Two-Level Games

The US-Brazil World Trade Organization Cotton Dispute

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Introduction

In September 2002, Brazil initiated a World Trade Organization (WTO) Dispute Settlement case against the United States, complaining against its subsidies for upland cotton. In case DS267, Brazil cited US violations of the Agreement on Subsidies and Countervailing Measures (SCM Agreement), Agreement on Agriculture, and the General Agreement on Tariffs and Trade (GATT).[1] A year later, the Dispute Settlement investigatory panel announced that they found various US subsidies either subject to fines or prohibited and that they artificially suppressed world prices to the detriment of Brazilian economic interests.[2] The US lost when it tried to appeal the decision, leaving the Dispute Settlement Board (DSB) to recommend in March 2005 that the US remove its GSM 102, 103, SCGP export credit guarantees, and STEP2 marketing payments within six months of the ruling.[3]

After the ruling, the US took steps to comply but stalled changes as long as possible. Congress cancelled Step 2 in 2006, and ended GSM-103 and SCGP programs in 2008.[4] The delays provoked Brazil to announce in July 2005 that that it would retaliate by implementing customs on US goods and suspend its compliance with the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS agreement) and the General Agreement on Trade in Services (GATS). Brazil argued that it could take measures against American products beyond upland cotton due to the degree to which the US continued to violate WTO rules. It asked the WTO Dispute Settlement Board (DSB) for permission to suspend its compliance with these

[1]"DS267: US-Subsidies on Upland Cotton," WTO Dispute Settlement Database, World Trade Organization.
[2] "DS267," WTO Dispute Settlement Database.
[3]GSM 102 is an export credit guarantee program which extends credit from 90 days to three years for farmers. Since 1978, the program has guaranteed repayment of credit and been backed by the USDA's Commodity Credit Corporation. GSM 103 was an export credit guarantee program which extended credit three to ten years. Supplier Credit Guarantee Program (SCGP) had similar mechanisms. The STEP 2 marketing program paid cotton domestic exporters and mill users for the difference between market prices and US upland cotton.
[4] Randy Schnepf, "Brazil's WTO Case Against the US Cotton Program," Congressional Research Service, June 21, 2011, 3.

agreements. In December 2007, the WTO compliance panel found that the US had not withdrawn all of the recommended subsidies. This meant it was not compliant with the SCM Agreement and Agreement on Agriculture. In November 2008 the DSB authorized Brazil to go ahead with its retaliatory measures.[5] The next year, Brazil announced a list of American products valued at $829 million that would face new customs.[6] The WTO also granted Brazil the right to cross-retaliate, meaning it could target and suspend intellectual property rights.[7] In March 2010, Brazil published a list of sectors in which American products could be affected by the cross-retaliation, including pharmaceutical, chemical, and agricultural patents.[8]

Shortly before those sanctions went into effect, Brazil postponed them because the two countries were in serious negotiations. Only three months after Brazil announced its plans, US and Brazilian trade negotiators laid out a path for the US to comply with Brazilian demands called the Framework for a Mutually Agreed Solution to the Cotton Dispute in the WTO.[9] Included in the agreement is the stipulation that the US annually send $147.3 million to the newly created Brazilian Cotton Institute. This pool of money would go towards training, infrastructure, direct payments, and loans for Brazilian cotton farmers. In effect, the money placated the Brazilians since the US subsidies would remain in place until the next farm bill.

Due to the US political climate, the 2012 farm bill stalled in Congress until 2014. Secretary of Agriculture Tom Vilsack informed the Brazilian delegation in September 2013 that Sequestration would reduce the month's payment to the Cotton Institute by $7 million and

[5] "DS267," WTO Dispute Settlement Database.
[6] Schnepf, 2011, ii.
[7] "WTO Cotton Case Overview," Brazil Trade Action Coalition, last updated January 28, 2013,
[8] "Brazil slaps trade sanctions on US over cotton dispute," BBC, March 9, 2010.
[9] "DS267," WTO Dispute Settlement Database.

