Briefing Paper

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Tracing Canada's military exports

Analyzing the 2017 report

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Two big arms-related issues dominated public debate in Canada in 2018. The first was the tumultuous passage of Bill C-47, which seeks to bring Canadian military export policy into alignment with the international Arms Trade Treaty (ATT). The second was the escalating series of revelations linked to Canada's $15-billion arms deal to provide light armoured vehicles (LAVs) to Saudi Arabia, the state leading the catastrophic war in Yemen. By contrast, the release of Global Affair Canada's (GAC) Report on the Export of Military Goods from Canada—2017 on June 8 barely generated a ripple, despite providing the most authoritative and comprehensive account of Canadian military exports on record.

In 1990, the government of Canada committed to publishing an annual report on Canadian military exports and their countries of destination. Although this commitment has been reinterpreted over the years, the ongoing publication of this report remains a core component of the government's commitment of transparency to the Canadian public and international community, as well as a means to monitor potential diversion, illicit trafficking, and misuse of Canadian military goods.

Each annual report compiles information on the export permits that Canadian military producers are required to obtain before exporting items on the Export Control List (ECL). Canadian military exports to the United States, which are an estimated 60 per cent of total military exports, are largely exempted from these requirements under the 1956 Defence Production Sharing Agreement. The exports report indicates how well the government's stated policy on arms exports aligns with the actual practices of granting permits to Canadian companies and shipping military goods from Canadian factories.

The latest report, which "provides information on the export of military goods and technologies for calendar year 2017," reveals:

- A historic surge in Canadian military exports, buoyed by transfers of military equipment to Saudi Arabia. In the period 2012-2017, Canada exported a greater value of military goods than in any comparable period since Project Ploughshares began to keep records in 1978.

- The export of military goods valued at $497,494,143 to Saudi Arabia in 2017. This is the largest reported single-year military transfer since 1978.

- A continuing trend of exporting military goods to countries either engaged in conflict or in serious violation of human-rights obligations.

- Ongoing and significant discrepancies between the reporting of Canadian military exports by destination and by ECL categorization.

- Continued omission of information on exports to the United States, although such information is required under the terms of the Arms Trade Treaty.

- Improvements in the transparency and accuracy of reporting.

Demonstrating overwhelming dependence on exports to Saudi Arabia, the report provides evidence of Canada's continued inability to meet its own standards for arms exports.

The recent evolution of Canadian military exports policy and reporting

A 1986 Department of External Affairs communiqué on export policy stated that "Canada will not allow the export of military equipment to countries whose governments have a persistent record of serious violations of the human rights of their citizens, unless it can be demonstrated that there is no reasonable risk that the goods might be used against the civilian population." Secretary of State for External Affairs Joe Clark is quoted as saying that "the new policy with respect to countries with serious human rights problems places the onus of proving 'no reasonable risk' squarely on the exporter."

The 2017 report claims that "Canada's export controls are among the most rigorous in the world and are in line with those of our principal allies and partners" (p. 7). It also claims that Canada is abiding by the 1986 guidelines, as it "closely controls" the export of military goods to countries that pose a security threat to Canada and its allies, that are involved in or under imminent threat of hostilities, that are under UN sanctions, or whose governments have a persistent record of serious human-rights violations against their citizens (unless it can be demonstrated that there is no "reasonable risk" that the goods will be used against the civilian population). However, the language used today falls short of Clark's original intent. An emphasis on "will not allow" has evolved to "closely controls," while the exporter's "onus" has faded into a complex and opaque process that has not ended exports to human-rights violators.

