

## BRIEFING NOTE

# **Canada – Saudi Arabia Diplomatic Rift: How does it Impact Saskatchewan?**

*August 28, 2018*

### **Core Issue**

The ongoing diplomatic rift between Canada and the Kingdom of Saudi Arabia has many concerned about the impacts it will have on the Saskatchewan economy, in light of existing trade-related challenges with India, China, and the US. When asked by the media how a freeze in trade between the two countries would affect the province, Premier Scott Moe expressed concern about the loss of access to Saudi Arabian markets by Saskatchewan exporters and stated the dispute was unnecessary. Outgoing Minister of Agriculture Lyle Stewart expressed concern over potential grain handling-related disruptions experienced by Saskatchewan producers. This Briefing Note will offer a high-level overview on the dispute and its impacts on Saskatchewan – namely in the areas of international trade, agriculture, oil and gas, as well as health and education.

### **Background**

In August 2018 the Kingdom of Saudi Arabia suspended diplomatic ties with Canada and expelled the Canadian ambassador after Foreign Affairs Minister Chrystia Freeland issued a statement via Twitter criticizing the arrest of human rights activist Raif Badawi and his sister, Samar Badawi. Minister Freeland's comments were denounced by the Kingdom as blatant interference in Saudi Arabia's domestic affairs. Raif Badawi's wife and children were granted asylum by the Government of Canada in 2013.

As a part of its retaliatory actions, Saudi Arabia has frozen trade with Canada and has instructed its officials to sell off all Canadian holdings, including equities, stocks, bonds, and cash, even at a loss. The Kingdom recently instructed its central bank and sovereign wealth fund to sell off any and all Canadian assets. Per the retaliatory measures taken, Saudi Arabia announced it would no longer accept Canadian shipments of wheat and barley. It was confirmed however, that the ongoing dispute would not impact the sale of crude oil to Canada from Saudi Aramco, the Kingdom's state-owned oil company.

In addition, the Kingdom ordered thousands of Saudi students on scholarship studying in Canada to leave. Saudi Arabia also halted its medical programs in Canada and announced it would transfer all Saudi nationals receiving treatment in Canadian hospitals to hospitals in other countries. *Saudia*, Saudi Arabia's state-owned national air carrier declared flights to and from Canada would be suspended effective August 13, 2018.

## **International Trade**

According to data provided by the Canadian Trade Commissioner Service, Canada exported just over \$1.4 billion worth of goods to the Kingdom since January. Comprising about half of the value this figure is the exportation of vehicles and equipment estimated at \$760 million. Data tables from Statistics Canada show that Canada imported about \$2.6 billion in goods from Saudi Arabia so far in 2018. Virtually all of that - \$2.5 billion – are resource-based goods. Based on the most recent trade and investment figures from the Library of Parliament, Saskatchewan accounted for only 1.5% of the total value of Canada's exports to Saudi Arabia in 2016. Online trade data tables from Industry Canada indicate that Saskatchewan mainly exports agricultural products (lentils, peas, beans, seeds, grains, etc.), wood pulp products, and mechanical parts to Saudi Arabia.

## **Impacts on Agricultural Sector**

The Saudi Grains Organization, the Kingdom's official grain buying agency informed grain traders that it would no longer accept shipments of Canadian sourced wheat or barley in response to Minister Freeland's criticism of Saudi Arabia for jailing its dissidents. According to data from Statistics Canada and the Canadian Grain Commission, Canada sold approximately 68,000 tonnes of wheat to Saudi Arabia in 2017, with a similar amount being sold in 2016. Saskatchewan has historically exported wheat and barley to Saudi Arabia. Exports of pulse crops like peas and lentils have increased in recent years. Saudi Arabia has not bought wheat from Canada so far in 2018.

Canada sold 132,000 tonnes of barley to the Kingdom last year. This amount was twice as much as in 2016. Almost 100,000 of the 132,000 tonnes sold last year was from Saskatchewan producers. Based on data from the Saskatchewan Ministry of Trade and Export Development, Saudi Arabia accounts for 8.3% of Saskatchewan's barley exports and is the province's 3<sup>rd</sup> largest barley market behind China and the US. Saskatchewan barley exports to Saudi Arabia accounted for \$21.6 million of the province's total barley export value of \$261 million. Similar to wheat, Canada has not sold any barley to Saudi Arabia so far in 2018.

While the Saudi market accounts for roughly 7% of Canada's total barley exports, Saudi Arabia historically has not been a consistent buyer of Saskatchewan barley based on an analysis from Brent Johnson, Vice-president of the Saskatchewan Barley Development Commission. According to Johnson, Saudi Arabia is a price-conscious buyer who will typically make purchases when prices are depressed. Overall, the Kingdom is not the main buyer of Saskatchewan barley. In 2015, Saudi Arabia did not import any barley from Saskatchewan.

