



**DEFENSE
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Canada Defense Market Overview



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I. Canada Defense Market Overview

a. Country Economic Snapshot

Canada resembles the US in its market-oriented economic system, pattern of production, and high living standards. Since World War II, the impressive growth of the manufacturing, mining, and service sectors has transformed the nation from a largely rural economy into one primarily industrial and urban. Manufacturing make up almost 30% of country GDP, while the service sector composes around 70%. Canadian exports include energy products, automotive and aircraft machinery, industrial products, timber, and service such as telecommunications and finance. Major imports include vehicles, electricity and petrol products, advanced electrical and industrial equipment, durable consumer goods, and services such as transportation and engineering.

Given its abundant natural resources, highly skilled labor force, and modern capital stock, Canada saw solid economic growth from 1993 through 2007. The global economic crisis of 2008 moved the Canadian economy into sharp recession by late 2008, but Canada's major banks emerged from the financial crisis among the strongest in the world, owing to the financial sector's tradition of conservative lending practices and strong capitalization. Canada's economy posted strong growth in 2017 at 3%, but most analysts are projecting Canada's economic growth will drop back closer to 2% in 2018. Canada's estimated GDP in 2017 was over \$1.75 trillion in US dollars, and GDP per capita was roughly \$48,000. The 1989 Canada-US Free Trade Agreement and the 1994 North American Free Trade Agreement dramatically increase trade and economic integration between the US and Canada. Canada and the US have the world's most comprehensive bilateral trade and investment relationship, with goods and services trade totaling more than \$680 billion in 2017, and two-way investment stocks of more than \$800 billion. The US purchases three quarters of Canada's exports, while approximately half of Canada's imports come from the US.

Source: [World Trade Reference](#), [The World Factbook](#)

b. Canada Defense Market Summary

The Canadian defense industry is primarily driven by government procurement of defense and security goods and services. The Canadian Department of National Defense, which possesses the largest budget of any department, is responsible for roughly 84% of government defense expenditures, although the Canadian Armed Forces themselves are a distinct, separate organization, and decide their own separate procurement requests. The Armed Forces is divided into three major branches; the Army, the Navy, and the Air Force. The Defense Production Sharing Agreement (1956) is a bilateral trade agreement between the United States and Canada that aims to balance the quantity of military cross-border purchases to maintain a balance of trade. It is similar to the Defense Development Sharing Program, which organizes the sharing of military research and development.



The defense industry generates \$7.28 billion in annual sales, 60% of which are exports. In 2016, exports of U.S. defense products to Canada reached \$6.8 billion, while Canadian defense exports into the United States reached \$12.7 billion. Recently, the Department of National Defense released a policy review, which included \$46.8 billion in new funding over the next 20 years for the defense industry. The aerospace defense industry accounted for 17% of the industry’s total revenue, with repair and maintenance, aircraft fabrications, and airborne communication and navigation systems making the majority share of aerospace revenue. Canada’s new Defense Policy plans to further expand aerospace capabilities, with the new budget fully funding 88 advanced fighter jets and increasing ground-based air defense, combat support vehicles, and airborne intelligence, surveillance, and reconnaissance platforms.

