



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

39th PARLIAMENT, 1st SESSION

Standing Committee on International Trade

EVIDENCE

NUMBER 045

Thursday, February 8, 2007

Chair: Mr. Leon Benoit



Standing Committee on International Trade

Thursday, February 8, 2007

• (1110)

[*English*]

The Chair (Mr. Leon Benoit (Vegreville—Wainwright, CPC)): Good morning, everyone, and welcome to our guests today. We continue our study of Canada's trade policy.

Today we're looking at Canada's trade policy in the Andean community. We have as witnesses today, from the Canadian Council for the Americas, Eduardo Klurfan, vice-president, and Kenneth Frankel, board member and international trade adviser.

I will leave the introductions at that, and gentlemen, if you're ready to start the presentation, we'll get to that, and then we'll go directly to questioning. Thank you again very much for coming today. We do appreciate it, and we are looking forward to your presentations and to the meeting.

Mr. Kenneth Frankel (Board Member, International Trade Advisor, Canadian Council for the Americas): Good morning, Mr. Chairman, members of the committee. Thank you for inviting us to be here with you this morning.

My name is Ken Frankel. I'm a lawyer and a political commentator based in Toronto, and a member of the board of directors of the Canadian Council for the Americas. As Mr. Chairman said, I'm joined by Eduardo Klurfan, who is a vice-president of Scotiabank, vice-president of the Canadian Council for the Americas, and the chairman of the Brazil-Canada Chamber of Commerce.

The CCA is the principal private sector link between Canada, Latin America, and the Caribbean. As a networking information vehicle, the CCA's primary objective is to stimulate the expansion of Canadian commercial interests in the countries in the region.

The CCA creates awareness of opportunities that the region offers to Canadians, and it has been playing a key role in organizing outreach activities for heads of state, ministers, and business leaders from countries throughout Latin America and the Caribbean.

The Brazil-Canada Chamber of Commerce is our sister organization and shares our goals and objectives by focusing on commercial relations between Canada and Brazil. The BCCC and the CCA are non-profit associations managed through I.E. Canada, which is the Canadian Association of Importers and Exporters.

We rely on our member companies, all of which have taken advantage of investment and trade opportunities in many countries in the region, for our financial support.

Our conversation today is radically different from what it would have been 25 or even 5 years ago. Many Latin American countries

were run by authoritarian governments 25 years ago, and those that weren't vacillated between military control and weak civilian rule. With few exceptions, the economies were highly protectionist. Investment by outsiders was restricted entirely in many sectors, restricted to minority stakes in others, and subject to all manner of regulatory bottlenecks, currency controls, opaque requirements, and legal processes. Licensing intellectual property was particularly restrictive in the Andean region.

But as authoritarian governments were swept away, so were many of the former economic policies. The neo-liberal model, though not completely or competently undertaken in all instances, included the privatization of state enterprises, the elimination of some and streamlining of other regulatory requirements, and the relaxation of many barriers to foreign investment and trade with Latin America.

[*Translation*]

Mr. Serge Cardin (Sherbrooke, BQ): Mr. Chairman, the interpreters would appreciate it if Mr. Frankel could slow down a little bit.

[*English*]

Mr. Kenneth Frankel: Okay, fine.

The Chair: For the translation, if you could go a little slower it would be helpful.

Mr. Kenneth Frankel: Sure. Would you like me to back up?

The Chair: No, that's fine, just continue.

Mr. Kenneth Frankel: Latin American governments privatize a full range of industries: telephone, electricity, water, power, banking, transportation, and others. Though these reforms have made transacting business in Latin America easier, there are still challenges. In addition to the transactional challenges that still exist, there is now further competition from the expanding activities in the hemisphere of China and India.

If Canada is to achieve the mandate to take advantage of emerging markets, as laid down by Minister of Finance Flaherty in Advantage Canada, the government and the private sector need to redouble their efforts on Latin America. We should be under no illusion that anything less than a unified and aggressive effort will yield the desired results.

Before listing our five concrete recommendations, I will digress for a minute to illustrate the kind of unified effort we believe is necessary. Before the 1990s, Spain had negligible investment in or trade with Latin America. I worked for a Spanish company at that time and lived in Madrid. For a number of reasons we can discuss later if you wish, Spain became the dominant foreign investor in Latin America through the 1990s.

Why do I raise the Spanish case? It's because the successful Spanish reconquest of Latin America was a national goal. It was the product of a union of strategic government planning and business drive. The government took political and economic leadership, a long-term view, and bolstered its fiscal and trade policies with all manner of support for business chambers, exchanges, and other outreach.

We may never reach the level of government commitment toward Latin America commensurate with that exhibited by the Spanish government; however, I would suggest that the Canadian government has not even exhibited a sustained strategic vision for bolstering Canadian commercial activity or political engagement in Latin America. This clearly has not and will not benefit Canada or Canadian business.

We have five recommendations. The first is support for business facilitation programs. Canada's trade commissioners in Latin America, provincial export promotion agencies, Economic Development Canada, and other government agencies have provided excellent service. They are particularly vital for SMEs that have the will but not the contacts, know-how, and resources to tackle new markets, particularly in Latin America, without logistical support. Unfortunately, these support programs appear to be chronically underfunded and have had to be cut back. We urge the committee to examine the full range of services provided and the funding of those services, particularly in light of what our competitors are providing.

Our second recommendation is on support for business partnerships and outreach. The Canada hemispheric economic relationship cannot achieve its full potential without having stronger partnerships between private and public sector entities. We would welcome increased funding of both public agencies and private chambers to support and enhance business connections and synergies. The Spanish government, for example, was involved in funding all manner of business chambers and educational and cultural outreach as an extension of its nationally coordinated business strategy.

Our third recommendation is to support bilateral and subregional trade agreements. For too long Canada has kept its eggs in the free trade of the Americas basket, even though there appears to be little chance that agreement will progress in the near or even distant future. We encourage the Canadian government to pursue bilateral and subregional trade agreements, as has the United States. Unfortunately, progress on several free trade agreements with Central

America, the Andean countries, CARICOM, and the Dominican Republic has been stalled for a number of years.

Brazil came knocking two years ago to explore a free trade agreement with Canada. There are various interpretations of why their entreaty did not progress, but we suggest that the government redouble its efforts with Brazil and MERCOSUR in this respect.

We also believe that while NAFTA has been successful in bolstering trade and investment with Mexico, it has the potential to accomplish more. We support the efforts to deepen relations with Mexico through the expansion of NAFTA, and through the Security and Prosperity Partnership of North America, to improve regulatory coordination and cooperation.

• (1115)

Our fourth recommendation is support for foreign investment protection agreements. Canada still lacks foreign investment protection agreements, known as FIPAs, with a number of Latin American countries. We could encourage the government to pursue these as well. We at the CCA are appreciative of the support we receive from the federal government, and we would encourage the government to utilize the knowledge of our members to consult regarding these prospective agreements.

Our fifth and last recommendation is to take advantage of potential with Brazil. Brazil represents 50% of the GDP in South America. Canada is not exploiting the full potential for trade and investment with Brazil, in our opinion. EDC and BCCC have agreed to pursue a joint initiative called the Canada-Brazil Trade Pallet. The Canadian trade pallet initiative will seek to identify the key limitations to developing new business and managing existing trade flows with Brazil. It will also develop a means to deliver knowledge and services to enhance the bilateral economic relationship. This trade pallet would serve as a pilot project to provide information for a large government online trade services model, which could influence existing delivery models such as the virtual trade commissioner service. We hope to count on the government for its support for this important initiative.

In closing, Mr. Chair, the CCA and the BCCC member companies know that Canada must embrace the rapid changes that are taking place in global trade and investment flows. They must capture new markets and forge new partnerships if Canada is to continue to prosper.

Above all, Canada would stand to gain from political leadership at the top that prioritizes its relations in the hemisphere and sends a clear message that Canada has a strong political and economic stake in this hemisphere. The hemisphere wants more Canadian engagement. For a number of reasons, the circumstances are propitious for active re-engagement by Canada.

The committee's examination of these issues is timely. We look forward to the recommendations that emerge from your deliberations. Thank you.

• (1120)

The Chair: Thank you very much for your presentation.

We'll go now directly to questioning, and first to the official opposition, the Liberal Party.

Mr. Temelkovski.

Mr. Lui Temelkovski (Oak Ridges—Markham, Lib.): Thank you very much, Mr. Chair, and thank you very much, Mr. Frankel.

We've read that there have been some changes to the Andean group of countries. Some are opting in; some are opting out from time to time. Do you see this as some sort of instability in the area, or has it smoothed out? As you mentioned earlier, there was some instability in the 1990s in the area.

Mr. Kenneth Frankel: I will answer that.

On the opting out, at this point really what we're talking about is Chavez of Venezuela. Colombia has become more and more stabilized. Peru has become stabilized a bit more under Alan Garcia. Ecuador, obviously, now is a little bit up in the air.

The future of the Andean Pact per se, including Venezuela, is up in the air, although the other Andean countries are still engaged in free trade negotiations, or have signed, with the United States.

Mr. Lui Temelkovski: Recently I was in Colombia for the FIPA meetings. All of these countries were present and attended the FIPA meetings to further enhance trade within the Americas.

What avenue would you suggest we take? Would you suggest that we deal with each country one on one, or would you suggest it would be more efficient if we dealt with them in terms of trading as a group?