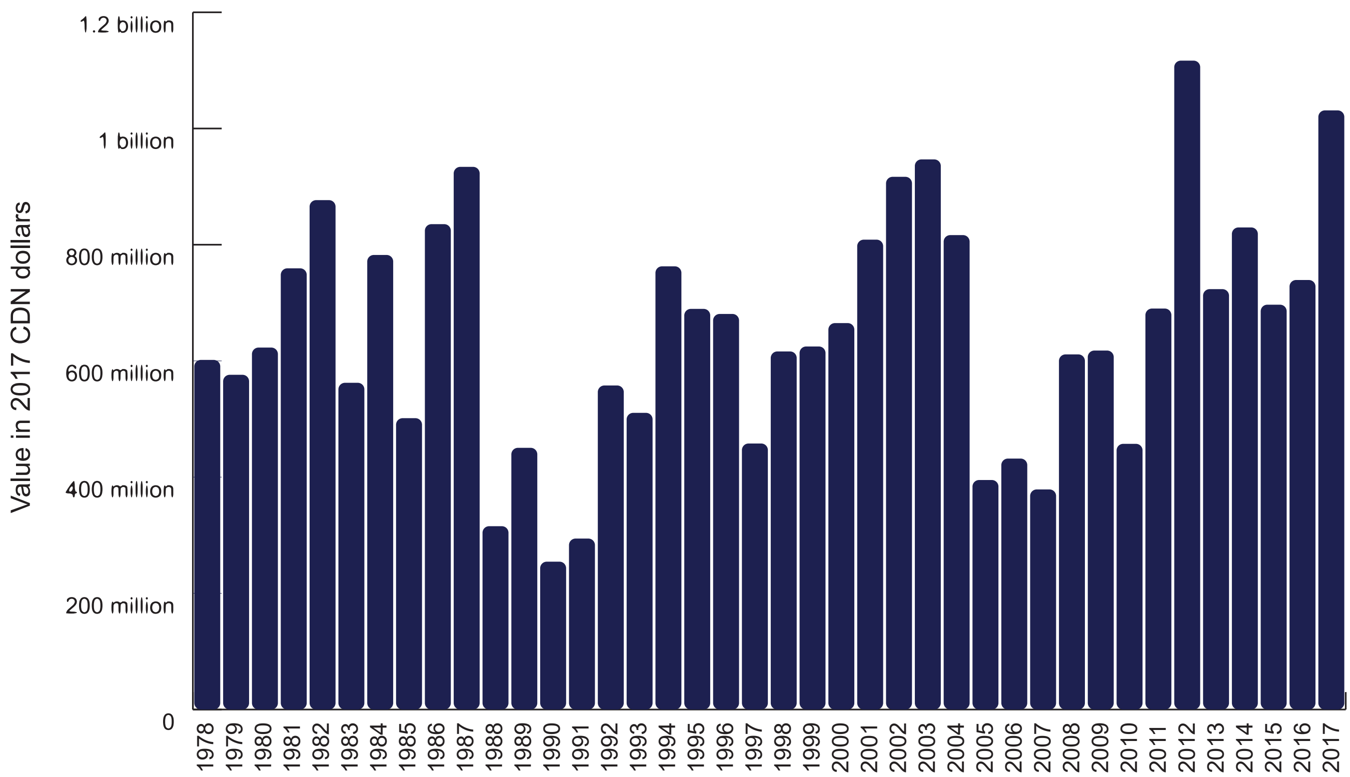
Other changes have also caused controversy. In 2016, Steven Chase of The Globe and Mail revealed that the 2014 and 2015 export reports, released by the Trudeau government in July of that year, included significantly relaxed language on Canadian commitments to restricting the sale of military goods. Whereas previous reports indicated that Canadian export controls were intended to "regulate and impose certain restrictions on exports," the 2014 and 2015 reports spoke of an attempt to "balance the economic and commercial interests of Canadian business with the national interest of Canada." Perhaps due to the controversy that ensued, the 2016 and 2017 reports reverted to the earlier language.

By the numbers: Growth in Canadian military exports

While the United States, a NATO and NORAD ally, is the single largest recipient of Canadian military goods, exports to other states are increasing. According to the GAC reports, in the six-year period 2012-2017, average annual non-U.S. exports totalled $856-million, more than in any preceding period in the last 40 years. This average was significantly higher than the next-closest period, 1999-2004, when Canada exported military goods worth an average of $796-million per year. The current decade has been lucrative for Canadian military industrial exporters, with annual exports increasing, on average, by $126-million over the 10-year period from 2000-2009.

The beginning of this upward trend roughly corresponds with a Canadian government push to bolster domestic military producers by pursuing markets in the global south, often states with poor human-rights records. Such an effort seems contrary to the Canadian government's commitment to closely control military exports to regimes engaged in conflict or violating the human rights of their citizens.