Military Expenditure of Canada in Millions of US\$, Past 5 Years¹

2013	2014	2015	2016	2017
15030	15275	17561	18132	19837

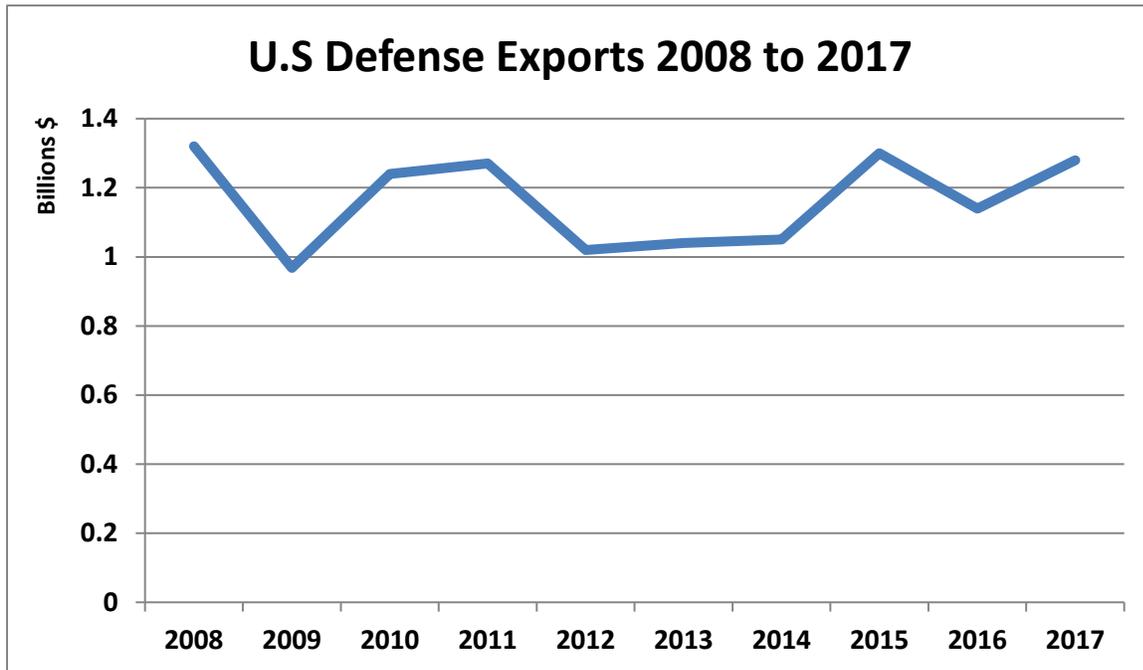
Source: Export.gov, [2016 Defense Top Markets Report](#)

c. U.S. Defense Exports to Canada

Top 10 U.S. Defense Exports to Canada

Codes	Description	ANNUAL 2015	ANNUAL 2016	ANNUAL 2017
	TOTAL ALL COMMODITIES	1,295,616,649	1,143,444,929	1,279,398,433
841199	Gas Turbine Parts Nesoi	301,968,445	332,266,337	348,837,646
871000	Armored Vehicle Parts	44,684,999	117,670,006	261,134,397
841111	Turbojets Of A Thrust Not Exceeding 25 Km	259,015,135	187,684,766	183,600,213
841182	Gas Turbines Of A Power Exceeding 5,000 Kw	268,157,403	105,298,112	104,496,615
930630	Cartridges And Parts Thereof,	97,421,504	80,547,700	75,917,702
901420	Instruments & Application for Aerospace Navigation	65,014,888	60,700,035	74,636,987
360300	Safety Fuses, Detonating Fuses, Percussion Caps Etc	56,880,978	44,996,654	55,641,426
841191	Turbojet And Turboproller Parts	40,699,906	48,246,117	40,560,410
930690	Bombs, Mines, Other Ammunition, and Parts	25,745,093	55,312,134	30,211,493
841181	Gas Turbines Of A Power Not Exceeding 5,000 Kw	40,115,195	37,697,010	24,758,234

¹https://www.sipri.org/sites/default/files/1_Data%20for%20all%20countries%20from%201988%E2%80%932017%20in%20constant%20%282016%29%20USD.pdf

