

# **WTO releases formal ruling against US cotton subsidies, opens door to sanctions**

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GENEVA - The United States has failed to scrap a series of illegal subsidies paid to American cotton growers, the World Trade Organization declared Tuesday in a ruling that could open the door to Brazilian trade sanctions worth billions of dollars.

The formal release of the ruling is a major victory for Brazil's cotton industry and for West African countries that have claimed to have been harmed by the American payments.

"The United States has failed to comply," the three-member WTO compliance panel said.

Details of the 188-page decision have been known since July, when the panel delivered its interim findings confidentially to the U.S. and Brazil.

The two nations confirmed at that time and again in October that the panel found that export credit guarantees and U.S. subsidies under the 2002 Farm Bill unfairly helped American cotton farmers undersell foreign competitors.

Brazil has reserved the right to impose annual sanctions of up to US\$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.

The office of the U.S. trade representative in Washington said it was considering a final appeal.

"We are very disappointed with the compliance panel's findings," said spokeswoman Gretchen Hamel. "We continue to believe that support payments and export credit guarantees under our programs are fully consistent with our WTO obligations."

Despite repeated legal setbacks, Washington looks set to continue the payments. The U.S. Senate joined the House of Representatives on Friday in approving a new \$286 billion farm bill that would leave cotton programs largely intact for the next five years.

U.S. President George W. Bush has threatened to veto the legislation, saying it costs too much and it should instead be cutting subsidies at a time of record-high crop prices.

Hamel said USTR would be "working closely with members of Congress and the agricultural community as we move forward."

The United States had argued that it sufficiently overhauled its cotton program when it scrapped two export credit guarantee programs and last year repealed a cotton-marketing program that made compensation payments to exporters and domestic mill users for buying higher-priced American cotton.

But 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 \$12.5 billion in government subsidies to American farmers between August 1999 and July 2003. China is the largest exporter of cotton, while Brazil is fifth.

If the U.S. fails to comply with the WTO ruling, Brazil has said it would target American goods, as well as trademarks, patents and commercial services, for retaliation.

U.S. cotton farmers urged the U.S. government to appeal immediately.

"U.S. exports fell significantly in 2006 and have declined overall as a per cent of world exports," said John Pucheu, chairman of the Memphis, Tenn.-based National Cotton Council. "It is not credible to assert that U.S. cotton is currently causing serious prejudice to anyone in the world cotton market."

The announcement that Brazil was bringing the case back before WTO arbitrators was made shortly after the July 2006 collapse of global trade talks, which aim to add billions of dollars to the world economy and help poorer countries develop their economies through new trade flows.

Brazil was one of several countries that blamed the United States for the impasse as differences could not be worked out over barriers to farm trade and manufacturing. The two countries have repeatedly clashed since as the talks have failed to make progress.

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 their agricultural produce abroad.

A WTO-proposed draft released in July calls on the U.S. to make an 82 per cent cut in trade-distorting handouts to American cotton farmers as part of a new global trade pact.

Washington has rejected the cuts, which were first proposed by the West African cotton-growing countries claiming to have been most harmed by the U.S. subsidies: Benin, Burkina Faso, Chad and Mali.