

“Getting Over the Jet-Lag” Canada–Brazil Relations 2001

EXECUTIVE SUMMARY

At the beginning of the new millennium, Canada–Brazil relations are defined by their unrealized potential. As a result of the five-year-old Bombardier–Embraer dispute, diverging trade goals, flawed mutual perceptions, and new tensions due to the beef ban, Canada and Brazil have failed to fully recognize each other as potentially valuable economic and political partners. The premise of this paper is that in order to push beyond the existing chill in relations, two factors are necessary: the aircraft dispute must be resolved in a manner satisfactory to both countries, and each country must make itself more relevant to the other.

Special attention is given to how Canada could become more relevant to Brazil, for which two main strategies are identified. One is a bottom-up strategy by which cities, states, provinces, businesses, academic and scientific institutions in the two countries are woven together through multiple connections, making Canada’s presence in Brazil a *de facto* reality. A benefit of this approach, which is already underway, is that it can proceed regardless of developments in the trade dispute. The second strategy involves a greater sensitivity and helpfulness to Brazil’s paramount foreign policy objective, namely to be recognized as an important world player by the international community. This can be accomplished by aiding Brazil’s pursuit of enhanced international profile and leadership, and by supporting Brazilian initiatives at the multilateral level, especially at the UN, where convergence of human security interests is particularly strong. The paper explores options for cooperative action at the multilateral, but also at the bilateral and hemispheric levels.

RÉSUMÉ

Au début du nouveau millénaire, on définit les relations canado-brésiliennes par leur potentiel en devenir. Diverses raisons font que le Canada et le Brésil n’ont pas encore reconnu pleinement qu’ils pouvaient être l’un pour l’autre des partenaires économiques et politiques potentiellement précieux : le conflit entre Bombardier et Embraer qui dure depuis cinq ans, la divergence des objectifs commerciaux, des perceptions mutuelles biaisées et les nouvelles tensions entraînées par l’interdiction visant le bœuf. Ce document repose sur la prémisse que deux facteurs sont nécessaires pour dépasser le plateau existant dans les relations entre les deux pays : le conflit aéronautique doit être réglé d’une manière satisfaisante pour les deux pays, et chaque pays doit se montrer plus utile envers l’autre.

On accorde une attention particulière aux moyens que le Canada pourrait prendre pour accroître sa pertinence face au Brésil et, à cette fin, deux stratégies sont proposées. La première est une stratégie ascendante qui propose aux villes, aux États, aux provinces, aux entreprises et aux institutions universitaires et scientifiques des deux pays de tisser entre eux de multiples liens afin que la présence du Canada au Brésil soit reconnue comme

continued on page 2



FOCAL

Canadian Foundation for the Americas
Fondation canadienne pour les Amériques
Fundación Canadiense para las Américas
Fundação Canadense para as Américas

une réalité concrète. Cette approche, déjà en voie de réalisation, comporte l'avantage de pouvoir être menée à bien quelle que soit l'évolution du conflit commercial. La seconde stratégie consiste à devenir plus réceptif et plus serviable afin de favoriser l'objectif prioritaire du Brésil en matière de politique étrangère, c'est-à-dire être reconnu comme un intervenant mondial de taille par la collectivité internationale. Cela peut se faire en aidant le Brésil à accroître sa visibilité et son leadership à l'échelon international et en appuyant ses initiatives multilatérales, surtout auprès des Nations Unies, où la convergence des intérêts de la sécurité humaine est particulièrement forte. Le document examine les options de coopération au niveau multilatéral mais aussi aux niveaux bilatéral et hémisphérique.

RESUMEN

Al despuntar el nuevo milenio, las relaciones entre Canadá y Brasil no logran explotar al máximo sus potencialidades. La pugna generada por el caso Bombardier-Embraer (que ya lleva cinco años), objetivos comerciales diferentes, percepciones mutuas erradas, y las nuevas tensiones creadas por la prohibición de importar carne de res de Brasil han impedido que ambos países aprecien el abanico de ventajas que tendrían como aliados económicos y políticos. El presente trabajo parte de la premisa de que para lograr vencer el enfriamiento que atraviesan las relaciones entre los dos países es necesario que se cumplan las siguientes dos condiciones: primero, el caso Bombardier-Embraer debe tener una solución satisfactoria para las dos partes; y segundo, tanto Canadá como Brasil debe ubicarse en un lugar más prominente con respecto al otro.

Este documento propone dos estrategias sobre como podría Canadá ocupar un lugar más destacado en sus relaciones con Brasil. La primera entraña un mayor vínculo entre ciudades, provincias, empresas, e instituciones académicas y científicas de ambas naciones de manera que la presencia canadiense en Brasil sea un hecho concreto. Esta opción tiene la ventaja de que los vínculos que se crean subsisten independientemente de cualquier querrela comercial. La segunda estrategia consiste en tomar una mayor conciencia de los principales objetivos de política exterior de Brasil y brindarle un mayor apoyo, especialmente en sus empeños por obtener un reconocimiento más amplio de parte de la comunidad internacional. En este sentido, se podría ampliar el apoyo a las acciones de Brasil por obtener un rol más protagónico en la arena internacional, así como respaldar las iniciativas de Brasil a nivel multilateral, en especial en el marco de las Naciones Unidas donde ambos países tienen intereses comunes significativos en el área de seguridad humana. Este trabajo analiza también otras alternativas de cooperación en el ámbito bilateral y hemisférico.