Mr. Eduardo Klurfan (Vice-Chairman, Canadian Council for the Americas): I believe that dealing one on one on the bilateral agreements is probably the option of choice because of the peculiarities of each of the countries' economies and the level of trade and investment we have with each of those countries.

In some circumstances, this is not an option. In the case, for instance, of MERCOSUR, the member countries had agreed that any negotiation would be on a regional basis. So any negotiation on a treaty agreement with any of the members of MERCOSUR has to be done on the basis of what they call "Four Plus One".

So in some cases we have no choice. In some cases, if the choice is available, I believe that doing bilateral agreements, the way Mexico and Chile have done with a significant number of countries, is a more conducive way to better serve the interests of both countries.

Mr. Kenneth Frankel: If I might say so, Peru just signed a free trade agreement with the United States as well, so I think that would be sounding out the Andean bloc as to what their preference was.

I think our main point is, whatever it is, let's start exploring it and having these discussions.

Mr. Lui Temelkovski: You also mentioned that support for business facilitation is your number one recommendation. Maybe you can tell us a little bit more about that.

You mentioned in that recommendation that there have been some logistical cutbacks. Maybe you can expand on that for us as well.

• (1125)

Mr. Kenneth Frankel: There are several programs that have come to my attention, from some of the provincial trade commissioners as well as some of the federal ones. The one that seems to come up constantly—and I don't have the acronym in front of me now—is the one that helped support the SMEs particularly, with logistical support, with how to write bid proposals for bids that are going on in Latin America and elsewhere. I can supply the committee with that acronym later. That's the one that seems to be coming out all the time.

The chronic lament we hear is that these services are doing a good job but they seem to be underfunded and seem to feel they're very underfunded compared to what some of our competitor countries are doing.

Mr. Lui Temelkovski: In your opinion, would Canadian businesses be aware of the opportunities that are available within the Andean countries, or what can we do as a government to enhance this?

Mr. Eduardo Klurfan: The trade commissioners stationed in the consulates and embassies throughout Latin America have been doing a very good job and continue to do a good job, but there is always the constraint of the resources that they have available. I think that's one of the facilitations that should continue to work.

I believe that part of the knowledge base involves being able to disseminate the opportunities, and that requires a level of funding that should be there. Trade missions are important. The knowledge of the country is not restricted to the economic and business aspect, but also includes the cultural aspects. Outreach is important because it demystifies aspects for small and medium enterprises in Canada, so they can look at those markets and expand in those markets.

There's a general movement towards better understanding and knowledge and also towards helping identify opportunities. The SMEs usually don't have the resources to be able to do market research, and they remain very much tied to only the easier trade south of the border. The opportunities that arise in other markets sometimes are not fully understood, or people are sometimes mystified as to the problems that could be there.

Mr. Lui Temelkovski: Just to finish, off the top of your head, would you know if Canada has trade commissioners in all of those countries, and if those countries are represented by trade officials in Canada?

Mr. Eduardo Klurfan: I believe we do have quite a good coverage of trade commissioners throughout the major countries. Not all the countries have trade commissioners in their delegations here in Canada. They don't necessarily, and sometimes they are also subject to budget constraints. They're not always at full staff in those places.

That's something that we believe is part of expanding the knowledge base and the opportunities, working together on the commercial relationships issue for better understanding and knowledge of the opportunities and of what the synergies are for the different countries to work together.

Mr. Lui Temelkovski: Thank you.

The Chair: Thank you, Mr. Temelkovski.

We'll go now to—

Mr. Lui Temelkovski: I think Mr. Frankel has something to add.

The Chair: Go ahead please, Mr. Frankel.

Mr. Kenneth Frankel: The program I referred to is the PEMD program.

The Chair: Okay, thank you.

Monsieur Cardin, go ahead, please, for seven minutes.

[*Translation*]

Mr. Serge Cardin: Thank you, Mr. Chairman.

Welcome, gentlemen.

I imagine that the Canadian Council for the Americas has existed for several years now and that it groups together business people and industries of all types that already have a foothold in South America. What services does your organization offer its members?

You talked of various services that Canada has abolished or does not provide to business people. Your role is certainly not to substitute yourselves for these programs, but rather to pressure and lobby the government, as you are doing today, in order for mechanisms to be put in place with a view to enhancing trade with South America.

I would like you to first tell us more about your organization, about what it does and about some of the activities that are carried out directly in the field, in South America.

• (1130)

[*English*]

Mr. Eduardo Klurfan: The Canadian Council for the Americas has been active for many years. The membership is represented by

companies with interest in investing in Latin American companies in Latin America and, as of late, with membership of companies from Latin America investing in Canada. We've seen the movement of Brazilian companies investing in Canada in recent years.

Activities are in the public sector and are funded basically by the contributions of the members. We have on the membership the Department of Foreign Affairs and International Trade, as well as the Ontario export development agency, but they are just members. The funding proceeds exclusively from the membership and other activities. Our intention is to bring together businesses, to bring in leaders from both industry and government when they visit the country to communicate opportunities, and to be a lobbying group to represent the interests of our members to the government, as Mr. Frankel and I are doing here today. Our purpose is to enhance the business activities and relationships between Latin America and Canada.

We are limited in what we can do. We are not an extremely large and resourceful enterprise; we have very limited financial resources and we try to operate within that. Chambers of commerce and councils are usually not very liquid, and we try, with the support of our members, to do a lot of activities. We work together with government agencies to try to further communicate our purposes.

Among the government programs I was mentioning before, trade missions have not been very active between the region and Canada. That is not specific to any program; the general funding of our trade commissioners requires a bit more support in order for them to expand the many plans and programs they have in mind, particularly the dissemination of a database of exporters and importers that would enable them to be matched with Canadian businesses in the different countries.

Mr. Kenneth Frankel: I would second everything Eduardo said, but in terms of concrete things you may have been looking for in terms of the dissemination of information, we publish a newsletter on current events and economic issues going on in Latin America. A separate one focuses just on Brazil. That's one of the services we provide.

Historically what we've also done is host foreign trade delegations and dignitaries, including presidents of Latin American countries who have come up. That has been in coordination with the folks at DFAIT. Those activities, because of the limited budget Eduardo referred to, are generally on a pay-per-attendance basis. We try to disseminate the information that comes in and get it out to our members.

[*Translation*]

Mr. Serge Cardin: In fact, what I had prepared for today dealt mainly with the Andean Community. It nevertheless remains that in South America, countries such as Columbia, Peru, Ecuador and Bolivia, in other words the four member countries, are rather large potential markets. They are also large compared with the four Andean Community countries.

Based upon your knowledge of trade between Canada and South America, could you tell us who would be the big winners in the event that the duties or tariffs between the various countries or between the Andean Community and other countries were abolished?

• (1135)

[*English*]

Mr. Eduardo Klurfan: We'll look at what one of the countries in Latin America has done in the past. We'll look at a country like Chile, which put down its trade barriers very early.

What basically happened was that because Chile is a relatively small country, with a population of 16 million and a GDP of \$180 billion a year, they cannot manufacture many products effectively with such a small economy. They focus very much more on their strength: it's been in agriculture, in fisheries, and in the extraction of minerals, particularly copper. They've been able to very effectively enhance those areas of production and compete worldwide by focusing on where their strengths were, and not protecting industries that were ineffective in their production.

When we look at the countries in Latin America, we have to think first that Brazil has 50% of the GDP of the region. So it's very polarized, with 185 million people, the eighth largest economy in the world. No doubt the first impression one would have is that Brazil would be a country that would have a lot of interest for us. Now, the trade flows between Brazil and Canada are not enormous, not what one would expect they should be, because they are not complementary. So if a country like Brazil were to lower all its tariffs, it would help some aspects of Canadian exports, particularly in agricultural areas like grain and fertilizers, but not really the industrial base, because Brazil has a very large and quite developed industrial base.

If you look at other countries, maybe another economy would be Argentina, second in line in size and the benefits it would have. It's a competing economy. Their major exports are the same as Canada's.

So the reduction of tariffs by those countries would have an effect, but not a tremendous effect, on the flow of trade between Canada and them.

I'm not sure if you agree with me on this point, but I think it would be very conducive to expand other areas that may not have developed. This could be looking more into areas of the small and medium-sized enterprises, where they have developed products and technologies and services that could be very much looked after in countries like Brazil or Argentina—the non-Asian countries, not the Indian pact countries.

The Chair: *Merci, Monsieur Cardin.*

Mr. Menzies, from the government side, the parliamentary secretary to the trade minister. You have seven minutes.

Mr. Ted Menzies (MacLeod, CPC): Thank you, Mr. Chair.

Thank you, gentlemen, for your presentation. We had a short discussion before your presentation, and we got deeply into the political aspects. We realize there are some political tensions that certainly we're hearing a lot about. I hope we can put some of those to rest. Maybe they're being overemphasized in the media. Let's hope they are.

I would like to dwell more on some of your comments, some of your recommendations. I was very interested in your potential trade pallet. Can you elaborate a bit on that concept of the benefits of this trade pallet, and exactly what you mean by that?

Mr. Kenneth Frankel: As I mentioned, it is in collaboration with the EDC. The genesis of that was that trade between Canada and Brazil—and Eduardo referred to this—is woefully lacking or very under-exploited. It is an attempt to figure out why that might be and to figure out what mechanisms might be in place to facilitate trade, particularly with Brazil. It covers not just what you would think of as the standard trade measures and economic streamlining endeavours that could be undertaken; it deals with the whole level of outreach, which I think I referred to—educational outreach, chamber outreach, and so on.