thereafter the payments were terminated, because the new farm bill was soon to be passed.[10] The 2014 Agricultural Act addressed some of Brazil's concerns by including a transition to a new program that subsidizes crop insurance instead of providing direct payments to farmers. It also cancelled counter-cyclical payments, and changed the nature of marketing loans.[11] To replace these subsidies, the Stacked Income Protection Program (STAX) was designed to provide another layer of crop insurance for cotton growers. This program pays for 80 percent of the cost of an additional level of crop insurance that only activates after regions face 10 percent decreases in profits. Following the bill's passage, the National Cotton Council (NCC) released a statement that said, "The new Stacked Income Protection Plan was developed specifically to bring the US into compliance with the 2008 Appellate Body decision thus resolving the long-standing dispute." NCC Chairman Wally Darneille said, "We believe the matter is resolved."[12] Brasilia remains unconvinced. Shortly after the bill passed, Brazil requested a panel at the WTO to examine the changes in US policy, finding them deficient to resolve the dispute.[13] Brazil's Council of Ministers of Foreign Trade Ministry (Camex), stated "preliminary analyses by the Brazilian government indicates that the new American farm bill still has elements that distort the international cotton trade."[14]

Although the American cotton industry and US Congress feel like the dispute has been resolved, the Brazilians are still dissatisfied. On April 3, 2014, the Brazilian Association of Cotton Producers (Abrapa), called for action to be brought against the new farm bill this year. According to Abrapa's estimates, the new farm bill could distort world cotton prices 7 to 13

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[10] Mariana Branco, "Brazil condemns US for suspending cotton indemnities," EBC Portal, October 4, 2014.
[11] Charles Johnson, "Complex, Different New Farm Law Brings Changes to Cotton," *Southeast Farm Press*, March 5, 2014.
[12] "NCC Believes Brazil WTO Case Resolved," National Cotton Council Press Release, February 20, 2014.
[13] Steve Baragona, "Brazil Says US Farm Bill Violates Trade Rules," *Voice of America*, February 20, 2014.
[14] Alex Lawson, "Brazil Drags US Back to WTO In Long-Running Cotton Fight," *Law360*, February 20, 2014.

percent.[15] It concluded that combining the STAX program with the existing Crop Insurance Plan essentially removes risk from a farmer's calculation. Removing risk from the equation means that the STAX program will still cause significant distortions in the market, affecting Brazilian farmers.[16] Although the farm bill and previous congressional decisions accomplished the original goal of cancelling US GSM 102, 103, SCGP export credit guarantees, and STEP2 marketing payments, the new bill replaced them with a potentially more harmful subsidy. This new program was designed to placate US cotton growers as their other government support slipped away. It was not politically feasible for Congress to completely remove support for the industry, yet the Brazilians too cannot accept the concessions made by the US as enough. Therefore, the cotton dispute case continues to be a significant source of tension between the first and second largest economies in the Western hemisphere.

This, in addition to the strain caused by the revelation that the National Security Agency had been wiretapping Brazilian President Dilma Rousseff's personal phone, means that bilateral relations are at a low point. President Rousseff said before the UN General Assembly in September 2013 that, "without respect for a nation's sovereignty, there is no basis for proper relations among nations."[17] This abrasive tone has characterized Brazil's attitude toward the US in recent years, demonstrated when President Rousseff canceled a state visit to the US last fall and did not invite the US to a regional summit in January 2014.[18] There is no question the US needs a solution to the tension caused by the cotton dispute that can be considered a win by both parties. Brazil remains an increasingly important trade partner for the US. It is the largest

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[15] "Abrapa quer rapidez na implantacao de painel na OMC," Abrapa press release, April 3, 2014.
[16] Helio Tollini, "Reinvindicando direitos ja adquiridos," International Centre for Trade and Sustainable Development, *Pontes*, V. 10, N. 2 (April 2014).
[17] Colum Lynch, "Brazil's president condemns NSA spying," *The Washington Post*, September 24, 2013.
[18] Daniel Trotta, "Cuba to host Latin American summit: US notably absent," *Reuters News Agency*, January 27, 2014.

economy in South America with abundant natural resources, a large population, and an enormous geographical area.[19]

The US failed to meet the demands of the World Trade Organization and Brazil even though Congress worked exhaustively to create a solution in the 2014 Agricultural Act. Congress proved incapable of passing a bill that would satisfy international demands, despite rhetoric that implied that members hoped to find a clear solution. Robert D. Putnam's two-level game theoretical framework can help shed light on this conundrum. Using Putnam's framework, this paper examines the various international and national actors with vested interests in the outcome of the dispute. This paper provides a case study for how domestic factors can produce irrational international outcomes. Having shed light on these dynamics, Putnam's two-level game framework also can be used to identify possible alternative solutions to the ongoing dispute and produce a policy recommendation that could resolve it.

