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SECRET

MAR 21 2016
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MEMORANDUM FOR ACTION

TO:	The Minister of Foreign Affairs
CC:	The Minister of International Trade The Minister of International Development
SUBJECT:	Export of light armoured vehicles and weapon systems to Saudi Arabia

SUMMARY:

General Dynamics Land Systems Canada (GDLS-C) is applying for six permits to export a total of [REDACTED] light armoured vehicles (LAVs) and associated weapon systems, spare parts and technical data to the Kingdom of Saudi Arabia. Your decision is being sought as an exceptional measure due to the public profile and value of these proposed export permits.

Since 1993, GDLS-C has been granted export permits by the Government of Canada for nearly 3,000 armed LAVs to Saudi Arabia. The applications under consideration are in support of the new, up to \$14-billion contract with the Canadian Commercial Corporation for the provision of LAVs to the Saudi Arabia [REDACTED]

These applications have been fully consulted. Consultation partners advise that these proposed exports are consistent with Canada's defence and security interests in the Middle East. Consultees do not believe that, based on the information available, these exports would be used to commit human rights violations.

The views and recommendation of the Minister of International Trade were sought via a separate memorandum, on which you were copied, on December 21, 2015.

As the conflict in Yemen has continued to evolve, this memorandum also takes into account allegations of human rights abuses by the parties to this conflict, including those contained in the Report of the UN Panel of Experts on Yemen released on February 23, 2016, as well as recent media reports of Canadian-made weapons falling into rebel force hands in Yemen.

RECOMMENDATION:

- That the six permits to export [REDACTED] LAVs and their associated weapon systems, spare parts and technical data to Saudi Arabia be approved.

[Signature]
Daniel Jean
Deputy Minister of Foreign Affairs

☐ I wish to discuss
☒ I concur ☐ I do not concur

[Signature]
Minister

Canada

BACKGROUND:

1. Under the *Export and Import Permits Act* (EIPA), the Minister of Foreign Affairs has the authority to issue permits for the export of items on Canada's Export Control List (ECL). In practice, departmental officials approve almost all permit applications on behalf of the Minister. Ministerial decisions are sought when officials are unable to reach a consensus on a proposed export, or if the recommendation is to deny the permit. As an exceptional measure, a ministerial decision may also be sought in cases where no concerns have been raised about a proposed export, if one or more assistant deputy ministers believe there are reasons for doing so.
2. General Dynamics Land Systems Canada (GDLS-C) is a London, Ontario-based company that specializes in the production of military vehicles, and is part of the Combat Systems business group of the U.S.-owned General Dynamics Corporation. GDLS-C has approximately 2,100 employees across Canada, with most located in southern Ontario where it is a major employer. Its principal product is the light armoured vehicle (LAV) series of wheeled armoured fighting vehicles, which are used by the Canadian Armed Forces, and which GDLS-C has exported to several countries worldwide, including the United States, Saudi Arabia, New Zealand, Colombia and Peru. While the company's annual revenues are not publicly available, over the past 25 years GDLS-C has had orders in excess of \$30 billion for its products. GDLS-C anchors Canada's defence industry cluster in southern Ontario, and supports a supply chain of over 500 Canadian firms, including small and medium-sized enterprises, across Canada.
3. Following the Iraqi invasion of Kuwait in 1990, Canada deployed naval, air and ground forces to participate in the U.S.-led coalition to protect Saudi Arabia. In the years following, when the Saudis began to rearm in response to the continuing threat from Iraq and a resurgent and increasingly bellicose Iran, the LAVs produced by GDLS-C became a preferred choice to equip the Saudi military's light, mobile formations. From 1993 to July 2015, the Government of Canada granted GDLS-C permits to export a total of more than 2,900 LAVs and their associated weapons systems (including automatic cannon, assault guns, mortars and anti-tank missiles) and spare parts in more than a dozen different configurations to equip Saudi regular and National Guard forces (including approximately 500 vehicles built under licence from the Swiss firm Mowag prior to 1993). Canadian sales of controlled military goods to Saudi Arabia since 1993 have amounted to approximately \$2.5 billion. Sales of LAVs and their associated weapon systems have accounted for approximately 90 percent of this total.
4. These earlier programs were arranged between Saudi Arabia and the U.S. government under the U.S. Foreign Military Sales program and awarded to GDLS-C by the Canadian Commercial Corporation (CCC). The 1956 Canada-U.S. Defence Production Sharing Agreement requires that the CCC administer U.S. Department of Defense purchases from Canada when their value is greater than US\$150,000.
5. The six new permit applications currently under consideration total approximately \$11 billion and have been submitted by GDLS-C in support of the new [REDACTED] contract signed in 2014 between the CCC and the Government of Saudi Arabia. The Government of Saudi Arabia decided in this instance to contract directly with Canada, rather than using the U.S. Foreign Military Sales route. The U.S. government supports this new program, and has issued the necessary export authorization to GDLS-C for the U.S.-origin parts and technology included in the LAVs. The Government of Saudi Arabia will be [REDACTED] and may sue for damages in the event of breach of contract.

