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POLICY PAPER

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► **Executive Summary**

The proposed \$15 billion sale of light armoured vehicles to Saudi Arabia has brought significant attention – mostly negative – to Canada’s partnership with the Arabian Peninsula kingdom. Much of this criticism is valid: the human rights situation in Saudi Arabia is abysmal, and Canada and its allies incur costs by being associated with Riyadh’s poor foreign policy choices. But to stop the analysis here and call for the cancelling of the deal fails to take into account the strategic rationale underlying the relationship with Saudi Arabia. Despite its many flaws, the partnership between Saudi Arabia and West, and therefore Canada, remains necessary; rejecting it and turning Saudi Arabia into a rival would make things worse. An important implication is that the best way forward with regards to the LAV deal is to collectively hold our nose, uphold the agreement, and move on.





THE US AND SAUDI ARABIA

As a general rule, Canada's views its international relations first and foremost through the prism of its most important bilateral relationship, the United States. Canada has few major direct interests outside North America: how it assesses international events, develops plausible courses of action, and selects and implements policies is partly, and often largely, shaped by its fundamental interest in managing its ties to its giant southern neighbour.

To assess Canada's relations with Saudi Arabia, one must therefore start by understanding the partnership between the U.S. and Saudi Arabia. Their relationship is built on a fundamental bargain reaching back seven decades: Riyadh assures the stability of global oil markets in exchange for security guarantees from Washington.¹ Contrary to a widespread misperception, the partnership is not based on U.S. imports of Saudi oil. In 2015, the U.S. imported 9.4 million barrels per day of oil. Canada was by far the largest source (40%), followed by Saudi Arabia (11%), Venezuela (9%), and Mexico (8%). Imports of Saudi oil, therefore, amounted to less than 5% of total U.S. consumption.² Because oil is a fungible good bought and sold on global markets, moreover, the U.S. could replace lost Saudi oil imports relatively easily.

Rather, the partnership is built on Saudi Arabia holding the world's largest reserves of conventional oil and being the world's largest exporter. This provides it with significant leverage on oil markets and, therefore, on the global economy. Markets have not always been stable, and the U.S. and Saudi Arabia have frequently disagreed on the direction of oil prices. Yet at a broader level, the U.S. has a vital interest in ensuring that Saudi Arabia remains a partner, however imperfect, and not a rival or an enemy. It also has a vital interest in ensuring that the regime does not collapse. In the short and mid-term, this would be extremely destabilizing, while in the longer term, it is likely that a successor regime would be less cooperative (causing significant damage to western economies) and would be no more democratic.

Over the decades, the U.S. and Saudi Arabia have also come to cooperate in other areas. This has deepened and broadened the relationship, but such cooperation remains secondary to the fundamental bargain. Most strikingly, Saudi Arabia was the top destination for U.S. arms exports between 2011 and 2015, corresponding to 9.7% of America's foreign sales. Even though Riyadh and Washington disagree on many aspects of their Iran policies, both still agree on opposing Iran and on working to contain its influence. Both also work closely in the counter-terrorism and intelligence realms.

The partnership has weathered multiple – in fact, almost constant – crises over the decades: the 1973 oil shock; the Arab-Israeli conflict; human rights; the fact that 15 of 19 terrorists on 9-11 were Saudi; accusations that Saudi Arabia has tolerated terrorist financing from within its territory; Washington's responses to uprisings in the Arab world since 2011 (especially its jettisoning of Egyptian president Hosni Mubarak early on); conflicting views on Syria (Washington prioritizes the fight against the Islamic State, Riyadh against the Assad regime); U.S. apprehensions about the Saudi-led war in Yemen; and Saudi criticism of President Barack Obama's efforts to rebalance American foreign policy towards Asia.

It is true that disagreements have intensified in recent years. The emergence of younger and more assertive leadership in Saudi Arabia and President Obama's more prudent and restrained approach to the Middle East have added yet more pressure. Nevertheless, the partnership will



endure: the U.S. still needs Saudi Arabia to ensure stability in global oil markets, while Saudi Arabia still needs the U.S. – and its allies – to guarantee its security.

