

RUSSIA'S WTO ACCESSION: IMPLICATIONS FOR THE UNITED STATES

HEARING BEFORE THE COMMITTEE ON FINANCE UNITED STATES SENATE ONE HUNDRED TWELFTH CONGRESS SECOND SESSION

MARCH 15, 2012



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RUSSIA'S WTO ACCESSION: IMPLICATIONS FOR THE UNITED STATES

THURSDAY, MARCH 15, 2012

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:05 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Max Baucus (chairman of the committee) presiding.

Present: Senators Kerry, Wyden, Menendez, Grassley, Kyl, Cornyn, and Thune.

Also present: Democratic Staff: Russ Sullivan, Staff Director; Amber Cottle, Chief International Trade Counsel; Hun Quach, International Trade Advisor; Chelsea Thomas, International Trade Advisor; and Bruce Hirsh, International Trade Counsel. Republican Staff: Chris Campbell, Staff Director; Everett Eissenstat, Chief International Trade Counsel; Paul Delaney, International Trade Counsel; and Maureen McLaughlin, Detailee.

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The committee will come to order.

Catherine the Great once said, "There is nothing so difficult as to escape from that which is essentially agreeable." Russia joining the World Trade Organization presents a lucrative opportunity for the United States' economy and American jobs. We can all agree on that. We must all embrace, rather than escape, this opportunity.

Russia is the largest economy currently outside the WTO. It is the 6th-largest economy in the world. To allow American businesses, workers, farmers, and ranchers to seize the opportunity that Russia joining the WTO presents, Congress must act. We must pass permanent normal trade relations, or PNTR, to ensure that our exporters can access the growing Russian market.

If the United States passes PNTR with Russia, U.S. exports to Russia are projected to double within 5 years. If Congress does not pass PNTR, Russia will join the WTO anyway, and U.S. exporters will lose out to their Chinese and European competitors. These competitors will expand their exports at our expense.

Russia PNTR is a 1-sided agreement that benefits American workers and businesses and requires them to give up nothing in return. Unlike a free trade agreement, the United States will not further open its market to Russia. We will not lower any of our tariffs or make any other changes to our trade laws. It is a 1-way street.

Russia, on the other hand, will lower its tariffs and open its markets to U.S. exports. U.S. service providers will gain access to Russia's telecommunications, banking, and other key markets. U.S. meat producers will secure greater access to the Russian market, including a generous U.S.-specific beef quota of 60,000 metric tons. And the United States will get new tools for our toolbox to hold Russia accountable to its obligations. These include binding legal enforcement and transparency measures.

But, in order for U.S. businesses and workers to benefit from Russia joining the WTO, Congress must pass PNTR and repeal the Jackson-Vanik amendment. Jackson-Vanik denies normal trade relations to communist and former communist countries unless the President determines that the country permits free and unrestricted emigration of its citizens.

Congress originally passed the law in response to the Soviet Union's emigration restrictions, particularly with respect to its Jewish citizens. Jackson-Vanik served its purpose and helped millions of Jews emigrate freely, but it is now a relic of the past. Every President, regardless of political party, has waived Jackson-Vanik's requirement for Russia for the past 20 years.

When I traveled to Russia last month, I met with Russian and American business leaders, including Ron Pollett, who is here with us today. I also met with activists working to improve democracy, human rights, and corruption in their country, and I met with leaders of the Jewish community. The message from all of these activists was clear: the United States should repeal Jackson-Vanik and pass Russia PNTR.

In fact, earlier this week leading Russian democracy and human rights activists wrote two letters calling on Congress to repeal Jackson-Vanik. I am entering both letters into the record as part of this statement.

[The letters appear in the appendix on p. 39.]

The CHAIRMAN. One letter from the activists states that today the Jackson-Vanik amendment "only hinders the interaction of the economies and the peoples of the two countries and worsens the human rights situation in Russia." Repealing Jackson-Vanik weakens the ability of the hard-liners in Russia to rally anti-American forces.

The activists in the other letter explain that Jackson-Vanik is a very useful anti-American propaganda tool. As they stated, it provides a tool that helps "to depict the United States as hostile to Russia, using out-dated Cold War tools to undermine Russia's international competitiveness."

Repealing Jackson-Vanik takes away this tool and opens Russia to U.S. competition, to ideas, and to transparency. These activists have all raised serious questions about Russia's human rights and democracy record. I share these questions. But, like the activists, I believe that PNTR should not be in question.

We owe it to American businesses, ranchers, and farmers who are working to increase exports to the growing Russian market. We owe it to U.S. workers whose jobs depend on those exports, and we owe it to the Russia activists who are asking for our help in their fight for democracy.

So let us embrace this opportunity for our economy and for American jobs. In the spirit of Catherine the Great, let us move forward with that on which we can all agree. Let us work together to pass Russia PNTR.

[The prepared statement of Chairman Baucus appears in the appendix.]

The CHAIRMAN. Senator Kyl?

**OPENING STATEMENT OF HON. JON KYL,
A U.S. SENATOR FROM ARIZONA**

Senator KYL. Thank you, Mr. Chairman.

I think that I understand the message this hearing is intended to convey: American businesses want access to Russian markets, so we should repeal Jackson-Vanik and grant Russia permanent normal trade relations without delay and without conditions. It is a slam-dunk.

But it is not a slam-dunk. Let us stipulate that American businesses, farmers, and ranchers should be able to sell products to Russia, and that free trade is important and beneficial to the United States. We still need to determine whether America is getting a good deal through Russia's WTO accession, and whether more should be done to protect our interests.

For example, Russia has never ratified the bilateral investment treaty that the Senate ratified years ago. That treaty would prevent Russia from expropriating businesses, an admittedly big problem in Russia. This is a very basic economic right that is not being protected. In addition, one of our witnesses will discuss Russia's failure to remit royalties, which is also not directly covered by the WTO agreements.

