**Brazil Bests U.S. in Cotton Battle**

By Steve LeVine on August 31, 2009

Brazil won a significant ruling by the World Trade Organization in a long-running quarrel over U.S. cotton subsidies, but its ability to impose penalties is in dispute. The case has been important to the degree that it could set an example for a large group of nations angry over U.S. agricultural subsidies.

The Geneva-based WTO had already decided in favor of Brazil's claim that U.S. subsidies for cotton violate global trading rules. On Aug. 31, the WTO issued its ruling on how much the U.S. can be penalized. It said that Brazil can impose $294.7 million in penalties against U.S. goods—far less than the $2.5 billion Brazil had sought, but much larger than the $30 million the U.S. said it should be penalized.

U.S. agricultural subsidies are routine targets of complaint by the country's trading partners.

Some Subsidies Have Been Cut The dispute dates to 2002, when Brazil calculated that the global impact of U.S. cotton subsidies from 1999 to 2002 was $12 billion; it said the subsidies so distorted the market that they amounted to about 90% of the total value of U.S. cotton sold during the period. Brazil sought to take the lead among those complaining by seeking damages equivalent to an estimate of the entire global impact of the cotton subsidies. In 2004, the WTO ruled in Brazil's favor, though it set the amount of damages at about $4 billion, or much higher than the eventual settlement announced Aug. 31.

In 2006, Congress responded to the WTO rulings by eliminating some of the disputed subsidies. Industry officials say last year's farm bill will further eliminate cotton subsidies, but critics say that legislation still did not go far enough.

The WTO's calculations of damages, however, seemed to exclude the remedy sought by Brazil—to retaliate not just by penalizing U.S. agricultural imports, but by allowing it to breach pharmaceutical patents held by U.S. companies. The WTO said the monetary damages in the case, based on 2006 trade figures, weren't high enough to justify "cross retaliation," or the right to penalize goods unrelated to a complaint. If Brazil is able to proceed with cross- retaliatory penalties based on its 2009 calculations, it could serve as an example to other countries that for years have sought ways to pressure the U.S. to abolish its cotton subsidies.

Brazil Wants $800 Million in Sanctions "While we remain disappointed with the outcome of this dispute, we are pleased that the arbitrators awarded Brazil far below the amount of countermeasures it asked for," said Carol J. Guthrie, a spokeswoman for U.S. Trade Representative Ron Kirk.

After the ruling, Brazilian officials asserted that, while they cannot impose cross-retaliatory penalties for 2006, they are entitled to about $800 million in such sanctions based on 2009 cotton subsidies. Brazil did not say how it would impose the sanctions. Kirk's office said the Brazilian assertion is being reviewed.

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