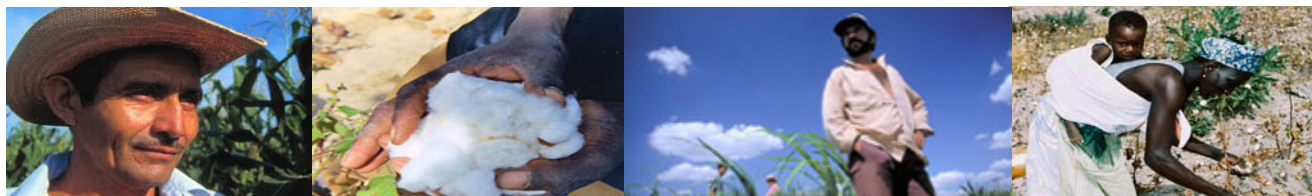


In a case brought by Brazil and backed by other developing nations, a World Trade Organization (WTO) panel found that \$3.2 billion in US annual cotton subsidies and \$1.6 billion in export credits (for cotton and other commodities) are illegal under WTO rules.

# The Brazil Cotton Case

## A Small Victory in a Big Fight



Brazil initiated the formal dispute proceeding under WTO rules in 2002, complaining about the trade impacts of US cotton subsidies. The WTO found that US cotton subsidies violate several clauses in the WTO Agreement on Agriculture as well as suppress international prices resulting in 'serious prejudice' to Brazil. The ruling called on the US to eliminate prohibited export subsidies and reform other subsidies that were inconsistent with WTO rules. The ruling, handed down in early March 2005, required the US to comply with the export component (Step 2 and export credits) by July 1, 2005 and address all other violations (domestic subsidies) by September 21, 2005. Both deadlines were missed.

In June 2005, the USDA agreed to reform export credit programs to comply with the ruling, by eliminating one export credit program and recommended to the US Congress to change other programs. So far, Congress has made little effort to implement enacting legislation. During last year's budget negotiation process, Congress voted to eliminate the "Step 2" export subsidy program for cotton on August 1, 2006. Step 2 is an export subsidy provided to exporters and millers as an incentive to buy higher priced US cotton. \$2.4 billion was paid to 311 cotton exporters and millers between 1995 and 2004. Step 2 payments are highly concentrated amongst only fourteen firms, each of which collected at least \$50 million and together accounted for half the total payments from 1995-2003. The top four firms collected more than \$100 million each from taxpayers over this period.

Eliminating Step 2 is expected to decrease US exports on average by 5 percent and increase world prices by 3 percent. While this is a positive step forward for equalizing the imbalances in world cotton trade, it only represents about 10 percent of US cotton subsidies. Domestic support payments to US cotton average around \$3 billion annually and heavily distort the international cotton market seriously harming the livelihoods of more than 25 million African cotton farmers.

Since the US did not meet the deadlines set by the WTO, Brazil sought authorization to retaliate by imposing restrictions on trade in goods and services or revoking protection for intellectual property rights that cause equivalent economic impact on the US. Brazil announced on September of 2005 they planned to proceed with retaliation. However, due to intense pressure, Brazil later agreed to hold off until the completion of the Doha round in December 2005. Brazil has not made any formal statements regarding its plans for retaliation post Hong Kong, but has indicated that a failure of the Doha Round would most likely prompt them to pursue a course of retaliation once again.

Together, we can end poverty.

