else being equal, a good idea, but we must be clear-eyed that there are trade-offs involved, and we should be mature enough to acknowledge them.

Focusing on our alliances and operational advantage alone, however, comes with its own costs in terms of sovereignty. Canada has spent upwards of 75% of its defence capital budget on American capability because it gave the CAF advanced interoperable capabilities at relatively low cost, yet that has meant we don't have as much sovereign capacity as we might like or need now.

[*Translation*]

One exception is shipbuilding. Canada decided to emphasize both advanced technology and sovereign capacity in building the River-class destroyer. As critics are quick to point out, though, this approach has been very expensive.

Looking ahead, Canada could choose to maximize sovereign capacity in many other areas. This would benefit the Canadian economy and help with economic growth, but it could leave the Canadian Armed Forces with less capability and interoperability.

[*English*]

Alternatively, we could try to balance operational advantages, sovereignty and cost. This would work best for missions that are focused on the defence of Canada rather than fighting alongside the United States and other allies. This balanced approach, I would argue, should be what we aim to achieve as part of the defence industrial strategy, but we should recognize that it will not be easy to achieve.

[*Translation*]

Sustaining a large domestic defence industrial base, however, may require buying capabilities the military does not need, potentially paying firms to keep production lines open even when they have no orders, or helping these firms sell far more defence materiel to overseas, including to regimes that may not share our values and commitments to human rights and democracy.

● (1750)

[*English*]

These are the realities that a country of Canada's size must accept to keep a national industrial base afloat. I would encourage the committee to examine the French experience here as an example of what must be done to maintain a vibrant defence industrial base.

In sum, the defence industrial strategy offers Canada enormous opportunities, but those come with opportunity costs.

Thank you.

[*Translation*]

The Chair: Thank you, Mr. Lagassé.

[*English*]

Mr. Reed, we'll go to you next for up to five minutes.

Kevin Reed (President, Defence, Security & Resilience Bank Development Group): Thank you, Mr. Chair.

Chair and honourable members of the committee, thank you for the opportunity to appear here before you today.

I serve as the president of the DSR Bank Development Group. I grew up in the great city of Belleville, and please bear with me one second. I grew up like most Canadian kids in my area: I wanted to play in the NHL, and as you can see, I didn't make it. My life took me in a completely different direction and that's why I sit here before you today.

I'm one of the few Canadians who—a long time ago when I played hockey at the University of Ottawa, just down the street from Carleton—said, “I want to start a bank,” and I did. I co-founded and served as the vice-chairman, CEO and president of Equity Transfer and Trust Company, an OSFI-regulated entity, one of the number of companies I have built. I also served as an honorary colonel in the Canadian Armed Forces for nine years, and I also have had the opportunity to serve as honorary consul general for the Republic of Singapore to Canada.

I appear here today on behalf of the DSRB, which is responsible for designing the legal, capital and operational framework for what will become the world's first multilateral financial institution dedicated to defence, security and resilience. It will be established by the end of 2026 through a founding charter ratified by its anchor nations and scaling up to include 40 member nations that will include NATO and our Indo-Pacific allies.

The blueprint for this proposed multilateral development bank was created by Rob Murray, our CEO. Rob also built the blueprint for the NATO innovation fund, which I think came out in yesterday's budget, and the blueprint for the NATO DIANA group, for which there are two accelerators and over 10 regional test centres in Canada.

The DSRB will be established as a global multilateral lender ready to deploy long-term capital with scale and discipline in support of national and defence security priorities. Our core partners with us as we started to lift off in 2025 were Royal Bank of Canada, J.P. Morgan, Deutsche Bank, ING, Natixis, Commerzbank and LBBW, and we will be adding a couple more in the month of November.

For Canada, this conversation arrives at a very pivotal moment. The government's stated intent to raise defence and resilience spending from 1.37% of GDP last year to 5% by 2035 represents one of the most ambitious industrial undertakings in recent Canadian history.

As the Prime Minister has noted, the goal of retaining 75 cents of every defence dollar in Canada makes this not only a national security imperative but a generational economic opportunity.

The question, as this committee and others before have rightly asked, is this: How does Canada convert ambition into capacity?

Across allied countries, the constraints are familiar: Budget ceilings, balance sheet pressures and regulatory frameworks, such as Basel III and Basel IV, which will come into effect by 2030, have made it difficult to lend into the defence sector.

