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House of Commons Standing Committee on Foreign Affairs and International
Development

Study on the Granting of Arms Export Permits

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Mr. Chair, Vice-Chairs, and Members of the Committee,

Thank you for inviting me to appear before you today. The issue of granting export permits for military equipment and technology exports to Turkey is an important one for Canada and its aerospace and defence industry. Over the past two decades, I have conducted research and published on this industry, which is of strategic importance to our country.

My remarks will focus on the industrial side of the issue. They will be structured as follows. I will present my recommendations and then look at the state and dynamics of the aerospace and defence industry globally, and then in Canada. Next, I will talk about the case of Canadian inputs into the Turkish defence industry. Lastly, I will discuss matters Canadian industry needs to consider with respect to the restrictions on the export of military goods and technologies. I will then conclude my remarks.

Recommendations

Recommendation 1

Temporarily suspend exports of military goods and technology to Turkey until robust controls are in place respecting their use and re-export and related intellectual property issues.

Recommendation 2

Introduce a predictable and efficient review framework for the export of military goods and technology to other countries that includes risk-sharing and pooling mechanisms vis-à-vis industry.

Recommendation 3

Advance a systemic approach alongside Canada's allies and partners to establish oversight mechanisms for potential violations by consignees of military goods and technology.

The dynamics of the aerospace and defence industry

Global trends

The international context is characterized by growing competition in the aerospace and defence industry. Similarly, a resurgence of nationalism in industrial policy in this area coupled with the emergence of China, Russia and other players (e.g. India, Turkey) with growing domestic export capabilities—including in design, manufacturing and marketing—is changing the competitive situation, primarily in emerging markets. This shift is occurring because traditional suppliers in these markets are being displaced and access to equipment for new client states is becoming easier owing to generous pricing practices, often coupled with better financing arrangements for such equipment or services, or for service delivery.

Defence supply chains are nevertheless increasingly global at the input, subsystem and even system level—relatively globalized segments—as well as at the platform level—an increasingly globalized segment. It is also important to note the growing importance of commercial off-the-shelf (COTS) inputs and final products.¹

The Canadian context

Canada is a major international player in this industry. The Canadian aerospace and defence industry depends on exports to expand and be sustainable. Approximately 60% of sales for the defence component of this industry are for export.² Furthermore, Canada is the 14th largest exporter in the world in this industry,³ yet only one of its companies is in the

¹ Cimon, Yan (2014), "Defence Policy and the Aerospace and Defence Industry in North America: The Changing Contours of the Post-9/11 Era" in Paquin, Jonathan, James, Patrick (Eds.), *Game Changer: The Impact of 9/11 on North American Security*, UBC University Press, 213–230.

² For 2016. See: Innovation, Science and Economic Development Canada (2018), *State of Canada's Defence Industry*, Ottawa, p. 6. Study conducted in partnership with the Canadian Association of Defence and Security Industries [https://www.ic.gc.ca/eic/site/ad-ad.nsf/vwapj/EtatCanadiennedefenceRapport2018.pdf/\\$file/CanadianStateDefenceReport2018.pdf](https://www.ic.gc.ca/eic/site/ad-ad.nsf/vwapj/EtatCanadiennedefenceRapport2018.pdf/$file/CanadianStateDefenceReport2018.pdf)

³ Data from 2020. See Stockholm International Peace Research Institute (2020), *SIPRI Arms Transfers Database*, TIV (trend-indicator value) of arms exports from the top 50 largest exporters, accessible via <https://www.sipri.org/databases>

global top 100 for the sector.⁴ This is partly because the Canadian industry is mostly composed of SMEs.⁵

Canada's Defence Policy also emphasizes the importance of “promot[ing] defence materiel cooperation and export opportunities for Canadian industry.”⁶ This is easily explained by the size of the Canadian domestic market, which is too small to absorb all these products and services. The industry must therefore position itself in global value chains to enable Canada to maintain a set of strategic industrial capabilities while ensuring that it continues to play a leading role in defining future platforms and their underlying technologies.⁷

Lastly, Canadian industry is already a leading supplier of non-lethal products, services and technologies for use in defence products. This industry is a high-added-value, leading-edge sector of the Canadian economy that provides good, highly skilled jobs.

