HOUSE OF COMMONS
CANADA

EXPLORING ENHANCED COMMERCIAL RELATIONS WITH BRAZIL

Report of the Standing Committee on International Trade

Lee Richardson, MP
Chair

September 2009

40th PARLIAMENT, 2nd SESSION

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STANDING COMMITTEE ON INTERNATIONAL TRADE

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THE STANDING COMMITTEE ON INTERNATIONAL TRADE

has the honour to present its

FIFTH REPORT

Pursuant to its mandate under Standing Order 108(2), and the motion adopted by the Committee on Thursday, May 28, 2009, the Committee has agreed to travel to Brazil in June 2009 and report the following:

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EXPLORING ENHANCED COMMERCIAL RELATIONS WITH BRAZIL

Introduction

From 7 June to 12 June, members of the House of Commons Standing Committee on International Trade ("the Committee") conducted a fact-finding trip to Brazil. The trip had two main goals: to allow Committee members to gain a better understanding of the strength and dynamism of the Brazilian economy and the economic opportunities in that country; and to explore ways in which Canada can increase its engagement with Brazil and foster a closer economic partnership with that country.

The trip to Brazil was originally intended to be one half of a two-country trip which would have seen half the Committee travel to Brazil and the other half to Peru. The objectives of the Peru trip were to build on the momentum of the recent Canada-Peru free trade agreement to foster closer bilateral economic ties with a priority market in Latin America; to gain a better understanding of the implications of the free trade agreement for Canadian businesses active in Peru; and to learn about Peruvians' expectations regarding free trade with Canada.

The trip to Peru was postponed, however, because the Committee's planned travel dates coincided with the visit of Colombian President Alvaro Uribe to Canada. Some Committee members remained in Canada to meet informally with President Uribe, while others, officially representing the entire Committee, went to Brazil. The Committee wishes to reiterate its intention to carry through with its planned visit to Peru at a later date.

The Committee's decision to travel to Brazil had the objective of enhancing economic relations with priority markets around the world. Brazil is one of thirteen such markets identified in the Government of Canada's Global Commerce Strategy. Moreover, the Government of Canada has also made re-engagement in the Americas a policy priority, evident in the recently ratified Canada-Peru Free Trade Agreement and the free trade agreements (FTAs) signed with Colombia and Panama; as well as reinvigorated trade negotiations with the Central American Four (El Salvador, Nicaragua, Guatemala and Honduras) and the countries of the Caribbean.

While in Brazil, the Committee held meetings in two cities: Sao Paulo and Brasilia. Its meetings in Sao Paulo focused on engaging with the private sector. The Committee met with the Federation of Industries of the State of Sao Paulo; with members of the Brazil Canada Chamber of Commerce; and with a leading Brazilian pharmaceutical company. Members also benefitted from logistical support and briefings at the Canadian Consulate, where we also met with many Canadians working in Brazil as well as Brazilian business leaders with ties to Canada.

In Brasilia, the Committee met with the Ministry of External Affairs, the Foreign Trade Chamber and the Brazilian Trade and Investment Promotion Agency. The Committee was also hosted by Brazilian Members of Congress representing the Brazil-Canada Friendship Parliamentary Group.

Brazil — An Overview

One of the key messages the Committee heard in Brazil was that Canadians and Canadian businesses underestimate the size, economic power and potential of Brazil. With over 190 million inhabitants, Brazil is the fifth most populous country in the world. It is also the fifth largest country in terms of land mass and is home to the world's tenth largest economy. Brazil now has a larger economy than does Canada, with a gross domestic product (GDP) estimated at US$1.6 trillion in 2008, compared to US$1.5 trillion in Canada.

A. The Brazilian Economy

Brazil is a modern, stable and sophisticated economy. We heard that since the country became a democracy in 1989, it has undergone a wide range of economic reforms. Brazil has a fiscal responsibility law in place; the central bank is autonomous; and GDP growth in the country is driven by domestic demand. Moreover, the current global economic downturn provides further evidence of Brazil's stability. While Brazil has not been immune to the effects of the economic slowdown, in contrast to the 1997–1998 Asian Financial Crisis, the present downturn has not exposed major systemic weaknesses in Brazil; it has not led to a run on the currency, hyperinflation or other destabilizing events.