6 The current applications encompass a total of [REDACTED] LAVs, their associated weapon systems (including [REDACTED]), spare parts, upgrade kits for Saudi Arabia's older fleet of LAVs, and technical data. Deliveries are scheduled to begin [REDACTED]. GDLS-C has already applied for and received two export permits pertaining to the [REDACTED] program; these were for the export of technology only (i.e. no goods) valued at a total of \$150,000, and were issued in December 2014 and March 2015, respectively. Should these permits be approved, there will be additional permits [REDACTED] required for support, maintenance and spare parts.

7. Notwithstanding the long history of Canadian defence exports to Saudi Arabia and the fact that GDLS-C has never been denied a permit for any such export, the Department is seeking ministerial approval for these permits. This exceptional measure is warranted by the high public profile and dollar value of these proposed exports. This is consistent with the departmental practice for the handling of sensitive export permit applications where assistant deputy ministers may have reached a consensus on a recommendation to approve an application, but believe that there are other reasons for referring the decision to the Minister of Foreign Affairs.

CONSIDERATIONS:

8. In reviewing this permit application, the Department's Europe and Middle East Branch, the International Security Branch and the International Business Development Branch, as well as the Department of National Defence and Innovation, Science and Economic Development Canada, were consulted. No concerns were raised. Their responses have been appended in Annex A and are summarized below.

9. Saudi Arabia is a key partner for Canada, and an important and stable ally in a region marred by instability, terrorism and conflict. Saudi Arabia is also Canada's largest two-way trading partner in the Middle East and North Africa region. It has the world's largest oil reserves and is currently the world's third largest oil producer. In 2014, two-way merchandise trade was recorded at \$3.9 billion. Canada appreciates Saudi Arabia's role as a regional leader promoting regional security and stability, as well as countering the threat posed by Iranian regional expansionism and by ISIS.

10. However, Canada, like others in the international community, remains concerned about human rights issues in Saudi Arabia, including the reported high number of executions, suppression of political opposition, the application of corporal punishment, suppression of freedom of expression, arbitrary arrest, ill-treatment of detainees, limitations on freedom of religion, discrimination against women and the mistreatment of migrant workers. Canada maintains and values our candid dialogue with Saudi Arabia on a number of issues, including human rights. Canadian officials engage regularly with Saudi officials, including the Saudi Human Rights Commission, to raise issues of concern when necessary.

11. Canada's long-standing defence relationship was cemented during the Iraqi invasion of Kuwait. For the past quarter century, Canada, along with the United States and our principal European allies, has encouraged Saudi Arabia to acquire the means to defend itself against neighbours like Iran and their various proxies. For Canada, this support has generally taken the form of providing access to conventional military equipment for light ground forces. GDLS-C, as the principal manufacturer of armoured vehicles in Canada, is a world leader in this sector.

12. From a national defence and trade promotion perspective, GDLS-C is an important supplier to the Canadian Armed Forces, and the export of these vehicles is key to ensuring a strong and viable defence industrial base in Canada. These exports represent a major success in Canada's efforts to assist in opening markets for Canadian defence suppliers and will benefit the Canadian Armed Forces by providing economies of scale for production and technical developments. While defence relations between Canada and Saudi Arabia are limited, they are positive and Saudi Arabia is a key military ally supporting international efforts to counter ISIS in Iraq and Syria as well as countering instability in Yemen. The acquisition of state-of-the-art armoured vehicles will assist Saudi Arabia in these goals, which are consistent with Canada's defence interests in the Middle East.