Theoretical Framework: Two-Level Game

In "Diplomacy and Domestic Politics: The Logic of Two-Level Games," Robert D. Putnam introduced a theoretical framework that could account for both international and domestic politics in diplomatic outcomes. The framework filled a hole in international relations theory; prior to Putnam's article, scholars attempted to explain negotiations' outcomes in terms of one level of analysis or the other. State-level analysis focuses solely on the characteristics of states and their political systems in relation to how foreign policy is produced. This kind of analysis considers how the political structure affects who or what influences foreign policy outcomes. This can include both government bodies and outside interest groups. Instead of

[19] Maria Regina Soares De Lima and Monica Hirst, "Brazil as an Intermediate State and Regional Power: Action, Choice and Responsibilities," *International Affairs* 82, no. 1, 2006, 21.

focusing on domestic factors, systemic-level analysis views states as the central actors of international relations. This analysis examines the restraints on states created by the international system. The foreign policy of individual states results from the interaction between states and international institutions. Robert D. Putnam argued that theories that focus only on either the international system or the domestic conditions fail to explain instances when the interaction between the two is essential. According to his two-level game theory, policymakers on the national level must balance the demands of two constituencies: the domestic population and the other states at the bargaining table. Trying to balance the interests of both is extremely challenging and often impossible, which is why the solutions produced by compromising between the demands of both are often irrational. Level I is the international negotiating table, where states' representatives must come to agreement. Those negotiators must then take the policy to their domestic constituents at Level II for ratification. What may have seemed reasonable on the international level, however, may or may not be acceptable to Level II constituents. Essentially, the actions taken on either level affect and restrict the actors on the other.

Examining further into each level, Putnam calls the possible agreements that negotiators are willing to accept on the international level as determined by the domestic level their "win-sets." Each nation brings its own win-set to Level I based on what they believe will be possible to ratify on Level II. A successful international agreement finds overlapping win-sets, which are then acceptable to both the leadership of each country and their domestic constituents. During

negotiations, each representative must keep the realities of their domestic politics in mind in order to create an agreement that will be ratified by the legislature at home.[20]

In order to explain the irrational outcome of the US-Brazil trade dispute, both international and domestic levels of analysis must be considered. Putnam's two-level game theory can explain why the dispute remains as contentious today as twelve years ago and has no end in sight. Although both countries share mutual interests in a quick resolution to the dispute, it continues to be a point of contention between the US and Brazil due to domestic institutions and actors in both countries.

Negotiations

The world cotton market is one of the most manipulated by governments hoping to gain a competitive edge in the industry. In 2002, government policies worldwide provided $6 billion in support for the cotton sector, more than a quarter of the value of the market.[21] In 2012, ten countries provided significant subsidies for their cotton industries.[22] Developing and developed countries alike try to gain an edge over their competitors by providing subsidies or other support programs for their domestic cotton sectors. To prevent this sort of behavior and preempt escalation into trade wars, the World Trade Organization has a Dispute Settlement system which only functions because of the strength of norms of compliance between member states. The DS system is the international forum in which Brazil and the US have been negotiating over cotton. Both countries have a shared interest in lending the DS system legitimacy. They both rely on the system to target policies which are unfair for their own domestic industries. Brazil actively

[20] Robert D. Putnam, "Diplomacy and Domestic Politics: The Logic of Two-Level Games," *International Organization* 42, no. 3 (1988).
[21] John Baffes, "The 'Cotton Problem,'" *The World Bank Observer* 20, n. 1, Spring 2005, 110.
[22] "Cotton: Trends in Production, Trade, and Policy," Information Note for the International Centre for Trade and Sustainable Development (ICTSD), May 2013, 4.

participates in the DSU, bringing and resolving 24 trade dispute cases since 1995.[23] The US utilizes the system more frequently than any other country. It has been the complainant in 110 cases, winning concessions from dozens of countries.[24] Brazil took the cotton case to the DS system because both parties consider it to be a viable, fair, and reputable system to redress trade policy complaints.

When the WTO handed down its ruling, the US negotiators could not promise to take immediate action and remove the prohibited subsidies. This stemmed from the US' limited win-set, constrained by Level II actors. Although WTO norms required the US to remove the subsidies completely and quickly, the authorization for such actions comes from the US Congress. As a result, US negotiators attempted to appeal the decisions and stall action. When Brazil released a list of American products which would be subject to cross-retaliation in 2010, the US was forced to return to the table and come up with significant concessions. Brazil's threat was successful because it forced the US to change its win-set. It would be unacceptable for major US industries to face tariffs or loss of intellectual property rights in Brazil. By threatening valuable US industries, Brazil gained the bargaining power on Level II. The US had to rework its strategy to prevent Brazil's cross-retaliation against vocal, powerful, and organized domestic industries (pharmaceutical, chemical, and agribusiness). The US returned to the table with its number one priority being preventing these WTO-approved tariffs from being implemented. However, US negotiators remained hampered by US Congress. The next farm bill was not due until 2012, which gave the negotiators the ability to stall concrete action for another two years.