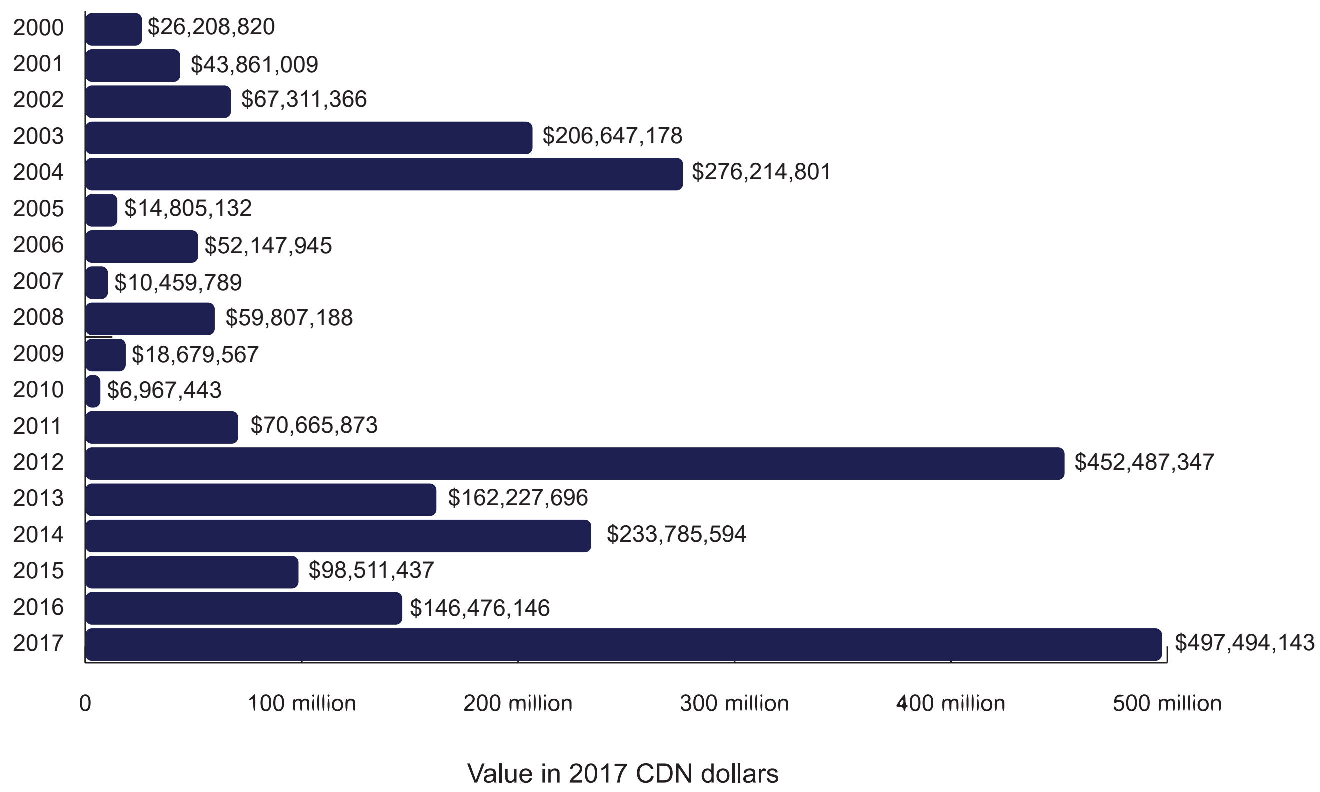
Figure 1: Non-U.S.-Canadian military exports since 1978



In 2017, Canada exported $1.031-billion in military goods and technology to non-U.S. countries. This is the second time that Canadian exports have exceeded one billion dollars in the last decade (the first was in 2012), and only the fifth time that they have exceeded $900-million since Project Ploughshares began reporting in 1978. In both 2012 and 2017, the lion's share went to Saudi Arabia.

It is likely that the Saudi LAV deal signed in 2014 was the largest influence on 2017 numbers, since more than 48 per cent (over $497-million) of total non-U.S. exports went to Saudi Arabia. In contrast, the United Kingdom, which was the top recipient of Canadian exports in 2015, received only $100-million in military goods in 2017.