13. From an economic impact perspective, GDLS-C has an extensive history with the Department's Trade Commissioner Service, and is very active internationally, with 85 percent of its revenue coming from exports. This contract will support General Dynamic's investment in Canada, as well as GDLS-C's network of suppliers. The contract will create and sustain thousands of high-quality manufacturing jobs across Canada, providing economic benefit to the Canadian-based supply chain and broader Canadian industry.

Analysis

14. These exports are assessed to be consistent with Canada's overall foreign policy priorities and objectives for the country and region concerned. Saudi Arabia does not pose a threat to the security of Canada or our allies. The proposed exports are assessed to be consistent with Canada's international and regional security interests, as Saudi Arabia is involved in a conflict to address legitimate threats to its own security, as well as address broader regional and international instability of direct concern to Canada.

15. However, as noted above, Canada has had, and continues to have, concerns with Saudi Arabia's human rights record. A key determinant in assessing export permit applications against human rights concerns is whether the nature of the goods or technology proposed for export lends itself to human rights violations, and whether there is a reasonable risk that the goods might be used against the civilian population. The Department is not aware of any reports linking violations of civil and political rights to the use of the proposed military-purposed exports. Based on the information provided, we do not believe that the proposed exports would be used to violate human rights in Saudi Arabia. Canada has sold thousands of LAVs to Saudi Arabia since the 1990s, and, to the best of the Department's knowledge, there have been no incidents where they have been used in the perpetration of human rights violations.

16. Over the past several months there have been a number of articles in mainstream media outlets concerning Canadian sales of LAVs to Saudi Arabia. One of the questions posed by journalists pertains to the role of Canadian-made Saudi LAVs during the upheavals in Bahrain in 2011. Saudi Arabia provided support to Bahrain during these events under the auspices of the Gulf Cooperation Council's "Peninsula Shield." To the best of the Department's knowledge, Saudi troops were stationed to protect key buildings and infrastructure, and did not engage in suppression of peaceful protests.

17. In recent months, airstrikes by the Saudi-led coalition and, to a lesser extent, actions by the Houthi/Saleh forces in Yemen have been criticised by NGOs, including Amnesty International and Human Rights Watch and more recently by the UN due to the high civilian toll. The final UN Panel of Experts on Yemen report released on February 23, 2016, notes that all parties to the ongoing conflict in Yemen, including Saudi Arabia, have violated international

humanitarian law, including by intentionally targeting civilians and attacking humanitarian organizations. The report's allegations against Saudi Arabia pertain to the use of aerial bombardment, indiscriminate shelling, and the use of artillery rockets against civilian areas. The Panel also observed that the Coalition has supplied weapons to resistance forces without appropriate measures to ensure accountability. There has been no indication that equipment of Canadian origin, including LAVs, may have been used in acts contrary to international humanitarian law. The Panel members faced challenges in compiling the report and were not able to visit Yemen to obtain first-hand information. For its part, the Saudi-led coalition has issued a statement emphasizing their respect for and compliance with the rules of international humanitarian and human rights laws and the commitment of their military personnel to those rules. Additionally, on January 31, 2016, the Saudi-led coalition has announced the formation of an independent team of specialists to assess and verify incidents of civilian casualties, to issue clear and objective reports of such incidents, and to draw the necessary conclusions and recommendations concerning future procedures to avoid civilian casualties.

18. The media has also reported on the appearance of a Canadian-made weapon (LRT-3 sniper rifle) photographed in the hands of a Houthi fighter in Yemen. More than 1,300 sniper rifles have been exported from Canada to Saudi Arabian military and security forces under valid export permits, including several hundred of this model. Canada's Embassy in Riyadh assesses that this rifle, along with other Saudi military equipment, was likely captured from Saudi forces by Houthi fighters during military operations along the Saudi-Yemeni border. Reports drawn from open sources indicate that raids along the Saudi border by Houthi/Saleh forces have led to more than 370 deaths, the majority incurred by Royal Saudi Land Forces and border guards, along with the capture of equipment, weapons and ammunition. This type of battlefield loss of equipment is to be expected as a result of military operations. Canada's Embassy in Riyadh remains in contact with Saudi authorities to facilitate the exchange of information on such losses.