RESUMO EXECUTIVO

No início do novo milênio, as relações entre o Canadá e o Brasil são definidas por seu potencial não realizado. Como resultado da controvérsia de cinco anos entre a Bombardier e a Embraer, objetivos comerciais divergentes, percepções mútuas imperfeitas e novas tensões devido à interdição da carne de vaca, o Canadá e o Brasil não se conseguiram reconhecer como participantes econômicos e políticos potencialmente valiosos. A premissa deste documento é que, a fim de superar a frieza existente em suas relações, é necessária a existência de dois fatores: a controvérsia sobre as aeronaves terá de ser resolvida de modo satisfatório para os dois países e cada país deverá relacionar-se melhor com o outro.

Dá-se especial destaque ao modo como o Canadá se poderia relacionar melhor com o Brasil, se identificando duas estratégias principais: a primeira é uma estratégia a partir da base para o topo mediante a qual cidades, estados, províncias, empresas e instituições acadêmicas e científicas dos dois países se combinariam através de conexões múltiplas, tornando a presença canadense no Brasil uma realidade *de facto*. Uma vantagem desta abordagem, já em curso, é que pode prosseguir apesar dos acontecimentos sobre a controvérsia comercial; no que diz respeito à segunda estratégia envolve uma maior suscetibilidade e utilidade quanto ao objetivo primordial da política exterior brasileira, visando ser reconhecido pela comunidade internacional como um importante participante ao nível mundial. Isto pode ser alcançado auxiliando o Brasil a realçar seu perfil e liderança internacionais e apoiando as iniciativas brasileiras ao nível multilateral, particularmente nas NU, onde a convergência de interesses sobre a segurança humana é particularmente forte. O documento examina as opções para uma ação de cooperação ao nível multilateral, bem como ao nível bilateral e do hemisfério.

WHY SHOULD BRAZIL MATTER TO CANADA?

Consider the following facts:

- Brazil's GDP is almost that of Russia and India combined (US\$775 billion in 1999)
- Brazil is the world's eight-largest economy, representing almost half of Latin America's GDP
- Brazil is the most suitable production base for foreign companies to enter South American markets
- Brazil is the second-most important destination for direct foreign investment among developing countries, after China (about US\$28 billion in the last two years)
- Of the 500 largest multinational companies, 420 currently operate in Brazil including Ford, GM, IBM and Volkswagen
- Brazil's population today is estimated at 167.7 million and is growing by 2 million a year
- About 7 million people in Brazil have access to the Internet, putting it in 7th place worldwide; this figure is expected to rise to 29 million in 2005
- About 80% of Latin American e-commerce is concentrated in Brazil.

Brazil is also a key destination for Canadian investment, Canada's largest export market in South America, and the leader of Mercosul (Mercosur in Spanish), with which Canada has been trying to increase links for some time.

Despite the significant benefits that Canada could potentially reap from deepened ties with Brazil, bilateral relations are arguably at their lowest ebb in history. A five-year old trade dispute in the aerospace sector is spilling over into other sectors of the economy, and souring bilateral relations in general. The Canadian government is currently contemplating imposing sanctions against Brazilian products, following five successive decisions by the World Trade Organization (WTO) on the aircraft dispute, including an authorization in December 2000 to take measures against Brazil, and months of sterile bilateral negotiations.

More recently, in February 2001, Canada's temporary ban on Brazilian beef products (prompted by Brazil's failure to respond to a legitimate Canadian food inspection request) over fears of bovine spongiform encephalopathy (the formal name for mad-cow disease) further strained relations. Despite Canadian assurances that the ban was based strictly on food safety concerns, Brazilians believed it to be linked to the ongoing aircraft dispute. This prompted a decision by the Brazilian Congress to suspend ratification of all treaties with Canada. Popular demonstrations against Canada made front-page news, from the dockyards of Santos to the grounds of the Canadian Embassy. The ban was eventually lifted three weeks later, following a satisfactory inspection by a joint Canadian, US, and Mexican phytosanitary team (the

United States and Mexico as NAFTA partners were drawn into the mad-cow scare).

The collateral impact on bilateral relations of this most recent incident is not yet entirely clear. However, most foreign policy analysts and many Canadian investors in Brazil have expressed grave concerns. FOCAL believes now is an opportune time to reassess Canada's relations with the largest country in Latin America, and to consider future

scenarios, with their associated benefits and costs. The paper argues that in order to overcome the existing impasse in relations two elements are needed: the aircraft dispute must be settled, and each country must make itself more relevant to the other. Focusing on the first condition, from a Canadian perspective, the paper suggests policy areas and initiatives that lend themselves to collaboration at the bilateral, regional and multilateral levels.

