

WEBVTT

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<v SPEAKER_1>On this episode of Defence Deconstructed, which we're recording on the 14th of November, 2025, talking to Dr.

00:00:10.300 --> 00:00:14.760

<v SPEAKER_1>Philippe Lagassé, one of our fellows and a professor at Carleton University.

00:00:14.760 --> 00:00:30.380

<v SPEAKER_1>Basically, we're having a second part of our budget 2025 analysis, drawing off his sub-stack article reflecting on the government's direction so far on defence policy and some of the initial parts of the forthcoming defence industrial strategy.

00:00:30.380 --> 00:00:34.060

<v SPEAKER_1>One thing for listeners, we have another major conference coming up before the end of the year.

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<v SPEAKER_1>On the 27th of November, we're organizing a discussion around Canada's pan-domain continental defence.

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<v SPEAKER_1>Registration is now open.

00:00:41.860 --> 00:00:43.780

<v SPEAKER_1>Go get your tickets while you can.

00:00:46.000 --> 00:00:48.080

<v SPEAKER_1>Bill, welcome back to Defence Deconstructed.

00:00:48.080 --> 00:00:49.600

<v SPEAKER_2>Thanks for having me.

00:00:50.800 --> 00:01:08.200

<v SPEAKER_1>So I wanted to reach out because you had written a sub-stack reaction to some of the things in the budget last week focused around what I guess are some of the initial financial commitments at least towards the forthcoming defence industrial strategy the government's been working on.

00:01:08.200 --> 00:01:09.600

<v SPEAKER_1>Maybe just start us out.

00:01:09.600 --> 00:01:16.760

<v SPEAKER_1>I guess what were some of those reactions that you were reflecting on in a longer written piece that we'll put in the show notes?

00:01:16.760 --> 00:01:17.280
<v SPEAKER_2>Thanks, Dave.

00:01:17.280 --> 00:01:39.480
<v SPEAKER_2>So what I was struck by obviously is the dollar amounts that we're talking about, as your listeners know, we're talking about \$81.8 billion over six years on a cash basis that has to kind of, or five basis, five years, sorry, that has to get out the door.

00:01:39.480 --> 00:01:49.720
<v SPEAKER_2>And so that's a large sum of money and \$6.6 billion of that, if I'm not mistaken, again, on a cash basis, is going to be devoted to this defence industrial strategy.

00:01:50.640 --> 00:02:00.000
<v SPEAKER_2>In addition to that, there's \$1 billion, I believe, that, within that, that's going to be given to start-ups within a one-year period, if I'm not mistaken.

00:02:00.000 --> 00:02:03.040
<v SPEAKER_2>So a lot of ambition there.

00:02:03.040 --> 00:02:18.740
<v SPEAKER_2>And when we look on the demand side of the equation in the budget, we're seeing about \$11 billion for a digital monetization of CAF and CSE, and then roughly \$17 billion on capital expenditures for the CAF.

00:02:19.960 --> 00:02:27.640
<v SPEAKER_2>In various areas that the government has highlighted that are not exhaustive, but still give us an indication of where things are going.

00:02:27.640 --> 00:02:40.180
<v SPEAKER_2>So as I was kind of mulling this over and thinking, okay, so you're going to take \$6 billion and invest it in your industrial strategy, and you've got a capital spend of about \$17 billion.

00:02:40.180 --> 00:02:53.240
<v SPEAKER_2>How is all that going to kind of marry up in terms of what's going to be bought and whether or not there's actually going to be a sufficient amount of demand from the Canadian government towards Canadian industry?

00:02:53.240 --> 00:03:13.160
<v SPEAKER_2>And the reason I'm highlighting that, and maybe we can talk about this a little bit more in detail, is at the end of the day, I think this defence industrial strategy, when it comes out, is going to be, its success or failure will depend on whether or not Canadian

industry can sell to the Canadian government and whether or not it can export.

00:03:14.500 --> 00:03:39.040

<v SPEAKER_1>So, I guess, neither of us are economists, we can stipulate that here as we move forward, but to my limited understanding of that, digital science, what I see largely, so notwithstanding the fact that there is a big commitment, that you highlighted in a couple of different ways, the industrial strategy components that we've seen thus far are all supply side instruments.

00:03:39.420 --> 00:03:44.560

<v SPEAKER_1>So you mentioned as an example, the funding for Business Development Bank of Canada.

00:03:44.560 --> 00:03:56.420

<v SPEAKER_1>My understanding of that is that they're going to provide money to the bank in one year, the disbursement period, especially considering that if it's the fiscal year, there's like 138 days left in it.

00:03:56.420 --> 00:04:02.480

<v SPEAKER_1>The disbursement period may be longer, but the transaction to the bank would happen in the current fiscal year.

00:04:02.480 --> 00:04:15.440

<v SPEAKER_1>There's a number of other measures in that \$6.6 billion that you itemize, that are going to go to create programming, incentives, financing, a bunch of different things to help spur more.

00:04:15.440 --> 00:04:21.180

<v SPEAKER_1>I think we're still using the legacy term industrial activity, when it's probably more like industrial, technological.

00:04:21.180 --> 00:04:34.580

<v SPEAKER_1>That's maybe semantics, but the common discussion that it's industrial strategy, I think increasingly, particularly with some of the things the government's talked about, it's less about old-fashioned industrial and more about new technology space activity.

00:04:34.640 --> 00:04:41.780

<v SPEAKER_1>But it's a number of different measures that are going to try and have more produced in Canada.

