

# WTO Opens Probe of US Farm Subsidies

By Bradley S. Klapper  
Associated Press  
December 17, 2007

GENEVA (AP) — The World Trade Organization has opened an investigation into whether the United States is violating international commerce rules that limit subsidies to American farmers, officials said Monday, three days after the U.S. Senate approved a new \$286 billion farm bill.

The WTO said it set up a panel to rule in the dispute after Brazil and Canada demanded the investigation.

Frustrated by U.S. resistance to cutting back on subsidies, the two countries have asked the WTO to condemn Washington for exceeding permitted levels of trade-distorting handouts to American producers of crops such as corn, cotton, rice, soybean and wheat.

The panel created Monday is expected to issue a first ruling sometime in 2008. The dispute system often takes years before reaching a final decision, but can force countries to change their legislation or face billions of dollars (euros) in retaliatory sanctions.

The dispute over farm subsidies could become a landmark dispute for the WTO because Brazil's complaint includes payments for ethanol production.

The trade body has largely steered clear of energy issues in its 12-year history, but will now have to rule on the legality of U.S. tax exemptions on diesel fuel and gasoline production — a sensitive issue as U.S. presidential candidates gear up for the January start of primary contests in Iowa, the American state that produces the most ethanol.

Critics of the subsidies say they drive down prices, making it impossible for small farms to compete in international markets and more difficult for poorer countries to develop their economies by selling agricultural produce abroad. Richer WTO members such as Australia, Canada and the 27-nation European Union also have demanded subsidy limits amid pressure from domestic producers fearful of being crowded out of their own markets.

Brazil and Canada claim that in six of the past eight years the U.S. has exceeded the \$19.1 billion it is permitted under WTO rules to spend on the most trade-distorting forms of subsidies — those linked to distribution, export credits, marketing assistance loans and price guarantees.

The two countries brought their cases to the WTO after failing repeatedly to secure U.S. subsidy cuts as part of the WTO's Doha round of trade talks, which aims to add billions

of dollars to the global economy, but has repeatedly stalled since its inception in Qatar's capital in 2001.

Washington insists its payments have always been well below the limits.

The U.S. spent \$11 billion on trade-distorting subsidies last year, but the administration of U.S. President George W. Bush wants flexibility in case world agricultural prices fall and American farmers need greater assistance. It has offered to limit the payments to a level below \$16.4 billion as part of a new global commerce pact.

The U.S. Senate, however, joined the House of Representatives on Friday in approving a new farm bill that expands programs for wheat, barley, oat and several other crops, and creates new grants for vegetable and fruit growers. Bush has threatened to veto the legislation, saying it costs too much and should instead be cutting subsidies at a time of record-high crop prices.

Countries such as Brazil have been highly critical of the proposed expansion in U.S. farm subsidy programs.

The Latin American country already has won a series of WTO rulings over U.S. cotton programs. A compliance panel found in October that the U.S. has failed to scrap a number of illegal payments — a decision that could open the door to higher Brazilian taxes and other penalties on American exports.