19. Taking all of the above factors into consideration, the Department recommends that these permits to export [REDACTED] LAVs and their associated weapon systems, spare parts and technical data to Saudi Arabia be approved. The Assistant Deputy Minister Review Committee unanimously supports this recommendation.

20. The views and recommendation of the Minister of International Trade were sought via separate memorandum, on which the Minister of Foreign Affairs was copied on December 21, 2015).

RESOURCE IMPLICATIONS:

21. Nil.

COMMUNICATIONS IMPLICATIONS/ACTIONS:

22. Media scrutiny around the Canadian Commercial Corporation-facilitated sales of LAVs to Saudi Arabia is expected to continue. While the Department does not comment on individual permit applications due to commercial confidentiality, responsive media lines concerning the overall contract, as announced by Government in 2014, and Canada's export controls process will continue to be prepared by the Department in consultation with relevant other government departments.

PARLIAMENTARY IMPLICATIONS/ACTIONS:

23. In light of the intense media scrutiny of the GDLS-C contract facilitated by the Canadian Commercial Corporation to provide Saudi Arabia with LAVs, Question Period notes have been prepared and will be updated, as necessary.

RESPONSES TO CONSULTATION

Note: In order to ensure that you have access the views expressed by all consultation partners, the following inputs are provided for your information.

Department of National Defence

Analysts from the Department of National Defence (DND) have reviewed the export permit applications pertaining to General Dynamics Land Systems Canada's (GDLSC) export of light armoured vehicles (LAVs) and associated weapons systems to the Kingdom of Saudi Arabia in support of the Saudi [REDACTED] Program. From a defence industrial base perspective, GDLSC is an important supplier to DND/Canadian Armed Forces, as it builds and maintains Canada's fleet of Coyote, Bison, LAV III, and LAV 6.0 armoured vehicles. DND views the export of these world-class products as a key part of ensuring a strong and viable defence industrial base in Canada. The sale also enlarges the number of countries operating GDLSC's armoured vehicles, which benefits the entire user-group. These exports also represent a major success in Canada's efforts to assist in opening markets for Canadian defence suppliers, therefore, from a defence industrial base perspective, DND supports these LAV exports to Saudi Arabia. From a defence policy perspective, defence relations between Canada and Saudi Arabia are positive, yet limited. Saudi Arabia is a key Western military ally in the Middle East and supports international efforts to counter ISIS in Iraq and Syria as well as counter instability in Yemen. The acquisition of state-of-the-art armoured vehicles will assist Saudi Arabia in combatting instability in the region, a goal which is consistent with Canada's defence interests in the Middle East.

Global Affairs Canada

Middle East and Maghreb Bureau

The Kingdom of Saudi Arabia is a key partner for Canada. It is an important and stable ally in a region marred by instability, terrorism and conflict. Saudi Arabia is also Canada's most important two-way trading partner in the Middle East and North Africa region. It has the world's largest oil reserves and is currently the world's third largest producer. In 2014, two-way merchandise trade was recorded at \$3.9 billion. Canada appreciates the Kingdom's role as a regional leader promoting regional security and stability, as well as countering the threat posed by Iranian regional expansionism and by ISIL. Canada, like others in the international community, is concerned about human rights issues in the Kingdom, including the reported high number of executions, suppression of political opposition, the application of corporal punishment, suppression of freedom of expression, arbitrary arrest, ill-treatment of detainees, limitations on freedom of religion, discrimination against women and the mistreatment of migrant workers. Canada maintains and values our candid and respectful dialogue with Saudi Arabia on a number of issues, including human rights. Canadian officials engage regularly with Saudi officials, including the Saudi Human Rights Commission to raise issues of concern when necessary.