I may be off on this one, but I really think it's the first time there has been a real engagement by a government instrumentality, the EDC, with the chamber to do this kind of thing, recognizing that this is something Canada really needs to put more attention to and that we should try to collaborate and figure out how to do that.

• (1140)

Mr. Ted Menzies: So EDC can play a much larger role than it does now.

Mr. Kenneth Frankel: EDC would like to promote Canadian exports and Canadian investment as well, so it is a win-win situation, in their view.

Mr. Ted Menzies: How many EDC people would we have representing Canada?

Mr. Eduardo Klurfan: In Brazil?

Mr. Ted Menzies: I'm thinking of Peru and the Andean countries we are speaking of right now.

Mr. Eduardo Klurfan: Right now, the EDC has offices in Mexico and Brazil. From Brazil they cover the Southern Cone. They cover Chile, Argentina, and Peru as well. Mexico is busy on its own. We know that EDC has been very tentative in the past in opening offices abroad, but they are becoming more aggressive. We know that they are open in China and in Russia as well. Obviously they have seen the benefits of having a representative locally.

The office in Brazil has been a very successful office, as they have been able to develop some new programs. So they have been working a lot on some lending in domestic currency in order to support Canadian transactions. That has always been an issue of importance, taking foreign debt in countries where currency has stiff variations and could expose them to foreign exchange rates that they are not very keen on. Being able to offer some domestic currency facilities for the importers would put EDC at the forefront of many other ECAs worldwide. The Brazil office has been very successful. But I think they had to focus more on the next level down, on medium and small exporters.

I had the opportunity about four years ago and three years ago to do some cross-country presentations, together with EDC and the Canadian and Brazilian ambassadors, to try to open eyes about Brazilian opportunities. We did five cities in eight days, and I was quite surprised by the amount of interest in Brazil among a lot of small companies, both in services and in products. And we discovered that some of those small companies already had relationships with Brazil that had gone right under the radar screen. Many of us were not aware that they were already trading with and dealing with Brazil, both in services and in products. There is probably more than meets the eye. I think these programs will help expand those relationships.

Mr. Ted Menzies: Are we still concentrating too much on merchandise trade rather than on services trade, on foreign direct investment, both inward and outward?

Mr. Eduardo Klurfan: We have a lot of knowledge and services, particularly in safety, in the environment. Probably we have not thought about it enough, and we should do more.

Mr. Ted Menzies: So there is more potential there.

Mr. Eduardo Klurfan: We have a lot of know-how to export, and that is the export everybody wants. The cost is intellectual.

Mr. Ted Menzies: Do I have time to pass to one of my colleagues?

The Chair: You do. You have about two minutes left.

Mr. Cannan, go ahead.

Mr. Ron Cannan (Kelowna—Lake Country, CPC): Thank you, Mr. Chair.

Thanks very much for your presentation.

My wife and I had the honour of spending some time in South America about nine years ago, working in a children's orphanage. We travelled around a little bit to Paraguay, Argentina, and Brazil. It's a beautiful country, with the Iguazú Falls and things like that. I couldn't believe the economy, just going across the bridge from Paraguay to Brazil. It's an incredible contrast.

While I was there, we met some Canadian businesses, telecommunications specifically. I was just wondering if you could share with us whether there are some additional opportunities. At that time, there was several years' waiting to get a land line, so everybody was out getting cell phones. Looking at other opportunities that you see, what are we missing as Canadian businesses, and we can extend and enhance our trade agreement?

• (1145)

Mr. Eduardo Klurfan: Around that time, about a year ago, I returned from spending eight and a half years in Brazil representing Scotiabank. At that time a large volume of the Canadian investment was in telecommunications. We saw companies like TRW and Bell Canada make investments in wireless services, and obviously Nortel had a major foothold on the technology that was used there, but since then it has reversed. There has been a consolidation of the telephone services worldwide, but particularly in Latin America very small companies were atomized. They have been consolidating into a few companies, and the Canadian investments left all of Latin America. We saw it there for a while and then we saw it go.

In other countries, except for some of the major mining countries like Chile and Peru, the mining industry is still underdeveloped. The mining sector was for a long time protected from foreign investment. It was considered that foreigners could not exploit the mining industry, and there are many opportunities there. We see a lot of Canadian companies going to that, particularly many of the junior Canadian companies. There are also all of the service companies that go together with an extractive industry—those providing catering services, safety equipment—that are taking up the opportunity. I believe that Brazil is one of the countries where the mining industry is still not open completely, or has not been taken advantage of by foreign investors. I see that as an opportunity.

The Chair: Thank you, Mr. Cannon.

Go ahead, Mr. Frankel.

Mr. Kenneth Frankel: Thank you.

Just to follow up, the telecom industry is actually something that is a little near and dear to my heart, because during the 1990s when I was working in Madrid it was for a large telecom company. That was, one might say, an opportunity that unfortunately Canada didn't take advantage of, because when the majority of telecommunications systems in Latin America were privatized during the 1990s, as Eduardo said, with one minor exception of TRW and Teleglobe, which doesn't exist anymore to my understanding, Canada did not take advantage of all that.

What happened is that was essentially when Telefonica of Spain and France Telecom and Stet Italy went in, and some of the U.S. companies went in. People may have their interpretations as to how things have worked out, but by and large one of the laments you hear from Latin America is how these foreign companies are making money hand over fist in Latin America on their telephone systems. When they talk about the re-conquest of Latin America by Spain, the building block of that was through entry into the telephone system.

The Chair: Thank you.

Mr. Julian, for seven minutes.

Mr. Peter Julian (Burnaby—New Westminster, NDP): Thank you, Mr. Chair.

Thanks for coming here today.

Many of your recommendations are things that we can all support, primarily because Canada needs to have a different trade strategy. The one we have now hasn't worked demonstrably, part of the problem being that we've put all our eggs in one basket, and that's the American market. When 86% of our exports are dependent on going to one market, we have the kinds of vulnerabilities that lead to concession and capitulation, such as we saw with the softwood lumber sellout. Obviously we need to diversify our markets. Everyone around the table could agree to that. We certainly need to put a lot more emphasis on South America and Central America.

What is happening in South America, as you are well aware, is that there is a rethinking of trade agreements and how to approach them as a country, how to ensure that the benefits of trade actually go to the entire population rather than the very narrow fringe of the wealthy. That was a major issue in the American mid-term elections. We saw that the Republicans, who have a very limited, superficial approach to trade, were largely defeated by Democrats, who were pushing an approach to trade that was much fairer. In South America, as you know, there is a whole host of social democratic governments that are approaching the issue of trade hand in hand with social policy and looking at the whole issue of social-labour-environmental standards as part and parcel of how trade agreements should be structured.

We had a hearing with some social democratic countries earlier this week like Norway and Iceland, which have also succeeded in doing that. We had the ambassador of Chile here, who was also very strong in emphasizing that element.

My first question is this. Because South America has very clearly taken a movement toward social democracy, toward trade agreements that enhance and bring up the population as a whole, does that not mean that Canada should be shifting the way we structure trade agreements and what we should be looking at when we talk about trade agreements, so that with a country like Brazil, for example, we should be looking at social standards and labour standards and environmental standards as part and parcel of what is discussed around the trade table?

• (1150)

Mr. Kenneth Frankel: I agree with your points, and it's an interesting question. I think that everybody except the diehard monolithics, who want to talk in categorical statements, would agree that the concept of trade agreements and liberalized trade is a complex issue that has a number of nuances to it.

It's true what you say about some of what's going on in Latin America. We might disagree as to whether or not that was the deciding issue in the U.S. mid-term elections. I think there was something a little bigger than that.

Mr. Peter Julian: In a number of key areas.

Mr. Kenneth Frankel: Fair enough, but with that said, the reality is, yes, there is a rethinking of aspects of how free trade agreements work, how the trickle down is working or not, and what the chasm is between the haves and the have-nots. Not all of that can be hung on free trade agreements; there are a whole lot of other issues that affect how the economies have been working.

With all of that said, the Latin American countries are pushing for free trade agreements. It's not as if they're backing away from it. Uruguay, which is run by a former Tupamaro guerrilla, is pushing hard to have a free trade agreement with the U.S. right now, and there are discussions going on. Lula, and you know his background, is very much for free trade agreements. Their big sticking issue is with agricultural issues, but it's not a recoiling from the concept of having free trade agreements. It's the same thing in Central America, the same thing in Peru, with Alan Garcia, who is from the left. It's an acknowledgement that issues have to be worked out, but at its base it's a concept that needs to be explored and finalized.

Mr. Peter Julian: When we're talking about trade, two different models are developing. I don't use the words "free trade" because that's often used by the Republicans in the United States. It's investor rights to the exclusion of everything else. Essentially, we're talking about fair trade agreements.

In fact, the Europeans were very clear about that. Social policies and social-environmental-labour standards are all included in what they discuss around the table. They want to bring people up. When you talk about Lula or other social democratic governments in South America, they are pressing for trade agreements that include those kinds of components. They're not looking at simply enhancing investor rights to the exclusion of everything else.

That's really my question. Does that not mean Canada needs to change its approach and understand where South American countries are coming from when the democratic will of the people has said yes, we want trade, not on the right-wing Republican free trade model but something that enhances the benefits to our population and preserves and enhances the environment as well?