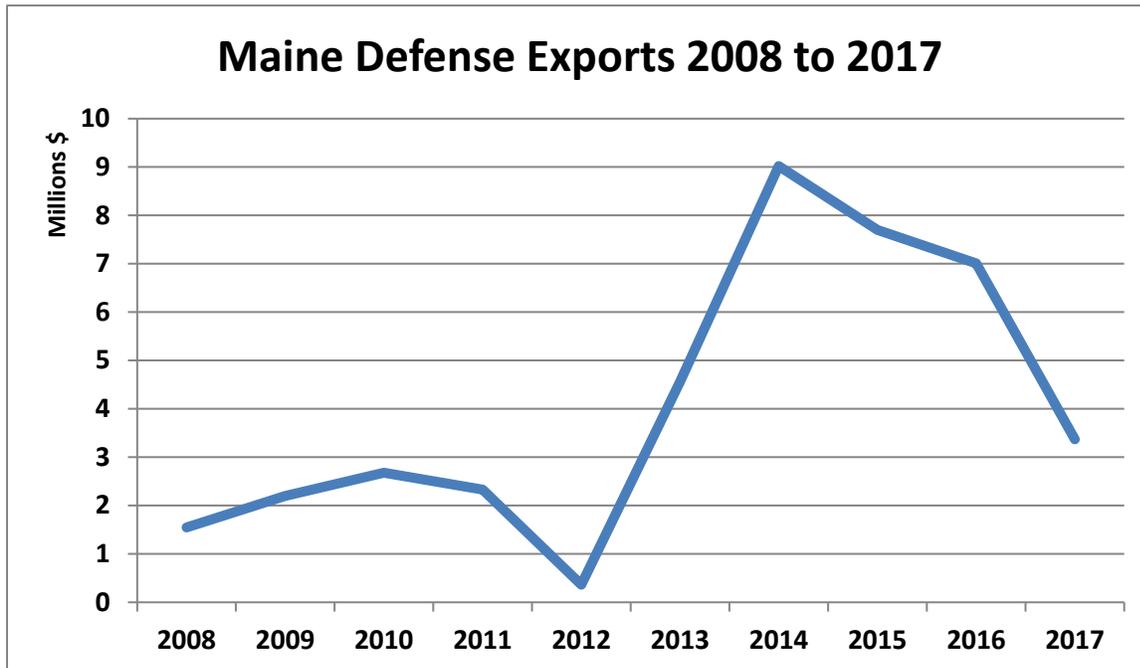


Source: WISERTrade, data from the U.S. Census Bureau Foreign, Trade Division.

d. Maine Defense Exports to Canada

Top 5 Maine Defense Exports to Canada

Codes	Description	ANNUAL 2015	ANNUAL 2016	ANNUAL 2017
	TOTAL ALL COMMODITIES	7,697,470	7,006,302	3,370,034
841199	Gas Turbine Parts Nesoi	4,779,928	4,544,582	1,838,157
930591	Parts & Accessories Of Military Weapons Of Head	740,793	2,397,267	1,207,172
841121	Turbopropellers Of A Power Not Exceeding 1,100 Kw	0	0	250,873
901420	Instruments & Application for Aerospace Navigation	4,851	6,875	30,482
930190	Military Weapons, Other Than Revolvers, Pistols, & Handguns Nesoi	98,836	4,993	23,781



Source: WISERTrade, data from the U.S. Census Bureau Foreign, Trade Division.

II. Opportunities for Defense Trade in Canada

a. Major Defense Sectors in Canada

The 2016 Canadian Defense Acquisition Guide has identified 6 major defense industry sectors for service:

- Land systems
 - The Canadian Army consists of approximately 50,000 people. The Canadian Army is focused on modernizing its armored vehicles and equipment, improving construction and land logistics, and developing explosive and air defense.
- Naval systems
 - The Canadian Navy consists of approximately 18,000 sailors, and possesses 12 frigates, 4 submarines, and 20 patrol and defense vessels. The Navy plans to undergo major fleet expansion and the development of current ship systems, including new Arctic and Offshore Patrol Ships and Joint Support Ships. Major infrastructure upgrades are also underway to support increased shipbuilding needs and fleet capacity.
- Aerospace systems
 - The Canadian Air force currently consists of approximately 15,000 troops, and plans to modernize both its search-and-rescue and fighter forces. Certain projects involve new maritime helicopter projects, modern fighter interface systems, improved communications and radar technology, and utility transport aircraft. Infrastructure



developments include a new training center for search and rescue, including simulators and training devices for crews.

- Special Operations Systems
 - The Special Operations forces Command Force is planning major projects to develop unit equipment for specific necessary capabilities in reconnaissance, surveillance, cyber systems, aviation systems, maritime systems, land systems, and medical systems.
- Joint and Other Systems
 - Projects involve improving information systems and security equipment. These include sectors such as cyber security, research capabilities, or the monitoring of chemical, biological, and nuclear hazards.
- General Services
 - Projects involve improving communications and interface systems. These include sectors such as logistical support, security, or repair contracts.