Brazil is an important trading nation and a diversified export market. In 2008, Brazil's global trade reached US$371 billion, comprised of $197.9 billion in exports and $173.2 billion in imports. Trade has grown by 105% in the last five years, largely on the strength of higher commodity prices. China is now Brazil's largest export destination, accounting for about 25% of total exports, up from 6% only a few years earlier. The US, formerly Brazil's number one export destination, accounts for 13% of exports.

Economic activity in Brazil is spread across a wide range of sectors and industries. However, the country is perhaps best known as a global powerhouse in agriculture. Brazil contains 22% of the world's arable land and is considered to be the most efficient agricultural producer in the world. Brazil does not subsidize agricultural production and is a world leader in trying to eliminate agricultural subsidies at the World Trade Organization (WTO).

Brazil is also among the world leaders in a host of other industries as well. It is one of the world's largest producers and exporters of raw and processed materials; the 9th largest steel producer; and the 10th largest auto producer. It is also the world's 4th largest pulp and paper producer, and home to one of the largest aerospace companies in the world.

Finally, Brazil is a world leader in the production and development of renewable energy. The Committee heard that 89% of energy in Brazil comes from renewable sources, most notably from ethanol; Brazil is the world's largest ethanol exporter and second largest ethanol producer. Brazil has developed flex fuel technology that allows its cars to run on any blend of gasoline and ethanol.

Brazil's ethanol is derived from sugar cane which, we heard, is a less expensive and more efficient feedstock than corn. Moreover, cane sugar is not being grown at the expense of food crops or the Amazon rainforest; ethanol production accounts for only 1.2% of arable land in Brazil and cane sugar does not grow well in the humid rainforest regions, making it an undesirable crop to grow in that part of the country.

The Committee heard that, in spite of the power and sheer dynamism of the present-day Brazilian economy, its potential is, for the moment, limited by the need for reforms in a number of areas. Five specific targets for reform were identified;

- **Taxation reform**: Brazil has a high tax burden given the level of government services it provides. Reform is especially needed in value-added taxes.

- **Social Security reform**: Retirement plans in Brazil, both public and private, are modest. In addition, health care services are also considered to be insufficient.

- **Labour reform**: Payroll taxes are a major drag on job creation in Brazil. For every dollar spent in salaries, employers pay an additional $1.04 in payroll taxes.

- **Political reform**: Various reforms to the political and voting systems were highlighted. Among them is the need for consolidation of political parties; there are more than 25 political parties in Brazil.

- **Infrastructure reform**: Brazil is in need of major investments in most forms of physical infrastructure, including road and rail. An estimated US$114 billion in infrastructure investment is planned in advance of the 2014 World Cup of Soccer, to be hosted by Brazil.

Achieving progress in these areas will only increase the dynamism and vibrancy already evident in the Brazilian economy.

B. Brazil on the International Stage

Brazil is the dominant economic power in South America. Not only is the Brazilian economy larger than the economies of all other South American countries combined, but the Committee heard that the state of Sao Paulo alone has a larger economy than all of Argentina — the next largest economic power in South America.

Brazil is also the economic engine of the continent's largest and most powerful trade bloc, the Southern Cone Common Market (Mercosur). Mercosur was created in 1991 with the objective of establishing a common market/customs union between participating countries. At present, four countries are members of Mercosur: Brazil, Argentina, Uruguay and Paraguay. Venezuela has formally applied to join the bloc; its application has been accepted by Argentina and Uruguay, but awaits the approval of Brazil and Paraguay.

Mercosur's goal is to increase economic cooperation among member countries by lowering barriers to the free movement of goods, services, capital and labour within the bloc. The Committee heard that work is underway towards establishing a Mercosur Parliament to administer the group's activities.

In addition to its role in Mercosur, Brazil is expanding its presence internationally. Brazil is actively involved in multilateral forums such as the WTO and the G-20, as well as in international security, as evident in its key role in peacekeeping operations in Haiti.

In its meetings with Brazilian business leaders and government officials, the Committee heard that Brazil has many significant strengths as an economic player on the global stage: its position as a political and economic "stability pillar" in Latin America; the size of its economy; its lack of international debt and position as a net creditor on the global stage; self-sufficiency in oil; the "investment grade" status of its domestic debt; and its position as home of the largest program of renewable energy.