00:04:41.780 --> 00:04:51.520

<v SPEAKER_1>And while there is a big spend, I'm a little less clear about what the actual demand side of that industrial equation is looking like.

00:04:51.520 --> 00:04:58.540

<v SPEAKER_1>Some of the things that were mentioned there are things that there's existing capacity in Canada.

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<v SPEAKER_1>That money, though, that you mentioned, if it's over five years, there's not much time to have a supply side oriented set of initiatives supply the demand side of that equation if it's all to happen in a five-year time frame.

00:05:13.300 --> 00:05:17.000

<v SPEAKER_1>Is that kind of a different distillation of your reaction?

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<v SPEAKER_2>No.

00:05:17.280 --> 00:05:24.300

<v SPEAKER_2>And again, I fully endorse your caveat here that I'm not speaking of as an economist.

00:05:24.300 --> 00:05:25.460

<v SPEAKER_2>So, and Norm.

00:05:25.520 --> 00:05:26.700

<v SPEAKER_1>Nor am I.

00:05:26.700 --> 00:05:29.820

<v SPEAKER_2>Speaking as any kind of finance guy.

00:05:29.820 --> 00:05:31.940

<v SPEAKER_2>But in a way, I think it almost helps, right?

00:05:31.940 --> 00:05:58.460

<v SPEAKER_2>Because both you and I are kind of viewing this a little bit from more the defence procurement policy lens and saying, okay, so as opposed to getting bogged down in the figures, just looking at it more in a general sense, that's to your point, there's a lot of money going into or planned money to go into spurring supply of defence material in Canada.

00:05:58.460 --> 00:06:01.300

<v SPEAKER_2>The other side of that equation, though, is who's buying?

00:06:01.300 --> 00:06:24.940

<v SPEAKER_2>I mean, really fundamentally, this is what my post was geared towards as saying, look, in the absence of that, of a clear demand signal, either from government or from allies or other countries, are you really going to be able to catalyse that investment, which is what the Prime Minister is kind of the terminology that he's used around some of these industrial

investments?

00:06:24.940 --> 00:06:33.480

<v SPEAKER_2>So are you able to convince industry to step up to the plate unless you really broad class that clear demand signal?

00:06:33.480 --> 00:06:37.620

<v SPEAKER_2>And I think there's a few challenges there, right?

00:06:37.680 --> 00:06:47.540

<v SPEAKER_2>Around how convincing the CAF to kind of turn its attention more towards domestic suppliers and also in terms of what kind of export markets you're looking at.

00:06:49.640 --> 00:07:04.420

<v SPEAKER_1>Maybe just like, let's, we'll turn to the export market piece in a little bit, but just in terms of the Canadian military specific by profile, because do you have a sense from where you've sit, where you sit now, where you've sat in the past?

00:07:06.380 --> 00:07:14.580

<v SPEAKER_1>How much more detailed do we still need about where these dollars are going to go to get clarity about where that demand signal might be?

00:07:14.580 --> 00:07:32.960

<v SPEAKER_1>So other than in big dollars in the aggregate, that all has to translate into, unless we start changing the way all of this stuff works, and who knows, this is a brave new world and maybe we're in that space, but I don't, that's not clear to me yet that we are, that all gets, has to get filtered into specific projects for specific capabilities.

00:07:33.720 --> 00:07:39.280

<v SPEAKER_1>The Canadian Armed Forces has a very large acquisition program moving forward already.

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<v SPEAKER_1>It's got all, got a whole lot of these dollars already apportioned out to specific initiatives.

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<v SPEAKER_1>My understanding is that a consequential part of the capital funds that are being provided that you touched on are going to go to projects that were already in development but didn't have an adequate supply of funding to deliver the capability of the project was supposed to deliver it absent a budget top up.

00:08:05.500 --> 00:08:10.800

<v SPEAKER_1>Some of that is new money but for old projects that just

didn't have adequate funding to move ahead.

00:08:10.860 --> 00:08:27.860

<v SPEAKER_1>Then there's some other new ones but it's not yet clear to me and maybe it is more for you about where the additional identified capability investments will come from, how they correlate into the Air Force, Army, Navy, Special Forces or Digital Service Groups budget line.

00:08:28.060 --> 00:08:42.460

<v SPEAKER_1>Therefore, where the opportunity for the fruits of this industrial strategy, if it's highly successful, will be in terms of as yet unallocated funds, five or however many years down the road.

00:08:42.640 --> 00:08:45.060

<v SPEAKER_1>Do you have a different take on where things sit?

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<v SPEAKER_2>No.

00:08:45.700 --> 00:08:46.640

<v SPEAKER_2>I agree with you.

00:08:46.640 --> 00:08:55.440

<v SPEAKER_2>That was the one thing that struck me looking at that initial capability descriptor that accompanied that 17 billion.

00:08:55.440 --> 00:09:02.560

<v SPEAKER_2>To your point, there's a number of those items that were projects that are long-standing but lacked funding.

00:09:03.680 --> 00:09:16.700

<v SPEAKER_2>This is what led me to, in the piece, to make the point that I really hope that there is some kind of defence policy document that will flow from all this in the next little while.

00:09:18.100 --> 00:09:22.040

<v SPEAKER_2>I know that the government has been working on a national security strategy for some time.

00:09:22.960 --> 00:09:29.480

<v SPEAKER_2>I think even this time last year, they were on the cusp of releasing a type of thing.

00:09:32.140 --> 00:09:40.380

<v SPEAKER_2>If and when that document is released, I would hope that there is then a refresh, and it doesn't have to be detailed one, but some refresh of the defence policy.