Private sector capital has largely been absent from the defence industry for decades. The DSRB is designed to close that gap. Structured as a sovereign-owned, AAA-rated institution, it would enable participating nations to pool paid-in and callable capital, which the bank would then leverage through private capital markets, including our Canadian pension funds—which I know are discussed a lot with regard to how we can get Canadian pension funds back into the Canadian marketplace—so that commercial banks ultimately can provide full traditional credit packages to defence companies and the SMEs that are mission-critical for our supply chains.

For Canada, the capital economics are compelling. If Canada were to subscribe for $10 billion, $2 billion would go up over four years and $8 billion would be callable, and this would generate at least $50 billion of financing power delivered through the Canadian commercial banks, all without increasing sovereign debt. Contributions are treated as capital assets and also are attributed to the calculation of NATO's financial commitments.

For Canadian defence SMEs and suppliers, this will mean access to credit that does not exist today to grow, invest and automate their businesses.

● (1755)

Canada can and should lead these charter negotiations. Canada should also state that the global headquarters for the DSRB should be here in Canada.

These headquarters—if chosen, among the anchoring nations, to be in Canada—would have 3,500 defence finance jobs. I emphasize "finance." This would create a cluster within our allies. Canada has a real opportunity not only to lead but to provide a global leadership in defence finance.

In closing, I have provided this committee with a business brief that demonstrates the absolute value of the DSRB to Canada.

I have three key take-aways to ask and then I'm done, Mr. Chair.

This is Canada's time to lead in NATO and with our allies in defence finance. Canada has the leadership. We are known for our financial prudence and we have the support of a lot of other nations if we choose to take the lead.

The private sector capital needs to build out the defence industrial plan that we're here to talk about in this session, but it will only come with Canadian institutional capital supporting the plan. We know how to bring them in and we will do this now.

My last point is really a question: Why wouldn't we do this?

Mr. Chair, it's back to you.

The Chair: Thanks very much, Mr. Reed.

Mr. Shimooka, you have up to five minutes.

Richard Shimooka (Senior Fellow, Macdonald-Laurier Institute, As an Individual): Thank you very much for allowing me to speak today.

A key part of understanding the defence industrial base today is that it is a product of over five decades of inattention to the actual defence needs of Canada. Like the Canadian Armed Forces, it is not ready to meet the threat environment we face today.

This brings me to a critical point, one that I'm going to return to several times: The defence industrial strategy must be subservient to the defence policy of the country, not the other way around. That is the essential element that has been missing, to an increasing degree, since the 1960s. The disconnect between Canada's defence needs and the resources allocated to meet them has had deleterious consequences for the defence industrial base. Defence firms lost a stable demand signal and the funding that would make it fit for the defence needs of the country.

The consequences of this failure have been clear. First, you see a boom-bust cycle in many of the defence sectors. It was most pronounced in shipbuilding. Many firms exited the defence market entirely or failed to modernize their production systems; others looked to foreign markets for revenue. Roughly half of the defence industrial activity in this country is export-related today. Of that, a further 60% is accounted to the United States due to existing defence production agreements, as well as the U.S. being a very large and stable market.

As a general trend, firms have specialized into subcomponent system suppliers and not finished systems. These are some of Canada's leading defence firms in terms of innovation and market position, but they are not well positioned to meet Canada's own defence needs. In some respects, Canada has highly globalized defence industries, and we need to protect that.

Going forward, this government has made some good initial steps, but pitfalls abound. I know there has been a strong desire to develop greater sovereign capabilities, yet the military capability development trends have been in the opposite direction, towards closer integration through battlefield networking and data-processing systems. Decision-making times are being compressed into milliseconds, and delays will result in lost battles and lost lives.

I understand the political moment Canada is in with regard to our southern neighbour today, but we must be careful not to overshoot that mark. We are deeply integrated into both their military systems and their supply chains.

As an observation, there is no viable path to become a defence industrial autarky. Our defence needs are vast. We need to pick and choose carefully what we invest in. Trying to chart a too-independent path can come at exorbitant costs, damage our industrial base's competitiveness and, most critically, result in a much less effective Canadian military.

Nevertheless, there are areas where Canadian firms have comparative advantages, and those should be exploited. Joining allied programs through the insertion of Canadian investments and industries can be a viable path, but we must be careful. Many of our allies operate highly protectionist and inefficient defence industrial bases. Despite their competitiveness, Canadian industries will find it difficult to make headway in these markets.

