

Tax move by Brazil risks US trade war

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Brazil moved on Monday to raise tariffs on a wide range of American goods, potentially igniting a trade war with the US over cotton subsidies after eight years of litigation at the World Trade Organisation.

The decision takes effect next month, starting a 30-day period during which US and Brazilian officials will attempt to negotiate a solution to the dispute.

Gary Locke, US commerce secretary, and Michael Froman, deputy national security adviser for international economic affairs, are due to arrive in Brazil on Tuesday. The cotton dispute is expected to be raised in meetings with government officials.

Under the Brazilian plan, duties would rise most steeply on cotton products. Many that are currently taxed at between 6 per cent and 35 per cent would be taxed at 100 per cent. The tariffs on beauty products would double, from 18 per cent to 36 per cent. Duties on household goods such as cookers, refrigerators, TVs and video cameras would also double, from 20 per cent to 40 per cent. Duties on cars would rise from 35 per cent to 50 per cent.

Brazil is allowed to impose the tariff increases – worth \$560m – after winning a case at the WTO last year. Brazil challenged the legality of direct subsidies to US cotton farmers to protect them against fluctuations in global prices and a loan guarantee programme for international buyers of US cotton.

Brazil could also impose further penalties – known as “cross-retaliation” – on US intellectual property rights, potentially breaking patents in the pharmaceuticals, technology and media industries.

The office of the US trade representative in Washington said: “We are disappointed to learn that Brazil’s authorities have decided to proceed with countermeasures against US trade in the WTO cotton dispute. USTR has worked to reach a solution to the issues . . . without Brazil resorting to countermeasures and we continue to prefer a negotiated solution.”

Brazil has made it clear it is open to a settlement before the new tariffs take effect, but officials have stressed that any deal must apply specifically to cotton. One possibility may involve technology transfer from the US to Brazilian cotton producers.

It is unclear how much room for manoeuvre US officials have. Significant changes to the cotton subsidy programme would require changes to the farm bill – and securing congressional approval might be difficult.

“The only way this is not going to turn into a train wreck is if Brazil is offered something meaningful,” says Jon Huenemann, an adviser at Miller & Chevalier. “There are potential ways out of this, but they require a lot of creativity because of the political situation in both countries.”

The US is the world’s largest exporter of cotton.

“Brazil’s latest actions are imposing unwarranted harm on Brazilian and American interests in times of economic hardship for all,” the National Cotton Council said. “Historically, dispute settlement is frequently made more difficult, not easier by the application of retaliatory trade measures.”

Fonte: Financial Times, London, Mar. 8th 2010, online.