



1521 New Hampshire Avenue, N.W.
Washington, DC 20036
(202) 745-7805 • FAX (202) 483-4040
www.cotton.org

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October 18, 2011

The Honorable John McCain
United States Senate
Washington, DC 20510

Dear Senator McCain:

I am writing on behalf of the members of the National Cotton Council to request that you not offer amendment #745, which you filed on October 17, to the pending appropriations bills. The effect of the amendment, if enacted, would be to require the United States to violate the terms of the US-Brazil Framework Agreement negotiated in June 2010. As a result, Brazil would have the right to impose prohibitively high tariffs on over \$800 million of US exports and to ignore Intellectual Property rules on a significant volume of products manufactured or traded under licenses. It should be noted that while this is referred to as the Brazil "cotton" case, all but \$147 million of the \$800 million retaliation award is the result of a finding that the US export credit guarantee program, known as GSM-102, also caused significant injury to the Brazilian cotton industry.

The Framework Agreement was negotiated by representatives of the two governments as a way to avoid significant disruption of bi-lateral trade until the 2012 farm bill can be enacted with provisions that resolve the WTO dispute. The US cotton industry is committed to continue to work with USTR, USDA and Congress to resolve the case. The industry supported termination of a provision in 2006 that was ruled a prohibited subsidy and supported additional modifications in the 2008 farm law. Unfortunately, the WTO panel's ruling did not stipulate specific action necessary to resolve the dispute so the industry and US government have essentially been negotiating with themselves absent any clear direction from Brazil or the WTO. The Framework Agreement requires quarterly consultations, the most recent of which occurred last week and that should lead to more clarity.

Even in the absence of a clear solution, the US cotton industry through the National Cotton Council has recently proposed legislation that could be included in the next farm bill. The proposal is designed to significantly reduce budget outlays and comply with the WTO ruling. It is a very significant departure from historical cotton programs and would require US cotton farmers to forgo future payments and price protection currently available through USDA. In return, growers would have the option to purchase crop insurance coverage. We have attached a detailed explanation of the proposal, which has been submitted to the respective Agriculture Committees and to USTR, USDA and Brazilian representatives for review. It is expected to be considered when the respective Agriculture committees provide legislative language to the Joint Committee as a means to achieve the \$23 billion in savings proposed on October 18 in correspondence to the joint committee.

In conclusion, the US cotton industry has and continues to be proactive in its efforts to assist the US government in resolving the Brazil case. The Framework Agreement provides an important timeout so the parties can negotiate in good faith. If the agreement is violated, it offers nothing to solve the dispute but certainly jeopardizes significant US trade and possibly jobs in the firms who conduct that trade.

For these reasons we respectfully request that you withhold the amendment. If you or your staff have additional questions please contact me at 202-745-7805.

Thank you for your consideration of our views.

Respectfully,

A handwritten signature in black ink that reads "Alfred John Maguire" followed by a stylized monogram "AJM".

John Maguire
Senior Vice President – Washington Operations