Expanding Canada-Brazil Relations

A. The Canada-Brazil Economic Relationship at Present

1. Merchandise Trade

Canada's trade relationship with Brazil is modest given the size of the two economies. Although the Canadian and Brazilian economies have a combined value of US$3.1 trillion, two-way merchandise trade between the two countries totalled just $5.3 billion in 2008, including $2.6 billion in Canadian exports and $2.7 billion in imports from Brazil.[1]

Although the overall value of Canada-Brazil trade is not large, it has expanded rapidly in recent years. Growth in trade with Brazil has outpaced Canada's trade growth worldwide since 2003, especially on the export side. In 2008 alone, exports to Brazil grew by 71% compared to a year earlier.

1 All data in this section are from Statistics Canada.

Brazil is Canada's second largest export destination in Latin America (behind Mexico) and Canada's 12th largest export destination worldwide. Brazil is also Canada's second largest source of imports in Latin America and 16th largest source of imports worldwide. For Brazil, Canada ranks as the 24th largest export destination and 14th source of imports.

2. Products

On the whole, Canadian exports to Brazil are relatively evenly distributed between resource-based goods and manufactured products. However, in terms of specific products, most of Canada's largest exports are from resource-based industries. Canada's biggest export to Brazil in 2008 was potash, followed by sulphur, coal, newsprint and wheat.

Imports from Brazil are also evenly divided between manufactured products and resource-based goods. However, while Canadian resource exports are concentrated in mines, metals and energy, resource-based imports from Brazil are largely in agricultural products. Canada's leading import from Brazil is aluminium oxides, followed by raw cane sugar, vehicle parts, aircraft, orange juice and coffee.

Because of strong export growth and relatively weak imports, Canada is now a net exporter of machinery and equipment to Brazil. It has also become a large net exporter of extractive-industry products and a net exporter of forest products. On the other hand, Canada's trade deficit in agricultural goods with Brazil is widening as that country continues to develop its natural advantage in agricultural production.

3. Services and Investment

Canada is a net exporter of services to Brazil. In 2006, the most recent year for which data are available, Canadian service exports totalled $364 million, while service imports were valued at $251 million. With the exception of a surge in service imports from Brazil in 2006, services trade between the two countries has been largely stagnant since the mid-1990s.

Canada and Brazil are major sources of mutual foreign direct investment (FDI). Canadian direct investment in Brazil reached $9.2 billion in 2008, making it the 10th largest international destination for Canadian investors. Canada is also the tenth ranked source of FDI in Brazil.

Canada is an especially active investor in mining and industries providing mining-related products and services in Brazil. The Committee heard that there are 128 Canadian companies active in mining in Brazil, accounting for $3.2 billion in FDI in that country. The top two gold producers in Brazil are both Canadian.

The total value of Brazilian investment in Canada was even larger, at $11.9 billion in 2008. Brazilian direct investment in Canada has expanded rapidly in recent years, due in most part to a few large-scale takeovers of Canadian companies by Brazilian business interests. The most notable of these was the purchase of Canadian mining giant Inco by Brazilian mining company Vale (formerly CVRD) in 2006. As a result of these major investments, Brazil is now the seventh-ranked source of FDI in Canada.

B. Canada's Non-Commercial Relationship With Brazil

The Committee heard that commercial activity is at the core of Canada's relations with Brazil. However, there is evidence of growing ties between Canada and Brazil in other areas as well. For example, personal exchanges between the two countries are on the rise. Canada issued a record 55,000 visas to Brazilian visitors in 2008, many of which were students coming to Canada to learn English. The number of Brazilians applying to Canada for immigration visas and work permits is also rising.

Canada and Brazil are also working together in the field of defence and security. Based on their strong cooperation in Haiti, a close relationship has formed within senior levels of the military in the two countries, a relationship that the Committee heard is poised to expand in the near future.

A third example, among numerous others, is Canada's efforts to help Brazil to enact judicial reform. Judicial mediation and a backlog of court cases are major ongoing issues in Brazil and Canada is playing an important role in engaging Brazil on those subjects. Brazilian judges have visited Canada to learn about judicial mediation in Canada and are working to apply that knowledge in the Brazilian court system.