Current defense industry output proportions currently include 47% in aerospace products, 40% in land equipments, and 13% in marine services and technology. The UAV segment is one of the defense industry's most concentrated areas for development, but leading subsectors also include unmanned aerial systems, modeling of simulations and training systems, vehicle modifications, equipment and logistics, C4ISR, and other modes of service and support.

Source: [2016 Canadian Defense Acquisition Guide](#), [Export.gov](#), [2018 Defense Investment Plan](#).

b. Opportunities for Maine Defense Exporters

The [Defense Acquisition Guide](#) lists procurement requests from each branch of the Canadian Armed forces, with requests including requirements, estimated budgets and timelines, and necessary points of contact. Requests in each branch range from organizing training programs to providing new equipment and interface systems. Currently highlighted opportunities for Maine defense firms include:

- [Aerospace](#)
 - Developing Future Aircrew Training Programs
 - Replacing Surveillance and Targeting Systems
 - Developing a fleet's air-to-air fueling capabilities
 - Developing Snow and Ice Capable Vehicles
 - Providing aircraft parts and support equipment
- [Naval and Marine Defense](#)
 - Providing Equipment and weapons for warships planned to be built in Canada
 - Developing Multi-role Boats (MRB)
 - Developing Joint Support Ships
 - Developing Surface Diving Capable Vessels
 - Providing systems for underwater mine warfare



- [Army and Land Vehicles](#)
 - Providing water purification and transport systems for unit operations
 - Developing a Land Vehicles Crew Training System
 - Developing and Upgrading Light Armored Vehicles
 - Developing Winter Mobility Systems
 - Delivering Sustainable and Efficient Utilities for Military Bases

III. Regulatory Environment

a. U.S. Controls on Defense Exports to Canada

There are two primary regulatory bodies that administer US export control laws for defense or military-related products and services.

1. The Department of State Directorate of Defense Trade Controls (DDTC) administers the **International Traffic in Arms Regulations (ITAR)** 22 C.F.R. §§ 120-130, which controls items considered defense articles and services.
2. The Bureau of Industry and Security (BIS) in the Department of Commerce administers **the Export Administration Regulations (EAR)** 15 C.F.R. §§ 730-774, which controls purely civilian items, items with both civil and military, terrorism or potential WMD-related applications, and items that are exclusively used for military applications but that do not warrant control under the ITAR.

Licensing and other export certification requirements for exporting a military-related product (or service), are dependent upon the item's technical characteristics, the destination, the end-user, and the end-use. You, as the exporter, must determine whether your export requires a license. When making that determination consider:

What are you exporting? Where are you exporting? Who will receive your item? What will your item be used for?

You must first determine which regulatory jurisdiction your product or service falls under before you can export. To do this, follow these steps:

1. Use the [U.S. Munitions List \(USML\)](#) to identify products or services that fall under ITAR jurisdiction.
2. Use the [Commerce Control List \(CCL\)](#) to identify products or services that fall under EAR jurisdiction and require a license. If the item is not on the CCL it still may fall under EAR jurisdiction; please consult [§ 734.2 Scope of the EAR](#) for further guidance.
3. If you are unsure if the desired export falls under the USML or CCL you can file a [Commodity Jurisdiction](#) request through the DDTC or you can file a [Commodity Classification](#) request through the BIS using SNAP-R.



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Failure to comply with ITAR can result in civil fines as high as \$500,000 per violation, while criminal penalties include fines of up to \$1,000,000 and 10 years imprisonment per violation. Under EAR, maximum civil fines can reach \$250,000 per violation. Criminal penalties can be as high as \$1,000,000 and 20 years imprisonment per violation. Additionally, the United States has limited or banned the export of some defense products and services to specific countries. It is important to know whether the export of the product or service to a specific country is legal.

b. Canadian Controls on Defense Imports

The Canadian government's [Global Affairs](#) website handles the imports and exports of defense industry products. Companies should begin looking at the permits and regulations involved with exporting [firearms](#) or [military goods](#). To begin with trade compliance or make any general inquiries, contact Global Affairs Canada at 343-203-4331.