1. CANADA-BRAZIL RELATIONS IN THE 1990s

Beyond Investment

While Canadian interests in Brazil have traditionally been linked to investment, in the 1990s Brazil became important to Canada in two other capacities: as trade partner and as regional actor. Home to 45% of Latin America's GDP and 35% of its population, Brazil is Canada's second trading partner in Latin America, after Mexico (two-way trade reached C\$2.33 billion in 2000). While Canadian exports have declined in the last three years — largely as a result of the economic downturn in Brazil and a weakened currency — they

Despite the significant benefits that Canada could potentially reap from deepened ties with Brazil, bilateral relations are arguably at their lowest ebb in history.

are expected to pick up as the Brazilian economy recovers. With continued market liberalization, the potential for expansion in trade is significant. In addition to being a valued trade partner, Brazil is an extremely influential actor in negotiations for a Free Trade Area of the Americas (FTAA) — a regional priority for Canada. Still, investment, some of which dates back to the early 1900s, remains central to bilateral relations, with accumulated Canadian investment in Brazil estimated at C\$6 billion in 2000. Brazil offers extensive opportunities for Canadian foreign direct investment, particularly in view of ongoing privatization and deregulation of the energy, telecommunications and mining sectors.

Growing Ties

As trade links grew so did political ties and bilateral assistance. The frequency of bilateral visits from different levels of government increased markedly, producing various bilateral agreements on a joint economic and trade council, nuclear cooperation, joint training of peacekeeping forces, and a trade and investment cooperation agreement (TICA) with Brazil-led Mercosul. In 1999 alone, there were 17 Brazilian missions to Canada, which yielded numerous agreements, such as in the area of health and distance education. In the late 1990s, the Canadian International Development Agency (CIDA) doubled its budget for bilateral assistance to Brazil, with the development of a new program framework focusing on equality, environment, public sector reform, health, education, and human rights. CIDA's disbursements in Brazil in 1998/99 were approximately C\$31 million. Formal consultations were held last in 1999 on political, trade and security issues. In 1999, a Brazil–Canada Parliamentary Friendship Group was established in each legislature.

Hitting a Plateau

Undoubtedly, the relationship has broadened considerably in the 1990s, largely reflecting Canada's emphasis on Brazil as a regional leader and key partner. This said, and despite an increase of high-level visits and bilateral agreements, political cooperation between Canada and Brazil remains weak, frequently leading to misunderstandings and mutual misgivings. Indeed there is a widespread sense that there is a threshold in the bilateral relationship that the two countries have been unable to cross. To

begin with, current Canadian exports to Brazil are comparable to those in the 1970s. Another example is the still fruitless effort of the Canadian government to conclude a foreign investment protection agreement with Brazil. Brazil's delay in signing a trade and investment cooperation agreement (TICA) also illustrates the lack of willingness to take a decisive step towards deeper bilateral relations. During most of the 1990s, two irritants dominated the bilateral agenda and arguably held the relationship back: the Lamont–Spencer extradition case, which was resolved in 1998; and the dispute over aircraft subsidies which dates back to 1996 and today stands as the single most important impediment to more fluent relations between Canada and Brazil.

The Trade Policy Dispute in the Aerospace Sector (Embraer-Bombardier)

Canadian aircraft maker Bombardier and the Empresa Brasileira de Aeronautica (Embraer) have been involved in intense competition over the control of the regional jet market, drawing in their respective governments. In 1996, Canada went to the WTO alleging violation of the Subsidies Agreement and the GATT 1994 on the part of the Brazilian government. This led to a counterclaim by Brazil on similar violations by the Canadian side. In August 1999, a WTO ruling found both parties at fault and recommended bringing export support programs in line with the rules of the multilateral organization. The programs at stake were ProEx in the case of Brazil, and specific subsidies under the Canada Account and Export Development Corporation in the case of Canada. The WTO has since established that, while Canada has satisfactorily reformed its support programs, Brazil has not adequately changed ProEx. The WTO has therefore allowed Canada to impose C\$344.2 million in sanctions a year for six years against Brazil in compensation for illegal support for Embraer, an action that Canada has not yet taken.

Numerous attempts at resolving the issue in bilateral negotiations have failed to settle the dispute to the satisfaction of both parties and to avert the threat of the retaliation scenario. On the other hand, it is not clear what the consequences of the Canadian government's decision in January 2001 to match Brazilian subsidies for a US contract (for which both Bombardier and Embraer are bidding) will be.

Undoubtedly, the relationship has broadened considerably in the 1990s, largely reflecting Canada's emphasis on Brazil as a regional leader and key partner.

The Brazilian government has asked the WTO to examine recent subsidies. At any rate, should Canada move to apply sanctions, these would probably take the form of a 100% surcharge on a number of Brazilian products (such as steel, coffee, footwear, fruit and vegetable juices), virtually freezing bilateral trade and triggering repercussions at various levels.

Two factors help to explain why a trade dispute could carry such political weight. First, it is one of the longest cases and the amount of retaliation is the highest ever at the WTO. Second, Embraer and Bombardier are meaningful companies to their respective governments in terms of export receipts (Embraer is Brazil's number one exporter), employment (Bombardier employs 40,000 people in Canada), and domestic political considerations. Both companies have long received official and unofficial government support at various levels such that both have come to represent some form of national industrial icon. This makes it exceedingly difficult for either country to back down from their publicly stated positions. It is not only companies that are at stake, it is also national industrial pride.