And I submit, the administration is missing a point on the repeal of Jackson-Vanik, which ties most favored nation status to freedom of emigration. While emigration may no longer be an issue, Russia's blatant disregard for human rights and the rule of law is every bit as relevant today as it was decades ago.

Human rights cannot be divorced from the discussion of our economic relationship with Russia, particularly since some of the most egregious cases of abuse involve citizens exercising their economic and commercial rights. Consider the case of Sergei Magnitsky, the young lawyer who was imprisoned, tortured, and died in prison because he sought to expose economic corruption at the highest levels of Russian government.

Several of us have joined Senator Cardin in co-sponsoring legislation to send a clear message to those who commit gross violations of human rights that they will not have the privilege of visiting or accessing the financial network of the United States.

Mr. Chairman, I would like to submit for the record, at the conclusion of my statement, an op-ed in the *Wall Street Journal*, March 15, by Garry Kasparov and Boris Nemtsov on this issue.

The CHAIRMAN. Without objection.

[The article appears in the appendix on p. 48.]

Senator KYL. When the U.S. Ambassador to Russia, Michael McFaul, suggests that there is no association between a country's respect for individual liberties and its business environment, he is simply denying reality. When two parties enter into a contract, it

is essential that both parties operate in good faith. There is scant evidence that the Russian state operates in good faith. It has a troubling pattern of intimidation, disregard for the rule of law, fraudulent elections, human rights abuses, and government-sanctioned anti-Americanism.

Contrary to the administration's assertion, Russia is moving further away from international norms and values. In recent months, Moscow has not only blocked U.N. Security Council action on Syria, but has continued to sell arms to Assad's regime, which is responsible for the slaughter of innocent citizens. This is not a government that can be trusted to uphold its international commitments or give a fair shake to American businesses.

In looking only at the WTO context, Russia has not even lived up to all of the commitments it has already made on intellectual property rights, for example, as a condition of joining WTO. Russia remains on the U.S. Trade Representative's Special 301 Priority Watch List for IP violations. What makes us think it will live up to its commitments after being allowed to join WTO? Yes, we would have access to a WTO dispute settlement process if we grant Russia PNTR, but what has that gotten us in our trade relationship with China?

Twelve years ago Congress repealed Jackson-Vanik and authorized PNTR for China, and how did that work out? Well, USTR reports to Congress annually on China's compliance with WTO commitments. The most recent report is 127 pages long, filled with problems. The U.S. has used the formal dispute settlement process to address these issues only in a handful of cases. One case has remained open since 2007. Even in the rare cases that we would get justice, it is not speedy justice.

Despite all the structures of the WTO, China cheats, and continues to get away with it. If this is what we get from China, which ranks 75th among all countries on Transparency International's Corruption Perceptions Index, what can we expect from Russia, which ranks a dismal 143rd on the same list?

China was not granted PNTR without condition and without delay. It takes only a couple of pages of legislative text to repeal Jackson-Vanik, but the bill Congress passed had six separate subtitles dealing with the U.S.-China relationship. Given the current problems with our trade relationship with China, it probably was not enough.

It is simply unreasonable to believe that PNTR can be extended to Russia without a more thorough examination of the issues. So, yes, we should have free trade; yes, Russia should become part of the community of law-abiding commercial nations. The question is whether the proposed agreement and repeal of Jackson-Vanik gets us there.

Mr. Chairman, I hope this is not our last hearing on this subject.

[The prepared statement of Senator Kyl appears in the appendix.]

The CHAIRMAN. Thank you, Senator, very much.

I will now turn to our witnesses. First, we have Mr. Samuel Allen, who is chairman and CEO of Deere and Company. I must tell you, Mr. Allen, as you already know, when I was in Russia not long ago, I visited one of your plants there, an assembly operation

just outside of Moscow. I was very impressed with the people, and the products that you are selling to Russians are helping Russian agriculture. I very much appreciated that opportunity.

Next we have Mr. Ron Pollett. Good to see you again, Ron, having talked with you when I was over there in Russia, in Moscow, not long ago. Mr. Pollett is president and CEO of GE Russia. Thanks very much again, Mr. Pollett.

Next, Mr. Watty Taylor. Watty is one of our guys; he is from Montana. He is president of the Montana Stockgrowers Association, a 2nd-generation family rancher from Kirby, MT. Thank you, Watty, very much for coming to join us.

Next, we have Mr. Paul Williams, president and chairman of the board of the American Society of Composers, Authors, and Publishers. Thank you very much, Mr. Williams. Senator Hatch sends his special regards to you. He could not be here today, but he wanted me to tell you how much he appreciates working with you in various matters. It has meant a lot to him, and he deeply regrets he cannot be here.

Mr. WILLIAMS. I appreciate it. He has been very kind.

The CHAIRMAN. Yes. And finally, Mr. Alan Larson, chairman of the board of Transparency International USA. I must tell you, Mr. Larson, I enjoyed meeting with the director of Transparency International Russia in Moscow last month. I think her name was Elena. Very, very impressive, sharp, intelligent lady, and a very compelling story to tell of why she is back in Russia and did not stay over in Brussels. But thank you, all five of you, very much for coming today.

The usual practice, as I am sure you are aware, is just to submit your statements for the record and speak about 5 minutes. I urge you to be just very direct and forthcoming, candid. Tell it like it is.

Mr. Allen, you are first.

**STATEMENT OF SAMUEL ALLEN, CHAIRMAN AND CEO,
DEERE AND COMPANY, MOLINE, IL**

Mr. ALLEN. Thank you. Chairman Baucus, Senator Kyl, distinguished members of the committee, my name is Sam Allen, chairman and CEO of Deere and Company. On behalf of John Deere and the Business Roundtable, thank you for the opportunity to provide testimony today on the importance of establishing permanent normal trade relations with Russia to John Deere and the U.S. business community.