CANADA AND SAUDI ARABIA: CORDIAL BUT LIMITED RELATIONS

The relationship between Canada and Saudi Arabia is cordial but limited. It is cordial in that the two cooperate on shared interests while they usually ensure that disagreements maintain a low profile. At the same time, it is limited in its breadth and depth: each has historically ranked as a marginal foreign policy priority for the other.

Canada and Saudi Arabia cooperate on a range of issues as part of what a 2016 Global Affairs Canada (GAC) memorandum labelled a “long-standing defence relationship”.³ In particular, Canadian sales of controlled military goods to Saudi Arabia since 1993 have totalled about CAN\$2.5 billion, with prior sales of light armoured vehicles accounting for 90%.⁴ Saudi Arabia also occasionally sends pilots to Canada to participate in the NATO Flying Training in Canada program.⁵ Yet, illustrating the limited importance of the relationship, Canada does not have a defence attaché in Riyadh, with its attaché in the U.A.E. accredited to Saudi Arabia. Similarly, the Saudi attaché in Washington is accredited to Canada.

Canada and Saudi Arabia share some interests in the Middle East, but the resulting cooperation is limited. They work together, notably, in the coalition against the Islamic State. In recent years, Canada has also been keen to ensure that Saudi Arabia, as one of the most powerful Arab states, would support Western interventions in the Middle East in which Canada participated. Canada, in particular, viewed favourably Saudi Arabia’s support for NATO’s intervention in Libya in 2011.

Saudi Arabia is Canada’s largest trade partner in the Middle East and North Africa. Two-way trade fluctuated between CAN\$3 and 4 billion between 2011 and 2015, with Canadian exports of about \$1 billion and imports of \$2-3 billion.⁶ This is not negligible, but it is limited; in comparison, Canada’s two-way trade with the U.S. in 2015 was CAN\$760 billion. A closer comparison would be Brazil, with which two-way trade totalled \$CAN 5.4 billion in 2015.⁷ There are also about 15,000 Saudi students in Canada, the fourth largest contingent after China, India, and South Korea. Additionally, Canada has a minor presence in Saudi education through Algonquin College’s campus in Najran.

The previous Conservative government pushed for closer relations with Saudi Arabia. As part of its Global Markets Action Plan, it identified Saudi Arabia as a priority emerging market.⁸ The LAV deal must be seen as central to this broader objective of deepening economic ties with Saudi Arabia (and with its neighbours of the Gulf Cooperation Council, the GCC: Bahrain, Kuwait, Oman, Qatar, and the United Arab Emirates). Former Foreign Minister John Baird is, in fact, the only Canadian foreign minister to visit all GCC countries, some of them more than once. Transition material prepared by the public service for the incoming Liberal government in 2015 advocated for continuity, advising that closer economic ties with Saudi Arabia is in Canada’s strategic interest.⁹

CANADA’S INTERESTS: WHY THE PARTNERSHIP MATTERS

Ottawa views its relationship with Saudi Arabia in large part through the prism of its ties with the U.S. Its cost-benefit calculations are, therefore, similar to Washington’s. Canada has a vital



interest in the stability of the global economy; it thus has a major stake in, and it benefits from, the fundamental bargain between the U.S. and Saudi Arabia. As a result, its termination, because of the collapse of order in Saudi Arabia or of the emergence of a competitor regime instead of the Saudi family, would hurt Canada. Like the U.S., Canada finds the status quo far from perfect, but realistic alternatives are worse. Canada has no ability whatsoever to shape this dynamic between Washington and Riyadh, but it has a major interest in contributing to its perpetuation.

