

**The End of the Multifiber Arrangement:
*Brazil's WTO Challenge Against
U.S. Cotton Programs***

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Why Cotton?

- Starting in late 1990s falling commodity prices, increasing U.S. subsidies
- Growing Brazil frustration → looked to soybeans first
- 2001 cotton price collapse → Brazil switches to cotton for WTO challenge
- Crucial role of media, NGO's, economic analysis, timing of WTO negotiations

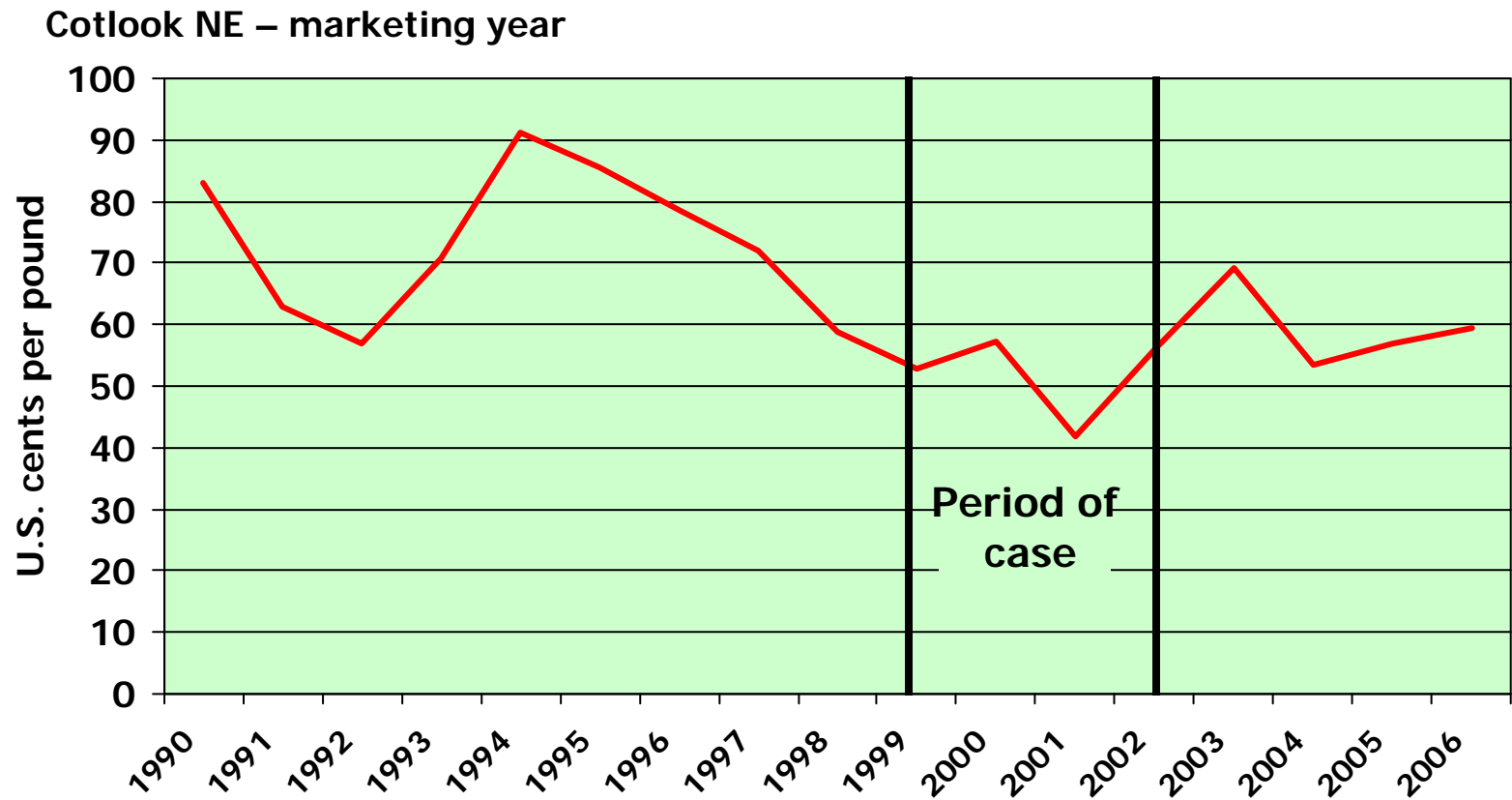
Case Timeline

- **Sept 2002.** Brazil requests consultations
- **March 2003.** Panel established
- **June 2004.** Final report issued
- **Oct. 2004.** Notice of appeals
- **Mar. 2005.** Appel. Body report adopted
- **Aug 2006.** Brz requests compliance panel
- **Dec. 2007.** Compliance report issued