In recent months, airstrikes by the Saudi-led coalition and, to a lesser extent, actions by the Houthi/Saleh forces in Yemen have been criticised by NGOs including Amnesty International and Human Rights Watch and more recently by the UN due to the high civilian toll. The final UN Panel of Experts on Yemen report released on February 23, 2016, notes that all parties to the ongoing conflict in Yemen, including Saudi Arabia, have violated international humanitarian law,

including by intentionally targeting civilians and attacking humanitarian organizations. There has been no indication that equipment of Canadian origin, including LAVs, may have been used in acts contrary to international humanitarian law.

We are not aware of any reports linking violations of civil and political rights to the use of the proposed military-purposed exports. With respect to this specific export permit, based on the information provided, we do not believe that the proposed export would be used to violate human rights in Saudi Arabia. Canada has sold thousands of LAVs to Saudi Arabia since the 1990s and, to the best of the Department's knowledge, there have been no incidents where they have been used in the perpetration of human rights violations. Canada is one of many Western exporters of military goods to Saudi Arabia. To the best of the Department's knowledge, the Government of Saudi Arabia does not have a record of serious violations of human rights of its citizens by use of such goods. Therefore we have no concerns with this export application.

Defence and Security Relations Division (IDR)

In regards to the export of LAVs and associated weapons systems to the Kingdom of Saudi Arabia (KSA), IDR has no objections to the proposed exports. The exports will help support an anti-ISIS Coalition partner in the region and will strengthen a regional power which acts as a check against Iranian influence. Therefore, the export is consistent with the Government of Canada's overall foreign policy priorities and objectives for the country and region concerned.

As well, the KSA does not pose a threat to the security of Canada or our allies and does not have sanctions posed against it. Since 2009, the United States has exported US\$46 billion in military equipment to Saudi Arabia, its largest market during that timeframe.

Given that ISIS is a potential threat to KSA and the general potential threat of Iran, Canada can consider that the KSA is facing legitimate threats.

Having reviewed the application and considering the issues above, IDR is of the view that the proposed export will not/not be detrimental to regional security and has no specific concerns with issuing the export permit.

Aerospace, Automotive, Defence and ICT Practices Division

GDLS-C has an extensive history with the Trade Commissioner Service globally (58 services delivered since 2013). The company is part of U.S. General Dynamics Land Systems, which is part of the Combat Systems business group of General Dynamics Corporation. GDLS-C has 2,100 employees across Canada, with the majority in London, Ontario, where it is one of the most important employers. GDLS-C's annual revenues are not publicly available, but orders over the last 25 years are in excess of \$30 billion. GDLS-C is very active internationally, with 85 percent of its revenue coming from exports. GDLS-C anchors Canada's land vehicle defence industry cluster in southern Ontario, and supports a supply chain of over 500 Canadian firms, including small and medium-sized enterprises, across Canada. This high-value and long-duration contract will support GDLS-C's Canadian suppliers, creating and sustaining high-quality manufacturing jobs across Canada.

Innovation, Science and Economic Development Canada

Aerospace, Defence and Marine Branch

General Dynamics Land Systems Canada (GDLS-C), based in London, Ontario, is the largest Canadian defence company, producing wheeled light armoured vehicles (LAVs) for defence markets. It provides these LAVs to customers as an integrated land defence platform, along with associated systems, typically through government-to-government contractual arrangements.

GDLS-C exports the majority of its production and is also the export leader in the Canadian defence industry. The company's business activities support a substantial supply chain of Canadian manufacturers and service providers, particularly in southwestern Ontario. It is also an important equipment and service provider for the Department of National Defence.

The Kingdom of Saudi Arabia (KSA) has been a long-term key purchaser of LAVs. In February 2014, then-Minister of International Trade Fast announced a major GDLS-C contract to supply the KSA. This KSA procurement opportunity will provide the company with a dependable, long-term, multi-year contract and significant revenues, which supports its competitiveness, innovation activities, and employment in the southwestern Ontario region and across Canada. The particular opportunity for the export of [REDACTED] LAVs through a Canadian Commercial Corporation-brokered contract to the Saudi [REDACTED] over four years is high value, estimated at over \$11 billion. Also included as part of the proposed export are armaments, [REDACTED]

These exports would be of substantial economic benefit to Canada and provide significant commercial benefit to the company, as well as to the supply chain and broader Canadian industry