Figure 2: Canadian military exports to Saudi Arabia, 2000-2017



Seven of the top 10 destinations for Canadian military exports were the same in 2016 and 2017. Five of them (UK, Germany, France, Netherlands, Norway) were NATO member states, while the other two (Australia and Saudi Arabia) were included on the Automatic Firearms Country Control List (AFCCL). a Canadian classification created in 1991 to allow the export of automatic firearms to a specific list of countries through an amendment to the Criminal Code of Canada and the Export Import Permits Act.

In 2016, the remaining top 10 destinations were Peru, South Korea, and NATO member Belgium; in 2017, NATO members Turkey and Luxembourg, and Japan.

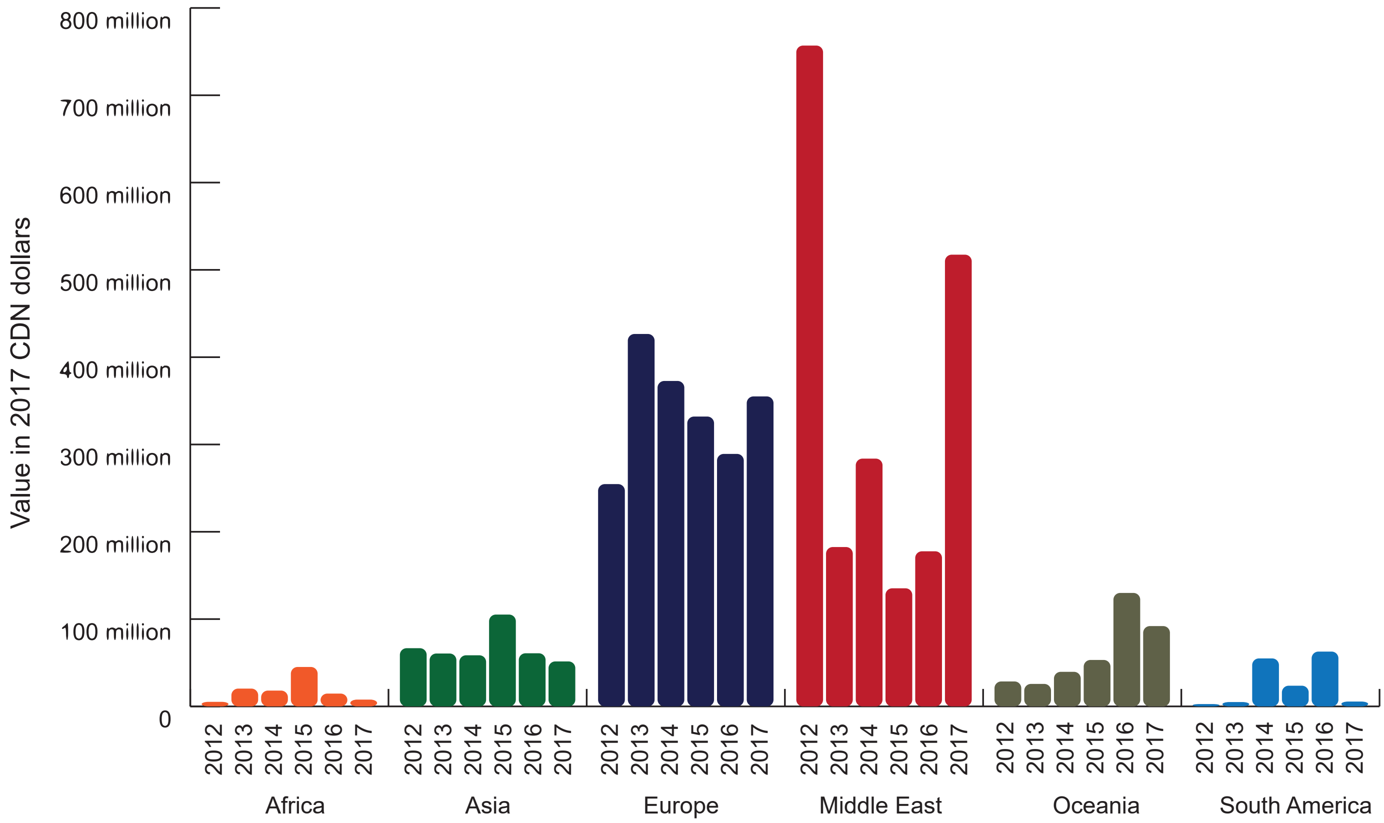
Figure 3: Top 10 destinations for Canadian military exports in 2016

