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**International Centre for
Trade and Sustainable Development**

Bridges Weekly Trade News Digest • Volume 15 • Number 21 • 8th June 2011

Heated US Spending Battle Puts Brazil Cotton Deal at Risk

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The wrangling over US spending cuts has put the spotlight on Washington's federal farm subsidy programme, which has been a source of ongoing contention both domestically and abroad. Last week's meetings of the US House Appropriations Committee, which is tasked with allocating government expenditures, saw three cotton-related amendments to the Agriculture Appropriations bill for fiscal year 2012 pass by voice votes.

Representative Rosa DeLauro, a Democrat, sponsored an amendment that would shift the US$ 147.3 million being provided to Brazil Cotton Institute to the Women, Infants and Children (WIC) public nutrition programme for 2012.

The Brazil Cotton Institute, which acts a technical fund for Brazilian farmers, was one of the conditions of the US-Brazil Framework Agreement that was finalised last year (see Bridges Weekly, 23 June 2010). The agreement put a temporary hold on Brazil's plans to impose WTO-authorised trade sanctions on the US following a bitter trade dispute. The bilateral deal gives the US until the 2012 update of the Farm Bill - the omnibus legislation dealing with the federal farm subsidy programme - to change its cotton subsidy regime. In the meantime, the US would provide Brazil with compensation to establish the fund.

According to Reuters, DeLauro recognises that her amendment would make the US non-compliant with its WTO obligations - but saw it as a necessary step to limit the cuts that the WIC nutrition programme was already likely to see under the appropriations bill.

Representative Jeff Flake, a Republican, introduced two other cotton-focused amendments. One of them would cut direct payments by the same amount necessary to fund the Brazil Cotton Institute in fiscal year 2013 - i.e. by US$147.3 million. This would effectively take the burden of supporting the Brazil Cotton Institute off taxpayers and put it on cotton farmers.

Flake also sponsored an amendment that would set an income limit for farmers receiving direct payments; only farmers earning less than US$250,000 per year would be eligible for these subsidies.

While all three amendments passed the US House Appropriations Committee, the Agriculture Appropriations bill still requires approval by the entire House of Representatives, the Senate, and the President to be enacted into law.

The move resulted in uproar by the National Cotton Council of America - the industry's main lobbying body - which last Wednesday decried the development as "counterproductive." NCC Chairman Charles Parker criticised the Agriculture Appropriations bill as "a misguided approach to farm policy," citing the potential violation of the US-Brazil Framework Agreement as one of the bill's main problems. The NCC made clear that they would be following up with both the House's Appropriations and Agriculture committees on the subject, in the hopes of preventing these changes from becoming law.

Sallie James, a trade policy analyst at the Washington-based Cato Institute, a libertarian think tank, told Bridges that Agriculture Committee members, particularly in the House, seem "confident that they will be able to deal with the amendments on the floor." She added that there is a "resistance [in Congress] for any of this to be dealt with outside the 2012 Farm Bill," with the Agriculture Committee trying to keep "jurisdictional hold" on that process.

James anticipated two main arguments would arise in upcoming discussions over these amendments: one would be that cotton subsidies should be left for the Agriculture Committee to resolve, and the other that "[Congress] can't do this [i.e. cut direct payments] because American exporters will suffer."

James added that she is more favourable to Flake's amendment regarding the Cotton Institute than DeLauro's, as "it's staggering to me that there should be an argument that anyone but the cotton farmers" should pay for the Brazilian technical fund.

The US-Brazil deal has attracted opposition since its inception. This February, Representative Ron Kind, a Democrat, introduced an amendment that would eradicate the Brazil Cotton Institute (see Bridges Weekly, 24 February 2011). Kind's argument was that the US should focus on reforming its programmes, rather than just compensating Brazil and ignoring the larger problem.

Kind's amendment, which was voted down in the House, was followed by an attempt by Paul Ryan - a Republican who chairs the House Budget Committee - to cut direct payments to farmers, along with changing the nature of a currently open-ended crop insurance programme (see Bridges Weekly, 6 April 2011).

While cutting agriculture subsidies has always been a difficult proposition to pass through Congress, James noticed that there has been a "subtle shift in rhetoric" on the subject. While previously farm supporters in Congress were strongly against any reductions in subsidies, they are "now talking about the size of cuts" - an important concession, and one likely a result of the tight spending climate.

The Agriculture Appropriations bill could be voted on as early as next week, according to the congressional newspaper The Hill.

Implications for the Brazil Cotton Institute

Haroldo Cunha, head of the Brazil Cotton Institute, told Bridges that this was "not the first attempt to stop with payments to Brazil." He affirmed that his organisation's opinion was "that there is an agreement between two countries, two governments," and therefore this is no space for Congressional representatives to interfere with that.

However, Cunha added that the amendments seemed unlikely to pass the full House - and even if it did, "We think it wouldn't pass in the Senate," given that there are many sectors in Congress interested in avoiding Brazilian trade sanctions.

The Brazil Cotton Institute is currently receiving US$12.275 million from the US on a monthly basis, which - if these amendments do not pass - will continue until the 2012 Farm Bill is finalised. Currently the Brazil Cotton Institute's funds come only from the US, as per the Memorandum of Understanding between the two countries. However, if the Agriculture Appropriations bill passes with the Flake and DeLauro amendments intact, the institute would be forced to alter its current business plan.

The institute, which is currently finalising its operating structure, soon hopes to start investing the US-provided funds into a variety of programmes. The institute's management board has agreed to invest "approximately US$20 million a year in eight different [programme] areas," according to Cunha. These include capacity training for Brazilian workers, Brazil-based sustainability programmes, and technical assistance - excluding research - for the Cotton-4 countries, which are Benin, Burkina Faso, Chad, and Mali.

According to Cunha, the technical fund is considering allocating approximately 10 percent of this year's funds to work in the C-4. These West African countries took an avid interest in the US-Brazil case, as they have been fighting for changes in the cotton subsidy system in the WTO's Doha Round. An ICTSD-commissioned study last year, conducted by Mario Jales of Cornell University, found that the US subsidy programme has indeed harmed the C-4 by suppressing the world price of cotton (see Bridges Weekly, 21 April 2010).

ICTSD reporting; "House panel OKs income limit for farm subsidy recipients," DES MOINES REGISTER, 1 June 2011; "Cuts to agriculture programs may be next in the House," THE HILL, 6 June 2011; "House panel OKs "Appropriators approve agriculture cuts, target farm subsidies and Brazil," THE HILL, 1 June 2011; "House bill cuts U.S. farm aid, payment to Brazil," REUTERS, 31 May 2011.

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