C. How Is Canada Working to Expand Existing Relations?

Canada has recognized the importance of expanding economic relations with Brazil and is taking several steps to advance this goal. In particular, the Government of Canada has identified science and technology as a natural avenue for partnership. Canada's commercial strategy in Brazil is, therefore, to move to a bilateral relationship based on science and technology and business innovation. This strategy is markedly different from the trade model of bilateral promotion in which countries seek to establish closer economic ties by removing market access barriers.

The main element of this strategy is the *Canada-Brazil Framework Agreement for Cooperation on Science, Technology and Innovation* signed in November 2008. Under this agreement, Canada has committed to providing $1.5 million over two years to fund joint research initiatives between Canadian and Brazilian businesses. One company from each country must be involved and, to qualify for the funding, the initiative must include a commercialization plan. Canada is looking to fund four or five projects with this sum, with an initial focus on environmental technologies. The agreement has not yet been ratified by the Brazilian Congress, but once ratification takes place, the funds available to Canadian and Brazilian businesses will double.

In addition to its focus on science and technology, the Canadian embassy and consulates in Brazil have identified a number of "priority sectors" which hold considerable opportunities for Canadian businesses. These sectors include oil and gas recovery, mining, information and communication technologies, arts and culture, and environmental technologies. Committee members also heard that there are considerable opportunities in transportation infrastructure, especially in rail, and in closer cooperation in aerospace manufacturing.

As part of its efforts to build closer ties with Brazil, Canada is expanding its diplomatic presence in that country. Two new offices will be opened this year, in Porto Alegre and Recife, and additional staff will also be added. Canada is also increasing its efforts to engage with Brazil at the government-to-government level. Minister of Foreign Affairs Lawrence Cannon visited Brazil in February 2009 and Minister of International Trade Stockwell Day is planning a visit for later in the year. A number of Canadian senior government officials have also travelled to Brazil in recent months to work with their Brazilian counterparts. Finally, plans are underway for an official visit to Canada by Brazilian President Lula da Silva.

D. What More can be Done?

The unambiguous message the Committee received during its trip is that the economic opportunities in Brazil are considerable and that Canada would benefit enormously from establishing a closer commercial relationship with that country. Moreover, the time for Canada to act in building and expanding its relationship with Brazil is now. We heard that there is a five to seven year window in which for Canada to establish a solid working relationship with Brazil, after which point, there will be too many other significant international players active in Brazil for Canada to stand out from the pack.

Indeed, in several of our meetings we heard that Canada's economic linkages with Brazil are underdeveloped given the size of the two economies. While trade has grown considerably in recent years, some argued that this growth was only evidence that trade between the two countries is far from reaching its potential.

1. Brazil Needs to be Made a Priority

Committee members were told repeatedly that Canada needs to make Brazil a foreign policy priority. While it is true that Brazil is one of Canada's priority markets under the Global Commerce Strategy, we heard that Brazil seems to fly under the radar of businesses and policy makers who focus on other major markets around the world, especially the other three countries in BRIC (Brazil, Russia, India and China), the acronym used to describe the world's largest and most dynamic emerging markets today. As one participant in our meetings in Sao Paulo pointed out, the "B" in BRIC seems to have been overlooked.

2. Promote Awareness within Canada of the Economic Opportunities in Brazil

Although businesses and policy makers may both be guilty of not making Brazil a sufficiently high priority, the Committee was told repeatedly that we, as Members of Parliament, along with senior government officials, appear to have a better understanding of the benefits of closer cooperation between the two countries than does the Canadian private sector. We heard that the Canadian private sector seems relatively unengaged in Brazil, and that the Canadian government needs to do a better job of informing business of the opportunities in that country. In short, Parliament and the government need to be advocates within Canada for the economic opportunities that the Brazilian economy represents.

3. Free Trade and Economic Cooperation Agreements

As discussed earlier, Canada's current approach to building commercial ties with Brazil focuses on developing business-to-business linkages through cooperation in science, technology and innovation. However, the Committee saw that there was an appetite in Brazil for additional steps to be taken: specifically, through exploring the possibility of a free trade agreement or an economic cooperation agreement with Brazil.

In order to pursue such an agreement, however, Canada would have to negotiate not only with Brazil but, through Mercosur, also with Uruguay, Paraguay and Argentina in "four plus one" bilateral negotiations. Mercosur is the official interlocutor on trade issues within the bloc, meaning that Brazil cannot negotiate a free trade agreement on its own; its Mercosur partners must also be involved.