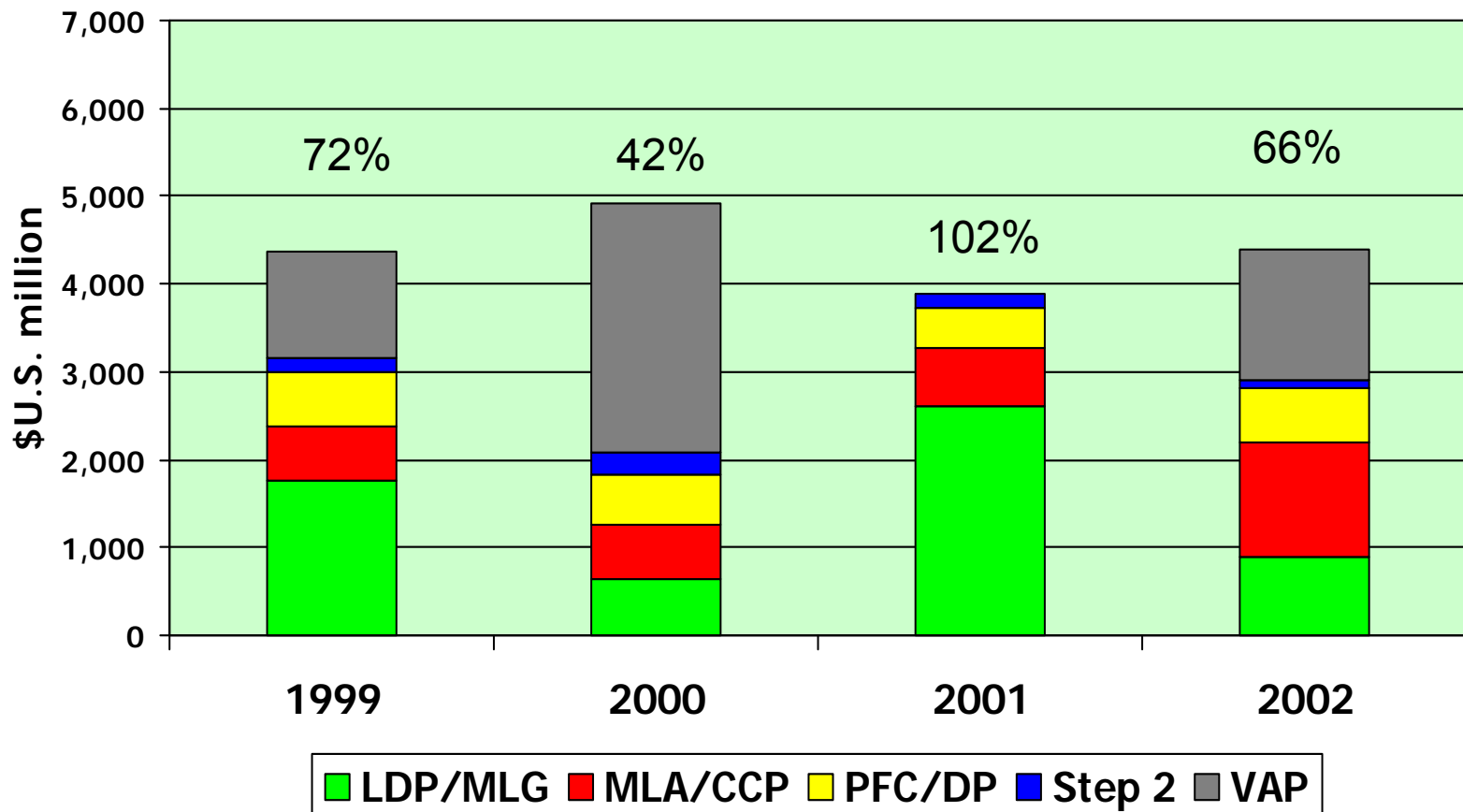
U.S. Cotton Under the WTO Gun

- Brazil challenged all aspects of U.S. cotton programs
- Export credit guarantees (GSM): prohibited export subsidies for cotton and other unscheduled commodities
- Step 2: prohibited export subsidy, import substitution subsidy
- Peace Clause: Did cotton support exceed that in 1992?
- Serious prejudice: Marketing loan benefits, MLA/CCPs, PFC/DPs, Step 2, crop insurance