Canada and Saudi Arabia share other common interests. The two perceive the need to contain Iran (though this interest was more pronounced under the Conservatives). Saudi Arabia also does not openly oppose Israel; the two even quietly cooperate, a development consistent with Canada's interests. Riyadh and Ottawa, moreover, share their opposition to Al-Qaeda and the Islamic State. More broadly, Saudi Arabia and the GCC states want to diversify their security ties to avoid putting all their eggs in the U.S. basket. This creates space for second-tier powers – primarily France and the United Kingdom, but also, albeit to a lesser extent, Canada – to deepen ties. Canada, finally, has a major interest in diversifying its trade ties and reducing its dependence on the American market. Saudi Arabia and the GCC countries offer difficult to penetrate but wealthy and growing markets.

This is not to deny that Saudi Arabia is a problematic partner. First and foremost, as has been widely documented, the human rights situation in Saudi Arabia is abysmal, and there is virtually no prospect it will improve for the foreseeable future.¹⁰ The partnership is also costly since it associates Canada, even if only indirectly, with Saudi Arabia's many poor foreign policy choices. Riyadh fuels sectarianism, it exports Wahhabism (the austere version of Sunni Islam that is the official religion of the state), private individuals and charities in the country have funded extremist or terrorist causes for decades by taking advantage of lax terror finance controls, it prosecutes a brutal war in Yemen where it has been accused of war crimes, and it is one of the least democratic countries in the world.

Yet critics of the partnership often confuse the difference between the costs of tactical disagreements – which are many – and the benefits of strategic alignment. Viewed through this lens, the partnership with Saudi Arabia is necessary; it is the least bad option. It is a difficult arrangement, but the alternatives are worse: a collapsed or enemy Saudi Arabia would be much more damaging to Canada's interests, and it would not be more democratic.

THE LAV DEAL

In February 2014, the Conservative government announced the largest arms export in Canadian history, a \$15 billion deal for the sale to Saudi Arabia of light armoured vehicles (LAVs) and associated weapons systems, spare parts, and technical data. Since assuming power in 2015, the Liberals have decided to uphold the deal. There has been, however, a chorus of criticism, led by a decidedly activist *Globe and Mail* and civil society organisations.

As with the relationship with Saudi Arabia, there are strong arguments for and against the deal. On the positive side, it is consistent with Ottawa's interests in the preservation of the partnership with Riyadh. It also supports Canada's vital interest in being, and being perceived as, a good ally: the deal represents an important Canadian contribution to the maintenance of the U.S.-led West's partnership with Saudi Arabia. It is therefore not surprising that Washington



has issued permits to authorize the export of U.S.-origin parts to General Dynamics Land Systems Canada (GDLS-C), the manufacturer of the LAVs.¹¹

The deal is also very good for Canada's defence industry, which represents 650 firms and 65,000 jobs contributing \$6 billion annually to GDP.¹² The sale of the LAVs will represent about 3,000 additional jobs for 14 years. The deal also boosts expertise and research and development in Canada's defence industry. By contributing to economies of scale, it will help the Canadian Armed Forces purchase better materiel at lower prices.¹³ By acting as a business card of sorts, the deal also better positions Canada to develop trade with GCC countries.

The Liberal government has justified its decision to uphold the deal by the need to respect an agreement reached under the previous government, claiming that not doing so would damage Canada's credibility.¹⁴ This in itself is not sufficient; it would be possible and indeed rational for the new government to reject the deal if it assessed that costs exceeded benefits. But this does not make the credibility argument irrelevant: respecting deals made under a previous government is not an inviolable norm of international affairs, but it is a rule that is broken at some reputational cost. It would also have opened up the possibility of litigation by Riyadh.

Critics have mostly argued that Saudi Arabia's abysmal human rights record is reason enough to cancel the sale.¹⁵ They raise Saudi Arabia's atrocious performance – the treatment of women, discrimination against its Shia minority, the absolute authority of the Saudi ruling family – and its brutal prosecution of the war in Yemen. In response, the government has repeated that in its assessment, it is unlikely that the LAVs would be used directly to violate human rights.¹⁶ The *Globe and Mail*, however, has put forth evidence to counter this claim, providing videos of Saudi troops using (non-Canadian) LAVs to quell protests in the Shia-dominated Eastern Province.¹⁷ Saudi troops also used previously-acquired Canadian-made LAVs when they entered Bahrain in 2011 to help Bahraini authorities quell street protests there (though the vehicles were not directly used against protesters).