This leads to another key point. If the government wants to provide greater market opportunities for our defence industrial base, it must enter into development programs early and be willing to take calculated risks, with the acknowledgement there will be failures. The recent changes to the national security exemptions are good first steps in this path, but more must be done.

Relatedly, I also think we need a vast overhaul of our intellectual property regime, which perhaps is a key tool that Canada can use to improve its defence industrial base performance. We need to be flexible, realizing when to obtain IP, develop it or forgo it. That's a level of sophistication that the government needs to develop further.

Furthermore, our defence innovation system is largely broken and in desperate need of overhaul, over and above what is currently envisaged. I understand that we are in early days of this government's efforts to reform this space, but the challenges here are immense and deeply rooted. It is critical to get this right.

Our peer competitors have many advantages, but none is more clear than their ability to outproduce our own defence industries. Thus, innovation is widely seen as one of the key enablers for allied states to maintain a military edge. Rapid technological adaptation and change to meet a highly dynamic and lethal battlefield have become the defining features of emerging military systems. However, Canada and its defence industries lag far behind our peers in this regard. Our investment amounts are far too limited, even with the recent budget announcements, and there's no real pathway to get new technologies into the hands of Canadian Forces personnel. In other countries, this is often referred to as the valley of death. In Canada, it's become a chasm.

The military services even bypass the government's innovation pathways, redirecting funding from other budget streams to develop and acquire the systems they see as vitally necessary. The system must be much more flexible in order to harness defence industrial productive capacities.

● (1800)

Finally, there's a timeline discrepancy that we must acknowledge.

As I noted earlier, we have an immediate need to address the major capability gaps that currently exist; however, the development of the Canadian defence industrial base will be hard pressed to meet some of these needs. Development will be a decades-long process. We need to acknowledge that and follow a two-pronged strategy to address both issues. Canada needs to acquire capabilities now, but also pursue longer-term industrial development where it is warranted. Trying to proverbially hit two birds with one stone will almost certainly result in missing both.

I'll leave it at that. Thank you very much.

The Chair: Thank you very much, Mr. Shimooka.

Colleagues, we will enter into our rounds of questioning.

As I mentioned at the outset, given that we're quite significantly over our time, we'll have two questions from the Conservatives, two from the Liberals and one from the Bloc.

Mr. Falk, the floor is yours for six minutes.

Ted Falk: Thank you, Mr. Chair.

With that in mind, I'm going to be splitting my time with Mr. Guglielmin.

Thank you, witnesses, for your testimony here today and for the valuable insight that you provide to the committee.

Mr. Shimooka, I would like to begin with you. You talked about our peers and our allies a lot. Can you compare our procurement system to some of theirs? Can you extrapolate a little bit on what that looks like—where they're different, where they're effective, where they're broken?

Richard Shimooka: Sure.

I think we have to first acknowledge that we are significantly delayed on this defence modernization. A lot of our allies started this process around 2015, in response to the Russian invasion in Crimea and the Wales summit.

The United States and Australia have tried to streamline significant parts of their process. They've identified that new technologies are critical to the competitiveness of their military capabilities. They've developed new streams to sort of short-circuit some of these issues.

If you look at the United States, you see things like other transactional authorities, such as what is called an 804 program and a mid-tier acquisition model. What these are trying to do is identify where you can acquire something really quickly, remove some of the existing process—in the United States, it's the federal acquisition rules—and get a capability into the hands of what I would call a warfighter in a much more rapid fashion.

I think that has been a challenge we've faced in Canada for quite some time. The Defence Investment Agency is an approach to deal with some of this, but I think that to some degree, what our allies have done is just taken their entire system and started reforming the fundamental operation of that system, rather than just creating these separate pathways, realizing that this is a way to get innovative new technologies in.

You're starting to see that right now in the United States. The FoRGED Act and the SPEED Act, which are within Congress right now, are really trying to create a much more responsive system, because the nature of capabilities that we see in defence right now is changing. These are increasingly becoming software-enabled systems—

I'm sorry. Go ahead.

● (1805)

Ted Falk: I want to get one more question in. My time is running out here.

Will this new Defence Investment Agency apply to all procurement for defence spending?

Richard Shimooka: It will not, at this time.

The government has said it's only above $100 million at this time. That accounts for about 8% of the existing defence procurement, if that's the threshold that they're going to use.

Ted Falk: How do we fix the rest of the system? That's a big threshold.

Richard Shimooka: I think it requires a significant fundamental reform.