Granting PNTR is crucial for U.S. manufacturers, service providers, and agricultural producers to receive the full benefits of Russia's WTO accession. It is essential to enable us to compete on a level playing field for Russian customers.

The reasons are clear. First, PNTR will ensure equal treatment for U.S. companies doing business in Russia. Here is a concrete example: Russia has committed, upon accession, to significantly reduce its tariffs on imported agricultural equipment from 15 percent to 5 percent. However, it is likely that Russia would not extend the lower tariff rates to U.S.-made products until it is granted PNTR.

U.S. companies like John Deere, thus would be at a competitive disadvantage relative to our foreign competitors, and we would

have no recourse to the WTO should disputes arise. This would negatively affect our U.S. operations, because many of the products we sell in Russia utilize components closely connected to jobs in our facilities in the American Midwest.

Second, PNTR will strengthen commercial ties between the two countries. PNTR will subject U.S.-Russia trade to the WTO-based adjudication process for trade disputes. It also will promote transparency and certainty through WTO rules, ranging from service regulations to agricultural standards to intellectual property rights.

Third, granting PNTR will directly benefit U.S. workers, manufacturers, service providers, and agricultural producers, helping to maintain and create good jobs here in the United States. Russia's large and growing economy, coupled with PNTR, presents significant opportunities for U.S. companies to serve customers across many sectors. Russia is already one of the world's largest markets, with a nearly \$2-trillion economy and a rapidly growing, well-educated middle class.

John Deere has had a presence in Russia for over 100 years. This has greatly expanded in recent years with investments in two factories, including our newest facility just outside Moscow, which Chairman Baucus did recently visit. These facilities use components produced and exported from John Deere facilities in Iowa, Illinois, North Dakota, and other States to produce agricultural, forestry, and construction equipment for the Russian market.

This activity directly affects jobs at eight Deere factories that are supported by almost 2,800 suppliers located in 45 States. In fact, we recently announced a \$70-million investment in our Waterloo, IA facility to expand our production capabilities for large tractors for which Russia is a leading export market.

We are also exporting Deere business values and standards. Our Russian operations apply the same high standards for compliance, integrity, safety for our workers and customers, product quality, and environmental stewardship that we have in our facilities here in the United States and around the world.

Our interests and investments reflect the enormous potential for the Russian economy in the segments which are especially significant for our business. Russia can become a major contributor to meeting the world's fast-growing demand for food and forestry products as the global population expands and becomes more affluent.

Let me close with a few words about Deere's business experience in Russia. Our experience overall has been positive—yes, with frustrations from time to time, but little different than in any other emerging market.

We understand the challenges of doing business in Russia, but we recognize the enormous opportunity as well. Enhancing trade relations and strengthening business connections will improve the overall business climate to the benefit of both the American and Russian people.

PNTR with Russia is, simply put, a benefit to the United States rather than an accommodation to Russia. There is a strong business case for congressional approval of PNTR. I urge the Congress to carefully consider the matter, but then to act quickly to ensure that U.S. companies, their workers, and shareholders receive the

benefits from the outset of Russia's long-awaited WTO membership.

Thank you again for the opportunity to testify. I will be pleased to respond to any questions that the committee may have.

The CHAIRMAN. Thank you, Mr. Allen, very much.

[The prepared statement of Mr. Allen appears in the appendix.]

The CHAIRMAN. Mr. Pollett, you are next.

**STATEMENT OF RONALD POLLETT, PRESIDENT AND CEO,
GE RUSSIA/CIS, MOSCOW, RUSSIA**

Mr. POLLETT. Chairman Baucus, Senator Kyl, and distinguished members of the committee, thank you for the opportunity to testify today on a subject that I feel is of critical importance: the opportunity to grow the U.S. economy and U.S. jobs by establishing permanent normal trade relations with Russia.

Just a moment of background about me. I am a U.S. citizen, born and raised in New York. I joined GE in 1991 and for the past 13 years have been living and working in Russia. For the past 6 years, I have also served as chairman of the board of the American Chamber of Commerce in Russia, with more than 700 member companies, the largest and most influential foreign business association in the country.

So I have been in a unique position to witness firsthand the dramatic changes Russia has undergone in such a short period of time, and I truly believe that Russia is now poised to become an even more active and significant player in the global economy. But I have also been in a position to observe how, on the whole, U.S. businesses are under-represented in the Russian market. I believe PNTR can change this.

Russia presents extremely good opportunities for U.S. companies, provided—and this is an important proviso—we are able to have a level playing field. Such a level playing field is essential for U.S. companies to take advantage of these opportunities.

Russia is a big, fast-growing economy. But the U.S. has a relatively small presence in the Russian market, accounting for just 4 percent of Russian imports. By contrast, east Asia and the European Union accounted for 29 percent and 43 percent, respectively.

When I arrived in Russia in 1998, GE had \$110 million in sales. Last year, we had more than \$1.6 billion in sales, and our industrial businesses alone saw almost \$1.2 billion in U.S.-origin orders from Russia, up from \$410 million in 2010. These orders support more than 3,000 jobs for GE and its suppliers in the United States, and we believe that our sales, with PNTR, could triple by 2020.

For U.S. companies to take full advantage of Russia's growing market, however, Congress must repeal the Jackson-Vanik amendment and establish PNTR with Russia. Let me offer a few concrete examples of what Russia's WTO accession and PNTR will mean for GE.

Russia is the 4th-largest electricity market in the world. GE Energy, with 38,000 U.S. employees, will see average tariffs fall from 12 to 5 percent on gas turbines. These turbines are principally produced in South Carolina and Texas.

Russia is looking to double its spending on health care. With more than 22,000 U.S. employees, principally in Wisconsin, Texas,

and New Jersey, GE Healthcare will see tariffs on medical equipment fall from 15 to 4.3 percent.