Destination	Total value	Percentage
Saudi Arabia	$142,207,669.44	19.81%
Australia	$115,767,483.15	16.13%
United Kingdom	$78,254,584.70	10.90%
Peru	$59,365,347.30	8.27%
France	$41,243,959.94	5.75%
Germany	$39,555,716.91	5.51%
Norway	$28,002,122.33	3.90%
South Korea	$17,440,678.28	2.43%
Netherlands	$12,459,430.61	1.74%
Belgium	$12,108,115.05	1.69%

Figure 4: Top 10 destinations for Canadian military exports in 2017

Destination	Total value	Percentage
Saudi Arabia	$497,494,143.06	48.25%
United Kingdom	$89,466,775.67	8.68%
Australia	$86,473,822.95	8.39%
Germany	$65,924,517.97	6.39%
Turkey	$48,269,530.60	4.68%
France	$26,007,852.73	2.52%
Netherlands	$25,548,952.80	2.42%
Norway	$19,395,728.67	1.88%
Luxembourg	$17,202,702.99	1.67%
Japan	$17,001,286.47	1.65%

Figure 5: Exports by region, 2012-2017



Red flags

The numbers in the most recent report on military exports raise a number of red flags that mark instances of either policy failure or deliberate efforts to facilitate exports to countries that do not meet the standards set out in Canadian export guidelines.

Canada's customer list

Canada continues to export military goods to countries that are either involved in conflict or have a history of serious human-rights violations (see table below). In 2017, Canada shipped more than $100,000 in military goods to each of 11 countries involved in one or more armed conflicts, and where the government was responsible for significant human-rights violations. Another three state recipients of more than $100,000 each in Canadian military goods had poor human-rights records. The United States, Canada's biggest customer for military goods, is currently involved in conflicts in seven countries (Afghanistan, Iraq, Syria, Yemen, Somalia, Libya, and Niger).

Figure 6: Record of major recipients of Canadian military exports, 2017

Country*	Armed conflict	Rights abuse**	ATT member	Export totals (2017)
Algeria	✓	✓		$2,957,974.94
Brazil		✓	Yes	$237,871.94
Colombia	✓	✓	Signatory (unratified)	$114,688.85
Egypt	✓	✓	Signatory (unratified)	$2,873,665.10
India	✓	✓		$3,702,670.93
Israel	✓	✓	Signatory (unratified)	$10,033,454.41
Kazakhstan		✓	Yes	$363,384.00
Kenya	✓	✓		$335,861.75
Mexico		✓	Yes	$1,599,194.36
Nigeria	✓	✓	Yes	$1,226,244.88
Saudi Arabia	✓	✓		$497,494,143.06
Thailand	✓	✓	Signatory (unratified)	$2,855,628.96
Turkey	✓	✓	Signatory (unratified)	$48,269,530.60
Ukraine	✓	✓	Signatory (unratified)	$141,544.44
United States	✓		Signatory (unratified)	Uknown
TOTAL				$572,205,858.22

*Received more than $100,000 in Canada military exports in 2017
**As indicated by the annual *2018 Human Rights Watch World Report*

In 2017, Canadian military goods valued at $572-million (55 per cent of the non-U.S. total) went to non-U.S. countries engaged in armed conflict and/or significant human-rights violations. The vast majority went to Saudi Arabia.

The expanding Automatic Firearms Country Control List

According to the 2017 exports report (p. 4), over 93 per cent of Canada's non-U.S. military exports went to countries on the AFCCL. This list of 40 states includes all NATO members except for Montenegro, which joined NATO in 2017. Recent non-NATO additions to the AFCCL include Colombia in 2012, Israel in 2015, and Ukraine in 2017. Mexico and Japan are now under consideration. Countries do not need to meet any bar to be included on the list, except to have a defence agreement with Canada. Indeed, the primary motive for creating the AFCCL was to facilitate the first direct sale of LAVs (with attached automatic weapons) to Saudi Arabia. Several countries have been added to the list just before a major military export deal was announced.

Saudi Arabia accounted for 51.8 per cent of the AFCCL total, while another five per cent ($48-million) went to Turkey. In 2016, of the 87 per cent ($636-million) of Canadian exports that went to AFCCL countries, 22 per cent ($144-million) went to Saudi Arabia. It is becoming increasingly clear that membership in the AFCCL should be viewed as a business arrangement, rather than an endorsement of responsible governance.