00:09:40.440 --> 00:09:48.720

<v SPEAKER_2>As part of that, one would expect to see some initiatives or identification of where that additional money is going to go.

00:09:49.080 --> 00:10:01.400

<v SPEAKER_2>Because again, industry needs to have a sense of what they should be investing in, what they should be aiming for, what kind of projects are going to be there, and that's where it will get very interesting.

00:10:01.400 --> 00:10:17.540

<v SPEAKER_2>The other piece to this is when the Defence Investment Agency was announced, it was also indicated, the government said that contracting considerations were now going to be woven into the requirement setting process.

00:10:17.540 --> 00:10:34.980

<v SPEAKER_2>Now, what I take that to mean is that there's going to be an effort to make sure that these initiatives that come, whether through a new defence policy or however else they come together, are going to be geared or turned towards whatever Canadian industry is supplying.

00:10:36.900 --> 00:10:51.280

<v SPEAKER_2>I think that's going to be an interesting endeavour, given that Defence Investment Agency is incubating in PSPC and not part of the requirement setting process formally that is occurring at D&D CAF.

00:10:51.280 --> 00:11:02.620

<v SPEAKER_2>So there again, there might be a little bit of a tension or struggle that's going to occur that will probably complicate that demand signal unless they figure that out.

00:11:03.480 --> 00:11:21.840

<v SPEAKER_2>And what I mean by that is simply the policy may be written in such a way that the CAF reads it as saying, no, we're going to keep going with what we've always done, try and achieve the most highest operational advantage using American capability.

00:11:21.840 --> 00:11:28.800

<v SPEAKER_2>And regardless of being told that we should buy more Canadian, that's not how we're necessarily going to interpret the policy.

00:11:29.860 --> 00:11:39.380

<v SPEAKER_2>And if we're then trying to kind of shoehorn into that by Canadian policy, it could make things very complicated.

00:11:39.380 --> 00:11:53.520

<v SPEAKER_2>Just to wrap up, we're already seeing kind of hints of

this in the fighter review and the file that I mentioned specifically in the blog post, the airborne early warning capability.

00:11:53.520 --> 00:12:08.300

<v SPEAKER_2>So lots of civil military issues to work out, industrial issues to work out, and a demand signal and supply signal alignment that is going to require a lot of finessing.

00:12:08.300 --> 00:12:17.860

<v SPEAKER_1>Well, and so let's just take those two projects that you touched on there, because I think that those provide neat bookends for the dilemma the government's faced about time phasing on this.

00:12:17.860 --> 00:12:31.060

<v SPEAKER_1>So the airborne early warning program, I think the Air Force has been kicking around an idea about that, but it has only relatively recently been formalized as a project.

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<v SPEAKER_1>So that's one where there are, there is a lot more latitude certainly, to shape that with any number of considerations.

00:12:39.900 --> 00:12:45.440

<v SPEAKER_1>Canadian content ones, contracting approach, procurement strategy considerations.

00:12:45.440 --> 00:12:52.320

<v SPEAKER_1>It's early enough that you can, the government has a lot of levers available to it, because it is relatively new.

00:12:53.700 --> 00:13:01.140

<v SPEAKER_1>To be as generous as I can about our long-standing pursuit of fighter aircrafts, that project is a little more mature.

00:13:01.140 --> 00:13:08.520

<v SPEAKER_1>So the time to shape requirements on that was back when, well certainly I was still in grad school and you might have even been then too.

00:13:09.880 --> 00:13:21.680

<v SPEAKER_1>So there's a lot, unless they're just going to change tact and disregard previous decades now of work, there's only so much that you can do with something that's that far advanced.

00:13:21.720 --> 00:13:37.380

<v SPEAKER_1>And at this point, I guess for my thinking would be that there's very little unless you're going to fundamentally change and move on from choices made in the past and then, well not just made, but made more than once.

00:13:37.380 --> 00:13:37.660

<v SPEAKER_1>Right.

00:13:37.660 --> 00:13:47.380

<v SPEAKER_2>And in speaking about the fighter, I wasn't trying to suggest that this is a live issue in that same fundamental way.

00:13:47.380 --> 00:13:53.080

<v SPEAKER_2>To your point, the requirements have been set, the competition has been held, we're down a particular path.

00:13:53.080 --> 00:13:58.040

<v SPEAKER_2>Both the Deputy Minister and Head of the Air Force have indicated that they're just moving ahead.

00:13:58.040 --> 00:14:00.940

<v SPEAKER_2>I mean, in the absence of some kind of other direction.

00:14:02.320 --> 00:14:17.660

<v SPEAKER_2>The reason I was bringing it up is more to point to the fact that saying that you want to revise something or saying that you want to bring in other considerations into the procurement process is easier said than done, particularly when you're trying to do it from the outside of D&D CAF.

00:14:19.200 --> 00:14:19.760

<v SPEAKER_2>That's not easy.

00:14:21.080 --> 00:14:23.360

<v SPEAKER_2>On AEW as well, right?

00:14:24.440 --> 00:14:31.040

<v SPEAKER_2>This is where it'll be interesting to see just how dug in the CAF gets on these things.

00:14:31.040 --> 00:14:53.280

<v SPEAKER_2>And I think it's a good litmus test in terms of does the government have both the fortitude, the expertise, and the internal coherence at the cabinet level to ensure that its preferences, its declared preferences, are respected or at least taken into account.