Russia has the world's second-largest railway system. Some 10,000 locomotives will need upgrades, to the tune of \$10 billion. This is an enormous opportunity for GE's transportation business, based in Pennsylvania, which employs over 8,300 U.S. workers.

GE is also the largest supplier today of foreign aircraft engines to Russia and the largest aircraft lessor. GE Aviation, with 25,000 U.S. workers, and our GECAS leasing business stand to benefit as Russia reduces its tariffs on aircraft engines from 20 to 5 percent. These GE products are made in Ohio, Vermont, Kentucky, and North Carolina, not to mention hundreds of suppliers in 34 States.

It is not simply lower tariffs. WTO commitments to eliminate non-tariff barriers, implement a high standard of IPR protection, and improve transparency are critical for U.S. companies. Without PNTR, the U.S. would have no recourse to WTO dispute settlement should disputes arise.

If the U.S. does not grant PNTR to Russia, American companies and their workers will be at a significant disadvantage relative to our global competitors. Equally concerning is the signal that would be sent to Russia. At a time when export growth is key to the U.S. economy, we would be rejecting an important opportunity while our competitors take advantage of our absence.

One thing is clear: Russia will join the WTO whether or not the U.S. grants PNTR status. The vote to accord PNTR to Russia is about one thing and one thing only. It is about the ability of American companies to compete on a level playing field, according to the same set of rules, with foreign companies eager to do business in a fast-growing economy.

I urge this committee and the full Congress to allow the American economy and American workers to be able to reap the benefits of these opportunities. Thank you.

The CHAIRMAN. Thank you, Mr. Pollett, very much.

[The prepared statement of Mr. Pollett appears in the appendix.]

The CHAIRMAN. Mr. Taylor?

**STATEMENT OF WATTY TAYLOR, PRESIDENT,
MONTANA STOCKGROWERS ASSOCIATION, HELENA, MT**

Mr. TAYLOR. Good morning, Chairman Baucus.

The CHAIRMAN. Good morning.

Mr. TAYLOR. Senator Kyl, distinguished members of the committee, thank you for the opportunity to speak to you on behalf of the Montana Stockgrowers Association regarding our point of view on Russia's accession to the World Trade Organization.

My name is Watty Taylor, and I am a rancher from Kirby, MT. I currently serve as the president of the Montana Stockgrowers, one of the Nation's oldest and most historically significant cattle ranching organizations, established in 1884. I, along with my wife Lyla and three sons, operate a commercial Hereford and Angus cow/calf operation on 30,000 acres in southeastern Montana. Ranching has been a vital part of my family heritage for many years.

Ninety-six percent of the world's population lives outside the borders of the United States. We must have access to the additional

demand for beef from consumers who live outside the U.S. if we hope to remain successful. Russia was the U.S.'s 5th-largest export market for beef in 2011.

We can now achieve a significant increase in our exports to Russia, thanks to the provisions of Russia's WTO accession agreement. These provisions include a large, country-specific beef quota and lower tariffs for high-quality beef. This will be greatly beneficial to my family's ranch if Congress passes PNTR legislation. I am confident that we can provide a significant amount of high-quality beef, as defined by the agreement.

Montana is leading the way to produce large volumes of USDA quality grade "choice" and "prime" cuts of beef. We have a reputation for raising superior cattle genetics that perform in many different kinds of harsh environments. Our hardy northern-tier ranch-level certified calves will meet the demand for high quality.

It is also exciting that Montana is currently exporting several thousand head of our superior cattle to Russia to help establish a more vibrant domestic beef industry. The possibilities are endless. In fact, Montana ranchers are currently living and working in Russia to establish western-style cattle ranching enterprises.

While Russia is a tremendous opportunity for our beef, we need to ensure that we do not run the risk of facing unscientific restrictions. Montana ranchers have always appreciated the efforts by Chairman Baucus to move us toward trade agreements that are based on sound science and international standards.

In particular, ensuring that Russia lives up to its WTO commitments on sanitary and phytosanitary standards, along with other technical issues for beef, is crucial. Without PNTR, we will not be able to enforce these commitments.

Recognizing the international science-based standards is very important. It not only creates less market volatility, but it also encourages the safest, most prudent production practices. Issues that are most important to ranchers with regard to Russia include:

(1) Tetracycline. We encourage the adoption of the Codex Standard for tetracycline residues in beef.

(2) Beta-agonists. We encourage the adoption of standards for beta-agonist residues in beef that are based on scientific risk assessments conducted according to internationally recognized methods.

(3) Bacterial parameters. We encourage the adoption of science-based standards for bacterial contamination in the unfortunate event that beef becomes contaminated with bacteria, such as salmonella or lysteria.

(4) Sanctions policy. Once Russia has adopted science-based standards, we encourage them to implement a risk-based sanction policy for U.S. beef shipments that do not comply with those standards.

(5) Veterinary equivalents. We encourage the use of the 2012 meat plant audits by the Russian veterinary service to make a determination of the equivalence of the U.S. meat inspection system.

(6) USDA food safety inspection service as the competent authority. We encourage the recognition of FSIS as the competent veterinary authority of the United States. This includes recognizing FSIS

authority to approve and suspend U.S. beef establishments for export to Russia.

(7) In addition, we need to ensure that Russia fully implements the tariffs and quota concessions they have agreed to make on beef. Extending permanent normal trade relations to Russia will give us the means to enforce those concessions and give Montana family ranchers the momentum we need to benefit our rural ranching economies at home.

Exports create jobs. Our competitiveness depends on profitability and attracting the next generation of ranchers back into the business. Our ranch families' livelihood depends on exports, which are our most dynamic and vibrant opportunity for long-term sustainability.

I appreciate the opportunity that I have been granted to present my testimony today, and I look forward to working with you throughout the course of this process to secure permanent normal trade relations with Russia.

I am happy to answer any questions that you may have. Thank you.

The CHAIRMAN. Thank you, Mr. Taylor, very, very much.