Critics have called on Ottawa to suspend the sale of the LAVs to pressure Riyadh to pursue domestic reform. The problem with this suggestion is that it would not work: the Saudi regime is not susceptible to external pressure from a second-tier power such as Canada. Should Ottawa cancel the deal, Saudi Arabia would simply buy similar vehicles elsewhere without changing its policies. It is not inconceivable that Canada could succeed in tying the LAV deal with the release of Raif Badawi, a jailed blogger whose family is in Canada, as some have suggested.¹⁸ If it is not already doing so, the government should certainly try. That said, as desirable as Badawi's release is, if it does happen it should not be confused with any Canadian influence on structural reform in Saudi Arabia. Riyadh would only accept to release Badawi to quiet down the external scrutiny, but it would not go farther.

The decision for Canada then comes down to assessing whether the moral gain from cancelling the deal is worth the strategic and trade costs discussed here: an abstract moral benefit against concrete short-term material losses, the risk of losing longer-term opportunities, and the failure to support the flawed but necessary partnership with Saudi Arabia. Viewed through this lens, it is the right decision to uphold the deal: Canada has to hold its nose, but the short and long-term gains are important.

Even if the decision to support the LAV deal is the right one, it is useful to look briefly into Ottawa's poor handling of the issue. The Liberal government has not been consistent and has



conveyed inaccurate information in trying to make its case. Early on, it minimized the deal, especially when candidate Trudeau dismissed the LAVs as “jeeps”. Later, the government claimed that it was a done deal, agreed to under the Conservatives, and it emphasized the damage to Canada’s reputation that would follow should the deal be cancelled.¹⁹ In other contexts, it has emphasized the economic benefits and the backlash should it refuse to move ahead.²⁰ Finally, the government has also claimed – rightly – that in any case, cancelling the deal would not have any effect on human rights in Saudi Arabia and would merely allow another country to sell the vehicles.²¹

LOOKING AHEAD

The LAV sale smells foul: providing advanced weapons to a regime with an atrocious human rights performance is not a decision to be taken lightly. A sober weighing of its pros and cons and of how it fits in the broader partnership between Saudi Arabia and the West, however, leads to the assessment that the government is right to uphold the deal. Ultimately, Canada must deal with the Saudi Arabia that is, not with the one it wishes would be.

Looking ahead, Ottawa should be more consistent and transparent in its handling of the issue. The Liberal government should be more forthcoming on the strategic rationale justifying the deal while being transparent on the abysmal state of human rights in Saudi Arabia. By explaining the tensions inherent in making difficult foreign policy choices, it would arguably make a stronger case. The government should also seize the momentum provided by the deal and continue investing in the expansion of Canada’s trade ties with Saudi Arabia and the GCC. Canada should also try to increase the already sizable contingent of Saudi students here, while pursuing more initiatives such as Algonquin College’s Saudi campus. Such educational exchanges create networks between young Saudis and Canada and provide them with a quality education emphasizing critical thinking and cosmopolitan values. In the long-term, it is one of the best ways to exert change in Saudi Arabia.

It is the right approach – or, more precisely, the least bad – to maintain the partnership with Saudi Arabia. That said, there is scope for calibrating Canada’s initiatives at the tactical level. One priority for Canada in the Middle East is to avoid entanglements; Canada should therefore refuse to endorse, let alone participate, in the war in Yemen. Also, it is in Canada’s interest not to put too many eggs in the Saudi basket. Diversification allows Canada to maximize its potential gains with all GCC countries while mitigating the costs of ties with what is undeniably a heavily flawed partnership with Riyadh. Canada, in sum, can reap benefits from its difficult ties with Saudi Arabia, but to limit the costs it should continue hedging by further developing its ties to other GCC states.



¹ See Rachel Bronson. 2008. *Thicker than Oil: America's Uneasy Partnership with Saudi Arabia*. Oxford University Press.

