

**U.S. and Brazil Settle Cotton Trade Dispute
Brazil Will Suspend Trade Retaliation If The U.S. Will Provide Assistance To The Brazilian Cotton
Industry And Modify Export Loan Guarantee Programs**

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After close to eight years of negotiations and a long series of trade rulings, appeals, counter-appeals, changes to U.S. farm policy (elimination of step 2 cotton payments) and finally arbitration, on April 6, 2010, the U.S. and Brazil finally reached a temporary agreement aimed at settling a long-standing trade dispute over U.S. subsidies to cotton growers. Brazil had officially challenged the U.S. cotton program in September 2002, claiming that annual U.S. cotton payments broke global trade rules by encouraging excess production and driving world prices down. Brazil was asking for about \$4 billion in retaliatory trade measures against the U.S. In August 2009, after a long series of negotiations and arbitration between the U.S. and Brazil, the World Trade Organization (WTO) Arbitration Panel announced that Brazil could impose \$294.7 million in annual sanctions against U.S. goods to compensate for subsidies paid to U.S. cotton farmers.

More recently, on April 6, 2010, a temporary agreement was reached just one day before Brazil was to begin imposing up to \$820 million in sanctions against the U.S. (NOTE: According to USDA's News Release #0168.10, released on April 6, 2010, the \$820 million is based on a fixed amount of \$147.3 million for the cotton payments and an amount for export credit guarantees which varies based on program usage).

Under this temporary agreement, Brazil would delay trade retaliation against the U.S. until April 22, 2010 (but could last a lot longer) in exchange for the U.S. establishing a temporary annual assistance fund of about \$147.3 million and the modification of U.S. export loan guarantee programs (part of a USDA export credit guarantee program to facilitate foreign purchase of U.S. agricultural products). The

fund will be used for technical assistance and capacity building for the Brazilian cotton industry.

According to USDA's news release, the U.S. also agreed to recognize the State of Santa Catarina, Brazil as free of foot-and-mouth disease, rinderpest, classical swine fever, African swine fever, and swine vesicular disease, based on World Organization for Animal Health Guidelines to determine whether fresh beef can be imported from Brazil while preventing the introduction of foot-and-mouth disease in the U.S.

Prevented Sanctions

The Brazilian sanctions would have included higher tariffs on U.S. goods, including autos, pharmaceuticals, medical equipment, electronics, textiles, wheat, fruit and nuts, and cotton. While Brazil had not made a final decision on tariffs on U.S. intellectual property rights, e.g., U.S. seed technology fees, pharmaceutical patents, etc., this part of the case was being closely watched because it would have been the first country to violate U.S. intellectual property rights under the approval of WTO arbitrators.

Farm Bill

While the tentative dispute settlement agreement appears more palatable to the U.S. than Brazil's initial challenge, in the final analysis, the full impact of this agreement may be felt in future farm bill provisions. Congress will probably address this dispute settlement during the next farm bill negotiations in 2012.

In the mean time, quite a few changes have taken place in the U.S. cotton industry to mitigate changes. For example, Step 2 program (previous payments to U.S. 1st handlers to make U.S. cotton more competitive) were discontinued in 2006 and Farm Bill 2007 lowered the cotton target prices and made changes in the marketing loan program that effectively lowered average loan benefits to producers. Farm Bill related cotton payments have been substantially lower than when Brazil challenged the U.S. program, primarily due to much higher prices for cotton. And, U.S. cotton production has been down significantly during the last few years.

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