00:14:53.280 --> 00:14:57.660

<v SPEAKER_2>Or are we going to see quite the opposite, revealed preferences?

00:14:57.660 --> 00:15:01.200

<v SPEAKER_2>Namely, the government says one thing but ends up doing something else, right?

00:15:01.200 --> 00:15:02.060

<v SPEAKER_2>I.e.

00:15:02.060 --> 00:15:05.540

<v SPEAKER_2>continuing down a largely American path.

00:15:05.540 --> 00:15:17.980

<v SPEAKER_2>And that I think is just going to be a very interesting test case of whether or not all these things by Canadian encouraging Canadian Defence Industrial Capacity, all that.

00:15:17.980 --> 00:15:20.440

<v SPEAKER_2>It's again, it's very easy to declare that in policy.

00:15:20.700 --> 00:15:24.520

<v SPEAKER_2>It's even easy in a sense to spend the money on it.

00:15:24.520 --> 00:15:30.780

<v SPEAKER_2>It's another thing to translate that into an acquisition of capabilities.

00:15:33.780 --> 00:15:37.220

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00:15:37.220 --> 00:15:39.220

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00:15:39.780 --> 00:15:48.180

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00:15:50.800 --> 00:15:58.880

<v SPEAKER_1>Well, and I think just to tease this a little further, both of these examples are big capabilities.

00:15:58.880 --> 00:16:03.540

<v SPEAKER_1>And I think I see a lot of the effort that's focused on the industrial strategy.

00:16:03.600 --> 00:16:10.180

<v SPEAKER_1>So there's specific elements, the BDC financing line item there about support to small and medium enterprises.

00:16:10.180 --> 00:16:22.840

<v SPEAKER_1>I think we could likely both agree that an airborne early warning capability is unlikely to be delivered to the Royal Canadian Air Force by a small or medium enterprise because those are large, complicated systems.

00:16:22.840 --> 00:16:38.420

<v SPEAKER_1>And the bandwidth, the engineering, the ability to do integration, the ability to manage a project like that is something that is, I think, has at least traditionally been something that small or even medium companies aren't positioned to do.

00:16:38.420 --> 00:17:21.720

<v SPEAKER_1>Now, maybe the government's got some creative mechanisms to change some of those aspects, but I think it's more likely that what you would see come through some of these initiatives are, I guess, either more small medium enterprises or small enterprises that become more medium enterprises over time from the Canadian industrial base, that don't produce full complete weapon systems or at least large ones, and continue to either maybe provide smaller sized systems that are more manageable, or provide the kind of high value, in some cases, we're leading inputs at various points in the supply chain, subsystem level, sensor level, wherever that is.

00:17:21.720 --> 00:17:43.700

<v SPEAKER_1>I guess, just from looking at some of those things again, I think it's an open question about, so where does the future proliferation of small, medium enterprises, or dual use companies that are existing smaller firms that now have more defence applications, where do they fit into the future National Defence Investment Plan?

00:17:43.700 --> 00:18:03.220

<v SPEAKER_1>What budget line item from the Air Force, or the Navy, or the Army, or SOF, or wherever it is, where does that future highly successful Canadian innovation, widget, solution, service, where do they hook into what in the US would be called a program of record, but we don't use that terminology, just a real project?

00:18:03.220 --> 00:18:09.340

<v SPEAKER_2>I mean, I think there's a number of different possibilities, and this is why I keep harking on this defence policy thing.

00:18:09.340 --> 00:18:20.260

<v SPEAKER_2>So, you know, if you are going to say, for instance, well, we've taken a look at Ukraine, and uncrewed is the way to go to really augment our capability, can we develop that further in Canada?

00:18:21.220 --> 00:18:22.480

<v SPEAKER_2>Probably, right?

00:18:22.480 --> 00:18:42.520

<v SPEAKER_2>Like, that's an area where you're going to say, okay, like, we should be able to develop a really strong industry around that, particularly if we recognize, in light of Ukraine, that a lot of these systems should be consumables and not platforms that exist for large periods of time.

00:18:42.520 --> 00:19:04.300

<v SPEAKER_2>Similarly, you know, on the sensing side, right, there's a lot of possibility there for Canadian industry to thrive and develop, and when you think about it, in terms of what Canada can be doing to better defend itself and to know what's happening in its territory, in waters, airspace, all the rest of it, right, there's a lot of potential there.

00:19:04.300 --> 00:19:11.700

<v SPEAKER_2>There's, on the space side, there's a lot of potential as well, where, you know, we have strength, but that strength could be developed.

00:19:11.700 --> 00:19:20.240

<v SPEAKER_2>There is talk of a Canadian Corvette, right, to replace the MCDBs, so there's another kind of possibility there.

00:19:20.240 --> 00:19:40.460

<v SPEAKER_2>So there is a lot, there's a lot of different areas, right, but this is a little bit my concern, is you need to take all these great ideas and give direction so that they become projects and, or programs, and then they become requirements, right?

00:19:40.460 --> 00:19:41.980

<v SPEAKER_2>All that needs to kind of line up.

00:19:42.580 --> 00:19:50.960

<v SPEAKER_2>Otherwise, will industry be willing to match what the government is trying to do?

00:19:50.960 --> 00:19:53.500

<v SPEAKER_2>And that's my concern.

00:19:54.700 --> 00:20:07.820

<v SPEAKER_1>And then two other things that you touched on in your piece were, so if they just become requirements, I guess, well, requirements is plural, but as a single initiative that is time-limited.