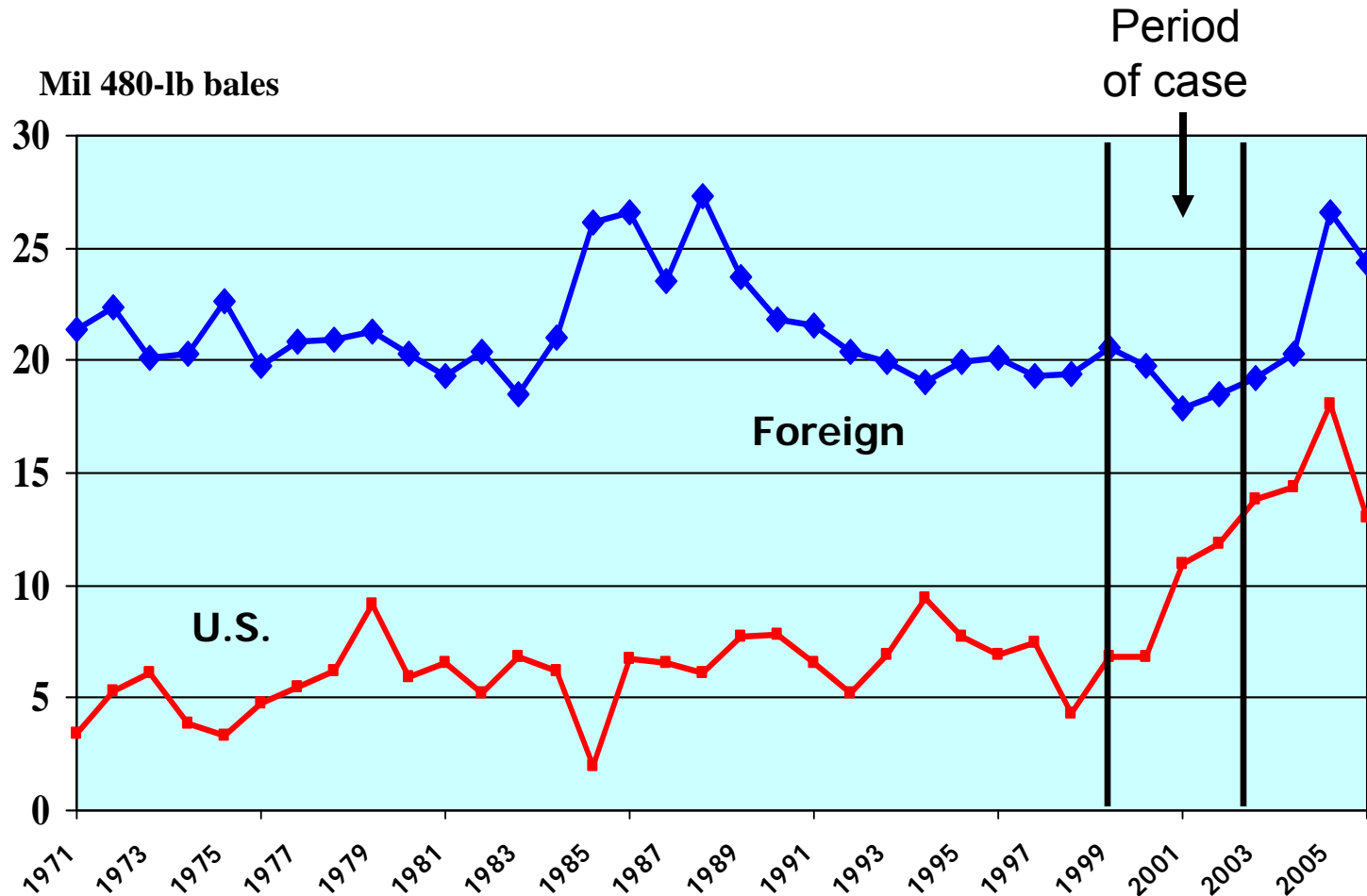
What Caused World Cotton Prices to Fall?