[The prepared statement of Mr. Taylor appears in the appendix.]

The CHAIRMAN. Mr. Williams?

**STATEMENT OF PAUL WILLIAMS, PRESIDENT AND CHAIRMAN
OF THE BOARD, AMERICAN SOCIETY OF COMPOSERS,
AUTHORS, AND PUBLISHERS, NEW YORK, NY**

Mr. WILLIAMS. Thank you, Chairman Baucus, Senator Kyl, and members of the committee. My name is Paul Williams. I am an American songwriter. It is an honor and a privilege to appear in my capacity as president and chairman of the board of ASCAP, the American Society of Composers, Authors, and Publishers, and on behalf of our 427,000 American songwriter, composer, and music publisher members.

Senators, I am not here today to address rampant Russian copyright piracy, which other U.S. copyright interests have historically addressed. Rather, I am here to bear witness to the challenges U.S. music creators face in securing fair compensation for public performance of our music through "normal" channels in Russia.

With reproduction royalties declining globally, public performance royalties increasingly determine whether a talented music creator can remain a professional or is forced to take a day job to subsidize a music hobby. Bill Withers at one time said to his Senator, "You don't want us taking day jobs, Senator, because you're liable to wind up with Ozzy Osborne as your plumber, and then you're in a lot of trouble."

Such a transition would be a huge loss not only for American culture, but also for our economy. ASCAP members are overwhelmingly the owners of small, innovative businesses. I have always said that I am metaphorically the perfect president for ASCAP. I am a small businessman, Mr. Chairman.

Music creators and owners depend on the efficiencies of performing rights organizations, PROs, like ASCAP to license their public performance rights and collect and distribute royalties. For example, I have been blessed to make a living writing songs, but

I live in California. How am I, a songwriter living in California, expected to collect royalties for performances of my songs throughout the world? ASCAP does this for me. I love ASCAP.

We rely on a network of reciprocal relationships with foreign PROs in countries all over the world. These foreign royalties can constitute an ever-increasing portion of American music creators' income. It is over one-third, and it makes a positive contribution to our balance of trade.

I am sad to report, however, that we are grossly underpaid for public performances of our works in Russia. A few comparisons prove my point. With the French and Italian economies, roughly the same size, our performance royalties collected in 2009 in France are 11 times greater—viva la France!—and in Italy, almost 9 times greater.

Denmark—Denmark—with only 4 percent of Russia's population and an economy one-tenth the size of Russia, collects nearly twice as much for public performances as does Russia. It is clear that American music creators are not reaping the benefits from Russia's passion for American music and movies. Why is this? We believe the Russian legal system handicaps the efforts of RAO—that is ASCAP's Russian counterpart—in collecting public performance royalties.

RAO is fully qualified under Russian law to act as a collecting society for U.S. music creators. Yet, Russian courts often do not follow the law. They do not follow the law. Russian courts demand extraordinary, costly documentation of RAO's right to represent ASCAP members, and sometimes they simply refuse to recognize the standing of RAO to do so. It makes no sense.

Further, ASCAP composers are supposed to receive royalties for the public performance of music in movies exhibited in Russian theaters. In fact, RAO has sent us royalties through the years in the past. But there is no doubt that such royalties could be increasingly significant, as American movies are enormously popular and widely distributed in Russia. Everybody loves American movies.

In January, three of the top five grossing films in Russia were American, including the wonderful film *Hugo*, whose score was written by an ASCAP writer, Howard Shore. However—however—meritless legal challenges now threaten RAO's authority to collect from this critically important source of royalties for U.S. music, which translates to food on the table, gas in the car, and taking your kids to school.

Finally, Russian fiscal authorities require RAO to collect—this is the icing on the cake—a value-added tax, or VAT, at a statutory rate of 18 percent from our royalty distribution! Eighteen percent from our royalty distribution. No other PRO in the world deducts this VAT from our members' royalties.

Although Russia grants a VAT exemption for other intellectual property, this exemption is not extended to copyrights. Senator, this is just plain unfair and adds insult to injury, given the apparent under-collection of royalties.

We are realists. We know there is no magic wand that our government can wave to ensure American music creators and copyright owners are fairly compensated in Russia.

However, regardless of what happens with PNTR, we ask that the U.S. Government help us achieve the following goals, three simple things.

Three things we ask: Russian judges and lawyers must receive better training and education in the handling of foreign copyrights; Russia must stop its discriminatory VAT treatment of U.S. songwriters; and they must clarify that its law provides a performance right for music incorporated in audiovisual works and movies.

Based on our ongoing problems with China, we are under no illusions that Russia's entry into the WTO by itself will improve the predicament of ASCAP members. If Congress decides to grant PNTR, the U.S. Government must aggressively use all available enforcement tools to protect American songwriters, composers, and publishers. Agreements without enforcement may be worse than no agreement at all.

It is a great honor, Senators, to sit down in front of you and share my thoughts with you. It is a privilege to be here, and I thank you for that.

The CHAIRMAN. Thank you, Mr. Williams. As I said, Senator Hatch wished he were here to participate with you. Thank you.

Mr. WILLIAMS. He is a damn good songwriter, did you know that?

The CHAIRMAN. I know.

Mr. WILLIAMS. And a member of ASCAP.

The CHAIRMAN. I know that, too. I have heard some of his songs. They are pretty good.

Mr. WILLIAMS. They are good.

The CHAIRMAN. Yes. They are very good.

Mr. WILLIAMS. Exactly.

The CHAIRMAN. Yes.

Mr. WILLIAMS. They get even better when I am in his office.

[Laughter.]

[The prepared statement of Mr. Williams appears in the appendix.]

The CHAIRMAN. Next, Mr. Larson, former—were you Under Secretary of State in the Bush administration?

Mr. LARSON. Yes, sir.

The CHAIRMAN. Clinton and then Bush administration?