00:20:09.100 --> 00:20:22.540

<v SPEAKER_1>And I guess we're heading into uncharted territory where the Canadian Armed Forces actually has consequential resources and they've come through, well, pick a time frame, but at least a couple of generations when they've been chronically short in many different ways.

00:20:22.540 --> 00:20:40.860

<v SPEAKER_1>That chronically short dynamic, which I think is inculcated with everybody currently serving, because it's been a long

time since there's been an abundance of resources and they haven't been managing scarcity, that has led to dynamics of having one shot at acquiring something on some lengthy time cycle.

00:20:41.060 --> 00:20:55.300

<v SPEAKER_1>It depends exactly on the capability, but ships basically 30 to 40 years, aircraft 30 to 40 years, some of the Army equipment on a shorter time cycle, but still lengthy gaps between the calf buying something and then coming back and buying it again.

00:20:55.300 --> 00:21:02.700

<v SPEAKER_1>That's one potential issue to bridge, even if we're just looking at the Canadian side of that equation.

00:21:02.700 --> 00:21:04.400

<v SPEAKER_1>I guess, how do you reflect on that?

00:21:04.400 --> 00:21:06.320

<v SPEAKER_1>I mean, do you see a prospect of that changing?

00:21:06.320 --> 00:21:16.000

<v SPEAKER_1>I guess there's lots of discussion about the ability to have in a number of years now, but continuous capability, insertion, or sustainment.

00:21:16.000 --> 00:21:25.160

<v SPEAKER_1>I guess my question would be like, what does that really look like in terms of smoothing out a domestic demand for different companies?

00:21:25.300 --> 00:21:27.480

<v SPEAKER_1>How much of that cycle gets flattened out?

00:21:27.480 --> 00:21:29.600

<v SPEAKER_1>Not just from the government's perspective.

00:21:29.600 --> 00:21:35.440

<v SPEAKER_1>I think most of that conversation has been framed around how that would benefit the calf, keep our fleets more relevant.

00:21:35.440 --> 00:21:41.100

<v SPEAKER_1>But I guess if I was in industry, I'd be trying to figure out how that smooths out a potential revenue stream.

00:21:41.100 --> 00:21:41.320

<v SPEAKER_1>Right.

00:21:41.320 --> 00:21:44.000

<v SPEAKER_2>I think it's an essential piece.

00:21:44.000 --> 00:21:57.320

<v SPEAKER_2>If you're going to have this kind of industrial strategy and you're going to be supporting these small and medium enterprises in particular, you need to have a consistent demand signal over several decades.

00:21:57.320 --> 00:22:09.900

<v SPEAKER_2>To be honest, we have a bit of a bad record on some of this sometimes, where we will invest in a capability, we'll become very good at it, and then we just drop it.

00:22:12.740 --> 00:22:25.340

<v SPEAKER_2>If I'm a cautious investor, I look at that pattern and I go, how do I know that this is actually going to be kept up over time, and that this isn't going to be a one-off?

00:22:26.520 --> 00:22:31.220

<v SPEAKER_2>Part of that has to be changing of how we do procurements.

00:22:31.220 --> 00:22:49.120

<v SPEAKER_2>It's changing of contracting models and funding models, and taking things and embedding continuous buys and updates and whatnot into how we acquire capability, and not simply on these big block upgrades that become projects themselves.

00:22:49.120 --> 00:22:57.320

<v SPEAKER_2>It becomes about treating some of this in the same way that we treat the national procurement budget.

00:22:57.320 --> 00:23:08.880

<v SPEAKER_2>It has to be something that D&D has the authority, and CAF has the authority to acquire regularly without too much fanfare, and without turning it into a capital expenditure.

00:23:09.980 --> 00:23:12.900

<v SPEAKER_2>That's, I think, the big challenge.

00:23:13.080 --> 00:23:19.080

<v SPEAKER_2>I'm hopeful though, that as part of the setting up of the DIA, that that's part of the conversation.

00:23:20.240 --> 00:23:40.820

<v SPEAKER_2>As I've written elsewhere, I hope there's real legislative change that accompanies the establishment of the DIA, because in the absence of that, I think we're going to be stuck with the old rules and trying to adapt them to a new reality, and it's going to be doubly more, much more difficult than it needs to be.

00:23:40.820 --> 00:23:46.700

<v SPEAKER_1>So personally, I would go a step further than what you laid out, which are different instrumental ways of operationalizing.

00:23:47.860 --> 00:24:21.060

<v SPEAKER_1>What I think, from my vantage point, and I think what you would need to be, you would need to get affected is a change in orientation and mindset that, as part of our defence policy guidance and force planning construct, support for the parts of industries the government identifies it wants to support will have to shift to having as a consideration of the military's force development effort, supporting the industrial sectors that get identified as being the recipients of government support as part of the industrial strategy.

00:24:21.060 --> 00:24:41.320

<v SPEAKER_2>And one thing I do mention as well in the piece is I was always struck as somebody who works on different countries, the French approach and to some extent the Japanese approach as well where sometimes the government has to step in and just keep an industry or keep a sector or keep a company alive when there is no demand.

00:24:42.480 --> 00:24:53.720

<v SPEAKER_2>And if you're serious about kind of sustaining a defence industrial base, sovereign capabilities you occasionally need to just basically pay people just to keep the lights on.

00:24:53.720 --> 00:24:58.000

<v SPEAKER_2>And that's going to be a challenge in a country like ours, you know.

00:24:58.000 --> 00:24:59.880

<v SPEAKER_2>We're not used to that kind of thing.