Problems with discrepancies

The Canadian Export Control List identifies goods and technologies that are tracked and restricted by the government. It is divided into seven groups that cover products from uranium to softwood lumber. Most conventional Canadian military exports are found in Group 2 (Munitions), which has 22 categories ranging from armoured vehicles to software. Although the annual exports reports include a helpful breakdown of country exports by ECL designation, category totals are often unreliable.

The 2017 exports report reflects continuing discrepancies caused by double-counting—including some exports in more than one ECL category. For example, Table 6, "Export Value of Military Goods and Technology to All Destinations," reports that Canadian military goods valued at $15,577 were exported to Afghanistan in 2017, while Table 9, "Exports of Military Goods and Technology by ECL Item Number," reports that $15,577 was exported to the country in each of two ECL categories (2-6 and 2-13), for a total of $31,154.

The cumulative total presented in Table 9 is more than $57-million greater than the total military exports given in Table 6. GAC claims this discrepancy can't be resolved (p. 14), which makes it extremely difficult to accept ECL item values from Table 9 (Exports by ECL Number) unless verified against Table 6 (Exports by Country).

The financial value of goods exported from Canada under ECL item number 2-22 (Technology) is also open to scrutiny, since, as the 2017 report admits (p. 14), it is difficult to quantify the worth of such transfers. Canada exported over $33-million in military goods under classification 2-22 in 2017, which must include a significant margin for error.

It is also hard to correlate permits issued with permits used. In 2016, GAC issued 3,203 permits to export ECL Group 2 (Munitions List) products, while only 2,204 permits were used. In 2017, 3,236 permits were issued, while 2,137 were used. Not all export permits result in actual transfers and permits can be used within five years of being issued.

For example, Canadian military goods to the Philippines dropped from $6,232,254 in 2016 to $3,219 in 2017, but it is not clear why. Was the drop the result of a reduction in export applications, a toughening of Canadian export regulations, or some inability of Canadian military producers to use the permits? It is currently impossible to know. More information on the value, ECL category, and destination of all export permits (both issued and used) needs to be made public.

Acceding to the Arms Trade Treaty: Meeting the standards

Article 1 of the Arms Trade Treaty binds each signatory to the "highest possible common international standards" in regulating the arms trade, and Article 2 applies the treaty to "all conventional arms" from battle tanks to pistols. The Canadian government believes that Bill C-47 meets these and other ATT requirements.

Canadian civil society organizations do not. The biggest problem: C-47 fails to address exports to the United States. Except for restricted firearms, ammunition, and some explosives, no Canadian military goods going to the United States, Canada's biggest customer, currently require export permits. These goods are untracked and unlicensed.

It is the belief of Project Ploughshares Executive Director Cesar Jaramillo that, until Canada tracks and regulates military exports to the United States, it will be in violation of the ATT's requirement that the "highest possible common international standards" be applied to "all" conventional arms. While the government has made many improvements to Canada's military export transparency to conform to international standards, the continuing nature of military trade with the United States is a core violation of both the treaty's spirit and stated requirements.

As required by the ATT, Bill C-47 does attempt to regulate brokering—the arrangement or negotiation of a transaction to move controlled goods from one foreign country to another foreign country. Since they don't require an export permit, brokered goods are not currently tracked, creating a significant loophole. In 2016, for example, Canadian armoured-vehicle manufacturer Streit Group was criticized for orchestrating UN embargo-violating transfers between its manufacturing facilities in the United Arab Emirates and countries such as Libya and South Sudan. New regulations are both welcome and necessary.

Problems with diversion

Diversion occurs when military goods, generally small arms and light weapons, are stolen or resold on the black market. As the current exports report (p. 8) states, Canadian export policy accounts for "the possibility of unauthorized transfer or diversion of the exported goods and technology."

In 2016, for example, videos emerged showing sniper rifles made by Winnipeg's PGW Defence Technologies in the hands of Houthi fighters in Yemen; the guns had been seized from Saudi forces. In April 2018, an Ontario-made assault rifle, apparently from a shipment sent to Iraq in 2016, was found by Turkish forces during a raid on a PKK stronghold.