My suggestion is that we start looking at going to...not a single point of accountability model, because I think Treasury Board is going to always be there, given its position within the government, but certainly trying to streamline it so that we have points of accountability and somebody is actually responsible for pushing decisions through. That's my approach.

Michael Guglielmin: Mr. Shimooka, based on your research, what lessons would you say we could learn from our allies to ensure that defence procurement and industrial policy work together instead of at cross-purposes?

Richard Shimooka: In the previous session, Professor Leuprecht pointed out that we have a national security strategy. That is a critical starting point to identify what's required, and we can have a line through to what we need to do to achieve that base.

One of the biggest changes I think you're seeing in the U.S. and our allies, especially since 2022, is that they realized that our stockpiles of munitions and other consumables required for war were far too low. They've spent tens of billions of dollars to develop the capacity to produce more systems if it comes to a point where we have a warfighting environment.

In Canada, we haven't done that. We've tried a little bit, but recently it was announced that we are able to produce 5,000 155mm shells in Canada.... That's one day of operations in Ukraine. That's insufficient for the requirements.

If we have a national security strategy, we have a line through to what's required on the defence industrial side. That's what's required.

Michael Guglielmin: You've also observed that decisions like the F-35 purchase were completely politically based. Are you of that opinion now, and do you think politics are being played with the F-35 procurement?

Richard Shimooka: In the comments of the head of the air force and the deputy minister at the public accounts committee just a couple of weeks ago, clearly they say that this is the capability that's required. I think most seasoned defence analysts would agree with that view.

We have gone to the United States—to Congress and various administrations—saying that we are serious about national defence and we are buying this capability, and there's delay now. Clearly there are political considerations having to do with the Trump administration and what they have said, but clearly this capability is absolutely vital for basic national security going forward.

Michael Guglielmin: Thank you.

Mr. Reed, you've argued that deterrence today means financial partnership. What are the main obstacles, would you say, preventing Canadian capital markets from investing in the defence industry base at scale?

Kevin Reed: My work in what we're doing at DSRB is on the credit side, and I can say that in speaking with just about every prime contractor within NATO, their biggest concern is that privately owned companies make up 95% of their supply chain. They're not public, so they depend on credit.

NATO is committed to going to another $2 trillion of future spending by 2035. That's another $1.5 trillion of credit that needs to come out of the banks. If you ask a supplier who has maybe $25 million or $50 million in revenue today, the forecasts being given by their primes are in the 15% to 20% bump that they've not had since the Cold War. Where do they get that money from? They have to go to the banks.

When we talk about capital markets, I look at it from the lens of the credit side, and that's what we are addressing. I believe firmly that the banks have to unlock the credit, which has been very shallow to date because of ESG and a bunch of other policies that have changed radically this year.

In terms of what Canada needs to unlock credit, if we hit $150 billion—or perhaps more, depending on where our GDP goes—we will need another $80 billion or $90 billion of credit, minimum, to support that growth in our supply chain.

When you ask about capital markets, I look at it from the credit side.

● (1810)

The Chair: Thank you.

Ms. O'Rourke is next.

Dominique O'Rourke (Guelph, Lib.): I just want to say that I appreciated the conversation in the first hour about removing some of the politics, because we know what some of the challenges are in terms of moving forward with decisions and risk aversion.

Mr. Shimooka, you said this is sometimes a decades-long process or that it will be a decades-long process to get where we need to be. Mr. Lagassé, you talked about trade-offs.

At the beginning of this study, we heard from ADM Wendy Hadwen. She said that we are not in peacetime and that we don't have time for the usual silos. That was a bit shocking to me, and I think it's probably a little bit shocking to most Canadians to hear that.

There's an urgency to get things right and to move quickly, so how do we approach the defence industrial strategy from an immediate, a medium-term and a long-term perspective?

To really map out what our strategy needs to be is going to take some time. We've had very eloquent witnesses talk to us about all the criteria and how we're going need to set this all out. We could spend five years getting to the right model, and we will have missed the moment.

In a minute each, can you help me understand how we can plan and prioritize and how we can maximize the domestic capability that exists and how we develop it going forward? Something like extracting and using critical minerals is not done overnight. Some things need to happen overnight, literally, and others will take place in the medium and long term.

Can you want to tell us some paths to financing that? I'm going to ask you to be quick, because I do have a follow-up question in terms of where ethics fits into these frameworks.