² "How much petroleum does the US export and import?", Energy Information Agency, Department of Energy, April 1, 2016. <http://www.eia.gov/tools/faqs/faq.cfm?id=727&t=6>.

³ Global Affairs Canada, "Memorandum for action: Export of light armoured vehicles and weapons systems to Saudi Arabia," March 21, 2016. <http://www.theglobeandmail.com/static/politics/saudi/saudi-memo.pdf>.

⁴ *Idem*.

⁵ David Pugliese, "Canada setting the scene for future pilot training program," *Defense News*, November 28, 2015.

⁶ "Fact Sheet: Saudi Arabia." Global Affairs Canada, May 2016. www.canadainternational.gc.ca/saudi_arabia-arabie_saoudite/bilateral_relations_bilaterales/canada-saudi_arabia-arabie_saoudite.aspx?lang=eng.

⁷ Data from Statistics Canada; <http://www.statcan.gc.ca/tables-tableaux/sum-som/101/cst01/gbleco2a-eng.htm>.

⁸ The Global Markets Action Plan is available here: <http://international.gc.ca/global-markets-marches-mondiaux/index.aspx?lang=eng>.

⁹ Mike Blanchfield, "Trudeau advised to deepen ties with Saudi Arabia," *The Canadian Press*, January 7, 2016.

¹⁰ See, for example, Amnesty International's annual report on Saudi Arabia:

<https://www.amnesty.org/en/countries/middle-east-and-north-africa/saudi-arabia/report-saudi-arabia/>.

¹¹ GAC memorandum, March 21, 2016.

¹² John Manley, "'We can't always sell weapons to people we like,'" *iPolitics.ca*, April 22, 2016.

<http://ipolitics.ca/2016/04/22/we-cant-always-sell-weapons-to-people-we-like-john-manley/>

¹³ David Perry, "Without foreign sales, Canada's defence industry would not survive," *The Globe and Mail*, January 11, 2016.

¹⁴ Steven Chase, "Liberals stick to their guns on Saudi arms agreement," *The Globe and Mail*, May 12, 2016. The Globe has rightly pointed out that in a narrow sense, this is inaccurate, since Liberal Foreign Minister Stéphane Dion approved export permits worth about 70% of the agreement in April 2016 (Steven Chase, "Liberals draw fire over Saudi arms deal," *The Globe and Mail*, April 14, 2016). In a broader sense, however, it is misleading for the Globe to argue that this contradicts the Liberals' claim: the spirit of the deal was clearly agreed to under the Conservatives, as the Liberals say; thus for the Liberals to have rejected the permits in April would have been possible, but would indeed have damaged Canada's credibility and its relations with Saudi Arabia.

¹⁵ For a joint letter by NGOs opposing the deal, see <http://www.amnesty.ca/news/canada-saudi-arabia-joint-open-letter-prime-minister-trudeau-arms-deal-authorization>.

¹⁶ GAC memorandum.

¹⁷ Steven Chase, "Saudis use armoured vehicles to suppress internal dissent," *The Globe and Mail*, May 11, 2016. <http://www.theglobeandmail.com/news/politics/saudis-use-armoured-vehicles-to-suppress-internal-dissent-videos-show/article29970955/>.

¹⁸ Irwin Cotler, a former Liberal minister and critic of the deal, has recommended this. Robert Fife and Steven Chase, "Dion urged to use Saudi arms deal as leverage to free jailed blogger," *The Globe and Mail*, May 23, 2016.

¹⁹ David Pugliese, "\$11B Canadian Export Deal Challenged in Court," *Defense News*, April 27, 2016.

²⁰ Minister Dion made this claim in an appearance in the Senate, warning of "quite hefty penalties"; Steven Chase, "Liberals distance themselves from Saudi arms deal but won't block it," *The Globe and Mail*, February 18, 2016.

²¹ Steven Chase, "Cancelling Saudi arms deal would have no effect on human rights: Dion," *The Globe and Mail*, March 29, 2016.

► About the Author

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