Negotiating a Canada-Mercosur free trade agreement could prove to be a challenge as the four countries of Mercosur are not without their ideological differences. Moreover, free trade negotiations can take a long time. The European Union (EU) and Mercosur began negotiations in 1999 and an agreement between those two parties has yet to be reached.

Because of the potentially lengthy process of negotiating free trade agreements (FTAs), some Brazilian government officials suggested to the Committee that, instead of pursuing an FTA immediately, Canada might consider beginning with a few smaller bilateral agreements with Brazil in areas of mutual interest. Agreements to lower tariffs in certain sectors, for example, could be achieved more quickly than a comprehensive trade agreement and have a more immediate positive benefit for both countries.[2] The Canada-Brazil Memorandum of Understanding in Health, signed in May 2009 is a good example of a sector-specific agreement that will help build ties between the two countries.[3]

It should be noted, however, that Mercosur has been open in the past to the possibility of a free trade agreement with Canada. In fact, Canada was approached by Mercosur in 2005 to explore a bilateral free trade agreement, but those discussions did not progress beyond the informal exploratory stages because Canadian negotiators did not have a mandate from the Canadian government to proceed beyond that point. It was suggested to the Committee that if Canada were to request formal consultations, the negotiation process could re-start quickly.

In order for Canada to proceed with exploring an FTA or economic cooperation agreement closer with Brazil (through Mercosur), two preliminary steps need to be taken. First, a frank analysis is needed of past grievances between Canada and Brazil to ensure that there are no lingering resentments or unresolved issues; the two countries have had significant disagreements in the past over matters such as mad cow disease and aerospace subsidies. Issues such as these, if unresolved, could severely limit efforts to build closer economic relations.

Second, the two sides should work together to establish a set of well-defined goals and expectations for any future bilateral agreement. This step includes a joint scoping exercise to determine how extensive a prospective agreement would be desirable, as well as an analysis of the costs and benefits of the different agreement options.

Canada also needs to be realistic about what it can achieve in trade negotiations and honest in discussing what it is prepared to put on the table. This requires a candid assessment of what Brazil would expect in a trade agreement, especially in areas such as market access. Brazil has taken a strong position at the WTO as a defender of free and open trade. It is a fierce opponent of protectionist measures and subsidies, especially in agriculture. In any formal negotiations, it is highly likely that Brazil would take issue with Canada's system of supply management which imposes market access restrictions on imports of certain agricultural products.

2 It is important to note that steps would have to be taken to ensure that any such agreement is compatible with WTO requirements on bilateral trade deals, as well as Brazil's commitments within Mercosur.

3 Information on the Memorandum of Understanding in Health between Canada and Brazil is available at http://www.hc-sc.gc.ca/ahc-asc/media/nr-cp/_2009/2009_74-eng.php.

Conclusion

Our trip to Brazil, though brief, gave participating Committee members a better understanding and appreciation of Brazil's vast economic potential and the opportunities for closer Canada-Brazil economic cooperation. Thanks to the extraordinary efforts of Canadian Ambassador Paul Hunt and the Embassy and Consulate staff in Brasilia, Sao Paulo and Rio de Janeiro, the Committee was able to get maximum benefit out of its short visit to the country.

At the same time, however, we are aware that participating in a few days of meetings in Brazil does not amount to a comprehensive analysis of the complexities and specific issues in the present-day Canada-Brazil relationship, or of the matters that might arise should the two countries pursue closer economic ties down the road. Significantly more analysis is required to gain a better understanding of the issues and specific approaches that Canada might consider in expanding its economic relations with Brazil. For this reason, should its schedule permit, the Committee is interested in undertaking a more detailed study of the Canada-Brazil economic relationship in the near future, including a return trip to Brazil with all members of the Committee. Of particular interest to Committee members would be to conduct a more thorough analysis of the agriculture and agri-food sector in Brazil.