Other Issues

Beyond the aircraft dispute, other, less tangible irritants have affected bilateral relations in the 1990s. These have to do with flawed mutual perceptions and the position of both countries on key hemispheric issues. Of particular importance are Brazilian suspicions of Canada's relationship and perceived automatic alignment with the United States, and Brazil's claims that Canada has failed to recognize its economic weight and importance as a regional and international actor. The Free Trade Area of the Americas (FTAA) may also have been a point of divergence between Canada and Brazil during the 1990s as positions were at odds regarding the speed and scope of negotiations. As chair of the Trade Negotiations Committee (1998-1999), Canada became the main promoter of the FTAA, an initiative that Brazil would rather see put on the backburner. The FTAA somewhat conflicts with Brazil's own strategy of first consolidating a South American bloc and then negotiating with the US and Canada on a more equal footing. However, as negotiations evolve, other countries have become more vocal in their support for the FTAA (Chile, Argentina and Uruguay, among others) thus making hemispheric trade negotiations less of a divisive issue between Canada and Brazil.

Yet, the Brazilian perception that Canada is negotiating as a block with the other NAFTA countries, to the possible detriment of countries like Brazil, persists.

At the turn of the decade, the bilateral relationship remains one of unrealized potential. Partly due to the five-year-old Embraer-Bombardier dispute, diverging trade goals, and mutual apprehension, Canada and Brazil have failed to fully recognize each other as potentially valuable economic and political partners.

2. BEYOND REGIONAL JETS: CONVERGING FOREIGN POLICIES

Difficulties on the trade side may have overshadowed a positive fact: the growing convergence of foreign policy interests. During his address to the US House Committee on International Relations, Subcommittee on Western Hemisphere, on July 26, 2000, the Brazilian Ambassador to the United States, Rubens Antonio Barbosa explained:

Difficulties on the trade side may have overshadowed a positive fact: the growing convergence of foreign policy interests.

"In brief, Brazilian foreign policy has been based on a two-pronged strategy. On the one hand, Brazil's permanent commitment to peaceful coexistence and the negotiated settlement of disputes has provided a framework for a diplomacy dedicated to international disarmament, non-proliferation and the defence of

shared values, such as respect for human rights and promotion of sustainable development. On the other hand, and consistent with these foreign policy principles, Brazil's quest for economic and social development has guided our approach aimed at promoting an increasingly integrated neighbourhood of countries, along with a growing exposure to the global economy".

Brazil's two-pronged foreign policy does not differ substantially from Canada's foreign policy priorities, notably:

- the protection of the international order through the human security approach, which advocates "putting people first" by advancing fundamental standards of humanity, promoting peace building and using soft power concepts; and
- the search for regional presence and economic prosperity through hemispheric integration.

The concurrence of foreign policy objectives between Canada and Brazil on human security has manifested itself in active participation by the two countries in important initiatives. Most notably, the banning of anti-personnel landmines, numerous peacekeeping operations, and control of narco-trafficking through the Inter-American Commission for Drug Abuse Control (CICAD) of the Organization of American States (OAS), stand out. A good example of partnership was the joint role in creating the ad-hoc Committee on Hemispheric Security at the OAS in the early 1990s. The Committee has become a permanent one, and has been Canada's preferred tool to bring hemispheric defence issues (including confidence and security building measures) into the ambit of the OAS. Also at the OAS, Canada and Brazil have co-chaired the Working Group on Democracy and Human Rights since 1995. Such overlap of objectives has translated in similar voting at the United Nations on issues such as Iraq, Angola and East Timor, to mention a few.

Regional integration is also an integral component of Canada and Brazil's foreign policies. Not unlike Canada, Brazil has only relatively recently emphasized relations with the Americas. "Brazil's foreign policy has been transforming over recent years", says Brazilian political analyst Ricardo Ubiaci Sennes from the University of São Paulo. "Over the last two decades Brazil has undergone a sequence of fundamental transitions — notably the transitions to democracy and to an open and modern economy — which have in turn precipitated a transition in Brazil's foreign policy." Brazil's rapprochement with Argentina in the mid-to-late 1980s, then Mercosul, and most recently the call for a South America Free Trade Area are fruits of the political and economic transformations that Ubiaci Sennes talks about. Regional integration also serves Brazil's paramount foreign policy objective: to win Brazil a stronger role in shaping the course of world affairs. A successful South American bloc headed by Brazil would buttress the country's credentials as the major world player it feels it should be. It would also boost its negotiating leverage vis-à-vis the United States — a permanent concern for Brazil. Like Brazil, but without its geopolitical ambitions, Canada's attention to regionalism first manifested itself in the second half

of the 1980s with the signing of the free trade agreement with the US, and grew in 1994 with the creation of NAFTA and the deployment of a very active hemispheric strategy through diligent participation in the OAS and the Summit of the Americas process.