Philippe Lagassé: In terms how we plan, there's some low-hanging fruit that we can immediately seize on. The current government has pledged to buy a Canadian AEWC plane, for instance. That would be a way to invest massively in the domestic aerospace industry. There are talks under way to increase production in Montreal of various other capabilities. The budget indicated that there's an ambition to try to replicate the shipbuilding success in the aerospace sector. As well, there is seed funding from the Business Development Bank of Canada that will be going to start-ups and SMEs and other things to get things going.

Very quickly, I think the reality is that you have to make choices between what you are going to be buying in 10 years and what are you going to be buying in the next few years. I think we have a good idea of that, but to Mr. Shimooka's point, we also need the government to release its national security strategy and a follow-on defence policy to provide guidance to the forces so that they can start planning their requirements for some of these things.

In the absence of requirements, industry will not invest. They need to know that there is a buyer. You cannot just build things without a buyer, and you need policy to indicate that there is a buyer.

● (1815)

[*Translation*]

Dominique O'Rourke: Let's talk briefly about artificial intelligence-enabled autonomous weapons. Ethical frameworks will help us make decisions in this regard as part of the military arms production strategy.

At what stage do the conversations need to happen? Is that done by the government as it develops the strategy? What are the red flags? We know that private investors want to make a profit. What are the guidelines? These questions should not be asked after the fact.

Mr. Reed, environmental protection is part of our discussion, since we're talking about ethics.

I'd like to hear your opinion on that.

[*English*]

Kevin Reed: Dominique, my translation was not working. My apologies.

Dominique O'Rourke: That's okay.

I'm just asking about where the ethics and the red lines fit into this conversation, especially when we're going to be talking about AI and autonomous weapons. Where are the guardrails? Who decides those? These are not things we can do after the fact. Monsieur Lagassé spoke to values: What frame guides us here?

Kevin Reed: I can say from a financing perspective that the guidelines for us to maintain an AAA are things like nuclear and biological types of weapons. Certainly, things that are not part of various treaties are things that the bank could not participate in, or else we wouldn't get our AAA rating.

AI is a whole different category. The rules are being written every week. Where's the financing framework on that? That's still to be determined, not only in Canada, but within our allied nations.

[*Translation*]

Dominique O'Rourke: Mr. Lagassé, what do you think?

Philippe Lagassé: First, we have to start with the rules on armed conflict. I believe this was also mentioned by another of your witnesses, Michael Smith, who worked for the Office of the Judge Advocate General. As for the rest, this is an issue that has to be managed at the international level. Canada cannot develop its own policies on these weapons while operating abroad or working with its NATO allies. This must also be done within NATO, with our allies, so that a common arms framework can be established.

Once again, I'm going to come back to necessary connection with industrial policy. Let's be clear: Canada must sell defence equipment if it wants to support its industry. We need to make sure that our allies and other states have the same frameworks as Canada. The conversation has to take place at the international level and among our allies.

[*English*]

The Chair: Thank you.

[*Translation*]

Unfortunately, your time is up, Ms. O'Rourke.

Mr. Ste-Marie, you have the floor for six minutes.

Gabriel Ste-Marie: Thank you, Mr. Chair.

Greetings to the three witnesses, and thank you for being here. What they told us was very interesting.

Mr. Lagassé, I'm going to pick up where you left off.

In the last part of your presentation, you gave the example of France. If I understood correctly, you said that, to support industrial development, we have to be prepared to buy equipment we don't need and sell equipment to countries that are not allies.

Can you expand on that?

Philippe Lagassé: I'll give you an example. How is France able to maintain its production of Rafale fighter jets? Sometimes they have to pay Dassault Aviation to build only one plane a year. That is part of France's sovereign policy. It's accepted. Are Canadians prepared to do that from time to time? Are we prepared to tell the industry that the production chain is so important to our nation that we are prepared to pay them to build a little less equipment and move more slowly?

I do a lot of research in France, and I can tell you straight off that we can't have a defence industry without exports. It's essential. It is essential for France, and it is also essential for us. There's no denying it. You have to be willing to accept that. This goes back to a comment that was made in the last panel: We also need all parties in Canada to agree on guidelines regarding foreign arms sales. We have to agree on the guidelines and the framework. Otherwise, there will be scandals and controversies, and projects will fall apart. As a result, the industry will not want to invest more.

● (1820)

Gabriel Ste-Marie: That's very interesting.

The gist of your presentation was about tradeoffs, which means finding a balance in relation to the opportunity cost. You gave some examples.

Do you have any potential solutions to offer the government when it comes to arbitration or balancing the strategies and policies you talked about?

