

TIMELY INFORMATION

Agriculture & Natural Resources

WTO rules against US on cotton subsidies October 15, 2007

In another setback for the United States in its negotiations with the WTO, with severe implications for the forthcoming Farm Bill, a panel has ruled that US farm programs do not comply with WTO obligations.

"A World Trade Organization panel, ruling in favor of Brazil in a landmark challenge, found the United States has not done enough to bring cotton subsidies in line with international trade rules, a U.S. official said on Monday. "The Panel found that the changes made by the United States were insufficient to bring the challenged measures – certain support payments under the 2002 farm bill and export credit guarantees -- into conformity with U.S. WTO obligations," the trade official said, speaking on condition of anonymity. "We are very disappointed with these results. We continue to believe that payments and export credit guarantees under our programs are now fully consistent with our WTO obligations," the official said."

The United States has argued that it sufficiently overhauled its cotton program when it scrapped two export credit guarantee programs and last year repealed the "Step-2" cotton marketing program that made payments to exporters and domestic mill users as compensation for buying higher-priced American cotton. Brazil said Washington's continued support for American cotton producers ensured artificially high production and export levels, hurting Brazilian and African producers. The Brazilian government claims the U.S. retained its place as the world's second-largest cotton grower by paying out \$12.5 billion in government subsidies to American farmers between August 1999 and July 2003. China is the second largest exporter of cotton, while Brazil is fifth.

Brazil has reserved the right to impose annual sanctions of up to \$4 billion on the United States, but would probably seek less in retaliatory measures because the U.S. has removed some of the offending subsidies. Washington can challenge the level of retaliation the WTO authorizes if the appeal of this current ruling fails. Brazil has said it would target U.S. goods, **as well as trademarks, patents and commercial services**, under provisions in the global commerce body's intellectual property and services agreements.

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