Congress of the United States
Washington, DC 20515

April 22, 2010

President Barack Obama
The White House
1600 Pennsylvania Ave NW
Washington, D.C. 20500

Dear President Obama:

With the World Trade Organization (WTO) Arbitrator's final ruling of the trade dispute brought by Brazil to the WTO late last year and the subsequent negotiations, the need to overhaul the U.S. cotton program is more apparent than ever. With the current fiscal environment and unprecedented nature of the cross-retaliatory threats to the intellectual property of U.S. companies, we are frustrated by the interim negotiated agreement between the United States and Brazil. The U.S. cotton program is a barrier to trade and economic growth and must be reformed. In light of this ruling, we urge you to take a strong stance in working to reform these egregious subsidies.

Since 2002, the U.S. cotton programs have been openly disputed by Brazil to the WTO. Congress had the opportunity to completely reform or repeal these programs during the reauthorization of the farm bill in 2007-2008, but it chose not to. Now, because of Congress' inability to reform the subsidy programs in the farm bill, a wide array of American businesses can be used as a lever against the U.S. in its authorized retaliation. In addition to traditional tariff measures, the retaliatory countermeasures authorized by the WTO included cross-retaliation such as the suspension of U.S. intellectual property rights. Brazil's threat against U.S. intellectual property would impede our efforts to open international markets and negatively impact products ranging from chemicals to music to software. If the precedent set in the Brazilian case practice spills over to other disputes, it could have a painful effect on American businesses.

This unprecedented attempt by the Brazilian government to subject about 102 American goods to stiff import tariffs is concerning. Though the U.S. Trade Administration and the U.S. Department of Agriculture were able to reach an agreement with the Brazilian government where Brazil would postpone these retaliatory measures, the agreement is only a temporary solution. Should we fail to effectively reform this program now, American businesses and workers will pay the price because we refused to write a law that complies with our international obligations. We cannot expect our trading partners to play by the rules if we are not willing to do the same.

From this ruling, it is clear that our agricultural subsidies are grossly outdated and are quickly becoming a liability for future trade growth. Instead of effectively reforming our programs, we are electing to pay $147.3 million annually to Brazilian agribusiness so that we can continue to pay around $3 billion a year to large U.S. agribusiness. This policy distorts the marketplace and is fiscally irresponsible. By the time we reform the cotton programs in 2012 farm bill, the U.S.

will have spent close to a half a billion dollars in "technical assistance" to Brazilian agribusiness. With the current fiscal environment, we need to focus on reforming our programs so that they responsibly use taxpayer dollars now.

We urge you to utilize all of your resources to reform the agricultural subsidy programs, and in particular, the cotton program. There are significant federal budget savings associated with eliminating or reforming the cotton program. For example, it is imperative to restructure the GSM-102 Export Credit Guarantee Program, which fails to cover its operating costs and effectively serves as an illegal export subsidy. While the U.S. agreed to make some near-term modifications to the program's operation, further reform is necessary to ensure the program is fiscally responsible and WTO compliant. Based on historical program costs, raising the fee structure of the GSM-102 program to fully offset operating costs could bring the program into WTO compliance and would contribute approximately $300 million per year in federal budget savings depending on annual participation and default rates.

In addition to setting premium rates high enough to cover the long-run GSM-102 program operating costs, adjustments are needed to bring price contingent cotton programs into compliance. The support prices (i.e. the loan rate and the target price) for the marketing loan program benefits and the counter-cyclical program payments are currently set too far above market prices. This has encouraged greater production and exports than the market demands, which has distorted the marketplace and lowered world market prices. Eliminating cotton subsidies wholesale or at least lowering cotton program price triggers to levels more reflective of market conditions would mitigate market distortions and could save an average of $1.8 billion per year in federal program costs at a minimum. Addressing changes such as these will help bring our nation into compliance with the WTO dispute settlement ruling as well as improve our fiscal, trade and agricultural policies.

We are eager to work closely with your administration to adjust the agricultural subsidy programs so that they will help rather than hinder international trade.

Sincerely,

Ron Kind
Member of Congress

Jeff Flake
Member of Congress

Barney Frank
Member of Congress

Paul Ryan
Member of Congress