In the meantime, it is clear from our analysis to date that Brazil is a country brimming with economic potential and that Canada should make every effort to expand its relationship with Brazil. In the absence of the information that would come of a more detailed study, in our view, the Government of Canada should begin preliminary discussions with Brazil and the Mercosur countries at the earliest available opportunity to determine how best to proceed in building closer economic ties. To that end, the Committee makes the following recommendations:

Recommendation 1:

> **Given the expected benefits of the Canada-Brazil Framework Agreement for Cooperation on Science, Technology and Innovation and the potentially lengthy process of negotiating a bilateral trade agreement with Mercosur, the Government of Canada should explore additional means of building closer economic relations with Brazil, through partnership agreements and memoranda of understanding in specific sectors of mutual interest.**

Recommendation 2:

> **The Government of Canada should initiate exploratory discussions with Mercosur to gauge interest in the possibility of opening formal negotiations towards a free trade agreement or economic cooperation agreement.**

Recommendation 3:

> **As with its recent experience with the European Union, the Government of Canada should work together with the countries of Mercosur on a joint study to identify key issues and objectives in a potential free trade or economic partnership agreement and to determine the scope of potential future negotiations.**

Recommendation 4:

> **The Government of Canada, in cooperation with the countries of Mercosur, should conduct a joint study of the potential costs and benefits of a free trade agreement between the two parties. Every effort should be made to have widespread stakeholder engagement in both Canada and Mercosur in any such study.**

Recommendation 5:

> **Given Brazil's strength as a global agricultural producer, the Government of Canada should conduct a study of the agriculture and agri-food industries in Brazil and of the potential impact that bilateral free trade in agriculture would have on Canadian producers and agri-food production in Canada.**

MINUTES OF PROCEEDINGS

A copy of the relevant Minutes of Proceedings (Meetings *Nos. 11, 23, 24 and 26)* is tabled.

Respectfully submitted,

Lee Richardson, MP
Chair

Report on the Committee's travel to Brazil
Supplementary Opinion of the NDP
Peter Julian MP
(September 23, 2009)

"A nation cannot prosper long when it only favours the prosperous"
-Barack Obama

THE NDP's VISION OF FAIR TRADE

The NDP reaffirms its commitment to fair trade policy. By fair trade, we mean new trade rules and agreements that promote sustainable practices, domestic job creation, and healthy working conditions while allowing us to manage the supply of goods, promote democratic rights abroad, and maintain democratic sovereignty at home. Fair trade incorporates social justice into its business practices, focuses on businesses and cooperatives that invest in their communities and help to build local sustainability. Workers' rights and environmental rights are integrated into the foundation of business and empower both workers and consumers to make more sustainable choices.

In negotiating trade agreements and expanding Canada's trade relationships with the rest of the world, it is impossible to separate human rights, labour rights and the environment from trade issues.

- How we can promote fair trade:
  - New trade agreements must actively encourage improvements in social, environmental, and labour conditions and not simply minimize the damage of unrestricted trade;
  - Federal and provincial procurement policies must stimulate Canadian industries by allowing governments to favour suppliers here at home over foreign multinationals;
  - We must recognize that supply management boards and single-desk marketers like the Canadian Wheat Board can play an important role in helping to replace imports with domestic products; and
  - Local, community, and individual initiatives to buy fair trade imports and locally produced goods must be preserved and fostered.

- Why fair trade and not free trade?
  - Fair trade policies protect the environment by encouraging the use of domestically and locally produced goods (less freight begets less fuel consumption which means less carbon greenhouse gas in the atmosphere) and by promoting environmentally conscious methods for producers who ship to Canada. By contrast, free trade policies, even those created with the environment in mind, do little to impede multinational corporations from polluting with reckless abandon. The environmental side agreement of NAFTA, for example, has proven largely unenforceable, particularly when compared with other protections for industry and investors.
  - A system of fair trade can encourage the growth of Canadian jobs, both in quality and quantity. Fair competition rules and tougher labour standards will put Canadian industries on a level playing field with our trading partners and slow the international "race to the bottom" that has resulted in the loss of Canadian manufacturing jobs. Free trade rules, on the other hand, have hurt Canadian job quality. Since 1989 most Canadian families have actually seen a *decline* in inflation-adjusted real incomes.
  - Fair trade can also protect labour rights by fostering the growth of workers' cooperatives and labour unions. Like the environmental side accord, NAFTA`s labour agreement is unenforceable, giving industries which are willing to violate workers' rights incentives to relocate Canadian jobs. Fair trade policies which favour co-ops, unions, and equitable pricing will protect workers in the developing world who might otherwise be exploited and take away reasons for Canadian producers to export jobs.
  - Fair trade rules will also protect societies and human rights around the globe. Although some predicted a human rights benefit from unrestricted free trade, this has yet to be seen. In contrast, conflicts between locals and multinational corporations in such places as Peru (with whom Canada is implementing a free-trade agreement) have become violent. A fair trade policy that aims for benefits for all parties can protect the most vulnerable from human rights abuses.