IV. Business Etiquette

The business environment in Canada is similar to that of the United States, although Canadian customers (especially government entities) tend to be more risk averse in their decision making. Business communication is fairly direct; though strong formal relationships are important, Canadians will make their business decisions based on a deal's merit, not on personal relationships. Canadians tend to be cynical about those who have accumulated conspicuous wealth or power. Large global companies might have a harder time forming relationships with Canadian businessmen than smaller firms. Especially given the current climate, there can sometimes be a level of distrust for the motivations of American businesses. American businesspeople will need to take special care not to come across as aggressive, arrogant, or overbearing, and should avoid the hard sell.

Most international purchases are completed in the Ottawa/Gatineau region, the location of the Department of National Defense, as well as Public Works and other major government services. Government contacts are typically bilingual, and speak both French and English, although French is the preferred language for French Canadian cities like Ottawa or Quebec. The different regions of Canada tend to have different business cultures. Eastern provinces tend to have fairly more reserved business environments than western provinces, and residents in areas like Ontario and New Brunswick are more oriented towards formal corporate relationships. There is also a notable difference in business culture between Ontario and Quebec, with Quebec being more formal and more relationship oriented. Francophone Canadians are very proud of their culture, with a strongly felt connection to Europe; they tend to be more open, emotionally expressive, and gregarious than Anglophone Canadians, and their culture and etiquette sensibilities tend to be more Continental than North American.

Source: [The World Trade Reference](#)

V. Conclusion and Recommendations

Given current policy directives and increased defense spending, the Canadian Defense Industry is projected to see significant growth in the coming years. The acquisitions lists for the Canadian military



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show opportunities for maritime, naval, and provisions manufacturers in Maine. However, the needs of the Armed Forces also provide opportunities for firms producing machine parts, outdoor gear and equipment, armored vehicles, snow and arctic related equipment, and unmanned aerial vehicles, as well as developers of interface systems and training simulations. Despite current tensions in trade relations, American firms have a generally easy time doing business in Canadian markets. Maine's local firms can in fact benefit from a Canadian mentality in favor of doing business with smaller independent companies. Attending events and trade shows are also good ways to keep up to create contacts and learn of future opportunities as Canada's defense plan further develops.

VI. Additional Resources

a. Key Contacts

Director of Naval Requirements:

DAG_Naval-GAD_Naval@forces.gc.ca

Phone: 819-939-3950

Director of Land Requirements:

DAG_Land-GAD_Terre@forces.gc.ca

Phone: 819-939-5868

Director of Air Requirements:

DAG_Air1-GAD_Aero1@forces.gc.ca

Phone: 613-944-3293

Director of General Space:

DAG_Space-GAD_Espace@forces.gc.ca

Phone: 613-945-5566

Directorate of Aerospace Equipment Program Management:

DAG_Material-GAD_Materiel@forces.gc.ca

Phone: 819-939-4640

Global Affairs Canada:

tie.reception@international.gc.ca

Phone: 343-203-4331

Fax: 613-996-9933

b. Defense Trade Shows

CANSEC

May 29-30, 2019

Ottawa, Ontario

<https://www.defenceandsecurity.ca/CANSEC/>



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DEFSEC Atlantic

October 2-4, 2018

Halifax, Nova Scotia

<http://www.defsecatlantic.ca/>

Canadian Aerospace Summit

November 13-14, 2018

Ottawa, Ontario

<http://aerospacesummit.ca/>

Aeromart Montreal

April 16-18, 2019

Montreal, Quebec

<http://montreal.bciaerospace.com/en/>

c. Sources for Additional Information

List of Government Tenders for Defense Commerce:

<https://buyandsell.gc.ca/procurement-data/tenders>

For more information about Maine's Defense Industry, see the "Maine Defense Industry Report" in the Trade Resources page of the Defense Industry Maine Website.

d. Note About Data Used in this Report

In the [2016 Defense Markets Report](#), the International Trade Administration (ITA) identified all of the HS codes that are associated with defense exports; the HS codes they identified are 10-digit HS codes. The trade data used in this report are based on 6-digit HS classifications of the ITA codes because WISERTrade only includes the 6-digit level of trade specificity. Therefore, some of the trade data may be overestimated due to the inclusion of exports that are characterized by the 6-digit HS codes but not the 10-digit codes.