Mr. Kenneth Frankel: That's a good point.

The concept of free trade and the trade agreements have obviously become a little bit more nuanced, but I might take exception with how you characterize the Latin American view of some of it. That's not to say I disagree with a lot of what you said, but I think what we're talking about in Latin America and the economic policy is that free trade is one component of economic policy—just one component. I think a lot of what you're understanding in Latin America about some dissent or some discomfort is with the whole neo-liberal model, as it's been called—whatever that means—or the Washington consensus. When you're talking about equity and trying to bridge the chasms between the haves and the have-nots, it's not all at the feet of free trade, not by a long shot.

Chile, which has had involvement in free trade agreements, has supplemented its economic policy, and it's a very neo-liberal model, with—

• (1155)

Mr. Peter Julian: With strong social policies.

Mr. Kenneth Frankel: Absolutely, but that's not necessarily hung on their free trade agreement; that's hung on their overall economic policy. I'm not saying it's not a component of it, but I think they're looking at the overall economic policy, the whole neo-liberal model, and what can be implemented to make it fairer.

Mr. Peter Julian: I appreciate this discussion, but you still haven't answered the essential question, which is this. There is a movement toward social rights, labour rights, and environmental standards as part of trade agreements. Does that not mean Canada needs to think again about the type of model we've had, which is basically a NAFTA chapter 11 investor-style model that is being used as a template by Foreign Affairs and International Trade for any other agreement that comes forward?

There's only one template that DFAIT uses for any discussion or any negotiation, and because of that, a lot of Canadians have difficulty with that sort of monoculture approach to trade. Essentially, if we provide for the understanding of the diversity in South America, we would have to look at other approaches to trade. That's really my question. Should we not look at other approaches to trade that include those important components, social, environmental, and labour rights?

Mr. Kenneth Frankel: Your question is on other approaches to trade agreements, is that correct?

Mr. Peter Julian: Yes.

Mr. Kenneth Frankel: I can't answer on exactly what the Canadian government's model is for free trade agreements. I know the NAFTA has been used. My understanding is that the free trade agreement with Chile, although I haven't looked at it recently, is not that far off. The NAFTA model was the model for Mexico's negotiation with the European Union. So a lot of people think the NAFTA model, in certain respects, was very forward-thinking.

Mr. Peter Julian: However, in Mexico, as you know, there's a huge division of opinion on that in a very real sense. Coming out of the Mexican election, you now have two governments and a real uncertainty around the legitimacy of the current Mexican government because of the dispute around what was a hotly contested election.

That reinforces my point that there is in South America a tendency or a movement toward a much more progressive approach to trade, a much more social democratic approach to trade. Should that not influence how Canada approaches enhancing our trade with South America?

The Chair: Mr. Julian, your time is up, but if the witness would like to answer you—

Mr. Kenneth Frankel: Sure, I'd love to.

I think the short answer is yes, if you're asking me if a number of things should be on the table to try to balance these other concerns when negotiating a free trade agreement. Is that a good policy for Canada and other countries? I would say yes, sure it is. But what we're saying is that we're not even at the point of discussing anything with anybody.

The Chair: Thank you very much.

We'll now go to the second round, and to the official opposition, with Mr. Bains, for five minutes.

Hon. Navdeep Bains (Mississauga—Brampton South, Lib.): Thank you very much, Chair.

That was a healthy discussion around fair trade, and I think Mr. Julian will have an opportunity to continue that discussion.

I have a different perspective that I'd like to pursue. I know you know all this stuff, but I just want to reinforce again that the purpose of our discussion today is really to highlight the importance of trade and what it means to Canada, in light of the fact that 40% of our economy is based on exports. A vast majority of that is predicated on SMEs. I'm glad you mentioned that in your presentation, because 97% of the export that is done is really on the backbones of small and medium-sized enterprises.

The emphasis on Central and South America is important, because we also have not only an economic angle that we want to pursue or economic ties, we also have similarities in cultural communities that are represented here. Strong cultural communities are represented in Canada, so we have that expertise that we can leverage as well to get a better understanding of culture, language, heritage, and so forth.

My concern is just the region itself. Idealistically, when we speak of the Andean community, for instance, it has Bolivia, Colombia, Ecuador, and Peru. There seems to be a diversion of views on how they want to approach free trade. I'm not sure if it was discussed before my arrival here, but that is something I wanted to ask you about.

There seem to be two schools of thought. Venezuela is no longer a part of it, but at least Bolivia wants regional integration, and you have Colombia, Ecuador, and Peru that want a true liberalizing of trade. Is that still a factor today, and to what extent?

• (1200)

Mr. Kenneth Frankel: Is it still a factor? In other words, is that schism—

Hon. Navdeep Bains: Does that still exist between that cluster of countries, where you have two diverging schools of thought? One wants to pursue free trade and the other one wants to pursue local and regional integration. There seems to be hesitation, for example, from Bolivia.

Mr. Kenneth Frankel: Clearly, Peru and Colombia would be liberalizing in free trade. Peru is already involved with the U.S. in a free trade agreement, and Uribe in Colombia would favour that as well.

In Ecuador, we'll have to wait and see. With the recent election of Correa, we'll see where he's going with this.

We've already discussed briefly where Venezuela is, and I imagine we may get into that whole Venezuela question again before the next hour is out.

In Bolivia, Morales seems to be somewhat swayed by Chavez's vision of more of a regional pact among South Americans.

Hon. Navdeep Bains: Exactly.

Mr. Kenneth Frankel: Those are the words he's using, and we'll say he's sort of lining up with what are the interests, theoretically, or the politics of MERCOSUR. At the same time, you have MERCOSUR nations that are talking about going into free trade agreements with the U.S. and wanting to go ahead on not a dissimilar model to what has been presented up until now. I think it's unclear where Morales is going to go on this.

Hon. Navdeep Bains: Ideally, I'd like to see the free trade area of the Americas, for example. If we can somehow cement that deal in the foreseeable future, that would make us the largest trading bloc in the world, next to the European Union. That's the ideal thing, but there are many issues below that. Venezuela seems to have strong connections with China. There seems to be substantial investment by Chinese companies in Venezuela. Peru and Colombia have signed deals with the United States.

Where does Canada fit in all of this? That's my question. How do we strategically place ourselves to play a meaningful role in promoting trade? That's the purpose of this discussion. We want to identify other emerging markets, aside from China and India. Brazil you alluded to, which we all know, but there are other markets that we want to pursue. How do we fit with the Chinas of the world, and with the United States, and how do we play a meaningful role? Which bilateral trades should we pursue, if you had to prioritize them?

We have the Caribbean community's fifty members that we're dealing with. There's Central America that we're dealing with. We have the Indian community that we're dealing with. How do we prioritize, and where do we fall within the Chinas and the United States of the world?

Mr. Eduardo Klurfan: I'd like to mention that Canada's interest and focus of attention in Latin America and the Caribbean has been more toward investment than trade. In the last ten years, investment by Canadian enterprises has grown by about 11% per annum in Latin America. Investments there today are more than double the

investments that we have in China. However, the trade is the opposite. Our volumes and levels of trade with China are much larger than those with Latin America. For some reason or another, investment in Latin America has caught more of the attention of Canadian enterprises than trade has.

On the other hand, the regional agreements are very interesting. But we have to remember that the entire region is very diversified. There are many different countries, with very many different cultural trails. Except for Brazil, they all speak the same Spanish language, but with very different pronunciations and, sometimes, vocabularies. If you look at the populations in countries like Ecuador and Bolivia, you will find a very large indigenous pure Indian population that is very different from what you have in Chile, Argentina, or even Brazil or Mexico.

So the characteristics of the countries and their economies are very different. And then you add to that the political events of the last many years.

Hon. Navdeep Bains: So where does Canada fit into this?

Mr. Eduardo Klurfan: Canada has been selective in terms of the countries that have trade or investment, according to where those flows have been identified and serviced.

Hon. Navdeep Bains: Has there been any lost opportunity? Do you think we should be strategically focusing on areas where we're currently not doing so?

Mr. Eduardo Klurfan: Definitely.

Hon. Navdeep Bains: What are the areas that you would identify?

Mr. Eduardo Klurfan: There are a lot of SMEs interested in taking advantage of new markets, of opening new markets. They find that they have services and products that could be successful in those markets, but they don't have the means or the opportunities.

• (1205)

Hon. Navdeep Bains: Which markets would you allude to, for example?

The Chair: Go ahead, Mr. Frankel.

Mr. Kenneth Frankel: I would look at Colombia and I would look at Peru. I can't tell you exactly how Canada matches up with the sector-by-sector analysis in each one of those countries, but in terms of economies that are doing well and moving up, those would certainly be two of the economies I would look at.

Hon. Navdeep Bains: So you believe that probably the best approach is tackling Colombia and Peru rather than trying to deal holistically with a bunch of countries or these different organizations. We should have direct bilateral trade with, say, Colombia first and then Peru, and systematically start working at them. Would that be your approach?

Mr. Kenneth Frankel: Yes, and I confess... There were negotiations opened up between Canada and the Andean Pact several years ago, but they have been moribund or maybe dead since then. I'm not sure exactly what the other Andean countries would feel or how they're organizing themselves with respect to Canada, but I would think that, at least on a bilateral basis, Canada would have a clear path with Colombia and Peru.

The Chair: Thank you, Mr. Bains.