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CANADA & BRAZIL: THE FAIR WAY FORWARD

New Democrats recognizes the importance of expanding economic and cooperative relations with Brazil. However, these relationships must develop in a manner that fosters sustainable growth, the creation of good jobs and development. Canada's commercial relations with Brazil should seek to balance bilateral, pragmatic trade and specific niche areas in natural resources, agriculture, sciences and technology with a longer term strategy of developing fair trade with MERCOSUR ("The Common Market of the South"). This longer term strategy would also have the ancillary benefit of involving Uruguay, Paraguay Argentina and Venezuela in addition to Brazil.

US trade policy under former President George W. Bush saw MERCOSUR as a threat. In contrast to this approach, Canada should be more supportive of MERCOSUR's priorities of developing a regional common market in the southern cone that would provide trading security to its members and delivering fair levels of support to all. MERCOSUR has elements of fair trade in its model and goals that are worth emulating, notably, the recognition of a social dimension to trade, including the reduction in poverty, and the necessity of promoting a gradual and sustainable integration of key economic sectors to build up higher added value economies.

As Brazil's deputy UN envoy Piragibe dos Santos Tarragô stated on the occasion of the launching of the International Human Solidarity Day:

> *"Within MERCOSUR, poverty reduction has been remarkable. In Argentina, poverty declined from 54 percent in late 2002 to 31 percent in the first half of 2006. In Uruguay, poverty decreased from 32 percent in 2003 to 30 percent in 2005. In Brazil, it fell from 28 percent in 2003 to 23 percent in 2005. Moreover, the income of the poorest 50 percent Brazilians grew twice as fast as that of the top 10 percent."*
> http://www.un.org/esa/socdev/social/documents/BRAZIL.pdf

Unlike MERCOSUR, all three of the countries participating in NAFTA have experienced increases in trade and investment with an increase in poverty. Since the implementation of the Canada–US Free Trade Agreement in 1989, two-thirds of Canadian households have seen a decrease in their real incomes. The income share of the richest 20% of the population now exceeds 50% of all income, leaving less for the remaining 80% of Canadians. Clearly, NAFTA-style free trade is beneficial to the wealthy. The poorest of Canadians have seen their income drop so severely that they have lost the equivalent of one and a half month's income since the Canada–US Free Trade Agreement was signed. The situation is even worse in Mexico and in the US. Moreover 97% of the new investment in Canada under NAFTA has not been directed toward real economic activity but rather toward the acquisition of Canadian firms by foreign multinationals. While NAFTA has facilitated the movement of foreign capital, working families have not reaped the benefits. Instead of the wealth and new full-time jobs we were promised, Canadians have seen the erosion of permanent jobs and a marked shift toward temporary and part-time positions. Benefits and pensions are disappearing and working conditions are eroding. Working families are experiencing crushing household debt, more stress and greater instability.

The so-called free trade model ultimately rejects fair & sustainable trade. Through deregulation and the empowerment of corporations over democratically elected governments, the model allows a handful of dominant corporations to capture and control bilateral trade flows, which in turn distorts the market. The free trade model is therefore a misnomer because it actually betrays the very essence of free trade since trade under this model is neither fair nor free. The NAFTA model has shown unparalleled efficiency in driving and entrenching the political and economic domination of large multinational corporations and is currently at the heart of the ongoing drive for bilateral FTAs.

Forging a new trade policy based on multilateral fair trade would permit Canada to become a leader on the international stage rather than serving as a blind follower to a tired, outdated and ineffective 20th Century trade model. It would be a chance to undertake, one again, the kind of project that is uniquely Canadian: recognizing that important link between social economic justice and all spheres of government policy.

It is such a new fair, democratic and progressive trade policy that Canada should promote with Brazil, MERCOSUR and our Latin American partners.