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[23]Gregory Shaffer, Michelle Ratton Sanchez, and Barbara Rosenberg, "Winning at the WTO: The Development of a Trade Policy Community within Brazil," Area de Relaciones Internacionales FLASCO/Argentina, Working Paper 14, 14.

[24] According to the author's count, using WTO Dispute Settlement database: http://www.wto.org/english/tratop_e/dispu_e/dispu_by_country_e.htm

However, Brazil was not going to walk away empty-handed. Because the US could not provide real action for another two years, American negotiators agreed to other concessions in the meantime. The US agreed to remove subsidies in the next farm bill and temporarily redress the imbalance caused by them by providing the funding for Brazil to subsidize its own cotton farmers. Sending $12.3 million per month to Brazil to avoid removing trade-distorting policies was an irrational, short-term solution to the trade dispute, as a direct result of Level II actors which obstructed changes to the law.

Members of Congress also found the Framework unconvincing. Representative Barney Frank of the House Financial Services Committee called it "the single stupidest public policy I have ever encountered." Representative Ron Kind considered it a bad example of how the U.S. should deal with trade disputes, and worked to stop the payments and force Congress to address the actual issue.[25] However, the US followed through with its commitment to send millions of dollars to Brazilian farmers until September 2013, when the previous farm bill officially expired. Once the US stopped its payments, Brazil once again considered retaliation. This time, US negotiators could only stall, promising a new farm bill was in the pipeline. When the actual Agricultural Act did go through in February 2014, it was viewed by the American Level II actors as accomplishing the goals set out in the Framework. It removed all of the subsidies that Brazil insisted on in its original win-set. However, it replaced the subsidies with an equally unacceptable crop insurance program.

In order to better understand these negotiations, one must examine the domestic actors which affect international level negotiations between the two countries. The US Congress has

[25] Bill Tomson, "In Budget Fight, Brazil Subsidies Divide Lawmakers," *The Wall Street Journal,* April 25, 2011.

struggled to juggle various interests in the cotton dispute. During the twelve years that this dispute has been ongoing, the House of Representatives has been controlled by the Republican Party for all but two terms. The G.O.P. is traditionally suspicious of international institutions which might force the US to change policy. In general, legislators are "less likely to question the legitimacy of U.S. conduct than to question the WTO's authority to pass judgment over the United States."[26] Yet, both parties do support US membership in the WTO since the organization has unquestionably benefitted US economic interests. But Congress' commitment to the WTO is complicated by interest groups which represent constituents and campaign contributors. Due to current campaign finance laws, members of Congress can and need to raise tens of millions of dollars to run campaigns every two years or six years. As the system exists, the incentives align with policymakers listening to the needs of the interest groups with the loudest voices and deepest pockets.

Cotton is an especially important crop across the southern United States, in the region known as the Cotton Belt.[27] Cultivating annually 15-17 million bales of cotton, providing 191,405 jobs, and impacting 21,245 businesses, the sector generates approximately $27.6 billion in revenues.[28] The US cotton industry includes seven sectors: producers, ginners, warehouses, cooperatives, merchants, oil seed crushers, and spinners. All are represented by the National Cotton Council (NCC), which has a highly professional lobbying team in Washington, D.C. According to Open Secrets, the NCC spent $960,000 on lobbying expenditures in 2013. The interest group hires 11 professional lobbyists.[29] In addition to the Council's lobbying efforts, it

[26] Robert Z. Lawrence, "The US and the WTO Dispute Settlement System," Council on Foreign Relations Special Report, March 2007.
[27] Randy Schnepf, "Brazil's WTO Case Against the US Cotton Program," Congressional Research Service, June 21, 2011, 2.
[28] "United States Cotton Production," National Council on Cotton, http://www.cotton.org/econ/world/detail.cfm.
[29] "National Cotton Council," Opensecrets.org, The Center for Responsive Politics.