00:24:59.880 --> 00:25:08.680

<v SPEAKER_2>So having that conversation without, you know, an auditor general breathing down your neck and a public accounts committee saying, what are you doing?

00:25:08.680 --> 00:25:09.500

<v SPEAKER_2>How are you doing this?

00:25:09.500 --> 00:25:10.260

<v SPEAKER_2>Why are you doing this?

00:25:10.260 --> 00:25:16.240

<v SPEAKER_2>And finance not, you know, losing its mind over it is culturally going to be difficult.

00:25:17.780 --> 00:25:27.160

<v SPEAKER_1>And then, of course, the other piece of this, the other way that you can kind of smooth out enough of a consistent and

predictable revenue stream is with exports.

00:25:27.160 --> 00:25:30.900

<v SPEAKER_1>And you touch on this in your analysis too.

00:25:30.900 --> 00:25:47.620

<v SPEAKER_1>I guess, what's your sense of what the government's looking at in terms of supporting Canadian defence exports, certainly hearing a bunch of different comments that the government's recognized the need to treat supportive Canadian defence exports differently.

00:25:47.620 --> 00:25:51.340

<v SPEAKER_1>But what's your sense of the overall effort there?

00:25:51.520 --> 00:25:59.240

<v SPEAKER_2>I think it's interesting that it seems like the government is hopeful that our European allies are going to be big buyers.

00:26:00.520 --> 00:26:07.460

<v SPEAKER_2>And that that's part of the idea here behind Canada getting more involved in some of the European rearmament initiatives.

00:26:08.800 --> 00:26:23.540

<v SPEAKER_2>I would just be cautious about that simply because I suspect that Europe is much like us going to be trying to protect its industry and grow its industry and protect its economy and things like that.

00:26:24.560 --> 00:26:35.200

<v SPEAKER_2>I'm always struck when I speak to Europeans about this that they have a bit of the same mentality that we have, namely, oh, you'll buy our stuff.

00:26:35.200 --> 00:26:37.200

<v SPEAKER_2>And then you say, okay, well, are you going to buy our stuff?

00:26:37.200 --> 00:26:42.420

<v SPEAKER_2>And they go, well, well, no, right?

00:26:42.420 --> 00:26:55.000

<v SPEAKER_2>The expectation almost on both sides is that it's kind of a one-way relationship, or at least people get their backs up very quickly when you say, okay, well, yeah, this has to go both ways here.

00:26:56.020 --> 00:26:59.460

<v SPEAKER_2>So I'm a little less clear on that, to be honest.

00:27:00.060 --> 00:27:06.340

<v SPEAKER_2>Are we going to find eager buyers in NATO Europe and in the Indo-Pacific?

00:27:06.340 --> 00:27:26.300

<v SPEAKER_2>We might in some cases, but here again, just when I compare to the French and their experience in this, and to some extent, the Swedes as well, if you want to maintain this really atarctic or at least more independent defence industrial base, you kind of have to sell to everybody.

00:27:26.300 --> 00:27:27.840

<v SPEAKER_2>Kansas be your allies.

00:27:27.840 --> 00:27:44.020

<v SPEAKER_2>And I think that's going to be a difficult one for Canada, because even recently, we've seen controversies around where weapons end up and whether or not we want to be associated with certain regimes.

00:27:46.060 --> 00:28:02.380

<v SPEAKER_1>And so a couple of the markets there that have been problematic in say like the last decade have been the Middle East, which I think by and large companies look at as if you're going to have a global product mandate, it has to include that particular region on the globe for a number of different reasons.

00:28:02.380 --> 00:28:13.520

<v SPEAKER_1>And then beyond that, there's also the question of maintaining the relationship with the US market, because you were using the term reciprocal there.

00:28:13.520 --> 00:28:33.780

<v SPEAKER_1>And I think the interesting undercurrent of some of these other initiatives to try and diversify markets is that we're looking to diversify away from the one market in which we do have, I think, as close to a reciprocal arrangement as one might get, because we've negotiated many decades ago.

00:28:35.660 --> 00:28:49.860

<v SPEAKER_1>I guess it's maybe somewhat in question about whether or not our access is uniquely the best in the world or now, alongside the UK and Australia's, in a group of countries that have the best access to the US defense market.

00:28:49.860 --> 00:29:01.300

<v SPEAKER_1>But we're certainly in a very exclusive club in terms of our ability of Canadian firms to be treated, if people are aware of it, as American companies, essentially, in the US marketplace.

00:29:02.600 --> 00:29:07.620

<v SPEAKER_1>I guess I can appreciate the enthusiasm of desire to go elsewhere.

00:29:08.720 --> 00:29:18.280

<v SPEAKER_1>I am seriously uncertain about the ability to secure that level of reciprocity that we currently enjoy with the United States in other jurisdictions.

00:29:18.280 --> 00:29:18.580

<v SPEAKER_2>Right.

00:29:18.580 --> 00:29:25.960

<v SPEAKER_2>Which is why to me, and this is a point that comes up time and again, the main buyer has to be the Canadian government.

00:29:27.060 --> 00:29:30.760

<v SPEAKER_2>That has to serve as your foundation, right?

00:29:30.760 --> 00:29:39.600

<v SPEAKER_2>And then you can help companies export, and you have to have, I would argue, a bit of an open mind about this.

00:29:39.600 --> 00:29:45.800

<v SPEAKER_2>So, just as an example of selling, let's say, to a country like India.

00:29:45.800 --> 00:29:47.100

<v SPEAKER_2>Are we comfortable with that?