The case of Canadian inputs into the Turkish defence industry

In terms of defence, Turkey is a sophisticated country and an ally of Canada, in part because both are members of NATO. In recent years, the country has expanded its defence industry, becoming an importer rather than an exporter of defence equipment and technology. Thus, in the drone market, Turkey has become not only a producer country, but also an exporter. However, this exporter status can make it more difficult to ensure that Canadian inputs to Turkish platforms or systems are not loaned, re-exported or otherwise transferred to third parties, regardless of the frameworks and agreements governing such activities or transfers.

The Bayraktar TB2 drone is a good example of this. This equipment—which may have been equipped with Canadian sensor systems—was allegedly used in Syria, Libya and in Nagorno-Karabakh, despite being manufactured in Turkey.⁸ This type of drone has also

⁴ Data from 2018. See Stockholm International Peace Research Institute (2020), *SIPRI Arms Industry Database*, Data for total arms sales for the SIPRI Top 100 for 2002–18, accessible via <https://www.sipri.org/databases/armsindustry>

⁵ See: Innovation, Science and Economic Development Canada (2018), *State of Canada's Defence Industry*, Ottawa, p. 5. Study conducted in partnership with the Canadian Association of Defence and Security Industries [https://www.ic.gc.ca/eic/site/ad-ad.nsf/vwapj/EtatCanadiennedefenceRapport2018.pdf/\\$file/CanadianStateDefenceReport2018.pdf](https://www.ic.gc.ca/eic/site/ad-ad.nsf/vwapj/EtatCanadiennedefenceRapport2018.pdf/$file/CanadianStateDefenceReport2018.pdf)

⁶ Department of National Defence (2017), *Strong, Secure, Engaged – Canada's Defence Policy*, Ottawa, p. 89, accessible via <https://www.canada.ca/en/department-national-defence/corporate/reports-publications/canada-defence-policy.html>

⁷ Cimon, Y. (2017). Perspectives for the development of key industrial capabilities for Canada's defence sector. *Defence & Security Analysis*, 33(4), 333–346.

⁸ Global Affairs Canada (2021), *Final report: Review of export permits to Turkey*, Ottawa, accessible via <https://www.international.gc.ca/trade-commerce/controls-controles/reports-rapports/exp-permits-turkey-licences-turquie.aspx?lang=eng> (Date modified: 2021-04-19)

been sold to third countries such as Ukraine.⁹ The systems of sensors and electro-optical infrared imaging are important in this type of device and are high-value-added components. The market for drones, or at least drone technologies, is a global one and has a growing civilian component.

Following the suspension of Canadian export licences for these components, Turkey stated that it no longer needs Canadian equipment,¹⁰ but that is not necessarily true, given that local technology is probably not as sophisticated as Canadian technology.¹¹ However, it is important to ask about the impact of the current suspension of Canadian exports. This suspension will not prevent other suppliers from equipping the Bayraktar TB2 drones—or similar craft—nor will it hamper the development of Turkish national capabilities in this field over the medium term. This logic also holds true for many types of Canadian defence-related exports.

Considerations for Canada's aerospace and defence industry

Control through export restrictions and its effects

Controlling exports of military goods and technologies via the granting of arms export permits is a common approach for governments. However, export restrictions can harm the sector's competitiveness in a number of ways:

- They increase the cost of doing business.
- They lead to diversions in supply chains and the replacement of inputs with those of foreign competitors, as the American experience shows.¹²
- They can speed up the replication of technologies by foreign competitors.¹³

Some sources state, for example, that in the case of the United States the export restrictions aimed at enhancing national security appear to have impaired national security,¹⁴ as well