Another common feature in Canadian and Brazilian foreign policies is the use of multilateral institutions. Largely as a result of their middle-power status, the two countries have a common desire to increase their capacity to influence the course of world affairs, as well as to contribute to a cooperative and rules-based international system, which can constrain the behaviour of the most powerful countries. Unlike Canada, which has had a long-standing tradition as a multilateralist, for Brazil growing participation in multilateral institutions and acceptance of principles of reciprocity are relatively new elements in its foreign policy. Again, this shift responds to Brazil's drive to assert itself on the world stage as a reputable and influential international actor. Obtaining a permanent seat in the UN Security Council is key to this Brazilian aspiration. Just as in the case of regionalism, multilateralism has been a form of status-seeking for Brazil. Celso Lafer, Brazil's recently appointed Minister of Foreign Affairs, noted: "Given the interplay of variably shaped alliances allowed for in a world of undefined polarities, multilateral fora constitute, for Brazil, the best chessboards for the country

The premise of this paper is that in order to push beyond the existing chill in relations, two factors are necessary: the trade dispute must be resolved satisfactorily for both countries, and each country must make itself more relevant to the other.

to exercise its competence in the defence of national interests. It is here that Brazil's potential can best be put to use and can excel." (*Daedalus*, spring 2000).

In summary, it is the human security component of Canadian foreign policy where objectives most concur, creating a good basis for cooperation and joint action. Multilateral organizations — the vehicle of choice by Brazil and Canada to further their foreign policy goals — seem to be the most appropriate arena for collaboration on human security issues. On the other hand, the regional integration agenda offers fewer opportunities for cooperation in the short term. Brazil sees South America rather than Latin America or the Hemisphere as "its" region, as the next section will show.

3. RECENT DEVELOPMENTS IN BRAZILIAN FOREIGN POLICY

Summit of South American Presidents

On August 31, 2000 President Cardoso convened a meeting of the 11 presidents of South America in Brasilia to discuss integrating the region's economies through trade and infrastructure projects, strengthening democratic institutions, fighting illegal drug trafficking, and promoting technology. As outlined in the *Comunicado de Brasilia* that emerged from the meeting, the objective is to connect South American economies through a network of highways, bridges and river routes, as well as telecommunications. A free trade agreement linking an expanded Mercosul (including Chile) and the Andean Community, to be concluded by 2002, would be the backbone of a South America Free Trade Area led by Brazil. Brazil argues that a South America-wide trade bloc would give the sub-region greater bargaining power in the negotiations leading up to the creation of the FTAA. Some analysts interpreted the Brasilia Summit as an attempt by the Brazilian government to create a new multilateralism in South America, perhaps an alternative to the hemispheric Summit process.

In any event, implementing the 60 items contained in the *Comunicado de Brasilia* will be a daunting challenge, requiring long-term commitment going beyond the current administration and setting up some kind of institutional framework to monitor actual implementation. The challenge is compounded by grave institutional, political and economic instability in most Andean countries, making a South America Free Trade Area by 2002 highly unlikely. Moreover, Mercosul has faced a series of difficulties since the devaluation of the Brazilian currency in January 1999, which have been aggravated by Argentina's prolonged recession. The relaunching of Mercosul in August 2000 — which included an agreement on future macro-economic coordination and joint infrastructure projects — was insufficient to reinvigorate it. Chile's decision in December 2000 to begin free trade negotiations with the United States further undermines Brazil's aspiration of a South American bloc.

Plan Co-bra

In response to the US-backed "Plan Colombia" presented by President Andrés Pastrana, to which the Clinton Administration committed US\$1.3 billion in

military, economic and humanitarian aid, Brazil has launched "Plan Co-bra", which essentially reinforces Brazil's military presence in its permeable Amazonian border with Colombia. Plan Co-bra was mainly motivated by concerns of a spillover of coca cultivation and trafficking or even of combat between the Colombian Army and the FARC guerillas (Fuerzas Armadas Revolucionarias de Colombia) into Brazil. An increasing number of Colombian refugees and stepped-up activities by the FARC within Brazil's borders are also cause for worry. For example, it was reported that members of the FARC have conducted meetings with and offered to supply arms to Brazil's Landless Movement (MST). "Plan Colombia" has been widely criticized in the Brazilian press and Congress and the government has warned against the "regionalization of the Colombia conflict" that the plan could trigger.

Military Agreement with Venezuela

The agreement signed in August 2000 promotes relations between the two national defence systems through the exchange and joint training of army officers and pilots, and the exchange of information regarding the maintenance of planes and boats, among other things. Cooperation to fight narco-trafficking is another element contained in the agreement. While the objectives of the agreement are modest and apparently non-aggressive, several factors make it meaningful: the strengthening of President Chávez after a new and solid electoral victory, the worsening

of Colombia's civil war, convergence between Brasilia and Caracas regarding opposition to any form of direct intervention in Colombia, Venezuela's worsening border dispute with Guyana, and agreement between President Cardoso and President Chávez regarding the benefits of a Mercosul-Andean Group FTA before negotiating a hemispheric-wide agreement. Yet another dimension of closer Brazil-Venezuela relations is Brazil's need for Venezuelan oil as it produces only two-thirds of what it consumes.

Recent events in Brazilian foreign policy reveal that Brazil is today recognized as the *de facto* political leader of South America. Brazil helped negotiate the end to a delicate border dispute between Ecuador and Peru in 1998, and has used its influence to head off military coups in Paraguay in the 1990s. Venezuela wants Brazil's help to solve a border dispute with

The consequences of an escalation in the dispute as a result of Canadian retaliatory measures against Brazilian products are difficult to gauge, but all possible efforts should be made to define them.

