

Picking a fight

Brazil fires another salvo in its dispute with America over cotton subsidies.



HOW serious is the decision by Brazil's government, announced on Tuesday March 8th, to raise duties on a number of American-made imports? The increases are sizeable for goods such as cosmetics (tariffs will double, to 36%) and many household wares (tariffs will also double, to 40%). And the timing is significant: the news came as America's commerce secretary, Gary Locke, was due to arrive in Brasilia to promote an export-promotion initiative in America's 10th-largest export market.

Yet the decision is not entirely surprising, as it relates to a long-running trade dispute. Asked about the dispute at a press conference last week Hillary Clinton, the secretary of state, said "I feel like I have walked into a movie that has been going on for years". Brazil complained to the World Trade Organisation (WTO) nearly eight years ago about America's counter-cyclical subsidies to its cotton growers, which are designed to cushion them against fluctuations in the cotton price, and a programme guaranteeing loans for international buyers of American cotton.

Just over six months ago an arbitration panel at the WTO authorised Brazil to retaliate by imposing additional duties on American goods, for America's failure to comply with earlier rulings on the matter. The panel specified that Brazil was entitled to retaliation worth \$294.7m, but that this amount would be adjusted in subsequent years to account for changes in payments to American cotton farmers. Brazil estimates that it is entitled to impose retaliatory measures worth \$829m. The measures announced so far are worth \$591m.

The dispute is related to cotton, so it is unsurprising that Brazil has reserved the stiffest tariff rises for cotton products, lifting them to 100% from current rates of 6%-35%. But a decision to lift duties on cars—a sensitive product in America—from 35% to 50% suggests that Brazil is doing what most countries authorised to retaliate against trade partners do, which is to seek to inflict most pain on industries with a strong political voice.

Brazil has another card to play, which software, pharmaceutical and other big American industries may worry about. The Latin American country may, under the terms of the WTO ruling, "suspend certain obligations" to honour intellectual property rights (such as patents) if the amount of retaliation that it is entitled to is so high that it could not reasonably hope to exhaust it by targeting goods alone. Brazil's government says that it intends to do this with measures later this month, to the value of \$238m—the "remaining annual amount of retaliation to which Brazil is entitled"—which will be applied to intellectual property and services. The WTO has previously allowed such retaliation, although nobody has ever followed through with such steps. Brazil, if its threats are to be believed, would be the first to do so.

The American response has been by the book. A spokeswoman for the office of the US Trade Representative said it was "disappointed", adding that it hopes to solve the trade spat through negotiation. The Brazilians say they ready for talks, too. The statement by the Brazilian government emphasised that "trade retaliation does not constitute the most appropriate means" to a fairer basis for international trade.

That sounds conciliatory, but the Brazilians are still emphasising that negotiations would have to focus on cotton subsidies. The strength of the farm lobby in Congress makes this an area difficult to reform. But changing Congress's mind may be exactly what the Brazilians intend: Gary Hufbauer, a trade economist at the Peterson Institute for International Economics in Washington, DC, says that "Brazil has decided that the only way to shift congressional opinion is through retaliation". The two countries now have a month to negotiate a settlement before the proposed tariff increases go into effect.

Fonte: The Economist. Disponível em: <www.economist.com>. Acesso em: 10 mar. 2010.

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