Philippe Lagassé: I think what's critical about Canada's defence policy is finding a balance between Canadian sovereign capabilities and Canadian industry. However, I think we have to recognize that, when it comes to operating abroad or overseas, especially in competition with China and Russia, we will very likely have to work with our allies to develop capabilities.

For example, Canada is not in a position to develop a sixth-generation fighter on its own. It has to work with Great Britain, Italy, Japan or the United States. We have choices to make. We have to recognize that, to be on the cutting edge of technology, we have to work with our allies. That might mean a little less investment within Canada, but it also means more advanced operational capabilities.

Gabriel Ste-Marie: In that case, the proper balance and the tradeoffs would be at the expense of domestic industry, so as to ensure greater international collaboration.

Do you think it could be profitable for the Canadian industry?

Philippe Lagassé: It could be profitable.

Canada has made a lot of investments in the F-35 jets. The same goes for the P-8 jets, where a lot of investments have been made in Montreal, through Boeing. As you see, there are opportunities.

I think the key question for this committee is this: What does Canada want to be able to do on its own? We can always co-operate with other countries. However, what should we do to autonomously defend Canada and its interests so that we don't have to depend on other countries?

Gabriel Ste-Marie: What might those capabilities be?

Philippe Lagassé: Think of maritime surveillance and surveillance in the Arctic. Also think of radars, ammunition and territorial control, not to mention what we have to do in the event of natural disasters.

We need to look at what capabilities are critical to Canada's sovereignty.

Gabriel Ste-Marie: That's very clear.

My last question is not on the same topic, but it has to do with arbitration and tradeoffs.

Do you think that joining in on the golden dome for protecting North America would be a good tradeoff?

Philippe Lagassé: It could be. If the United States were to say that we only need American capabilities to contribute to the so-called golden dome, I think the Government of Canada would absolutely have to stand up for the interests of Canadians. It should say that we are ready to do our bit as partners, with our own capabilities. The United States cannot tell Canada that it must acquire only American capabilities.

In my opinion, if that were to happen, Canada should stand its ground and refuse.

Gabriel Ste-Marie: That's very clear. Thank you.

Thank you, Mr. Chair.

The Chair: Thank you.

[*English*]

Ms. Borrelli, the floor is yours for five minutes.

Kathy Borrelli (Windsor—Tecumseh—Lakeshore, CPC): Thank you, Chair.

Mr. Shimooka, you've been very critical of our procurement processes over the years. You've written a lot about it. Just very simply, what are the key things that you would suggest, that you would recommend, be implemented into our new DIA?

Richard Shimooka: I think the thought behind the DIA, which is basically developing an interparliamentary team that's going to subsume a lot of the responsibilities that exist underneath in the six or however many groups or agencies involved in any defence procurement, is the right impulse.

I don't know that how it's been structured necessarily is the best way. I would prefer to see a more fundamental reform. We don't need to have another structure to try to achieve this effect, but rather that the departments themselves, the agencies, have a clear line of accountability, so that that you have one person who is basically responsible for a procurement program and has the authority to implement it through.

A lot of the reforms of our allies have gone down this route. It's not to add another group, but to actually make it much easier to run a procurement where you have clearly defined requirements and you know exactly what are the defence industrial capabilities within the country. Potentially, you will source within the country and then go for it and actually procure a system.

I think the current system just has too many voices in it and, basically, that really affects its actual outcomes.

● (1825)

Kathy Borrelli: I understand that there are about six levels of agreement or six different ministries that have to agree to procure one item.

Richard Shimooka: At any one time, you're probably going to see the services define the requirements. The Department of National Defence is involved. You have Justice, which is going to give you a legal opinion. You have ISED, which is going to give the technical option. You have PSPC, which is going to be the agency that's responsible for it. On top of that, you're going to have Treasury Board, which is going to have the financial aspects. That is true for most of the large procurements.

Kathy Borrelli: This question is for any of the gentlemen. Would it make sense to actually build requirements into the DIA that Canadian small and medium-sized enterprises would get the work first, before it would go out to any foreign country?

Kevin Reed: I know that SMEs are vital to the future of our job creation, our intellectual property and where we stand in sovereignty as a nation. We also have to stand up with our SMEs to provide the technical capability to deliver that, which I believe we have. My job is to find them the money to be able to do that, and that's what we're doing.