Now we'll go to the Bloc, and Monsieur Cardin, for five minutes.

[*Translation*]

Mr. Serge Cardin: Thank you, Mr. Chairman.

You spoke earlier about finding a balance in the area of trade. We very well know that in order to benefit from trade and to make money, Canada must export. I however note that with regard to the Andean Community, our trade balance is negative.

Is it all of the duties or tariffs that are imposed that prevent us from reaching reasonable export levels? Compared to countries such as the United States, what is the position of these countries with regard to protectionism?

[*English*]

Mr. Eduardo Klurfan: Some of the countries in the Andean community have experienced significant changes and economic problems. Ecuador has had severe economic problems, Bolivia has had political changes, and many political events have taken place in Venezuela. So they may not have had the purchasing power to focus on Canadian exports or products.

They are relatively small economies, and when the resources are not available they tend to restrict the entry of products that will place a demand on their limited foreign reserves. So I would not take that as Canada not being competitive; it is a specific problem of the country more than one of trade relations.

Are they protectionist? Yes, they are, because they have limitations on their ability to import, and they've probably restricted use of their foreign currency to bare necessities.

Who are our competitors there? I could not say, but they are probably suppliers of those bare necessities: Asia, Europe, or the U.S.

[*Translation*]

Mr. Serge Cardin: In the context of globalization, we often hear it said, be it in Canada or even in Quebec, that the rules of the game are not fair. People say that emerging economies exploit their workers, that they are not respectful of social, wage and economic equity.

People also say that our environmental regulations are not the same and that there is a certain exploitation of human, natural and environmental resources such that this creates an imbalance and prevents us, to a certain degree, from being competitive. We might consider that as an excuse. Is that not what Canada itself does in the case of some of its investments?

For example, we are told that things are going quite well in the mining industry in Peru. People however tell us that there is some

exploitation of workers wage-wise. Furthermore, it seems that Canadian businesses are being somewhat careless, lending themselves to virtually uncontrolled exploitation of the environment. In the context of this worldwide competition, are we not doing to these countries, which are having difficulty putting their economies back on their feet, what we criticize others for doing?

• (1210)

[*English*]

Mr. Eduardo Klurfan: We heard Mr. Frankel's comments initially.

Countries in Latin America have progressed enormously from where they were. The situation with protectionism, military governments, the lack of protection of civil rights, adopting neo-liberal economic policies to try to reverse all that, and re-negotiating debt to put themselves back on their feet has obviously put them very much behind in the proper distribution of wealth and adequate control of the environment. They're working significantly towards those targets. It takes a lot of time to undo what was done over so many years.

So yes, in many instances the playing field is not very level on the competition we encounter on products from those countries. But I think globalization and the open market economy have moved towards equalizing that. When you have a country that says no, we're not going to buy a product from that country if there is not proper protection or adequate environmental concerns, then it forces that country to comply. We see the pressure that many countries in Latin America have had on that front.

But it's a slow process. Economies that had been recovering from many years of living on borrowed budgets and corrupt governments without democracy still have a long way to go. The distribution of wealth is very uneven. But things are moving. These are things that do not happen overnight. These are evolutions more than revolutions.

The Chair: *Merci, Monsieur Cardin.*

Mr. Alison, go ahead. Five minutes, please.

Mr. Dean Allison (Niagara West—Glanbrook, CPC): Thank you, Mr. Chair.

I'd also like to thank the witnesses for being here today.

I'll be sharing some of my time with Mr. Lemieux.

I know you suggested that the free trade agreements we should probably pursue are those with Colombia and Peru, because of what they've done with the U.S. Our briefing notes talk about trying to establish a political and economic bloc in South America. It could be a challenge to do that anywhere. Obviously there are issues of politics, as you've been discussing, etc.

A conference in 2005 talked about trying to get integrated and get started. My question to you is simply, have some of those steps taken place? Have they started to move in that direction? I know there was some talk about infrastructure projects that would make some sense. That would really be the first question. Has that infrastructure begun?

For my second question, obviously it's going to be a difficult, but how do you see this process unfolding?

Mr. Eduardo Klurfan: The first attempt, or more than an attempt, to integrate has been MERCOSUR. But MERCOSUR was more of a political alliance than an economic alliance. As such, when you have economies that start moving in different directions, MERCOSUR was put to a test that it could not pass.

I'm concerned about the viability of MERCOSUR, particularly now that there is a fifth member that is not a voting member and that has ultimate intentions vis-à-vis using the other members of MERCOSUR to fit into his lines. In that respect, we see even the failure of MERCOSUR in dealing with some of the imbalances in the trade flows between Brazil and Argentina, in being able to deal with regional disputes such as Uruguay and Argentina as well. We have seen Chile try to join MERCOSUR, but they found that they have a more liberal tariff policy than MERCOSUR. Actually, their tariffs were lower than MERCOSUR's, and they found that they would have to raise their tariffs and that was not what they wanted to do.

My view is, be it regional, be it bilateral, we need to get some action on having some trade agreements with Latin America. If it has to be reached there on a regional basis, let's do it; if it has to be on a bilateral basis, let's do it. But let's move on that one, because we are really missing the train on being able to offer Canadian exporters an opportunity to open new markets.

• (1215)

Mr. Kenneth Frankel: I've never been sold, as Eduardo said, that the concept of MERCOSUR is ever going to progress beyond some sort of reduction of internal trade barriers between them, internal tariffs. I do think it was born more as a political concept, really, than an economic concept.

There are plenty of commentators now who would say that MERCOSUR, to a certain extent, is in tatters. Everybody is fighting with everybody. We all know about the fight between Argentina and Uruguay right now on a paper mill; and Brazil and Argentina always have their issues. So I don't see that as some huge powerful bloc.

The reality of it is that if Brazil and the U.S. and Europe can work out their agricultural issues, Brazil is on board with other issues. So I just don't see that as a huge stumbling block.

Mr. Dean Allison: Thank you, Mr. Chair.

The Chair: Mr. Lemieux.

Mr. Pierre Lemieux (Glengarry—Prescott—Russell, CPC): I was looking at the type of trade we do right now in terms of what Canada exports to the Andean community and what we import from you. For example, I note that wheat is a huge export for us that we send to you, and that gold is a huge import.

I know market forces come into play here in terms of determining how that trade balance among sectors might shift, but there are also emerging markets. There are also niche markets, and there are places where a government likes to focus its efforts or the business community likes to focus its efforts.

So I want to have your opinion. If there is free trade, if this moves ahead into a free trade type of agreement, how do you see the trade sectors shifting, perhaps, in their balance? Where would you see Canada importing? What sort of strengths would you be putting forward for us to import? Where do you see Canadian exports growing or shifting to meet your requirements?

Mr. Eduardo Klurfan: The trade flows, obviously, that you see in the Andean community involve Canada's exporting proteins—food-stuffs—and in return, importing many of the extracted minerals that many Canadian companies have been exploiting.

Where would the trade flows be? Right now, I think when we talk about Latin America in general, we see the opportunities. Canada is exporting a significant amount of grain and fertilizers into Latin America. There has been major growth in the agriculture industry in particular, for instance. Looking at Brazil, there is major production of soya, which was in the past on an expansion basis but not on an intensity basis. They have learned that by using fertilizers they can do it more intensively and produce better quality and in larger amounts on a smaller amount of land.

I can see it being in the area of technology. For instance, Brazil had developed ethanol, which was extracted from sugar cane. Right now, most of the cars manufactured in Brazil—last year Brazil manufactured 2.6 million cars—run on either gasoline-ethanol or natural gas. That's the technology they have developed. We have a lot of know-how on the environment, on telecommunications, on medicine, that can be absorbed and be of interest to the region.

Why, then, would we have a free trade agreement for those aspects? I think it's very important that there be equal access to all these technologies and all these products. Right now, our grain competes with Argentine grain. So the wheat that goes to Brazil now is not from Brazil. Because of the MERCOSUR arrangement, it's cheaper to import it from Argentina.

So there is validity to the free trade concept. I think there are possibly many industries and many aspects to the interchange of merchandise among countries. However, all that being said, you still need many Canadian exporters to be supported and to be helped, because they are not of a size to be able to do it on their own.

• (1220)

The Chair: Thank you, Monsieur Lemieux.

We'll now go to Mr. Julian for five minutes, if you want your time, Mr. Julian.

Mr. Peter Julian: That's very kind of you, Mr. Chair.

The Chair: You do? Okay, go ahead.

Mr. Peter Julian: I'd like to move on to some other examples of what South American countries are doing that we could certainly learn from. Getting back to the issue that we've had in place since 1989, free trade policy, along with other economic policies together, has actually meant that most Canadian families are earning less in real terms than they were back in 1989. We're seeing a huge erosion of our manufacturing base as well. I met with manufacturers in the transportation industry this week. They were saying that they are trying to export, for example, to the United States, but because of the Buy American requirements, are basically forced to manufacture in the United States. It's a procurement policy that pushes and supports American manufacturing.

In many South American countries, Brazil in particular, they built up a manufacturing base by having procurement policies that favoured domestic manufacturing.

So my first question is, can we learn from South American countries in developing or redeveloping, in Canada's context, manufacturing capacity by having procurement policies that actually try to favour Canadian domestic manufacturers?

Mr. Kenneth Frankel: That's a very interesting question.

Under Brazil's import substitution model, which is what you're referring to and which was copied in other Latin American countries, there was sort of a state involvement in the economy. It was state directed, and it proved, in the end, not to work.