Further to Minister Stewart's earlier comments regarding possible disruptions in grain handling, the Saudi's planned divestiture of Canadian assets could be felt closer to home. In 2015, G3 Global Grain Group, a consortium that included a subsidiary of the Saudi Agricultural and Livestock Investment Company, purchased a 50.1 % interest in the now-defunct Canadian Wheat Board for \$250 million. G3 Canada Limited, its Canadian subsidiary is based in Winnipeg but has grain handling operations all across Saskatchewan. On August 8<sup>th</sup> G3 Canada Limited Vice-President Brett Malkoske stated the company was operating 'business as usual.' Even if the Saudi's sold their stake in G3, commodity analysts predict the impact to Canada would not be significant.

## **Impacts on Oil and Gas Sector**

Saudi Arabia is a supplier of crude oil to Canada. According to Judith Dwarkin, an energy economist with RS Energy Group based in Calgary, refineries in Eastern Canada import 75,000 to 80,000 barrels per day of Saudi crude. Most of the Saudi oil imported into Canada is refined in the east because those refineries are set up to process that particular grade of crude. Oil imports from Saudi Arabia account for 10 – 15% of Canada's total oil imports. Saudi Arabia's contribution to Canada's oil imports pales in comparison to the US, which is the source of two-thirds of Canada's oil imports.

While the Kingdom has stated that oil imports would not be halted as a result of the diplomatic spat, Canada could substitute oil imported from Saudi Arabia with an expanded supply of US oil fairly seamlessly, should the Saudis change their minds. Despite the relative ease of substituting crude oil imports, one must ask why a country like Canada, with some of the largest oil reserves in the world, would have to import crude oil in the first place. And it is also worth asking if the Saudis won't buy our wheat, why are we still buying their oil? They are not doing us any 'favours' by continuing to sell oil to Canada if we can replace it with relative ease.

## **Impacts on Saskatchewan Post-Secondary Education Sector**

The announcement by the Saudi government to suspend scholarships for Saudi nationals studying in Canada has created uncertainty for those students. It is estimated the recall will impact 12,000 to 15,000 Saudi student studying in Canada. In terms of local impacts, Livia Castellanos, Associate Vice-President of the University of Regina's international program stated the suspension of scholarships by the Kingdom will impact about 150 Saudi students. In fact, the University of Regina was one of the most heavily impacted universities in Canada by the recall. Students have been asked to leave within one month.

Most of the Saudi nationals currently studying at the University of Regina are not there on a short-term basis but pursuing multi-year degrees. Six percent of the University of Regina's Saudi students are not directly funded by the Saudi Arabian government but are still being asked to leave. The University of Regina estimates the majority of Saudi students would have returned to their home country upon completion of their degree.

At the University of Saskatchewan, Vice-Provost Patti McDougall confirmed that 26 Saudi students attended the university during the 2017-18 academic year and only nine Saudi students are currently registered for classes for the upcoming 2018-19 school year. Officials from the University of Saskatchewan suspect however the number of Saudis planning to return this year was much higher. As for Saskatchewan Polytechnic, only one Saudi student was enrolled with the school. Both universities in the province are in the process of reaching out to those affected to identify what their needs are. Proposed solutions include connecting affected Saudi students with US universities that will honour their credits, offsetting the newly-rescinded Saudi scholarships with funds from other areas, as well as employment opportunities.

## **Impacts on Healthcare Sector**

The diplomatic spat between the two countries is also creating tremendous uncertainty

among Saudi medical students across Canada. According to the Association of Faculties of Medicine of Canada, 750 of Canada's medical students were Saudi nationals at last count in November 2016. Saudi Arabia originally ordered its students and medical residents to leave Canada by August 31<sup>st</sup> but extended the deadline to September 22, 2018 for medical trainees. It is worth clarifying that Saudi medical students are not paid by the Canadian government – Saudi Arabia pays hospitals in Canada \$100,000 annually to take students on.

The recalling of Saudi medical students in Canada will have virtually no impact here in Saskatchewan. In an official statement, the Saskatchewan Health Authority confirmed there are no medical students or residents from Saudi Arabia working in the province. The Postgraduate Medical Education Office at the University of Saskatchewan also confirmed this. It is unknown at this time how many Saudi patients receiving care in Saskatchewan hospitals would be affected, as this is considered confidential information under the *Health Information Protection Act*.

## **Conclusions**

The recent diplomatic rift between Canada and Saudi Arabia illustrates how high-level decisions made in far-flung capitals can impact stakeholders closer to home. First, the rift between the two countries serves to illustrate why Canada desperately needs good resource development projects – namely oil and gas pipelines like Energy East and TransMountain – to go ahead. Countries like Saudi Arabia ship their oil to Canada partly because there is no pipeline to ship Western Canadian crude oil to Eastern Canada.

Second, it also highlights the importance of expanding into new and emerging markets in order to offset the negative effects of losing any one particular market.

Finally, the dispute also prompts important questions around the pros and cons of Twitter diplomacy and the proper role of social media in foreign relations.

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