

WTO Backs Brazil's U.S. Cotton Complaints

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BRASILIA, Brazil - The World Trade Organization (news - web sites) issued a decision Monday siding with some of Brazil's complaints that U.S. cotton subsidies give American cotton farmers an unfair competitive edge in the worldwide market, a Brazilian official said.

"They agreed with some of our arguments," said Clodoaldo Huguency, a top economic official with Brazil's Foreign Ministry.

But Huguency declined to provide specifics, saying Brazil and the United States have agreed not to release details of the report by a panel of three WTO trade experts until it is finalized in June. Representatives for U.S. Trade Representative Robert Zoellick and the WTO declined comment on the report.

Brazil is the world's fifth-largest cotton producer while the United States is the No. 2 producer after China.

Cotton production in South America's largest country has doubled over the last decade as Brazil turned itself from a cotton importer into a cotton exporter.

Brazilian officials contend the country could become a much larger producer, but has been hampered by unfair U.S. cotton subsidies that breach international rules and boost U.S. cotton production and exports while lowering world cotton prices.

The United States insists that its level of subsidies is within the limit allowed by the WTO.

Brazil and the United States can now submit additional information to the panel of experts for their consideration before a final report is issued in June.

Huguency said he anticipated that Brazil or the United States would appeal the final decision, and that the appeals process will last until the end of this year.

Brazil first complained about U.S. cotton subsidies in September 2002, and the panel was set up in March 2003. Three trade law experts from Poland, Chile and Australia reviewed the case.

According to Brazil, U.S. producers received \$12.47 billion in subsidies between August 1999 and July 2003.

Brazil claims that the subsidies are directly responsible for the continued high levels of U.S. cotton production. It points out that in that four-year period prices received by U.S. cotton producers were on average 77 percent below production costs.

Cotton prices plunged between 1999 and 2002, reaching a record low of 29 U.S. cents per pound in spring 2002 - far below the 20-year average of 72 U.S. cents. But U.S. production continued to increase during this period, Brazil said.

The ruling is the first time that a country has been challenged over its domestic agricultural subsidies, and the first case that looks at the effect of export subsidies on agricultural products.

The United States insists that its payments to farmers are within permitted levels, claiming many are not subsidies as defined by the WTO and should not be included in the calculations.

The ruling is considered important by many countries, who are awaiting the outcome to determine whether to bring their own challenges against substantial subsidies paid to farmers in the United States and the European Union (news - web sites).

It also could have an effect on the current round of trade talks for a Free Trade Area of the Americas stretching from Alaska to Argentina. Negotiations are bogged down in disagreement over agricultural goods and impact of subsidies on the international market in farm goods.

African cotton producers say they produce cotton much more cheaply than their competitors but complain that subsidies in the United States, the European Union and China hurt production and cause low prices because of a glut of subsidized cotton.

AP Business Writer Alan Clendenning contributed to this story from Sao Paulo, Brazil.