The proponent after Raúl Prebisch was Fernando Henrique Cardoso, who was, until a few years ago, the President of Brazil. Fernando Henrique Cardoso in the sixties and seventies was a big proponent of import substitution, high tariff walls—exactly what you're discussing. He had his—

Mr. Peter Julian: It's not. It's procurement policies, which is different.

In the case of the United States and the Buy American Act, it's not a question of imposing tariffs. What it does is simply require that in transportation purchases, the products must be manufactured in the United States. That exists now. In the Buy American Act they've actually raised that level, and now 62% of the components have to be manufactured in the United States.

What we have is federal government funding to ensure that transportation authorities across the U.S. are actually purchasing American-made components when they buy transportation. We don't have a similar program in place in Canada, even though we're spending more because of NDP budget initiatives on public transit. I'm referring to programs similar to the Buy American program in South America.

• (1225)

Mr. Kenneth Frankel: Is the question whether Canada should adopt similar programs?

Mr. Peter Julian: I'm asking if we can learn. That's my question.

Mr. Kenneth Frankel: First of all, I'm not that familiar with the Buy America program, although from what I understand, it's not as monolithic as people sometimes describe it to be, and there are

plenty of people who still do business with the U.S. despite that. It sounds more draconian than it actually is.

Let's hold that in abeyance for a second. I think the feeling in Brazil—and Brazil actually still maintains a number of protectionist measures—is that maybe even that model is not serving Brazil particularly well. It's not unrelated to the whole import substitution model; it's basically ways of keeping out competition, and there's a lot of pressure in Brazil right now to do away with those kinds of things. When those measures can actually be useful for developing economies is, I think, a very deep question; it's a question of how you would compare a developing economy with the Canadian economy.

My bottom line is that I think a lot of Brazilians think they should be moving away from those kinds of programs.

Mr. Peter Julian: I have two easier questions for you.

First, in the context of South America, how do we favour Canadian value-added exports? In the case of the United States, we export our raw logs and we export our oil and gas. We're exporting our resources, but we're not actually adding value to those resources before they're exported, which is why most Canadian families are earning less now than in 1989, and that's a real bottom-line failure of the economic policies we've had over the last 18 years. In the context of South America, how do we stimulate the value-added exports?

If you have a chance, you could also comment on how to expand export facilitation in South America. You made reference to the offices we have right now; in an ideal world I certainly support the idea of having very energetic support for Canadian value-added exports. How in South America would you do that, if you could write the plan?

Mr. Kenneth Frankel: I'm sorry, do you mean write the plan for...?

Mr. Peter Julian: I mean write the plan for supporting export facilitation—EDC offices, for example—and having more support through the Department of Foreign Affairs and International Trade for export facilitation.

Mr. Eduardo Klurfan: We have had some success on that. You can look at what Nortel has been able to do, what companies like Husky plastic injection molding and CAE have done in Brazil, and what Alcan has done in the past. Brascan has been there for over 65 years. They have been able to bring in added value not only with investment, but also with the trade that follows those investments. Canada has technology and know-how that we can export, not necessarily just the raw materials we extract from nature.

So there is the precedent. How has it been done? It's been done by filling the needs and coming in with a product that has distinction.

Mr. Kenneth Frankel: I think part of the answer to that is also competition. Using the example of CAE, why can they go in there? Well, I guess they must have the best flight simulators in the world. People want to have their flight simulators. That's certainly value-added and the kind of industry you're talking about, other than primary materials. The free trade agreements wouldn't necessarily.... At the end of the day it's how competitive you are and who your competitors are. That's one thing.

We're saying that Canada has a lot of capacity to exploit certain opportunities, as CAE and others found when they went to Brazil. It's the same with some of the engineering companies. Marshall Macklin Monahan is advising on reconstructing the airport in Quito, Ecuador. SNC-Lavalin and others are involved in the export of value-added services, which I think someone else referred to.

As for what an ideal trade facilitation program would look like, I confess that's beyond my expertise. But I have talked to a number of people in the provincial and federal export agencies, and they all seem to have fairly clear ideas; they're the professionals in this area. So the most I could offer at this point is a discussion with those people on how they would design their ideal trade facilitation program. A conversation with them would be very fruitful.

• (1230)

The Chair: Thank you, Mr. Julian.

Mr. Maloney.

Mr. John Maloney (Welland, Lib.): Is the political stability of the Andean companies a factor that we should or should not be concerned about in exploring our trading relations?

Mr. Kenneth Frankel: This is a Chavez question and a Morales question.

There are a number of different ways of answering it. Are you asking if it's something we should be worried about in developing economic relationships, or are you asking generally about what some would call the trend that Chavez seems to be leading?

Mr. John Maloney: It's both, quite frankly.

Mr. Kenneth Frankel: Okay. There's no question that what Chavez is doing is somewhat problematic. There's an historical context for why Chavez is in power in Venezuela, unfortunately. But I think a lot of the hysteria in certain quarters about Chavez is a little bit overplayed, and I'd like to segregate his economic policies from his foreign policy rhetoric.

The fact he's consorting with the folks in Iran and North Korea and the like, is that problematic? Would we prefer that not to be? Yes. Very few Canadians would think that's a really great thing.

What does that really mean in the end? I'm not really sure. But what I do know is that his Latin American neighbours aren't terribly enthralled with him. They may use him; he may be useful sometimes as a little bit of a battering ram against the U.S., but the reality is that he's an embarrassment to a number of Latin American leaders. In fact, he represents what they are completely against. He represents the militarization of a government, and you have Latin American leftists now who fought against military governments, who were in prison because of military governments, and so very little love is lost there.

I think the general consensus is that he's in power because oil is as high as it is and because of the failure of the Venezuelan opposition. But the minute oil starts to come down, then we'll wait to see what happens. When what's going on with the level of corruption there starts to kick in, when Venezuelans start to realize he's spending more money abroad and their own infrastructure is still rotting away, that's going to create a disjunction between his rhetoric and what he's doing for his own people.

That's the long and the short of the Chavez thing. The reality of it is where he's stepped in in elections in the last year or so—and we've just come off a year of 12 or 13 elections in the span of 12 or 13 months—he hasn't fared very well. He threw his ring into Peru and tried to influence fairly heavily the outcome of the Peruvian election, and his candidate lost. And a number of people think he lost because of a particular antipathy Peruvians have to Venezuelans interfering, but also because of Chavez's intervention. So his involvement there was deleterious to his favourite candidate.

As for what happened in the Mexican election, and again that's a little bit complex, the reality of it is that the leftist—and we'll use the word “leftist”, for lack of a better term, and it shouldn't be seen as a monolithic thing, but we'll characterize leftist—was leading, and one of the reasons he ended up losing is that the opposition candidate ran a TV commercial in which his face morphed into Chavez's face, and there was other rhetoric going on, and that scared Mexicans. They didn't particularly want to see that happening. Chavez, to them, doesn't mean much.

That doesn't mean that Chavez doesn't have his sympathizers and supporters in other countries, but in terms of a massive wave going over to Chavez, no, that's not the case.

Now, people say there's a leftist wave. There've been leftists in power in Latin American, by and large, with a few exceptions, since the military stepped down. But what does that mean? We talked about Chile. Bachelet, whose father was in the military and was killed by Pinochet, is a “leftist”. What does that mean? She supports strong social development, she's a big free trader. In Uruguay, the president was a former Tupamaro guerrilla, who runs an economic program that Milton Friedman might be proud of. Lula is a leftist. Kirshner is a leftist of sorts, and a special case, to a certain extent.

So yes, there are leftist presidents, but do they share what Chavez's grand economic vision is? I would say absolutely not. And do they share what his political vision is? I would say absolutely not. Are there exceptions? Yes, there are exceptions: Morales in Bolivia. But Morales in Bolivia can also be linked to the fact that he was the first indigenous president elected, and you can't underestimate the value and the meaning of what that was all about. Where will he end up going? We'll wait and see.

• (1235)

I don't subscribe to the feeling that Latin America is turning the clock back, let's say, and going back to a complete nationalist economic policy. There is no indication of that. If anything, by and large, from the larger countries there's an indication that this is not the case.

We can even talk about Nicaragua, where I was observing the election with the Carter Center. That, again, is played as another piece in the leftist.... Have we got past the domino theory yet? I'm not sure. I would argue that that is not why Ortega won at all, and those aren't the factors at work.

I know I'm running on a little bit, but just to cover the whole thing, Ortega's first statements when he was elected president, which he repeated the next day and the day after, was: please come down, foreign investment; please come down and invest. Nicaragua is open for business; please come down. That doesn't sound like Chavez to me.

That's a really long-winded answer.

Do I think the fact that Chavez exists should be a mitigating factor or somehow force us to recede from trying to advance economically and export and invest in Latin America? No, I don't think it is at all. You may want to pick your countries. If you are asking me would I run to Venezuela at this very moment to invest in a mining operation, that might be a different discussion.

The Chair: Thank you, Mr. Maloney, your time is up.

Does anyone from the Bloc wish to comment?

Monsieur Cardin, go ahead.

[*Translation*]

Mr. Serge Cardin: Thank you, Mr. Chairman.

I was studying a few charts earlier on. It seems that, overall — and perhaps you will remember this —, in the years 1996, 1997 and 1998 Canada's trade balance had been very positive. Could you tell us, if you remember, what happened in order for the situation to be so positive? This was the case mainly in 1996 and in 1997, because things had already begun to drop off in 1998.