00:29:47.100 --> 00:29:54.900

<v SPEAKER_2>I mean, if you look at the history of our two countries in recent years, there might be some authority aspects to that.

00:29:54.980 --> 00:29:57.620

<v SPEAKER_1>It might be hard to sell to a place where you don't have a high commissioner.

00:29:57.620 --> 00:29:57.900

<v SPEAKER_2>Right.

00:29:57.900 --> 00:30:03.960

<v SPEAKER_2>I mean, so you have to start thinking beyond your traditional allies.

00:30:04.900 --> 00:30:11.380

<v SPEAKER_2>I think your point about the United States is one that has multiple angles to it.

00:30:11.380 --> 00:30:17.660

<v SPEAKER_2>The first is much like the EV battery plants here in

Canada.

00:30:17.660 --> 00:30:32.500

<v SPEAKER_2>I think there's a major risk that we invest a lot in Canadian companies, and they see that the demand signal coming from the United States is much stronger, and that if you're American-based, you get preferential treatment.

00:30:33.280 --> 00:30:35.040

<v SPEAKER_2>So, are we going to end up in a situation...

00:30:35.040 --> 00:30:43.760

<v SPEAKER_2>What are we going to do to avoid a situation where we're effectively funding technology and expertise that then goes elsewhere?

00:30:43.760 --> 00:30:45.580

<v SPEAKER_2>That's one risk.

00:30:45.580 --> 00:30:59.040

<v SPEAKER_2>The other one being as well that from an investor point of view, those companies that currently are orienting themselves largely to American export, are you going to be able to convince them to do otherwise?

00:30:59.040 --> 00:31:00.420

<v SPEAKER_2>And that remains unclear to me.

00:31:01.780 --> 00:31:17.680

<v SPEAKER_2>Perhaps, it's going to be easier in terms of setting up new companies and convincing them that there's enough Canadian demand and then that there's a sufficient number of Indo-Pacific and European buyers that they can really take off.

00:31:17.680 --> 00:31:24.540

<v SPEAKER_2>But that's, I think, going to require a lot more Canadian diplomatic prowess.

00:31:24.540 --> 00:31:29.760

<v SPEAKER_2>It's going to require a deepening of relationships between Canada and Europe.

00:31:29.760 --> 00:31:42.360

<v SPEAKER_2>And it's there again going to really require that that defence spend in Canada stay at a level where the Europeans don't think that we're free to writing or skimping or anything else.

00:31:42.360 --> 00:31:46.580

<v SPEAKER_2>So there's a lot of things that have to kind of fall into place there.

00:31:46.580 --> 00:31:51.120

<v SPEAKER_1>And I mean, I guess to be fair, I've seen again some very positive signals.

00:31:51.120 --> 00:31:54.160

<v SPEAKER_1>The trade service is reorienting to support this more.

00:31:55.060 --> 00:32:03.520

<v SPEAKER_1>I saw on one of my LinkedIn feeds Canada is going to be the lead nation at the forthcoming Polish Defence Trade Show.

00:32:03.520 --> 00:32:05.460

<v SPEAKER_1>So those are great steps.

00:32:06.600 --> 00:32:10.860

<v SPEAKER_1>I think the question in all these things is like really what's within the art of the possible.

00:32:10.860 --> 00:32:15.840

<v SPEAKER_1>And if we do make a full-court press in the way that I think, you know, there are some indications that we are.

00:32:15.840 --> 00:32:17.880

<v SPEAKER_1>How far does that take us?

00:32:17.880 --> 00:32:18.160

<v SPEAKER_2>Right.

00:32:18.160 --> 00:32:27.260

<v SPEAKER_2>And just to put another spin on this as well, let's assume that we are successful in our endeavours.

00:32:27.260 --> 00:32:30.080

<v SPEAKER_2>Let's assume the Europeans do want to buy.

00:32:30.080 --> 00:32:31.900

<v SPEAKER_2>Let's assume that we do manage to diversify.

00:32:31.900 --> 00:32:41.140

<v SPEAKER_2>And let's assume as well that the Canadian Armed Forces and the Government of Canada provides a strong demand signal over the long term too.

00:32:41.140 --> 00:32:47.320

<v SPEAKER_2>There's another piece to this, which is public support for this level of spending in Canada.

00:32:48.680 --> 00:33:14.220

<v SPEAKER_2>If the Carney government manages to succeed on this file in relatively short order and demonstrate that these defence

investments are protecting the economy, are helping us weather the tariff battle with the United States, and are also even providing a different path for us as access to the US market tightens, then okay, that public support may be sustained.

00:33:14.220 --> 00:33:23.380

<v SPEAKER_2>Similarly, if the international environment continues down the very dangerous path that it's headed, that may again sustain that public support.

00:33:23.380 --> 00:33:37.760

<v SPEAKER_2>If that falters though, if that public support falters, then all this becomes much harder as well, particularly if you have a change of government, or if you have others that say, no, we got to rethink this because we just can't afford it.

00:33:37.760 --> 00:33:44.100

<v SPEAKER_2>And I would just point out that we are talking about a level of spending here, which is unusual.

00:33:44.100 --> 00:33:49.900

<v SPEAKER_2>And the support for it is also unusual when you look at the polling, who is supporting it, and for what reason.

00:33:49.900 --> 00:34:07.240

<v SPEAKER_2>So I think the Carnot government faces the other challenge here of delivering the results of this in relatively short order before the average Canadian voter starts to question whether or not this is living up to its promise.

00:34:07.240 --> 00:34:07.440

<v SPEAKER_1>Yeah.

