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Dispute With Brazil Slows Canada's Entrance into MERCOSUR

by LADB Staff

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During a trip to Latin America in mid-January by a Canadian trade delegation, a dispute between Canada and Brazil regarding aerospace contracts disrupted talks aimed at incorporating Canada into the MERCOSUR bloc. Argentine President Carlos Saul Menem then intervened to get the MERCOSUR-Canada negotiations back on track. Brazil, however, may be using the industry dispute to slow further integration between MERCOSUR and North American countries.

Canadian Prime Minister Jean Chretien headed the Canadian mission of more than 500 Canadian officials and business leaders, which visited Mexico, Brazil, Argentina, and Chile. Among other things, Canadian government officials hoped to sign a framework agreement for negotiating Canada's integration into the MERCOSUR bloc. Nevertheless, Brazil abruptly broke off talks, and Brazil and Canada accuse each other of providing unfair subsidies to aircraft makers in their countries.

Brazilian Foreign Minister Luiz Felipe Lampreia said he had informed Canadian Trade Minister Sergio Marchi of the interruption in negotiations, citing "serious differences" between the Canadian company Bombardier and the Brazilian firm Empresa Brasileira do Aeronautica (EMBRAER). "We feel the agreement to increase business opportunities and bring our business communities closer together is being questioned even before it has been put into practice," Lampreia said. "For that reason we thought it best to stop and consider the consequences of all this."

NATO contract at heart of dispute

Brazil had already issued a strong protest in December when it said Bombardier refused to honor a two-year-old agreement with EMBRAER for the purchase of EMBRAER's Super Tucano aircraft for a NATO training program. Bombardier, authorized by the Canadian government to negotiate the purchase of training planes for NATO, instead awarded the contract to the US firm Raytheon. Brazilian diplomats reacted strongly to the loss of the contract. Jose Botafogo Gonzalves, head of economic affairs at the Brazilian foreign ministry, said the decision in favor of EMBRAER had been "practically guaranteed," and he accused the Canadian firm of unfair trade practices.

In mid-January, Brazil announced it was considering filing a complaint against Canada with the World Trade Organization (WTO) for its alleged heavy subsidies of Bombardier, which competes against EMBRAER in the market for mid-range aircraft. Meanwhile, Canadian authorities claim the Brazilian government provides financial subsidies for EMBRAER's export operations and that its support contravenes WTO rules. Chretien and Brazilian President Fernando Henrique Cardoso have given trade representatives 30 days to end the dispute. If they fail, the matter will go to the WTO. Canadian trade minister Marchi said, however, that the dispute should not hold the MERCOSUR negotiations hostage, even if it is elevated to the WTO. "We are hopeful that, irrespective of how these discussions go, the Canada-MERCOSUR deal will go ahead," said Marchi.

"We do not find any linkage. Whether the talks fail or succeed, Canada-MERCOSUR should proceed."

Chretien turns to Menem to resolve impasse

Although the aerospace dispute clouded Chretien's visit to Brazil Latin America's biggest economy the prime minister emphasized Canada's interest in a partnership with MERCOSUR. Consequently, when the delegation went to Argentina, Chretien enlisted the help of President Menem to stop the dispute with Brazil from derailing the free-trade agreement. Menem promised Chretien that he would use MERCOSUR's rotating presidency, which he holds for the next six months, to "see if this agreement with MERCOSUR can be finalized." "We hope that soon Canada will overcome the difficulties it is having with our Brazilian neighbors and that we'll be able to applaud its incorporation into a free-trade zone between MERCOSUR and Canada," Menem told Chretien and the visiting delegation. "I hope when I hand over this presidency in six months we can say that Canada is already a member of a free-trade zone with MERCOSUR."

Following his meetings with Menem, Chretien said he was confident Canada would sign a pact with MERCOSUR despite the dispute with Brazil, which, he said, should be resolved by the end of February. "We've put the discussion on track," Chretien said. "President Menem, the president of MERCOSUR, is very keen to sign." Menem also promoted bilateral trade between Argentina and Canada. Marchi said the 480 Canadian companies represented by the "Team Canada" mission were "bullish" on Argentina. Bilateral trade is only about US\$300 million, but Canada has made direct investments of almost US\$2 billion in Argentina and is expected to become Argentina's third-largest foreign investor.

President Cardoso anxious to stall FTAA

Chretien wants to speed up talks on the Free Trade Area of the Americas (FTAA), which heads the agenda at the second Summit of the Americas in Chile in April (see NotiSur, 11/14/97). Marchi said the FTAA should not be tied to US President Bill Clinton's success or failure in getting "fast-track" authorization on trade deals from Congress. "I think many people are waiting to see whether Clinton arrives in Santiago with fast track in his pocket, but should he fail, it should not push us off course," said Marchi.

Brazil, however, could be using the aerospace dispute to cool further integration between South American countries and their powerful northern neighbors. Cardoso has made it clear he has little interest in greater trade integration dominated by the US, and would like to postpone FTAA negotiations, preferring first to concentrate on consolidating trade relations within Latin America. Brazil has also been reluctant to advance bilateral free-trade agreements with either Mexico or Canada, US partners in the North American Free Trade Agreement (NAFTA). Brazil, alone among the MERCOSUR partners, refused to renew a bilateral agreement with Mexico that expired Dec. 31. [Sources: Clarin (Argentina), Inter Press Service, 01/13/98; Notimex, 01/13/98, 01/19/98, 01/20/98; Reuter, 01/15/98, 01/19/98, 01/20/98; Spanish news service EFE, 01/20/98]

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