contributes to representatives across party lines. It particularly supports representatives from the south, notably Representative Sanford D. Bishop (D-GA), Frank D. Lucas (R-OK), and Mike Conaway (R-TX). The top recipient of NCC contributions over his ten terms, Representative Sanford Bishop, has also received $1.4 million from the agribusiness sector as a whole.[30] The Chairman of the Agriculture Committee and original sponsor of the farm bill, Frank D. Lucas, received $10,000 from the NCC in the 2012 cycle and has already accepted $5,000 from the NCC in 2014. Texas representative Mike Conaway received $16,500 in 2012, and already this year has gotten $9,000 from the Council.[31]

The NCC has played an essential role on the US side of negotiations. The organization and its counterpart in Brazil, the Brazilian Association of Cotton Producers (Abrapa), have had direct dialogues and traded information on cotton. Before bringing the case to the WTO, Brazil's Brazilian Foreign Ministry (Itamaraty) and Camex consulted with Abrapa. The trade association supported the idea and helped Brazil's government develop its case and bankroll its costs. [32] This case is an example of what legal scholars Gregory Shaffer, Michelle Ratton Sanchez, and Barbara Rosenberg consider Brazil's recent strengthening of government capacity for public-private coordination to advance interests in the WTO. This capacity stems from communities of well-educated Brazilians who have built up expertise in international trade law. These individuals have spread beyond Itamaraty to work in law firms, business associations, consultant offices, and think tanks.[33] The professionalization of international trade law in Brazil has allowed its government bring stronger cases to the WTO, more frequently. This came after

[30] "Representative Sanford Bishop: Top Industries," Opensecrets.org, The Center for Responsive Politics.
[31] "National Cotton Council," Opensecrets.org.
[32] Marcos Fava Neves and Mairun Junqueira Alves Pinto, "The Brazilian Cotton Chain: Challenges and Strategies," ABRAPA Biennial Report 2011/2012, 7.
[33] Gregory Shaffer, Michelle Ratton Sanchez, and Barbara Rosenberg, "The Trials of Winning at the WTO: What Lies Behind Brazil's Success," *Cornell International Law Journal* 41, (2008), 389-390.

Brazil brought the cotton dispute and found success in the DS system. Brazil was the first country to challenge US agricultural subsidies in the WTO. According to scholar Mark S. Langevin, Brazil hoped to draw the world's attention to the impact they have on the developing economies of the world. In particular, drawing attention to the African farmers who are pushed out of the market by artificially low prices.[34] In 2002, the government of President Lula Inacio da Silva was brand new and energized with popular support. It decided to take this step because it had the necessary public backing and enthusiasm to take this kind of economic risk. Brazil opened the case by submitting a list of questions for the US. According to the president of Abrapa, the US government essentially responded by saying the information was available online, thus aggravating the Brazilians into adopting this case whole-heartedly.[35]

After President Dilma Rousseff replaced Lula, her administration continued to pursue a resolution to the dispute that best suited Brazilian interests. In general, President Dilma has expressed her frustration with U.S. trade barriers.[36] During various discussions between President Dilma and President Obama before 2013, she found that "the American President had come empty-handed, since he was unable to reassure Brazil on its bilateral trade concerns."[37] Representatives of the administration visited Washington, D.C. during the years Congress was trying to pass a new farm bill. According to Secretary Vilsack, on a visit in 2013 they "'very pointedly' reminded two senators who accompanied him, Agriculture Chairwoman Debbie Stabenow and Roy Blunt, of the retaliatory measures authorized by the World Trade

[34] Mark S. Langevin, "The Cotton Conflict," Foreign Policy Association Blogs, February 8, 2010.
[35] Helio Tollini, "Claiming rights already acquired: The case of cotton in the WTO and the new US farm bill," April 9, 2014.
[36] Tollini, 2014.
[37] Mahrukh Doctor, "Brazil's New Government and Trade: An Evaluation of Policy and Performance," *Critical Sociology* (November 1, 2012), Vol. 38, no. 6, 803.

Organization case won by Brazil."[38] That fall, when the US cut off its payments to the Brazilian Cotton Institute, Itamaraty expressed "indignation" to the US through an official communique. It also opened a panel on possibly retaliating.[39] After it threatened cross-retaliation, the US initially responded by threatening to retaliate against Brazil outside of the WTO framework.[40]