[*English*]

Mr. Eduardo Klurfan: I don't have the precise information, but I would guess it has to do with development that has been going on in the countries, the industrial development and self-sufficiency in some aspects that have substituted some Canadian imports. It is not that some regional agreement has substituted the Canadian imports with buying locally among the countries.

As I mentioned before, Canada used to export a lot of durum wheat to Brazil, and it was back in 1999, with the devaluation of the currency, that Canadian wheat became too expensive, and Argentine wheat had improved in quality so as to be able to replace it. Right there you had one area where Canada lost exports, and it was not due to reasons other than the market conditions and the inter-regional agreements.

Since the 1970s and 1980s, we have seen quite a significant change. We have seen globalization, we have seen new markets

coming into new countries, and new markets coming on stream, and competition. And if we lost, we may have other markets. Yes, we lost against some of the countries in the region, and that's probably based on some of those issues.

I don't have specific information to work with, but it's been a very dynamic change in the region on the economics and also the relationship with other markets.

• (1240)

Mr. Kenneth Frankel: My understanding, and I'm not a complete expert on the export flows back and forth during the last number of years, is that there was still an increase of sorts until the late 1990s, when Latin America went through a very bad economic crisis. When you start to see the end of the 1990s, you will see a drop-off in the trade back and forth with Latin America, at least during those years.

[*Translation*]

Mr. Serge Cardin: I have one final question, which perhaps ties in with what I was saying with regard to the Canadian mining companies in Peru, mainly. We are being told that the environment is suffering from this. This also relates to what you were saying earlier: we could export a lot of environmental expertise. If, on the one hand, Canadian companies are destroying the environment in certain countries and if, at the same time, we are trying to sell them environmental expertise to improve the situation, then we will not come off too well with them. In the area of trade, it is important that our counterparts view us as likeable.

This leads me to the following question. How is Canada perceived, overall, in these countries?

[*English*]

Mr. Eduardo Klurfan: As I mentioned earlier, the mining industry was a very protected industry in the past and opened up to foreign companies—and actually, not even to foreign companies, but even to proper exploitation—in the last 20 years or less in many of the countries in Latin America. I'm not talking about the traditional mining countries like Chile. So the environmental regulations in those countries for the mining industry were probably not very advanced or focused, because the industry was not developed properly. The consciousness of the environment has been growing in Latin America, but not as fast as in other emerged economies.

I believe that Canadian companies should cohere with the standards that are applied back home and with those that are applied in countries where they operate.

The image of Canada generally is a very benign one throughout Latin America. There have been only a few situations where the Canadian image was tarnished, but it was very light and it was very quick and it had to do with an aerospace dispute with Brazil and with meat embargoes in Brazil, but it has disappeared.

But the image in general of Canada in Latin America is very good, and Canada has been seen as a country that is concerned about the environment. There are more and more Canadian companies involved with the environment that are providing services to industries in Latin America. I don't have the figures, so I cannot point this out exactly, but there's a general image of Canada as a friend of the environment.

Mr. Kenneth Frankel: Let me add that one of the things Canada has going in the hemisphere is that it's not the United States. For better or worse, the perception and image of the United States—although really not of the States necessarily per se.... At this point, a lot of it is a particular antipathy towards the current President of the United States.

Canada actually still has a positive image in Latin America, but I think the concern is—and I tried to underline this at the very end of my comments.... The common lament one hears in Latin America now, in business or in political circles, asks: Where is Canada? Where have you guys been? What's going on? You were engaged in the eighties in helping to resolve the Central American wars that were going on; you were involved in helping to develop the democracy promotion at the OAS in early nineties. Where have you been?

I hear that all the time. Maybe it's that Canada is not stick-handling, as they say, its reputation. I think a lot of it is that it just feels as if it's disengaged politically and in an active economic way.

I will say, and Eduardo referred to this, that the Brazilians were very upset by the way the Canadian government handled the dispute between Embraer and Bombardier and felt that the entire relationship was being held hostage to what they would term a parochial trade dispute.

There have been other instances. There was the ban on Brazilian beef, which was looked on in Brazil as a sort of petulant reaction by the Canadians to what was going on within the aerospace dispute. Then there have been a series of other miscues and faux pas in the relationship between Canada and Brazil. There is no excuse for the fact that Canada and Brazil don't have a good relationship—or haven't had historically; there are attempts to mend it. There is absolutely no excuse whatsoever.

In terms of the environmental thing, I don't think there's any connection between—you refer to Peru, and I don't know what exactly those allegations are—a site of an extractive industry and Canada in general being able to export environmental services and consulting. I can't imagine there is any equating of one with the other.

I will add one other thing with respect to environmental standards. I would say that by and large, the day and age when multinationals can go abroad and engage particularly in extractive industries that are in isolated areas, and exploit—to use that word—to the extent that it might have happened before.... I would argue that those days are dwindling a little more. I think that has a lot to do with globalization, with the visibility, with the interconnectedness of NGOs, and the reputational risks that are attendant to getting companies a very bad reputation for doing things like that.

That brings us into the whole area of corporate social responsibility and what's going on there. Whatever the allegation may be

with respect to Peru, I don't think it has worn on Canada in general, or on Canadian industry in general in Latin America.

• (1245)

The Chair: Thank you.

Your time is up, Monsieur Cardin. You can have one short question.

[*Translation*]

Mr. Serge Cardin: You usually quite like my conclusions.

[*English*]

The Chair: A short question and a quick answer.

[*Translation*]

Mr. Serge Cardin: Earlier, you talked about the image of the United States in South America compared to Canada's image. According to what you said, we could conclude that Canada should not align itself too closely with the policies of Mr. Bush, of the United States, if we want to retain our image in South America.

That was simply a closing observation. Thank you.

[*English*]

The Chair: Thank you. *Merci, Monsieur Cardin.*

I am going to do something I don't do very often. I am going to ask some questions of the witnesses.

First of all, thank you very much for being here.

In your presentation, gentlemen, you stressed how successful Spain has been in South America. You said the reason they were successful is that they had a plan. Could you outline very briefly what that plan was and how they carried it out—some of the key components of the plan?

For example, was it that they signed bilaterals? Was it that they signed agreements to protect investment? Was it that they had a lot of people on the ground—trade people in various countries around South America? Just what were the key and most successful, important components of the plan?

Mr. Kenneth Frankel: Right. Just to give a bit of a background, I think Spain went into Latin America, one could argue, because it was a defensive measure. Now, the timing was propitious for Spain. Nonetheless, it was felt that it was something they had to do. There was an urgency to it.

The Chair: Why?

Mr. Kenneth Frankel: Well, there were several reasons. One was that the green papers were coming out in Europe, and Europe was going to face something that a lot of Europeans hadn't really seen before, something called competition. I think there was a big push to get out and start competing around the world.

In the company I was at, one of the largest telecom companies in the world, in the Spanish unit between 1992 and 1995 its total sales in the foreign market went from something in the vicinity of 10% to 45%. So the mandate from on high was to go out and compete.

There was a second concept that the Spanish companies thought they were going to be vulnerable to takeovers or they were going to be gobbled up by bigger competitors, so where could they expand and where could they get bigger? And they thought they had a natural market in Latin America. It just so happened—

• (1250)

The Chair: They had a natural advantage because of language and culture in some of the countries there.

Mr. Kenneth Frankel: Because of language and the like, and culture, which is quite funny, because at that time Latin Americans probably felt a lot more favourable towards many other European countries or countries other than Spain. There was no huge love between Latin Americans and the Spaniards, at least in the minds of many Latin Americans.

It also came at a time when Spain was opening up. Remember, this is the late 1980s or early 1990s, when Latin America was going through their whole privatization and their neo-liberal opening. So the confluence of a number of factors, in the Spaniards' mind, said, this is our time to do it.

The Chair: Okay, that's why. How did they do it?

Mr. Kenneth Frankel: There are books on it and people who are much more versed in how the Spaniards did it, but there was a complete package of fiscal, financial, trade...a whole series of policies that were implemented. I'm not versed enough to lay out chapter and verse as to what each one was. But it was also backed up by a lot of political interplay, a lot of political action, a lot of support by the government for business delegations, for chambers of commerce, etc.

It was directed, essentially out of the prime minister's office, in that it was a national goal. It was attacked in every single aspect of how they were going to get their companies involved there.

Now, it may be, because it's been a while since I was involved in that process, that a number of the measures they engaged in you probably would not be able to do anymore under the WTO, in terms of subsidizing loans, in terms of a number of things.

I raise it at the committee because I think it would be an interesting reference point if we're going to talk about Latin America and how you start from an area where you have relatively little investment and go up geometrically every year. How would that be done, and how specifically was it done in Latin America?

I know that the businesses in Latin America, partially because of the mandate, were bidding very high prices for a lot of these privatizations. In fact, in Peru, which I remember well, I think Telefonica of Spain bid a multiple of two over what the nearest competitor did. Everybody said that they were crazy to be doing that. Now everybody says Telefonica's making too much money from us.

That doesn't give a lot of specifics to answer your question, but it was a complete play of fiscal and financial support, cultural outreach, on every single level.