Mr. LARSON. Clinton and Bush.

The CHAIRMAN. Clinton and Bush. So, thank you very much. The Honorable Alan Larson. Thank you very much.

STATEMENT OF HON. ALAN LARSON, CHAIRMAN OF THE BOARD, TRANSPARENCY INTERNATIONAL USA, WASHINGTON, DC

Mr. LARSON. Chairman Baucus, Senator Kyl, distinguished Senators, thank you for the invitation to testify. My testimony is informed by many experiences: formerly as Under Secretary of State for Economics during the Clinton and George W. Bush administrations, currently as senior international policy advisor at Covington and Burling, and currently as chairman of the board of directors of Transparency International USA.

In 2009, my Transparency International counterpart—whom I am very pleased you had the opportunity to meet, Mr. Chairman—and I participated in a private sector group that prepared and sub-

mitted a joint report to President Medvedev and President Obama entitled, "Russia-U.S. Joint Working Group on Investment and Institutional Integrity." Separately in 2009, I served as co-chair of a private sector advisory committee that provided the administration with recommendations on a new bilateral investment treaty.

My written statement describes three sets of disciplines. You could think of them as a triangle that forms the foundation for a solid rule of law framework for international business activity: first, trade disciplines; second, investment disciplines; and third, institutional integrity.

When only one or two of those are in place, the rule of law framework for business is not as strong, nor as stable as it is when all three sides of the rule of law triangle are in place. I believe Congress and the administration should be partners in ensuring that all three sides of the rule of law triangle become firmly established in our economic relationship with Russia.

In my testimony—in my written testimony—I urged that six actions be taken: one relating to trade, two recommendations relating to investment, and three recommendations relating to institutional integrity and controlling corruption.

I believe Congress should be engaged in, and exercise continuing oversight on, these actions which will strengthen the rule of law for business. First, Congress should extend permanent normal trade relations to Russia. Doing so is in our foreign policy interest, and it is in our economic interest.

Second, the administration and Russia should initiate, and vigorously pursue, negotiations for a bilateral investment treaty which both countries' legislatures then should ratify. Russia failed to ratify an investment treaty negotiated in 1992, and, as a result, U.S. investors in Russia lack important rule of law protections.

Third, the administration should advocate for U.S. investors in Russia and vigorously espouse the claims of U.S. investors in Yukos Oil, whose investments were expropriated in 2004 through 2007. In the absence of an investment treaty, these investors do not have the opportunity to pursue dispute settlement through investment treaty arbitration mechanisms.

Fourth, the administration should vigorously work to ensure that all parties to the OECD anti-bribery convention, including Russia, fully carry out their commitments under the convention to prevent overseas business bribery by their nationals.

Fifth, Russia and the United States should intensify work to ensure that Russia's customs tax administration and judiciary are freer of corruption.

Sixth, Russia and the United States should cooperate to expand the scope for civil society organizations such as Transparency International to monitor, investigate, and report on suspected instances of corruption.

I believe the executive branch and the Congress can be, and should be, partners in this work. I would urge the executive branch to present to Congress a plan to implement all of these measures to strengthen the rule of law.

I would urge the Congress to exert active and continuing oversight to ensure that the executive branch presents a plan, implements that plan vigorously, and makes progress for business in

putting into place all three sides of the rule of law triangle—the trade side, the investment side, and the institutional integrity side. Thank you.

The CHAIRMAN. Thank you very much, Mr. Larson.

[The prepared statement of Mr. Larson appears in the appendix.]

The CHAIRMAN. Some American businessmen tell me they do not want to do business in Russia, do not even try, because of corruption. It is just not worth it. In fact, I think I saw a study somewhere where an international organization ranked countries according to political corruption, and Russia was pretty close to, not the bottom, but it was way down near the bottom.

So I would like to ask Mr. Allen, Mr. Pollett, or you, Mr. Larson, Mr. Taylor, any of you who wishes to respond, what should be done about that from the U.S. perspective? Does granting PNTR help or hurt in that effort? Mr. Allen?

Mr. ALLEN. From our perspective, we have been doing business, as I indicated, for a long time and have had a significant presence now in the last decade. Corruption is an issue. There is no doubt that it exists.

But there is corruption in a number of countries, and it is the company and its business conduct that is the important part of this. When we go to these countries, countries like Russia, we establish strong conduct guidelines, and we assure that our operations run themselves that way. We think that ends up being a promoter of improved conduct in the entire business community.

I can tell you that, when you establish a reputation there, that way you can be effective. The plant that you visited was built in 9 months. Nine months. That is hard to do anywhere in the world. People say it cannot be done in Russia because of all of the “corruption.” It was done ethically, all above board, and done in a 9-month period of time, working in conjunction with Russian government officials.

So it is something that we have to deal with. We take it very seriously. We enforce it very seriously with our people. But no doubt about it, permanent normal trade relations will only continue to improve the climate. You will not solve it overnight, but it will improve the climate.

The CHAIRMAN. Mr. Pollett, what do you say about that? I have talked to a good number of American businessmen who say, I am not going to go over there, it is too corrupt.

Mr. POLLETT. Mr. Chairman, I would like to echo many of the comments made by Mr. Allen. We have had the similar experience in many markets around the world. When you work outside the United States, you need to be prepared to be working in different environments, including addressing corruption.

At GE, of course, we work according to the rules in every country where we are. It does make it more challenging, probably more expensive. You have to have a lot more lawyers in Russia.

The CHAIRMAN. What do you tell a mid-sized company, not as large as GE?

Mr. POLLETT. It is more challenging, to be honest. We have a very large profile in the country. We have a large profile at the government as well, and they know who we are. It is easy for us to push back, to be very honest with you. But I have been there

for 13 years, and I have seen a very dramatic improvement from what it was like back in the late 1990s, early 2000s.