Itamaraty and Camex have worked closely with both Brazilian presidents to carry this case forward. After winning the right to cross-retaliate, the agencies are unlikely to have interest in settling for the status quo, which can be found in the new 2014 Farm Bill. Leaders of both agencies have expressed their frustration with the way the US has treated Brazil, with Foreign Minister Antonio Patriota calling for Brazil to be "treated as an equal."[41] This exemplifies Brazil's new confidence on the world stage. It has tied this case with its status as a rising power. The country has its reputation, pride, cotton industry, and future trade relations invested in this case. It has more reason to fight for a final victory than to concede its defeat after the 2014 Farm Bill. This bolsters Brazil's negotiating power on Level I. Although the US dwarfs Brazil in terms of trade and international power, Brazil's domestic actors will not accept defeat from their negotiators. This allows Brazil to stick to a narrow, but firm set of principles. Its win-set will not allow for the US to walk away after the farm bill passed. Abrapa has already met with Brazil's WTO ambassador to demand for the case to be re-opened. Until the US and its Level II actors change their win-set, the dispute appears unsolvable.

[38] Philip Brasher, "Vilsack Says Farm Bill Stalemate Might Worsen Trade Problems with Brazil," *CQ Roll Call,* August 9, 2013.
[39] Mariana Branco, "Brazil condemns US for suspending cotton indemnities," EBC Portal, October 4, 2014.
[40] Langevin, "The Cotton Conflict."
[41] "Brazil wants an equals relation with the US, says Foreign minister Patriota," Merco Press, March 19, 2011.

Policy Recommendation

After the 2014 Agricultural Act passed, US-Brazilian negotiations about cotton subsidies came to a standstill, with the Americans convinced that the dispute was resolved and the Brazilians hunkering down for another fight in the WTO. In order to avoid further damaging bilateral relations, the US should return to the negotiating table with the understanding that the farm bill did not in fact address Brazilian concerns. Putnam's two-level game framework offers a solution for this dispute. If the US can change the domestic interests affecting its win-set, it can change what it can negotiate with Brazil.

A new round of negotiations should look beyond traditional bargaining measures, to try and expand the number of domestic interests at the table and thus change the win-set for US members of Congress. Brazil's 2010 threat of economic sanctions was successful because it went after America's powerful pharmaceutical, chemical, and agricultural industries as well as the cotton sector. It forced members of Congress to expand and look at other interests. A similar tactic should be deployed to solve the current gridlock in negotiations. Instead of threatening more industries, the solution should positively impact more domestic industries, thus incentivizing them to support the changes. This analysis recommends that the US Congress dramatically rework its agricultural subsidies. The approach recommended would prepare the industry for the challenges of globalization and increased competition from abroad, without abandoning the industry.

Congress should follow the WTO ruling and completely remove its price-distorting subsidies. With the same funding, it should invest in research and development to increase US cotton production efficiency, in order to create a real international competitive advantage. Investment should go towards increasing the quality of farming machines, seeds, transportation

routes, and infrastructure. By developing the agricultural machinery industry, new actors will become invested in the outcome of the policy, and change the conversation between policymakers and cotton industry representatives. An additional positive outcome will be the development of a valuable export commodity which will further serve to boost the US economy.

The current gridlock comes from long-entrenched interests in US agricultural subsidies. Government support for US farmers has a long, significant history. A solution, therefore, has to be revolutionary and bring new actors to the table. Initially, a policy that attempts to uproot entrenched interests will face significant, well-funded opposition, however, by creating positive incentives for other big industries to get involved, this policy can avoid the wastebasket.

Conclusion

The US needs to maintain warm bilateral relations with Brazil. Due to the tradition of clientelism in US domestic politics, an expensive, unfair, and risk-removing crop insurance program has damaged this potential relationship. Because of Brazil's success at the WTO Dispute Settlement system, the US has slowly, unwillingly, and unconvincingly attempted to address its subsidies. This case study serves as a preview of an increasingly relevant phenomenon of developing countries taking their cases to international institutions on Level I. The US depends on WTO member states to comply with agreements that it itself fails to abide by, which makes it vulnerable to successful trade dispute cases. The US should fortify existing norms of compliance with WTO verdicts by removing cotton subsidies. But, due to the nature of money and politics in the US, this would be nearly impossible to accomplish without changing the US' win-set. Subsidies should be replaced by investment in the US cotton industry's future. New actors from other industries should be brought to the table to end the inertia of the current negotiations. Without significant changes, the US faces an increasingly frigid Brazil. The US

risks losing significant trade with Brazil to China, since China has seized more of the market. It also risks facing a coalition of developing countries which refuse to back down from demands and embarrass the US on Level I international forums, as has already happened in the Doha Rounds. It is ultimately in the interest of the United States and American cotton growers to remove these controversial subsidies and instead develop comparative advantage in the market.

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