What Affects U.S. Production and Exports – Brazil's View



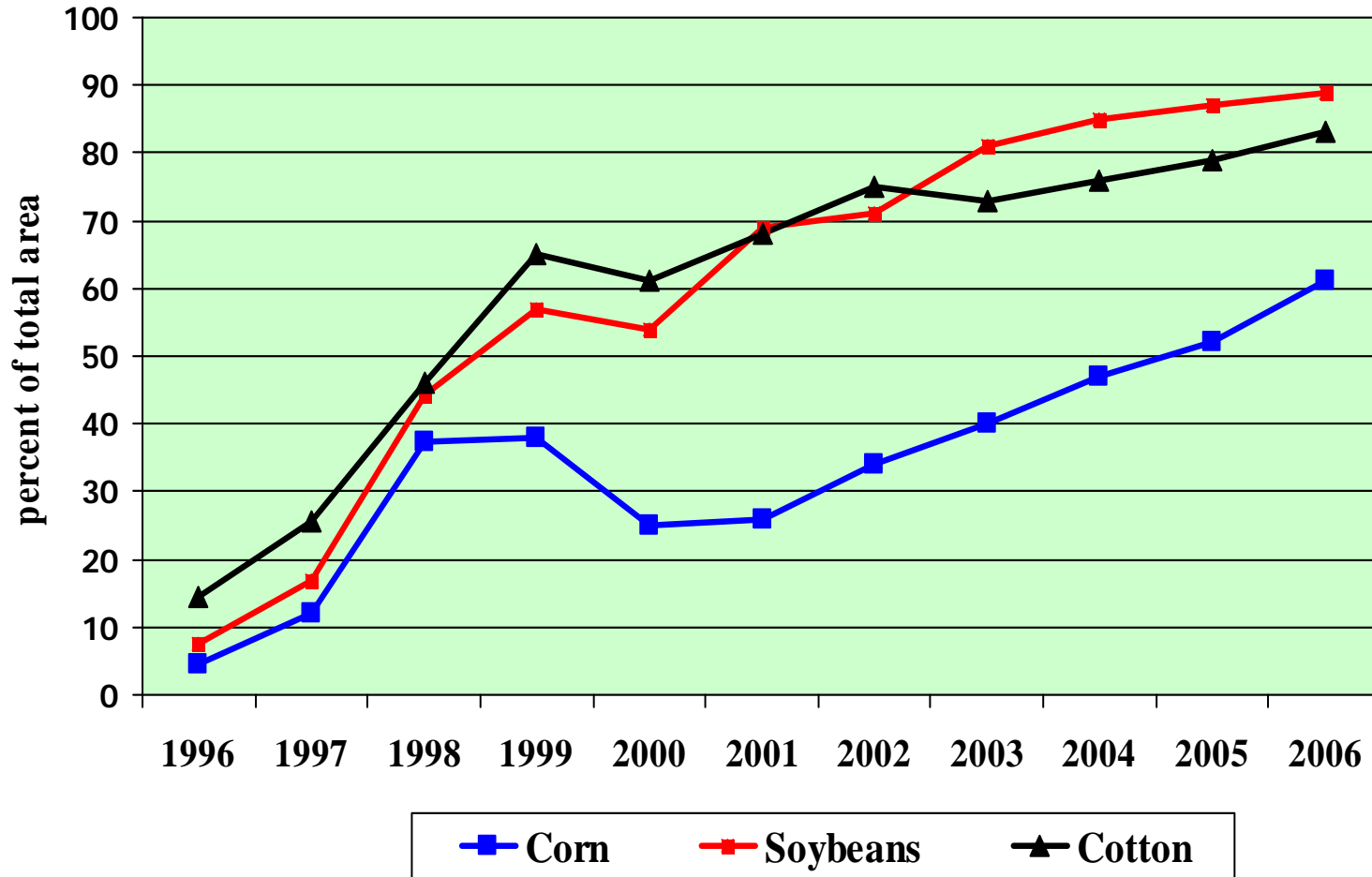
U.S. and Foreign Cotton Exports



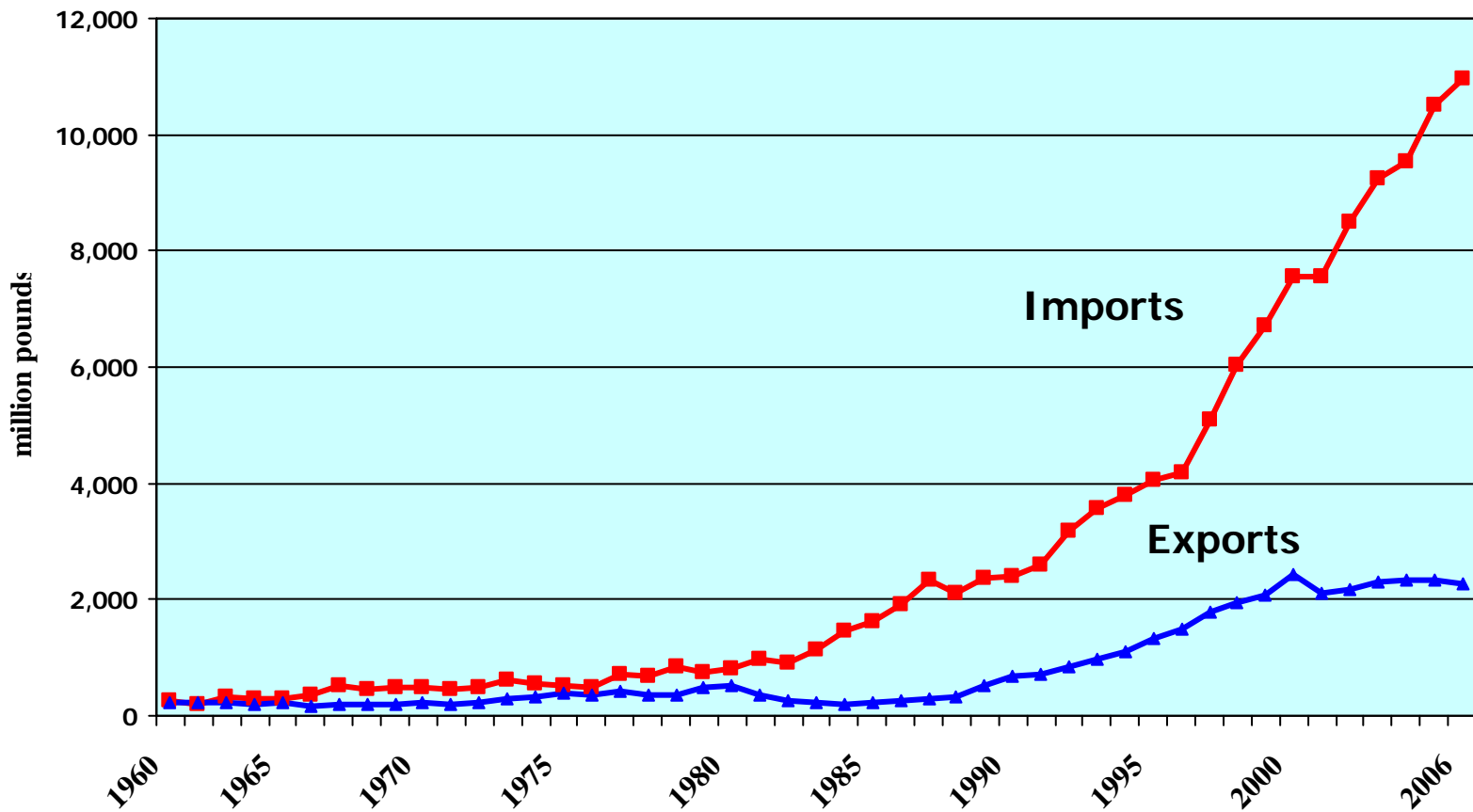
What Affects Production and Exports – U.S. Views

- **Role of technology -- boll weevil programs and biotech seed encouraged planting**
- **Decoupled payments don't affect production decisions**
- **Marketing loan effects only when expected prices are below loan rate**
- **Exports affected by competing synthetics, declining U.S. textile industry, China**

