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Canadian Defence Industry Exports: Finding the Balance Point

by
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CDA Institute Research Fellow Chuck Davies provides background and context on why there is a Canadian defence industry. At a time when overseas sales of Canadian defence products are being questioned on the basis of other important aspects of Canadian international and domestic priorities, it is important to recall some of the facts and underlying realities of providing for Canadian security and defence that factor into the decisions taken by successive Canadian governments.

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Figure 1. Industry Minister Bains at CANSEC, acknowledging Canada's long defence industry history Photo: CADSI/CANSEC 266477.

The alleged use of Canadian-manufactured defence equipment to suppress human rights in Saudi Arabia is very disturbing and deserving of public debate. However, a troubling aspect of the current discourse is the generally poor understanding reflected in some of the commentary about why Canada needs and has a defence industry, and what role exports play in maintaining it. This materially undermines the national discussion about the issue, and where the national interest lies as we define our response to it.

The purpose of this article is to briefly explain some of the context within which Canada's defence industries operate, how they contribute to both our economy and our national security, and how exports fit into the picture.

Most advanced countries maintain a defence industrial base of some kind, although the scope and scale may vary depending on national capacity, security needs, and will. They do so to achieve two objectives:

- Contribute to national security and defence by mitigating the very real risk that access to critical systems, commodities, or services may be substantially reduced or cut off in time of greatest need, with potentially significant impact on the nation's ability to act in defence of its security and other interests.; and
- Contribute to economic growth.

Sweden, for example, with a population and GDP less than a third of Canada's, has long maintained a very comprehensive defence industry capable of developing and producing combat aircraft, warships, armoured vehicles, and more. Its customer base includes not only the Swedish armed forces, but also a

broad range of export customers without whom the industry would be much more difficult and expensive to sustain. (Like Canada, the country's armed forces' requirements alone are not large enough to support the industries.) The Swedes continue put substantial national resources into sustaining and developing their defence industries in order to meet their long-standing twin policies of robustly defending their neutrality and maintaining as much strategic independence as possible from great power arms suppliers.

Canada enjoys a very different geostrategic position on the globe, so its defence industrial needs are different. Our shared continental defence interests with the US make it advantageous to both countries to pursue close defence industrial cooperation, and we have successfully done so for many decades. However, while this enables Canada to forego some industrial capacities such as the development and manufacture of combat aircraft, it still needs a defence industry. To offer but one small example to illustrate why, a 2015 Defence Research and Development Canada report found that during the Afghanistan war Canadian ammunition manufacturers at one point as much as quintupled their production to keep up with the Canadian Armed Forces' requirements – at the same time substantially reducing delivery lead times. This was at a time when US and other international suppliers were struggling to meet their own nations' needs and were simply not exporting. Had this domestic industry not existed, with the necessary state-supported surge capacity and a mandate to privilege national requirements over exports (other countries also do this), there would have been significant operational consequences on the ground and Canada may not have been able to sustain the mission.

Beyond purely operational needs, understanding the degree to which defence industries can benefit a country's wider economy is also important. Defence systems are often leading-edge, typically involving a wide range of technologies. Their development can create spin-off opportunities to apply the resulting Intellectual Property elsewhere, including in civilian applications, with benefits for the national technology base and the economy as a whole.

Companies like CAE, headquartered in Montréal, Québec, and General Dynamics Land Systems, based in London, Ontario, – to name only two – have successfully leveraged relatively modest initial Canadian military procurements to create world-class Intellectual Property and build sustained export businesses. In the process, these companies have built supply chains reaching into most parts of Canada, creating a multiplier effect that Independent studies have shown can yield total economic returns vastly exceeding the government's expenditures on its purchases.



Figure 2. Many Canadian companies, such as CAE, have developed world-class products with defence and civil application. Photo: CADSI/CANSEC 264687.

It has to be acknowledged that not every Canadian defence contractor has been this successful. Some projects have failed outright. Some have not delivered lasting benefits, with manufacturing capabilities

dying out once the initial production run has been completed. However, those that have succeeded have materially enhanced Canada's economy through technology development and export success while at the same time strengthening our national capacity to build and sustain the Canadian Armed Forces. By learning from the unsuccessful examples, government and industry can better design future programs for long-term success.

At a more human level, Canadian defence industry jobs are frequently at the upper end of the technology spectrum, with higher proportions of well-educated and skilled technicians, technologists, engineers, and other professionals than many other areas of our manufacturing sector. These are exactly the kinds of good, well-paid, middle-class jobs the Finance Minister's Advisory Council on Economic Growth has identified as being key to Canada's future prosperity. These employees also do much to sustain local economies through their families' purchases of homes, goods, and services and participation in their communities.

Sustaining these national benefits depends upon exports, since our domestic requirements alone are not large enough to support our defence industries. The economies of scale just aren't there, and our defence procurements are often cyclical, with long gaps between them. Exports materially reduce procurement costs for the Canadian government by allowing the contractor to spread the recovery of development and other expenses over a larger production volume and enabling greater manufacturing efficiency. They also fill in gaps between domestic procurements that would have forced workforce cutbacks or even plant closures. Finally, and perhaps most importantly, exports stimulate and support ongoing product development that generates new Intellectual Property and reinforces the value chain.

It is in this context that defence exports such as the large Saudi purchase of armoured vehicles need to be viewed. Without in any way diminishing the importance of any of the multiple elements making up that complex issue, including human rights concerns, Canada's national interest cannot be defined by any single one of them – be it national security, or economics, or human rights, or any other factor. It has to be defined by finding an appropriate balance between multiple factors. Those who focus their arguments solely on a single one seriously undermine the strength and validity of their case, and substantially misrepresent the complex nature of the issue.



Figure 3. The Canadian mission in Afghanistan may not have been sustainable without support from Canadian defence industries. Photo: DND AR2006-G035-0056

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