Philippe Lagassé: Having spent a decade reviewing and advising four successive ministers of national defence on requirements, from two successive governments, I will tell you that the military requirements should be the requirement. I have serious concerns about requiring us to go down the Canadian route. We may build that in as part of the technical or industrial side of the equation, but I would urge the government to stay true to the fact that the requirements should be the requirements on the military side.

Kathy Borrelli: We have so much skill in this country. When you lay out the requirement, I'm sure we have the skilled companies, the skilled labour, that could build what we need before we go elsewhere, no?

Philippe Lagassé: I think it really depends on what you're trying to build. In some cases, you're going to be building a capability that is an allied capability that's built in multiple places. For instance, again, why did the F-35 ultimately win the competition? Because it was the best aircraft at the end of the day, and this would be true of building a naval ship as well. I mean, we can build parts of it, but we also want to have the best possible technology.

There is a balance to be struck between protecting our men and women in uniform when they are operating and they need to trust that they are being equipped with the best possible equipment. Now, that doesn't say that Canadian manufacturers can't do it. They can all compete. As you say, we have great ingenuity. We have great technology. It's not to say that they can't do it. It's another thing altogether to require it.

Richard Shimooka: Could I make a quick comment?

I would say that one shortcoming of the existing procurement process in regard to sovereign production is that in many cases we've actually funded systems with capabilities through the lowest technology readiness level, to the point where it's almost mature and ready to go, and we've actually forced them to go into a competition against a foreign manufacturer. We've developed them through DRDC or various investment funds and the systems are ready to go. There are examples like the high-frequency surface search radar, which is several years back now. It's one example where we had a capability in Canada to do so.

The existing procurement rules, which are changing, have actually made it much more difficult for Canadian industries to actually compete within our own procurement system. I agree a hundred per cent with my colleague's points here. I think that in some ways we've actually gone too far in some of these areas.

● (1830)

The Chair: Thank you very much.

Mr. Bains, you have five minutes.

Parm Bains: Thank you, Mr. Chair.

Thank you to our witnesses for joining us.

I'm going to Mr. Reed first.

First, thank you for your service.

We've had witnesses come to the committee in the past, and a specific witness talked about anecdotal evidence regarding entrepreneurs who were debanked, with no apparent reason other than the fact they ran a defence-oriented business. Could you shed some light on the potential stigma around defence and financing defence and if you've encountered similar stories?

Kevin Reed: That statement is absolutely true. Prior to 2025, if you were in the defence category, then you were deemed to be in other categories that had a lot of stigma too, principally because of ESG. That has changed with all global banks, including the Canadian ones, in the last six months, where they are building their defence teams. They are building their knowledge set. The “S” in ESG is now “societal”. The protection of people is a societal right.

We're seeing this rapidly changing, not just with the banks, but with pension funds, sovereign wealth funds and insurance companies. You will start to see by 2026 more credit available and more equity flow into the category, which has been starved.

That is an absolutely true statement. Companies, just because they were in the defence category, were debanked. They didn't have credit. I have multiple stories and examples of entrepreneurs I know who had big opportunities. They might have had $10 million a year. They were dual purpose. They were in drones. They had a 60-million pound order from the British \Ministry of Defence as a third-tier supply chain. They couldn't fulfill it.

We talk about building our capability. We have to be able to finance our entrepreneurs. If we don't finance our entrepreneurs, we don't build the capability.

Parm Bains: Are there any measures we need to incorporate into our banking system where you think there are still some shortfalls or barriers?

Kevin Reed: I think our mainline banks are taking this very seriously. They see this as both a national rallying cry and a business opportunity.

The ability to put credit out is still pretty restrictive under Basel III and Basel IV. That's why having an AAA layer over credit guarantees will be a force multiplier for capital for the SMEs and private companies.

Parm Bains: Thank you, sir.

I'm going to switch to Professor Lagassé.

Currently in defence manufacturing, Canada has approximately 600 suppliers. With respect to the industrial ecosystem that goes along with defence capabilities, how can we, as a government, leverage these regional strengths where they're all located?

You mentioned the Poseidon, in Richmond, British Columbia. Boeing has been there for 100 years. A lot of the IT and analytics around the Poseidon aircraft are being handled in my hometown.

Could you talk a bit about what we need to do to support our SMEs versus larger multinationals?

Philippe Lagassé: I'll just build on a point that my colleague Mr. Shimooka made in his answer to the earlier question as well.

If you really want to work with Canadian companies, you need to work with them from the beginning if you want to develop your own capacity to do something specifically tailored to your forces' requirements.