The CHAIRMAN. So, how much will granting PNTR, or failure to grant PNTR, help or hinder mid-sized American companies from doing business in Russia?

Mr. POLLETT. I think it would help because it brings us together into the WTO rules-based system. I think it is something that is very important that will help all American companies, not just the large multinationals.

The CHAIRMAN. Will it help encourage Russia to join the OECD?

Mr. POLLETT. Yes, it will.

The CHAIRMAN. Why?

Mr. POLLETT. They have already signed up to do that. There is a real sense, from what I see, that they do want to start doing some of the right things. They need foreign investment. They need companies to come in, and they need to be improving their operating environment. They recognize that as something they need to work on.

The CHAIRMAN. All right.

Let me ask you, Mr. Larson, about corruption and how to deal with it. You mentioned that a bilateral investment treaty needs to be negotiated. Will we be more likely or less likely to get that treaty with or without PNTR for Russia?

Mr. LARSON. Thank you. First of all, I would like to say that I do think that the two corporate leaders who just spoke have organizations that have shown themselves to be very serious about overseas corruption, and they have, frankly, very fine track records. We are privileged to be able to work with them on some of these issues.

Second, Senator Kyl mentioned in his remarks that Russia—as you did, too, Chairman Baucus—ranks very, very low on the Corruption Perceptions Index, and that reflects the fact that there is a widespread view among international business leaders and others that this is a serious problem in Russia.

Third, I think it is a very good thing that Russia has decided to become a member of the OECD anti-bribery convention and has passed a law. They will not necessarily implement that instantly—a lot of western European countries did not—but it is a very good start that they are trying to discipline their own companies in respect to overseas bribery.

Many, many observers say there is a very serious problem in Russia, especially in the customs tax administration and the judiciary. I think that the administration needs to continue to work with Russia on that.

I noticed that Vladimir Putin, in an op-ed that he published in the *Washington Post* recently, said that there is a problem of systemic corruption, and he wants to, he said in this op-ed, tackle it.

Well, we ought to take him up on it. The administration, in my opinion, ought to propose to Congress a plan for how they can follow up and work with the Russian government to tackle this problem to the benefit of our U.S. businesses.

I do think that civil society organizations like Transparency International have a role to play. I think there should be scope for

them to report on suspected instances of corruption, to be able to do that.

Finally, Mr. Chairman, you asked about PNTR and its impact on all this. I think PNTR is definitely a plus, not just for trade relations, but it imposes a degree of discipline in trade relations that is a positive step on the rule of law. It is necessary. It is not all we need to do, but it is very, very important.

The CHAIRMAN. Thank you. Thank you very much.

Senator Kyl?

Senator KYL. Thank you, Mr. Chairman. I think we are getting right to the nub of the problem here, and that is, you talk about the three legs of the stool. When is the best time to negotiate over the other two legs of the stool, is it after you have granted PNTR or before?

That is really the question, it seems to me. You have a little bit stronger hand to play if we explain that on, for example, the Bilateral Investment Treaties, we want the Duma to ratify the treaty that the United States has ratified. Expropriation is not something that in this day and age ought to be permitted among rule-abiding commercial nations.

We will talk about Yukos in just a moment here, but is it not—rather than urging the administration to begin addressing the problem after PNTR—is this not the time that we would be better off addressing these problems, so that we could get the commitments up front, rather than trying to achieve them after we have granted the status? Let me ask you first, Mr. Larson.

Mr. LARSON. Senator Kyl, I think you raise a very important point. It is not an easy one, to be quite honest. I think that, in my experience in diplomacy, it is important not to let perfect be the enemy of good. I think my own personal view is that we should seize the opportunity that is created by PNTR, extend PNTR and have Russia be in the WTO.

But if we stop there, then we have only done part of the job. I think, as I said in my oral remarks, this is something where the Congress and the administration should work together. It need not be a partisan issue. It is something that—

Senator KYL. Yes. Let me just interrupt. This is not a partisan issue.

Mr. LARSON. I know.

Senator KYL. And yes, Congress and the administration need to work together. My question goes to when we are most likely to get cooperation, which, let us face it, has been very difficult coming.

I want to ask Mr. Williams a question, if I could here.

Mr. LARSON. But can I just—

Senator KYL. Sure.

Mr. LARSON. One half-sentence to finish.

Senator KYL. Sure. Sure.

Mr. LARSON. All right. Thank you, sir.

I do think it is very important that Congress seize the opportunity to ask the administration to come forward with a plan for how they are going to implement these other sides of the rule of law triangle.

Senator KYL. Yes. Great. And I appreciate that. Our leverage is, we will withhold action until that plan is forthcoming, and we can

negotiate with the Russians. None of us here objects to the proposition that Russia can accede to WTO with U.S. approval. And our good folks doing business abroad will do even more, and that will help us here in the United States. There is no disagreement about that.

The question is, how do you negotiate the very best situation with a country that has dragged its feet over and over and over? And again, I hope to be able to get to the Yukos situation in just a moment. But Mr. Williams talked about a very practical problem, the very practical problem of the Russian court system.

I just want to ask you, given the track record that you identified, do you have concerns that granting Russia PNTR before the Russian Duma takes steps to implement the intellectual property reforms and the other WTO accession commitments, reduces the leverage that we might otherwise have?

Mr. WILLIAMS. Absolutely. I do have concerns. I am also 71 years old, and I have reached that point in my life where I know that, when you move into an area where I lack the expertise to say one is better than the other, I would have to point it out that I am the wrong person to tell you that we need to make these adjustments before or after PNTR is granted.

I will tell you, we are in the rare position at ASCAP and as music creators, unlike these gentlemen who have—and I understand your stance completely. We are in a position where, whether it is granted or not, our music is going to continue to grow, and movies will continue to grow in the country.

So my specific concern, and as an organization, we do not have a specific stance on PNTR. I am sympathetic to it. Individually, I will tell you right now, I sit here and I can imagine watching the prospects of China stepping in if we cannot do business.