⁹ See Bekdil, Burak Ege (2019), Turkish firm to sell drones to Ukraine in \$69 million deal, *Defense News*, January 14, <https://www.defensenews.com/unmanned/2019/01/14/turkish-firm-to-sell-drones-to-ukraine-in-69-million-deal/>

¹⁰ Sevunts, Levon (2021), Turkey claims it no longer needs Canadian military drone tech. *cbc.ca*, April 21, accessible via <https://www.cbc.ca/news/politics/turkey-drone-armenian-nagorno-karabakh-1.5996570>

¹¹ Kogan, E. (2020). Bayraktar TB2 Turkish Wonder Weapon — Hype vs Reality. *Military Technology*, 44(11/12), 43–43.

¹² Rasser, Martijn (2020), Rethinking Export Controls: Unintended Consequences and the New Technological Landscape, *CNAS Commentary Series on Export Controls*, Washington DC, Center for a New American Security, accessible via <https://www.cnas.org/publications/reports/rethinking-export-controls-unintended-consequences-and-the-new-technological-landscape>

¹³ This argument is also made by Rasser (2020) of the Center for a New American Security (CNAS).

¹⁴ See, for example, American Institute of Aeronautics and Astronautics (2009), *The Impact of Export Controls on the Domestic Aerospace Industry*, *AIAA Information Paper*, Reston, VA, AIAA, p. 2, accessible

as national competitiveness.¹⁵ The American Institute of Aeronautics and Astronautics (AIAA) has proposed that a number of subsystems be exempt from the International Trafficking in Arms Regulations (ITAR), especially where similar or equivalent technologies are already exported by other countries.

The argument is that more and more countries are choosing to circumvent export restrictions by trading inputs or finished products that can evade these restrictions when developing government systems that may have dual applications (e.g. space systems).¹⁶

Conclusion

In conclusion, to ensure its security and project its values, Canada needs a strong defence industrial base with the necessary capabilities to support its interests. The corollary is that Canada must also allow the sector to develop its exports or—failing that—must rapidly and substantially increase resources for the sector so that it can maintain its technological edge. The status quo poses a significant risk of loss of market share, which would ultimately make it difficult for Canada to preserve its leading-edge industrial capability.

There are, however, ways for Canada to ensure that the consignees of its exports of military goods and technologies behave in accordance with the letter and spirit of their agreements while ensuring that Canadian values are respected.

At the industrial level. Various options exist:

- First, it is important to systematically oversee, and more efficiently control, critical elements in the value chain, including both technological links and intellectual property.
- Second, new business models should be developed—focused on various combinations of services and materiel—as well as on higher-value links in the global defence supply chains, so as to combat the substitutability of Canadian businesses in these chains.

At the governmental level. Here again, several types of actions can be taken:

via https://www.aiaa.org/docs/default-source/uploadedfiles/issues-andadvocacy/aeronautics/exportcontrolitarwhitepaper031309v03.pdf?sfvrsn=f6319b39_0

¹⁵ Institute of Medicine, National Academy of Sciences, and National Academy of Engineering (1991), *Finding Common Ground: U.S. Export Controls in a Changed Global Environment*. Washington, DC, The National Academies Press, p. 25. <https://doi.org/10.17226/1617> also accessible via <https://www.nap.edu/read/1617/chapter/5>

¹⁶ See, for example, Jones, Scott (2020), A slippery slope: Will foreign companies start ditching American dual-use tech?, *Defense News*, January 22, accessible via <https://www.defensenews.com/opinion/commentary/2020/01/22/a-slippery-slope-will-foreign-companies-start-ditching-american-dual-use-tech/>

- Targeted systemic actions in concert with our allies are recommended. Indeed, Canada is successful when it acts multilaterally on issues of this type.
- It is also important to develop a joint roadmap with industry for managing sensitive exports.
- Mechanisms must be put in place to ensure both transparency and predictability in the export permit framework.

Lastly, it is crucial to have mechanisms in place that enable Canada to both meet its obligations and help the industry thrive, as one does not preclude the other.