Guyana, and landlocked Bolivia seeks Brazil's mediation to settle a century-old dispute with Chile over access to the Pacific Ocean. These events also reveal a tension between Brazil's embrace of South American integration, and the country's subscription to the doctrine of non-interference in domestic affairs, which Brazil has invoked in the recent cases of Peru and Colombia.

4. CANADA–BRAZIL RELATIONS: THREE SCENARIOS

This section considers three possible scenarios for future Canada–Brazil relations, with each scenario representing varying degrees of cooperation: status quo, a bottom-up change and a breakthrough at the highest political level. The premise of this paper is that in order to push beyond the existing chill in relations, two factors are necessary: the trade dispute must be resolved satisfactorily for both countries, and each country must make itself more relevant to the other. With that in mind, this section suggests some options for action at the bilateral, hemispheric and multilateral levels.

A. Status Quo

While the current state of affairs is certainly not a worst-case scenario, neither is it without cost. The possibility of some kind of trade war is deterring Canadian investors, importers and exporters from new dealings with Brazil and it is suppressing initiatives at various levels, both in Canada and Brazil, according to officials from both governments. It is also becoming difficult for Canadian and Brazilian diplomatic delegations to “sell” Brazil or Canada to their respective governments when partners may easily be seen as foes.

The consequences of an escalation in the dispute as a result of Canadian retaliatory measures against Brazilian products are difficult to gauge, but all possible efforts should be made to define them. The impact on existing and already planned Canadian investment in Brazil is probably one of the main worries. There are at least three large Canadian companies that are planning new major investments in Brazil. Brascan, for example, is planning to add three hydro-electrical dams, hotels and shopping centres in the south of Brazil to its existing investment in the country. Bombardier just sealed a joint venture with the São Paulo-based T^rans to manufacture passenger trains in Brazil, planning to turn it into an export platform for Latin America. And Bell Canada International hopes to win new licenses in the cellular phone business in the new round of

telecom privatizations scheduled for the second semester of 2001. This said, hostility towards Canadian investors in Brazil is certainly not in Brazil's interest.

Lack of support for Canadian political initiatives is another concern, particularly with regard to the Third Summit of the Americas, which Canada is hosting in Quebec City in April 20–22, 2000. The credibility of the Summit would be undermined in the unlikely event that President Cardoso decided not to attend. Long-term malaise between the two countries may yet be another unintended consequence. If malaise were to take root, it could spill over into Canada's relations with the region by souring inter-American meetings attended by both countries, forcing other countries of the Americas to take sides, and certainly by making it difficult for Canada to increase relations with Mercosul.

B. A Bottom-up Change

A bottom-up change is a strategy consisting of the multiplication of ties and exchanges between states and provinces, cities, universities, scientific research, cultural and non-governmental organizations. The rationale for this long-term strategy is that, if nothing else, a critical mass of across-the-board bilateral connections and links will eventually push the Canada–Brazil relation to a higher level of mutual importance.

Significant bilateral ties at various levels already exist between Canada and Brazil. Canadian universities and colleges are receiving Brazilian students in record numbers (more than 4,000 in 1999) and over a dozen Canadian Studies Centres at schools throughout Brazil have been established in the last few years. Professor Ted Hewitt, Director of the Brazilian Studies Working Group in Canada, notes that “a key example of ongoing and healthy interchange — and one which exists largely unbeknownst to politicians and policy makers — involves the long-term and productive sister-city relationship between the two countries' largest and economically most powerful cities — Toronto and São Paulo.” Since 1987, the two cities have conducted well over 50 exchanges resulting in the transfer of information and know-how in a number of areas ranging from affordable housing units in São Paulo to ambulance service and a municipal food distribution system for poor families, which was successfully adapted from São Paulo to Toronto. Other examples to build on include police exchange and training, technical cooperation on agriculture, such as between EMPRABA (Empresa brasileira de pesquisa agrícola) and Canada's

Department of Agriculture, and numerous projects in development cooperation supported by CIDA. Under CIDA's bilateral Technology Transfer Fund and other programs, 400 Canadian organizations have partnered with Brazilian counterpart organizations on various issues, generating approximately 800 institutional linkages in the last five years.

There is certainly room for more exchange, for example, in the academic area, with more visiting professors, more Portuguese language programs, publications about Brazil, and the establishment of a Chair of Brazilian studies in Canada, to mention some practical steps. The Canadian Studies Centre Network (ABECAN) is a platform, which, if given more support, could be used to considerably increase institutional linkages with Canada. Media roundtables, business and academic seminars in Canada and Brazil would also be instrumental in raising awareness about each other's realities and possibilities. Furthermore, Canada is becoming a tourist destination for a growing number of Brazilians (approximately 50,000 each year); about three times the number of Canadians visiting Brazil.

The above examples are testimony to the "other face" of Canada-Brazil relations, one that is growing and could be further promoted. Arguments for supporting a bottom-up approach to improving relations include the fact that this track can proceed regardless of progress in negotiations on the trade dispute, given that these exchanges are often on non-controversial issues and much mutual knowledge and good will is generated. Bilateral relations would benefit from a conscious strategy to mobilize more potential participants in the bottom-up change (particularly key groups such as the Canadian provinces, the Brazilian states, and our respective legislatures), backed by sufficient resources.