We currently have a program—I think you've heard of it before—called IDEaS. We develop the capability with Canadian companies, yet there's no contracting mechanism for the government to then actually acquire the capability.

It's these types of things. If we don't address such simple things like that, which our allies do as a matter of course, then we are falling behind.

We do have contracting regulations and we have other programs in place, but I would say that the main thing is this: What we can do to ensure the Canadian Armed Forces are able to work with Canadian industries to develop the capabilities they need and then give them the authority and ability to buy it quickly?

We don't have that right now. That is really arguably the most important thing. If you want to support Canadian industry and SMEs, they need to know that they have a buyer.

Parm Bains: Is this a structural issue, maybe, with Innovative Solutions Canada, or are there recommendations you can make?

● (1835)

Philippe Lagassé: This is a national defence program, unfortunately. You would think this is something that would be relatively easy to achieve. I suspect we will get there. I don't want to be overly harsh on people. The reality is that, if anything, I would say, speaking to the larger question that we've been dealing with here, Canadian culture has always been so fair and so focused on open and transparent competition for everybody at all times that we have hurt ourselves by not saying, in some cases, that, no, we're just going to work with our companies here on this particular technology.

In trying to be more Canadian than we need to be, in trying to always ensure that we are so rules-based and so fair and transparent, we sometimes aren't willing to simply work with Canadian companies to find Canadian solutions.

Parm Bains: Thank you.

The Chair: Colleagues, I'm going to use my prerogative as chair for just one minute to get a question in, which I had intended to do.

Mr. Lagassé, the question is for you. There was some very interesting reporting from CBC about a month ago, overseas in Finland, talking about the way that the Finns in particular, living next door to the Russians, have integrated into everyday life a mobilization of their citizenry, whether that's mailing emergency preparedness kits or whether that's building underground infrastructure that serves as a playground but in wartime could be converted very quickly into an operations system.

Do you believe, as was referenced by our colleague a couple of minutes ago from a remark made by the deputy minister, that we're in wartime? I don't think we're in wartime, but we're not in peacetime. Does the Canadian citizenry need to start thinking differently about its role? Does the government need to start talking to citizens differently about its role in terms of the challenging world order we're moving into?

Philippe Lagassé: Absolutely. Look, it's not just Finland. All the Nordics embrace the concept of total defence. This is what you need for not just traditional military threats but also the natural disasters that we're currently facing and have had difficulty managing.

One can imagine a scenario, Mr. Chair, where, if you want to see your sovereignty slip away, there is a situation in which Canada, on its own territory, is not able to deal with a major disaster and our major ally comes in and decides that it's not really going to go. You need to be able to deal with that. The way you deal with that is by having a citizenry and a population that is able to answer the call when something occurs. This is the total defence concept. This is training people to know that they have to be able to protect themselves, that they have to be able to take care of themselves for 48 to 72 hours and that we can mobilize our youth to deal with a major earthquake or fires or whatever it is so that we can handle the problem on our own, lest we be forced to call somebody else to do it for us.

The Chair: Thank you very much. I appreciate that. It's a topic I'll be curious to delve into a little bit further.

Colleagues, we have two very quick orders of business.

Typically, witnesses, you are free to go, but MPs typically do like to kind of debrief at the end. If you can stay, just so that a handshake can be provided, we need two minutes to deal with some business. If you have to go, of course, you are free to do so. We appreciate your availability.

First, colleagues, I'm looking for unanimous consent on a motion. It essentially authorizes associate members who are subbing into the committee to get access to the digital binder. I think everyone is familiar with this already. I would like to save some time by not having to read it.

I'm looking for unanimous consent.

(Motion agreed to [*See Minutes of Proceedings*])

The Chair: Thank you very much.

Second, Madam Dancho had put forward a motion. I don't think we need to turn this into much of a discussion. There seemed to be agreement in my discussions on Doug Guzman, the CEO of the Defence Investment Agency. There's a desire and a will on the part of the committee to invite Mr. Guzman as a witness. Originally, there had been a discussion of two hours. My understanding in discussions with parties is that one hour would be sufficient—stand-alone, however.

With unanimous consent, we can simply agree that I can provide instruction to the clerk to find an hour on the defence industrial strategy to have Mr. Guzman from the DIA as a stand-alone witness on that panel.

I'm looking for unanimous consent.

(Motion agreed to [*See Minutes of Proceedings*])

The Chair: Colleagues, thank you very much for a very interesting discussion.

● (1840)

The meeting is adjourned.