U.S. Area Planted, Biotech Crops

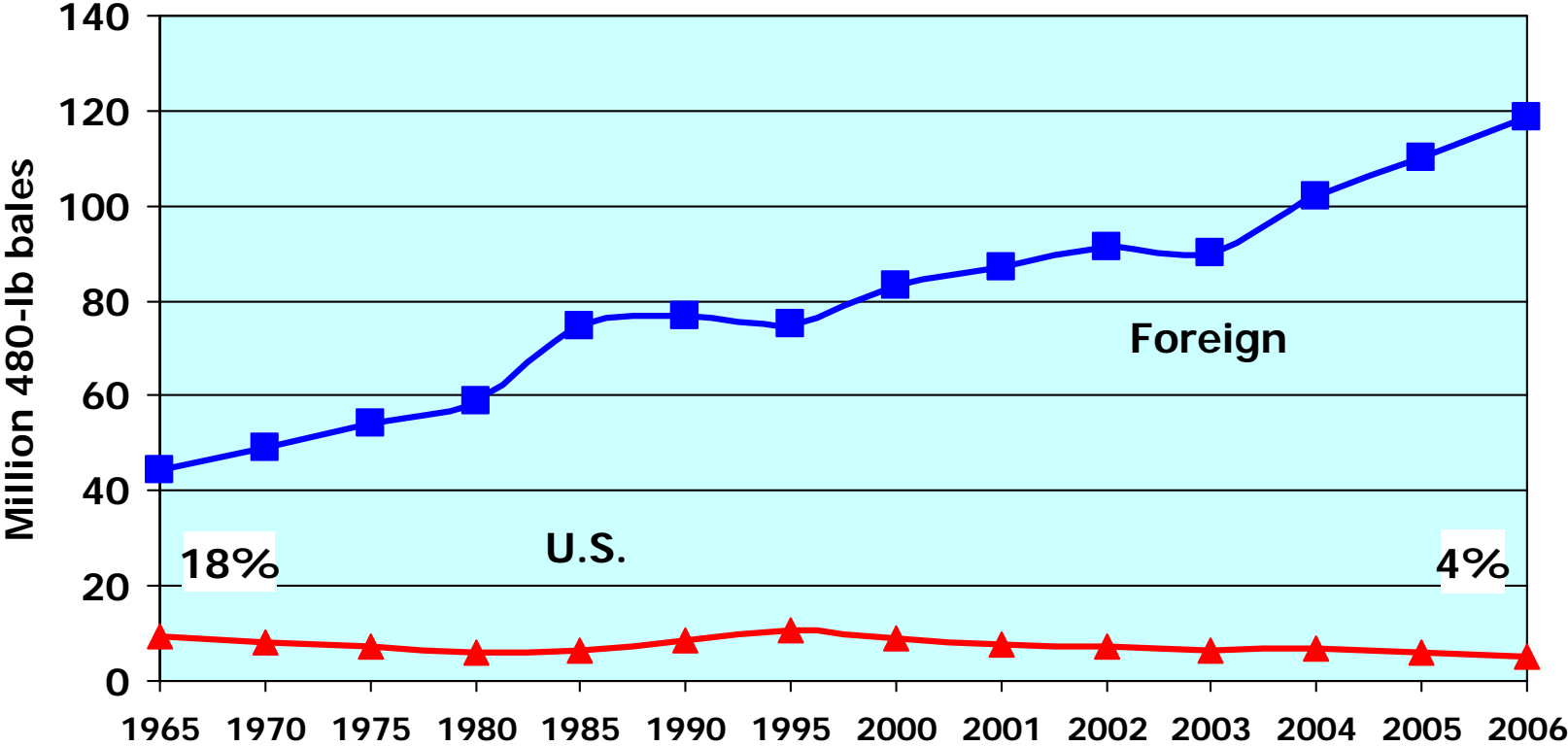


Cotton Equivalent of U.S. Textile Trade

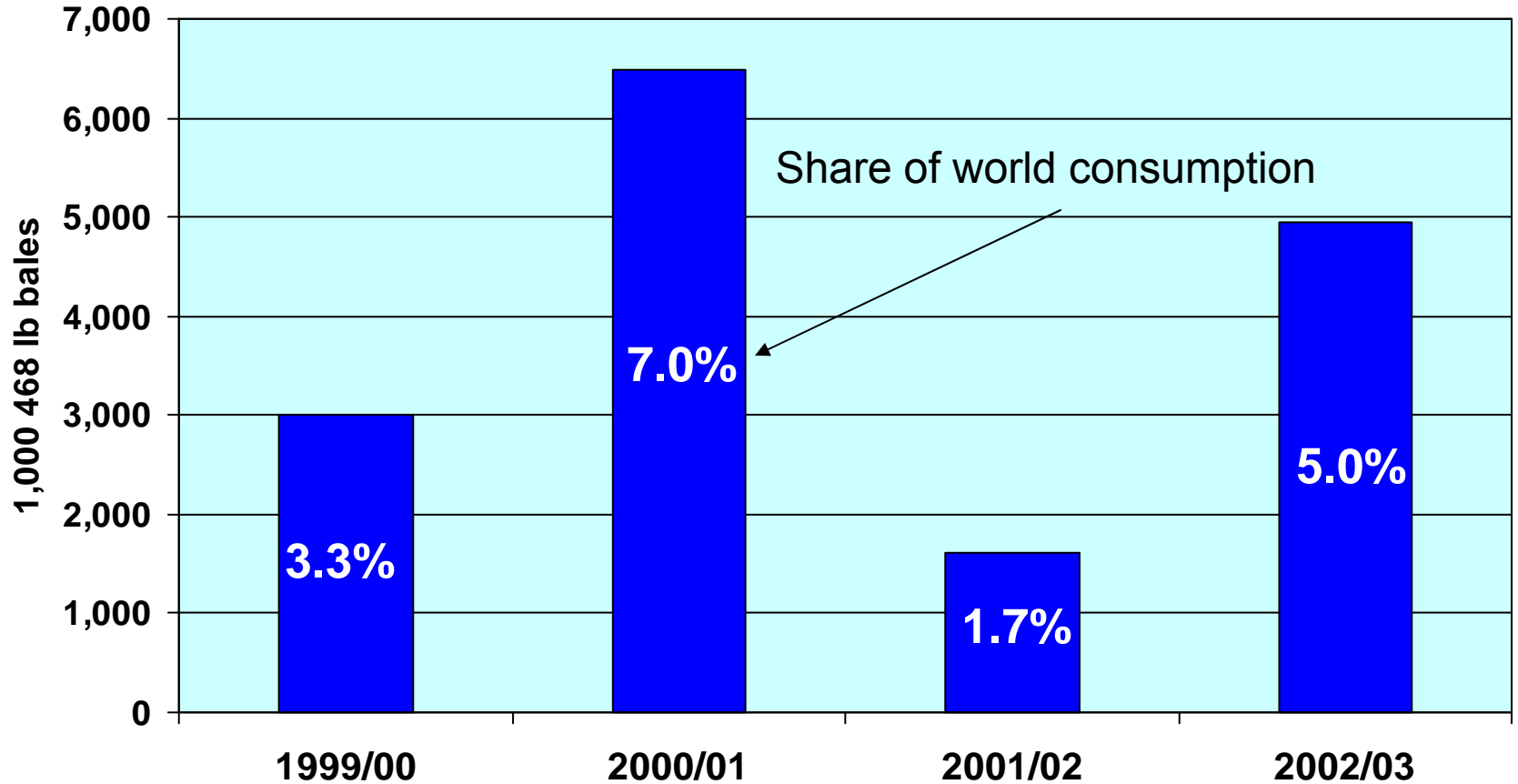


U.S. and Foreign Cotton Use

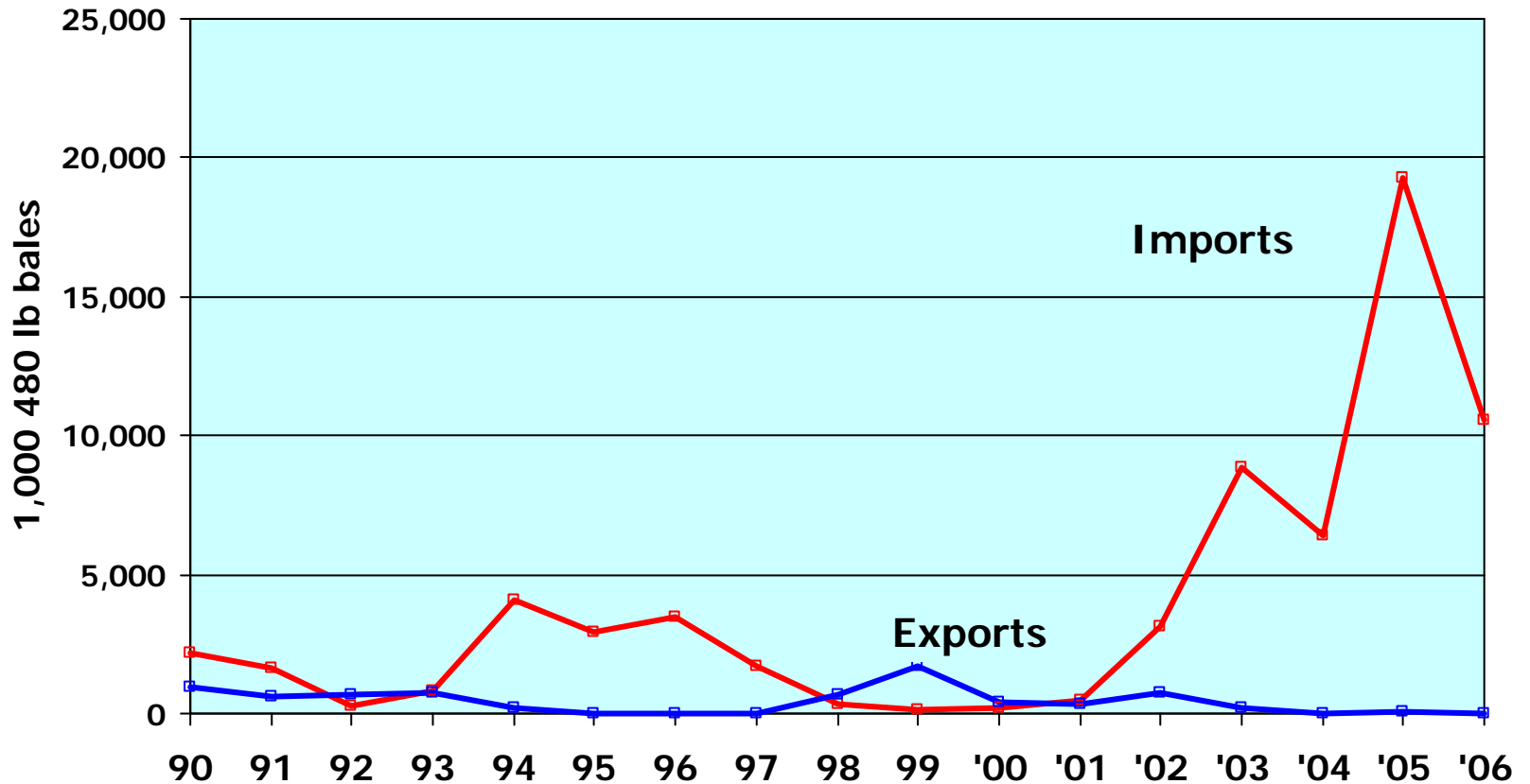
U.S. share of world use shrinks



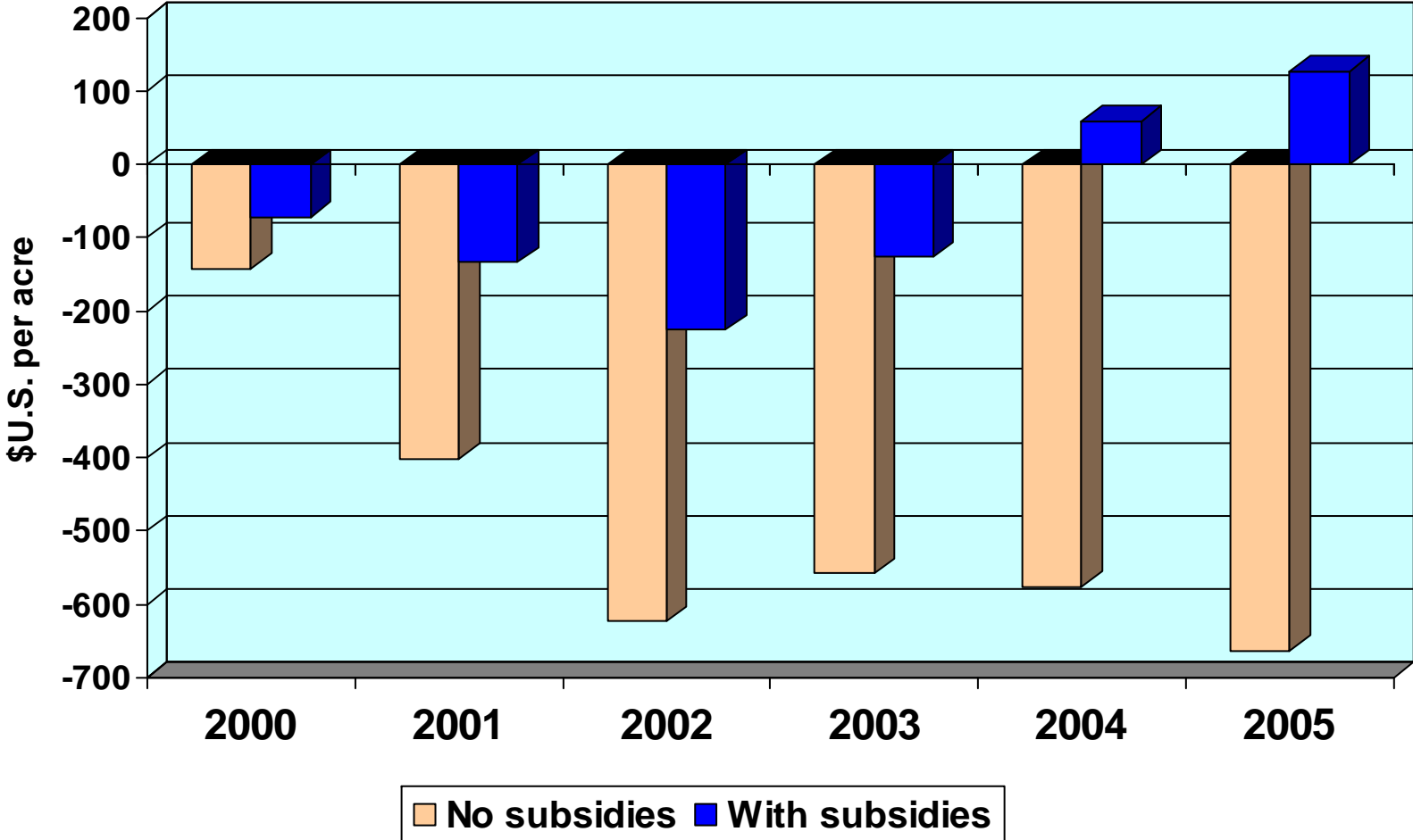
Chinese Flood Cotton Markets



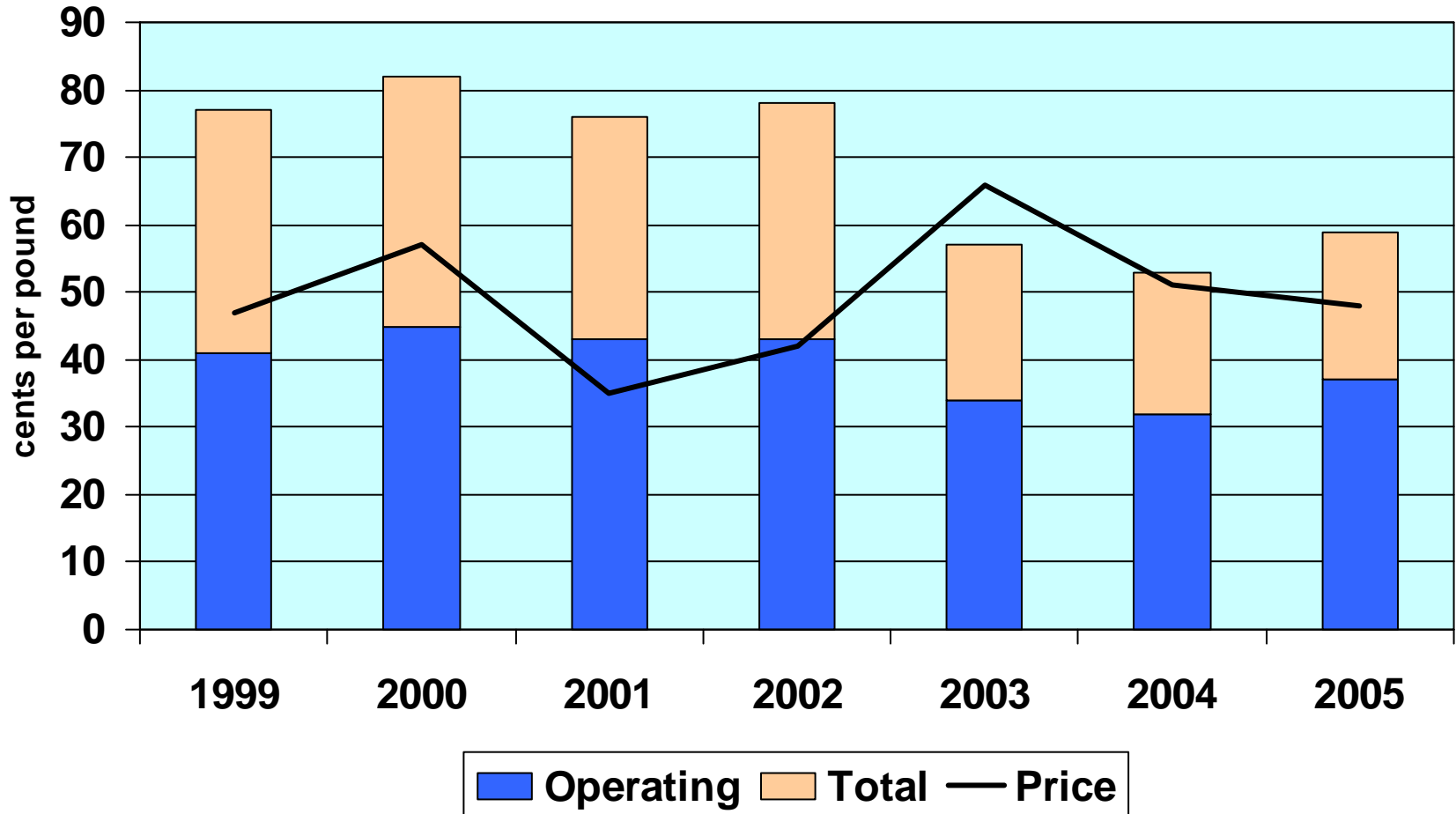
Chinese Cotton Trade Shifts



Brazil: U.S. Cost – Revenue Gap Filled by Subsidies



U.S.: There Is No Gap



Panel Findings

- Direct payments don't fit green box criteria
- Step 2 is both prohibited export subsidy and import substitution subsidy
- Export credit guarantees are export subsidies, prohibited for cotton and some other products