C. Breakthrough at the Highest Political Level

Obviously, a key step towards a breakthrough at the highest political level would be to negotiate a satisfactory settlement of the trade dispute. While there were no indications that an agreement was near at the time this paper went to print, the departure of Brazil's Foreign Minister Luiz Felipe Lampreia in early 2001, whose style was seen as confrontational by

some, could be beneficial for future negotiations. At the same time, the new Foreign Minister, Celso Lafer, has announced that he will give Itamaraty (the Brazilian Foreign Ministry) a stronger focus on trade, which is expected to include close consultations with the business community and staunch safeguarding of national interests. As a result, a continuation of Brazil's defence of Embraer can be expected. On the other hand, the damage caused by the beef ban episode to bilateral relations and to Canada's image in Brazil is difficult to estimate. The heightened malaise prevailing among some business groups and segments of society make a breakthrough at the highest political level all the more necessary.

Bilateral relations would benefit from a conscious strategy to mobilize more potential participants in the bottom-up change (particularly key groups such as the Canadian provinces, the Brazilian states, and our respective legislatures), backed by sufficient resources.

The upcoming Summit of the Americas in Quebec City presents a fine opportunity for President Cardoso and Prime Minister Chrétien — the two most senior statesmen of the hemisphere — to hold a bilateral meeting, which would be an important first step to reopen high-level dialogue. Such a meeting should seek to discuss ways of bringing the bilateral relationship back onto a constructive path, including a political settlement of the lingering aircraft dispute. However, the reality is that President Cardoso may be constrained by current domestic opposition against warmer

relations with Canada, and thus be unable to go too far in seeking to resolve the aerospace dispute.

Concomitant to settling the trade dispute, a new recognition of each other's importance and potential as political and economic partners is essential to a significant breakthrough in relations. This might have to include addressing the less tangible irritants of the bilateral relationship — Brazil's suspicions of Canada's relations with the US, Brazil's demands for recognition as an important international actor and differentiation of Brazil within Latin America, and diverging views on the FTAA negotiations. A reassessment of each other's relevance and potential will require better awareness of each other's objectives. As a point of departure, this should include a clearer articulation of what Brazil would like or expect from Canada. For example, Brazil has clearly indicated to the United States that improved access for its main exports is a key objective for Brazil-US relations, just as a reduction of agricultural protectionism is the main demand

vis-à-vis the EU. Indeed, it is not entirely clear what it is that Brazil wants from Canada as a political and economic partner. The Canadian government could also better define and communicate its trade, investment and political goals vis-à-vis Brazil.

There are increasing signs of growing mutual awareness. Canada, for example, has increased its diplomatic representation in Brazil by opening a consulate in Belo Horizonte, which adds to existing missions in Brasília, São Paulo, Rio de Janeiro and San Salvador. Canada also intends to strengthen its consulate in Rio de Janeiro in 2001. Such a presence in the Americas is only matched by Mexico. Also, the Export Development Corporation opened an office in São Paulo in 2000 to service Canadian and Brazilian businesses.

Ironically, the five-year-old dispute over aircraft subsidies has helped to put Canada and Brazil on each other's radar screen. Frequent meetings and negotiations to settle the matter have led to improved knowledge of mutual realities, domestic political economies, opportunities and limitations. As well, the trade dispute has awakened the interest of both the Canadian and Brazilian press, which is now eager to know more about the countries and bilateral relations as a whole, building a new body of knowledge. The consultation process prompted by the possibilities of retaliation and compensation undertaken by the Canadian and Brazilian governments with their respective business sectors — which overwhelmingly oppose retaliations — has provided a measure of the growing importance of each to the other's economy.

Strengthened political cooperation would contribute to this positive change as it would improve mutual knowledge, dispel misapprehensions and heighten collaboration. Some areas for cooperation include:

- At the *bilateral level*, legislative cooperation through the promotion of activities of the recently established Brazil-Canada Parliamentary Friendship Group in each legislature, technical cooperation such as on environmental management (for example, in the areas of clean air, fighting forest fires, mining operations related to cleaning up

of chemical waste), and on good governance, especially concerning public sector and oversight institutions. Brazilian officials recently mentioned Canada's tax system as a model to be followed by Brazil, thus opening the possibility for a new area of cooperation. On the trade front, a vigorous implementation of the TICA and an aggressive business promotion strategy could help make the case for a free trade agreement with Mercosul.

The upcoming Summit of the Americas in Quebec City presents a fine opportunity for President Cardoso and Prime Minister Chrétien — the two most senior statesmen of the hemisphere — to hold a bilateral meeting, which would be an important first step to reopen high-level dialogue.

- At the *hemispheric level*, the political and military crisis in Colombia, which prompted President Pastrana to call on the support of the international community to provide assistance, may offer opportunities for collaboration. For example, Canada and Brazil could lead a multilateral initiative for crop replacement, which could be carried out through the OAS' Inter-American Institute for Cooperation on Agriculture (IICA). For Brazil, it would also be an opportunity to do something positive for Colombia after it heavily criticized the Plan Colombia and launched its own defensive Plan Co-bra. Moreover, the nature of the initiative would be technical, not military, and thus

less controversial. Finally, such an initiative would be well received by the US, as it would contribute to multilateralizing aid to Colombia.