Mr. Eduardo Klurfan: It was not pure arm-twisting by the prime minister or the Spanish crown to the companies. It was with support to convince them to support it. It was the need also of Spain to support the former colonies, if you want to put it that way. The cultural

relations are very strong, and there are a large number of Spanish descendants in Latin America, so they felt it was a bit of a responsibility of Spain to help Latin America come out of the problems that they experienced during the 1980s and the beginning of the 1990s.

Mr. Kenneth Frankel: I lived through that, and I know that when we were doing projects there was very close collaboration with the government. It was as if it were an extension of the company; it was hand in glove. You know, there was constant contact: Where are you going? What do you need for your programs? It was a deep embedding.

The Chair: Looking at Canada now, where we are in terms of our trade with South America not doing particularly well, how important do you feel it is for the Canadian government to have more offices, more people on the ground in various countries in South America? How important do you believe that is? Is it important?

• (1255)

Mr. Eduardo Klurfan: Yes, it is important, because the entire effort is about trying to bring the countries and Canada closer in their trade, and not exclusively in their trade but also their knowledge of each other and understanding of each other, which is very important for the purpose of identifying opportunities. The experience has been that those offices have done a very good job, but they have been limited as to the span and the support they have been able to provide to some.

The Chair: The offices and the people Canada has had have been effective?

Mr. Eduardo Klurfan: Yes.

Mr. Kenneth Frankel: Yes, I think there is uniform unanimity on that. Some people involved in exporting have said, for example, that EDC does a very good job, but it is not geared towards the SMEs. That may be something the committee may want to look into, in terms of the financial and program support for the SMEs that EDC might give to the larger companies.

The other thing is that, if I remember correctly—and I don't remember specifics—I think Spain also used its political muscle to help Latin American countries in international issues. As we know, there are any number of ways in which one country can help another politically in international fora and the like.

The Chair: Thank you.

Mr. Richardson, did you have one question you wanted to ask?

Mr. Lee Richardson (Calgary Centre, CPC): Thank you.

I have been very impressed with the answers of the witnesses today, and their broad knowledge of Latin America.

Slightly off topic, Mr. Chairman, I would like to beg the indulgence of the committee. Can you give us, in a nutshell, what is going to happen in Cuba in the next year or two?

Mr. Kenneth Frankel: Yes. I actually wrote a piece on that last August in *The Globe and Mail*. This is an interesting antidote to Chavez, to a certain extent. What I have said is—and it is not private inside information—Raul Castro is an admirer of China and Vietnam, and actually convinced his brother to go along, saying, “Look at what you can do economically; this is where the world is moving.” Supposedly when they got back, he tried to push his brother to do something, with Fidel saying, “Democracy is the step-sister of economic globalization. That is not something that I really want.”

Raul has made a number of statements in meetings recently that, not just economically but politically, there needs to be more room for different opinions. I'm not going to say it is a full-scale clarion call for pluralism and the like, but he is saying things you would not have heard before.

So that's where I think he wants to go. Now, he is 75. How long will he hold on, and what will happen in the transition? We'll wait and see. Clearly, when Fidel dies, I think Raul will stay in power. Once he gets his power consolidated, which he may have done by now, I think that's where he wants to go. What will happen five years down the road? We'll wait and see. That's another area, theoretically, we're—

Mr. Eduardo Klurfan: It's also very important, the fact that the Cuban immigration that went into the U.S. was an immigration of cultured and rich people, and they have had tremendous success in the U.S. It's not an immigrant group that has stayed at low levels; it has moved up academically and in the business world. There are significant amounts of money sitting in Miami, waiting for the opportunity to invest in Cuba.

The moment that Cuba opens up, there is going to be a flourishing in the economy, because there is a sentimental reinvestment that is going to take place in Cuba. There are a lot of companies. There is still a building in Havana that has “Bank of Nova Scotia” engraved on it. There are a lot of companies that are looking at Cuba as being the start in the Caribbean, and hopefully it will come back to being that if the conditions are given for foreign investment. There are large amounts of money to go into Cuba from second- or third-generation Cuban émigrés.

The Chair: Thank you very much.

Mr. Julian, you wanted a short question.

Mr. Peter Julian: I have a short question.

One of the fastest growing components of Canada is the Spanish-speaking population. We have a significant Portuguese-speaking

population. How do we get them involved to ensure that we have stronger links with Latin America?

• (1300)

Mr. Eduardo Klurfan: There have been a lot of cultural activities to try to bring together the Spanish-speaking, the Hispanic population. The Portuguese population, to a great extent, has roots back in Portugal more than in Brazil, although there have been a significant number of Brazilians coming to Canada to study or for work opportunities. That is part of cultural involvement and of getting to know the countries better and, obviously, of giving the people who live here the opportunity to show and share their success.

There is a group of Hispanic professionals who get together every year and bring in professionals who have succeeded in Canada, to try to show how the culture of the countries in Latin America subsists and maintains itself here. It's still relatively small but growing.

We are, as an organization, very keen on that, because almost half of our employees speak Spanish today in Scotiabank due to the investments we have made and the number of employees we have overseas.

There is a growing population. The Spanish language is spreading more and more in Canada, and it's part of the multicultural aspect of Canadian society.

Mr. Kenneth Frankel: I would argue that the better Latin American immigrants do in Canada, the greater a win-win situation there is. Why is that, precisely? The remittances—which are now a very hot topic in developmental economics—from the U.S. and now from Canada back to Central America particularly are bigger than anyone's foreign aid budget. In fact, they've been shown to be extremely important for the development in Central America. So it's a win-win situation. The better the Latin American immigrants in Canada do, the better it is also for Central America.

I think maybe you're going to an overall point, which is, how well does Canada do with its immigrants in absorbing them into the polity as a whole and supporting them? That's an open question right now.

The Chair: Thank you very much, Mr. Julian.

Our time is up for the meeting today. I thank you both very much for coming. It's been very interesting.

Next Tuesday the committee will have the EDC, for an appointment we're reviewing first, and then witnesses on the supply chains and how they work. Then on Thursday we have the Conference Board of Canada back again for the second meeting with them. So I look forward to that also.

Thank you very much again, gentlemen.

This meeting is adjourned.

Published under the authority of the Speaker of
the House of Commons

SPEAKER'S PERMISSION

The proceedings of the House of Commons and its committees are hereby made available to provide greater public access. The parliamentary privilege of the House of Commons to control the publication and broadcast of the proceedings of the House of Commons and its committees is nonetheless reserved. All copyrights therein are also reserved.

Reproduction of the proceedings of the House of Commons and its committees, in whole or in part and in any medium, is hereby permitted provided that the reproduction is accurate and is not presented as official. This permission does not extend to reproduction, distribution or use for commercial purpose of financial gain. Reproduction or use outside this permission or without authorization may be treated as copyright infringement in accordance with the Copyright Act. Authorization may be obtained on written application to the Office of the Speaker of the House of Commons.

Reproduction in accordance with this permission does not constitute publication under the authority of the House of Commons. The absolute privilege that applies to the proceedings of the House of Commons does not extend to these permitted reproductions. Where a reproduction includes briefs to a committee of the House of Commons, authorization for reproduction may be required from the authors in accordance with the Copyright Act.

Nothing in this permission abrogates or derogates from the privileges, powers, immunities and rights of the House of Commons and its committees. For greater certainty, this permission does not affect the prohibition against impeaching or questioning the proceedings of the House of Commons in courts or otherwise. The House of Commons retains the right and privilege to find users in contempt of Parliament if a reproduction or use is not in accordance with this permission.

Also available on the House of Commons website at the
following address: <https://www.ourcommons.ca>

Publié en conformité de l'autorité
du Président de la Chambre des communes

PERMISSION DU PRÉSIDENT

Les délibérations de la Chambre des communes et de ses comités sont mises à la disposition du public pour mieux le renseigner. La Chambre conserve néanmoins son privilège parlementaire de contrôler la publication et la diffusion des délibérations et elle possède tous les droits d'auteur sur celles-ci.

Il est permis de reproduire les délibérations de la Chambre et de ses comités, en tout ou en partie, sur n'importe quel support, pourvu que la reproduction soit exacte et qu'elle ne soit pas présentée comme version officielle. Il n'est toutefois pas permis de reproduire, de distribuer ou d'utiliser les délibérations à des fins commerciales visant la réalisation d'un profit financier. Toute reproduction ou utilisation non permise ou non formellement autorisée peut être considérée comme une violation du droit d'auteur aux termes de la Loi sur le droit d'auteur. Une autorisation formelle peut être obtenue sur présentation d'une demande écrite au Bureau du Président de la Chambre des communes.

La reproduction conforme à la présente permission ne constitue pas une publication sous l'autorité de la Chambre. Le privilège absolu qui s'applique aux délibérations de la Chambre ne s'étend pas aux reproductions permises. Lorsqu'une reproduction comprend des mémoires présentés à un comité de la Chambre, il peut être nécessaire d'obtenir de leurs auteurs l'autorisation de les reproduire, conformément à la Loi sur le droit d'auteur.

La présente permission ne porte pas atteinte aux privilèges, pouvoirs, immunités et droits de la Chambre et de ses comités. Il est entendu que cette permission ne touche pas l'interdiction de contester ou de mettre en cause les délibérations de la Chambre devant les tribunaux ou autrement. La Chambre conserve le droit et le privilège de déclarer l'utilisateur coupable d'outrage au Parlement lorsque la reproduction ou l'utilisation n'est pas conforme à la présente permission.

Aussi disponible sur le site Web de la Chambre des
communes à l'adresse suivante :
<https://www.noscommunes.ca>