Diversion could also become a problem in Ukraine, where Colt Canada is vying to sell up to 100,000 rifles to the Ukrainian armed forces. Both Canadian and U.S. forces have been training Ukrainian troops since 2015, and have been criticized for potentially providing aid to extremists and militia forces, including the neo-Nazi "Azov" battalion. Last August, Winnipeg's PGW confirmed a $1,000,000 contract to provide Ukraine with sniper rifles. When Canadian weapons do begin arriving in Ukraine, diversion to non-military fighters will be a significant concern.

The annual Report on the Export of Military Goods is essential in helping Canadian civil society and academic analysts track diverted Canadian commodities. For example, the assault rifle in Turkey was quickly tracked to North Eastern Arms, a weapons manufacturer whose clients allegedly included both Iraqi forces and the attached Kurdish Peshmerga. The 2016 report (released in June 2017) cements this Canadian connection, showing that Canada exported $1,050,005 (in unadjusted dollars) in military goods to Iraq during the 2016 calendar year, with the amount split between ECL categories and 2-1. Since category 2-1 designates "Smooth-bore weapons with a calibre of less than 20 mm, other arms and automatic weapons with a calibre of 12.7 mm or less and accessories," it is fairly safe to assume that this total includes a shipment of NEA-15 rifles from Ontario to the Iraqi military.

The Good: Growing transparency

The 2017 Report on the Export of Military Goods takes significant steps in increasing transparency. It continues to improve on reporting practices, including timely publication, while casting more light on the military export application process and accounting for a small portion of military exports to the United States.

The current government has demonstrated a commitment to annual reporting. Since releasing the 2014 and 2015 military export reports in mid-2016, the government has returned to the yearly schedule promised in 1990.

For the second year running, the annual report includes information on permit denials—those occasions when GAC rejects export permit applications because of violations of Canadian export policy. In 2016, six of 3,546 applications submitted for ECL Group 2 products were denied. In 2017, one of 3,401 applications was denied.

Both the 2016 and 2017 exports reports also disclose information on exports to the United States that do require export permits, such as prohibited firearms, ammunition for police and military use, and items under ECL category 2.4a, which include bombs, torpedoes, rockets, grenades, and mines. While the 2016 report includes the number of permits granted for Canadian military exports, the 2017 report also includes a total annual value for goods shipped under permit authorizations: $83,554,704.

These recent reports also include new information on the timeline for export permit applications (Service Standard Targets), annexes explaining the specific agreements regulating Canadian military exports, and details on Canada's report to the UN Register of Conventional Arms.

Conclusion

The 2017 Report on the Export of Military Goods shows continued tension between the spirit of Canadian military export policy and the actual practice of granting export permits. Although GAC used the report to reinforce a claim that Canada's export control policies are among "the most rigorous in the world," the department has seemed incapable of ruling serial human-rights abuser Saudi Arabia in violation. Although the department claims that Canada "closely controls" military exports to countries in conflict or engaging in human-rights violations, more than half of Canada's non-U.S. military exports in 2017 went to countries in these categories. And, despite the government's claim that Bill C-47 clears the path for Canadian accession to the ATT, a majority of Canadian military exports continue to be shipped to the United States without export permits or satisfactory tracking.

On a more positive note, the timing and breadth of the 2017 report do indicate the government's commitment to transparency and accountability. New information on rejected export permit applications, as well as permits granted for some exports to the United States, provide important insight into the export application process. This information can help civil society and academics isolate problems in government policy and perhaps propose better solutions.

The world has changed during the 27 years in which Canada has been publishing military export reports. In 1990, Canada's non-U.S. military export total was only $254,451,012, with 66 per cent going to NATO allies. At that time, military exports were falling with the end of the Cold War, and many Canadians foresaw a new world order in which Canada could turn its attention to development and aid spending rather than military production.

The 2017 report tells a different story. Canada's military exports are rising, buoyed by the record-breaking deal with Saudi Arabia. The market for Canadian products seems to be beginning to shift away from traditional NATO allies to developing countries in the global south. It is time, once again, to ask ourselves as Canadians: Do military exports actually enhance Canadian security? Do they further our commitments to the international community, and to our pursuit of peace on the global stage? □

Note: Unless otherwise specified, all dollar amounts are in 2017 Canadian dollars.

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