The upcoming Third Summit of the Americas offers renewed opportunities for joint initiatives, particularly in the human rights and democracy file, which is of increasing interest to Brazil (and on which Canada and Brazil both have been working at the OAS). For example, Brazil and Canada could promote a "democracy clause" as a condition to participate in the Summit process, modeled after the *Comunicado de Brasília's* clause agreed at the South America summit last September. The central theme of connectivity proposed by Canada should also be well received in Brazil given that it the most connected nation in Latin America (for example, it has been possible to file income tax declarations via the Internet since 1997 and the government is trying to make electronic voting available for the 2002 presidential elections).

- At the *multilateral level*, the strategy would be to build on existing points of convergence, notably the human security agenda (arms control/disarmament, peacekeeping, human rights, environment), but also the Cairns Group and others, to narrow positions on key issues for Canada such as the FTAA and OAS reform. For example, Brazil has declared its intention to run for a non-permanent seat in the UN Security Council for 2004–2005, with elections taking place in 2003. An early Canadian endorsement would be appreciated by Brazil. It would also send a clear signal of Canada’s determination not to link the trade dispute to other aspects of the bilateral relationship.

5. CONCLUSION

Brazil should be a priority of Canadian foreign policy. The South American giant is a major, sophisticated and influential player on the multilateral scene, a central actor in the Americas, and shares many points of convergence in its foreign policy with Canada’s own human security agenda. Furthermore, Brazil is Canada’s first destination of FDI and largest export market in South America. If nothing else, Brazil’s colossal potential as an economic partner should make the case for Canada’s attention.

What Canada can do to become more relevant to Brazil is less obvious. Canada is a significant partner for Brazil, multilaterally, regionally and bilaterally, although perhaps to date Brazil has failed to fully recognize the extent of the value of this partnership. Based on the analysis put forth in this paper, there are two main ways for Canada to make itself more significant to Brazil. One way for Canada to become more important to Brazil is by being sensitive and helpful to Brazil’s paramount foreign policy objective — to be recognized as an important world player by the international community. In other words, Canada should be aiding Brazil’s pursuit of international profile and leadership by supporting Brazilian

initiatives. This is easier done at the multilateral level, especially at the UN, where convergence of human security interests is particularly strong and the game is open to many players, rather than at the hemispheric level where geopolitical notions of areas of influence (which exclude Canada) are triggered in the Brazilian psyche. Put bluntly, Brazil “gets territorial”. Equally important, it is on the international scene, rather than in its own neighbourhood, that Brazil wants to be noticed and could use Canada’s clout and endorsement.

The second way involves support for a bottom-up strategy by which cities, states and provinces, businesses, academic, research, cultural and scientific institutions are weaved together through multiple connections, making Canada’s presence in Brazil a *de facto* reality. This is a long-term strategy that is already underway. This approach could even be useful in Canada’s goal of expanded trade with Brazil. For example, Canada should try a parallel diplomacy to increase links aimed directly at the states of Brazil. Precisely this approach helped Argentina crack the Brazilian market. It is useful to remember that Brazil, like Canada, is a federation where many decisions are made at the state level.

A bottom-up approach may in fact be the only available avenue to expand bilateral relations, in the absence of a breakthrough at the highest political level. Based on the analysis presented in this paper and on recent developments, the

prolongation of the status quo seems to be the most likely scenario. In light of this, relations could benefit from a consciously designed strategy to mobilize more potential participants in the bottom-up exchange, as well as from resources to carry out such policy. This is, of course, assuming Canada is persuaded of Brazil’s present and future relevance as an economic and political actor.

Brazil should be a priority of Canadian foreign policy. The South American giant is a major, sophisticated and influential player on the multilateral scene, a central actor in the Americas, and shares many points of convergence in its foreign policy with Canada’s own human security agenda. Furthermore, Brazil is Canada’s first destination of FDI and largest export market in South America. If nothing else, Brazil’s colossal potential as an economic partner should make the case for Canada’s attention.

March 2001

ISBN: 18963-58-4

Publications mail agreement #1606328

The Canadian Foundation for the Americas (FOCAL) is an independent, non-governmental organization that fosters informed and timely debate and dialogue on issues of importance to decision-makers and opinion leaders in Canada and throughout the western Hemisphere. Established in 1990, FOCAL's mission is to develop a greater understanding of important hemispheric issues and help to build a stronger community of the Americas.

The lead writer of this policy paper was Florencia Jubany, Senior Policy Analyst, FOCAL. Other members of the FOCAL team who worked on this publication were Gerd Schönwälder and Nobina Robinson. FOCAL is grateful for the informal comments made to this paper by José Herrán-Lima, Ted Hewitt and Donald R. Mackay. The preparation and printing of this paper has been made possible thanks to support from the Department of Foreign Affairs and International.

Additional copies of this paper can be obtained from the FOCAL web site (www.focal.ca)



FOCAL

Canadian Foundation for the Americas
Fondation canadienne pour les Amériques
Fundación Canadiense para las Américas
Fundação Canadense para as Américas

1 Nicholas Street, Suite 720
Ottawa, Ontario
K1N 7B7 Canada
Telephone: (613) 562-0005
Fax: (613) 562-2525
E-mail: focal@focal.ca
Web Site: www.focal.ca