- Direct payments and crop insurance did not contribute to serious prejudice (“significant price suppression”)
- Marketing loans, MLA, CCPs, Step 2 did cause significant price suppression (price contingent)

Compliance Process

- Eliminate *prohibited subsidies* by 7/1/05
 - U.S. adjusted GSM, July 1, 2005
 - No more GSM 103 or SCGP
 - Step 2 eliminated as of Aug. 1, 2006
- Address *serious prejudice* by 9/21/05
- Compliance panel requested in September 2006
- Final report on 12/18/07 – U.S. not in compliance
 - Marketing loans and CCPs continue to cause price suppression
 - Changes to credit program are insufficient
- Appeals and arbitration still possible

Potential Size of Retaliation

- Step 2/GSM – Brazil claimed \$3 billion
- Serious prejudice – Brazil claimed \$1 billion
- Does not take into account removal of Step 2
- May extend beyond tariffs to IPR or services

Cotton in the Doha Talks

- Prodding by C-4, media coverage, 2003 Cancun Ministerial collapse
- July 2004 Framework: cotton to be treated *ambitiously, expeditiously, specifically*
- C-4 – eliminate cotton subsidies, compensation from subsidizers, development assistance for cotton sectors
- Cotton Subcommittee formed Nov. 2004
- Cotton singled out at Hong Kong – eliminate export subsidies in 2006; DFQF for LDC exports, development assistance
- Falconer July 2007 text – 82% cut in U.S. cotton support from 95-00 base (\$143 mil, C-4 proposal)

Cotton in the Farm Bill

- **House version**: Modify loan repayment rate, add 4 cent/lb payment to domestic mills, CBO cost of \$1.0 billion for 2008-2012 period
- **Senate version**: Target price reduced slightly; modify loan repayment rate for quality; add 4 cent/lb payment to domestic mills (CBO cost of \$337 mil.)

What's in Store for Cotton?

- ***Negotiation*** – pressure for reform will continue in Doha Development Round
- ***Litigation*** – Brazil will continue to press case, possible retaliation outside of cotton
- ***Legislation*** – Congress has not proposed any significant domestic policy reforms
- ***Compromise?***