00:34:07.440 --> 00:34:16.340

<v SPEAKER_1>And I think just to close, I mean, I think the novelty of this, I think, is sometimes being walked past by some people talking about it.

00:34:16.340 --> 00:34:29.180

<v SPEAKER_1>As I check here, as we're having this conversation, the 14th of November, it's been 153 days since the 14th of June, which is when Canada signed up to this new set of NATO targets.

00:34:30.200 --> 00:34:35.740

<v SPEAKER_1>So we're pretty early into a very consequential different level of commitment.

00:34:35.740 --> 00:34:46.280

<v SPEAKER_1>I think if you want to be as neutral as possible, it's pretty early to get much sense of how durable the support is going to

be in any different respect, government or the public.

00:34:46.280 --> 00:34:46.560
<v SPEAKER_1>Right.

00:34:46.560 --> 00:34:49.860
<v SPEAKER_2>And look, I don't want to be a negative voice around this.

00:34:49.860 --> 00:34:51.000
<v SPEAKER_2>I think this is important.

00:34:51.000 --> 00:34:58.660
<v SPEAKER_2>I think we should be doing this, given everything that's happening in the world, given the economic headwinds that we're facing.

00:34:58.660 --> 00:35:00.340
<v SPEAKER_2>I'm supportive of it.

00:35:00.340 --> 00:35:23.780
<v SPEAKER_2>At the same time, I know enough about my Canadian defense policy history to know that you go from a big spend in 1950 to a slow drop-off in 1957, that you have a 1987 white paper that makes some very big promises only to see 30% cuts within five, six years.

00:35:23.780 --> 00:35:37.100
<v SPEAKER_2>So it's not to say that it's not important, that it can happen, it can, but we always have to be mindful about the fact that we have a record of turning on a few dimes in Canada.

00:35:38.520 --> 00:35:39.040
<v SPEAKER_1>Right.

00:35:39.040 --> 00:35:49.880
<v SPEAKER_1>And again, I think I would take, just to be even-handed about it, this is a very different reorientation that has not been yet all that long-standing.

00:35:49.880 --> 00:35:54.560
<v SPEAKER_1>I think for people like us, it's kinds of things that we've been interested in for a long time.

00:35:54.560 --> 00:35:58.080
<v SPEAKER_1>Great to see a lot of this stuff come to fruition.

00:35:58.080 --> 00:36:13.060
<v SPEAKER_1>It just hasn't been at the point of coming to fruition for all that much time yet, and it's going to take a while to see how much of this sticks, how much of the prioritization, enthusiasm of

varying different types is sustainable.

00:36:13.060 --> 00:36:13.460
<v SPEAKER_2>Yeah.

00:36:13.460 --> 00:36:16.560
<v SPEAKER_2>Look, again, it's not to say that the past will repeat itself.

00:36:16.560 --> 00:36:18.880
<v SPEAKER_2>I'm not necessarily saying that that's the case.

00:36:18.880 --> 00:36:32.200
<v SPEAKER_2>We may be living in a very different world, and a lot of this will demand ongoing commitment that the Canadian population may be very much willing to undertake now, and I hope that's the case.

00:36:32.200 --> 00:36:49.260
<v SPEAKER_2>My only hesitation around all this is simply to point out that we have to make sure that this doesn't, or that this does carry over to multiple ministries, multiple leaders, and that there's a commitment here.

00:36:49.600 --> 00:37:01.020
<v SPEAKER_2>The only reason I'm pointing this out is you don't have to be a cynic to note that the current ministry on things like climate is very different than the previous ministry.

00:37:01.580 --> 00:37:17.660
<v SPEAKER_2>And 10 years ago, under the Trudeau Ministry, we were told that Canada's climate policies under that ministry were the future and were effectively never going to be questioned or changed because you can only win elections if you were 100% committed to the fight against climate change.

00:37:17.660 --> 00:37:18.980
<v SPEAKER_2>A lot changed.

00:37:20.100 --> 00:37:21.600
<v SPEAKER_2>So change happens.

00:37:22.800 --> 00:37:24.580
<v SPEAKER_1>Change does happen.

00:37:24.580 --> 00:37:26.000
<v SPEAKER_1>Well, Phil, thanks for joining us again.

00:37:26.000 --> 00:37:31.020
<v SPEAKER_1>This is basically part two of our take on the federal budget 2025.

00:37:31.020 --> 00:37:36.220

<v SPEAKER_1>When you're not trying to crack through those dense pages of text, what are you reading?

00:37:36.220 --> 00:37:40.300

<v SPEAKER_2>A new book by Kevin Lynch and Jim Mitchell, A Blueprint for Government.

00:37:40.300 --> 00:37:53.320

<v SPEAKER_2>Highly recommended to everybody who's interested in what needs to happen within the public service and within our economy to get us ready for the rest of the 21st century.

00:37:53.320 --> 00:37:53.860

<v SPEAKER_1>Okay.

00:37:53.860 --> 00:37:56.020

<v SPEAKER_1>Well, Phil, thanks again for joining us on Defence Deconstructed.

00:37:56.480 --> 00:37:57.640

<v SPEAKER_2>Thanks, Dave.

00:37:59.280 --> 00:38:01.480

<v SPEAKER_1>Thanks for listening to Defence Deconstructed.

00:38:01.480 --> 00:38:06.960

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00:38:06.960 --> 00:38:11.560

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00:38:13.540 --> 00:38:16.160

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00:38:16.160 --> 00:38:19.800

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