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
- 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?

![Graph showing cotton prices from 1990 to 2006](image-url)

**Cotlook NE - marketing year**

- U.S. cents per pound
- Period of case

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

![Bar Chart]

- **1999**: LDP/MLG: 2,500, MLA/CCP: 1,000, PFC/DP: 500, Step 2: 50, VAP: 1,000
- **2000**: LDP/MLG: 2,000, MLA/CCP: 1,000, PFC/DP: 500, Step 2: 100, VAP: 1,000
- **2001**: LDP/MLG: 3,000, MLA/CCP: 1,000, PFC/DP: 500, Step 2: 150, VAP: 1,000
- **2002**: LDP/MLG: 3,500, MLA/CCP: 1,200, PFC/DP: 500, Step 2: 200, VAP: 1,000

- **72%**
- **42%**
- **102%**
- **66%**
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
Cotton Equivalent of U.S. Textile Trade

Exports

Imports
U.S. and Foreign Cotton Use

U.S. share of world use shrinks

Million 480-lb bales

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?**