For my organization, I have to represent them, and I would say that what we need is, no matter what happens with PNTR, we need some aggressive action from the part of the U.S. Government dealing with the Russian government, and dealing with the judges, dealing with the value-added tax that is totally unfair. Hopefully we will not wind up with a situation like China, where—you know, Senator, I get more money from Honduras than I do from China. It is terrifying.

Senator KYL. And because my time is so short, that is the point I am trying to make here. We tried to anticipate all the things that we could hold China to. We had a very thick document with China. Yet, you saw the report that I held up. It is very difficult, after you have granted the status, to then get them to really fulfill the commitments that they have made. That is the concern we have about granting the status to Russia prior to the negotiation of these other two legs of the stool.

I am not suggesting that we can have perfection at any time when you are dealing with an emerging country like Russia, but at least you ought to try to understand, when you have the best negotiating position, to demand those things that, after all, are simply matters of rule of law that other commercialized nations recognized long ago.

Mr. WILLIAMS. If I may, Senator, the one element that is of greatest concern to us too is that the value-added tax could become

a precedent for other countries, and the damage to American music creators, songwriters, and composers is beyond what I could state here. It would be huge.

Senator KYL. I thank all of the witnesses. I wish I had a chance to visit with all of you. Thank you.

Mr. WILLIAMS. Thank you.

The CHAIRMAN. Thank you very much, Senator.

Senator Cornyn?

Senator CORNYN. Thank you, Mr. Chairman. Mr. Chairman, I want to spend my time actually covering a subject that may or may not call for a response from the witnesses, but I will invite that at the end. On February the 5th, Russia and China blocked a U.N. Security Council resolution that would have endorsed an Arab League plan for Assad in Syria to step down. It would have supported a demand that Syrian troops withdraw from towns and start transitioning to democracy.

This is just the latest incident in which Russia has, for its own reasons, intervened in a way that destabilizes the world and helps Iran, in this instance, which is the main beneficiary of the continued regime of President Assad, to stay in power. But I want to highlight this issue. This has to do with how President Assad is getting arms with which to kill innocent Syrian citizens, some 8,000 of them according to reports from the United Nations.

It is not only a question of Russians exporting arms to Syria to kill innocent civilians, it is also the fact that the Department of Defense, the U.S. Department of Defense, has a contract with that same Russian arms exporter.

I sent a letter, Mr. Chairman, to Secretary of Defense Panetta, along with 16 colleagues, a bipartisan letter raising this issue, and I would like to have that made part of the record.

The CHAIRMAN. Without objection.

[The letter appears in the appendix on p. 43.]

Senator CORNYN. I appreciate that.

Well, imagine my surprise when I found that Russia is not only selling weapons to Hugo Chávez in Venezuela and to the Mullahs in Tehran, also Syria, but also that we have a contract at the Department of Defense to sell a set of helicopters, the 21 dual-use MI-17 helicopters for the Afghan military from Rosoboronexport. This is a no-bid contract awarded by the Army just last summer, several months after the Syrian uprising began, and it is worth \$375 million.

That is \$375 million U.S. taxpayer dollars going to a Russian arms merchant, arming President Assad, and with which he is killing innocent Syrians. It does not require a leap of logic to conclude that the proceeds of this contract are helping to finance these mass atrocities. I should also note that Syria has a history of not actually paying for those weapons.

According to press reports, during a 2005 state visit by Assad to Russia, then-President Vladimir Putin wrote off nearly 75 percent of Syria's \$13.5-billion debt to Russia for past arms sales. I think it is unconscionable that U.S. taxpayers would be put in this position where their hard-earned tax dollars would indirectly subsidize mass murder.

Yet, the Department of Defense has so far refused to cancel this contract, even in the face of mounting evidence that Rosoboron-export remains a key enabler of the Assad regime's campaign of murder and intimidation.

Let me just conclude by asking a rhetorical question, and any comment any of the witnesses would care to make would be welcomed. Sure, we want to create jobs here in America. We want to trade with international partners and grow the economy both in those trading partners' countries and here in the United States.

But at what point, whether it is corruption, whether it is enabling international terrorists, States like Iran, whether it is arming thugs and murderers like President Assad in Syria, do we say the cost is just too high in terms of sacrificing our basic values and protecting human rights? Mr. Allen?

Mr. ALLEN. That is quite a set-up.

Senator CORNYN. Well, I did not intend it as a set-up. I intended it as an honest question, and if you have anything you would like to say about it, I would appreciate it.

Mr. ALLEN. I will try to do my best. As I was listening, those are all other issues out there. What I am not able to correlate is how PNTR status will—and preventing it—in any way, change those issues. Those issues still need to be solved. I would argue that giving Russia PNTR status, giving a chance for all of us to continue to move that country along, will be a positive.

I think what a lot of people are not looking at right now is, this is not just about growing jobs. They are going into the WTO. If we do not go with it, it is about losing jobs because our businesses are all going to go down vis-a-vis our competitors. I have real-life examples I could give you.

The CHAIRMAN. Senator Menendez? No, Senator Kerry, you are next. I will let them decide between themselves who is ready. Do you want to wait, Senator?

Senator KERRY. I will just wait one round, yes.

The CHAIRMAN. All right.

Senator Menendez?

Senator MENENDEZ. Thank you, Mr. Chairman. I want to pick up on what some of my colleagues have spoken about here. I appreciate that Russia presents a tremendous business market for American companies and that WTO rules will hopefully level the playing field for American companies to do business in Russia.

But at the same time, lifting Jackson-Vanik is a huge benefit to Russia, and I am sure all of you as business people understand the essence of leverage in a negotiation. That is not something that is abstract. I think you do that all the time in your businesses. It seems to me this is a moment in which there is leverage at the end of the day. This is a huge benefit to Russia, both politically and economically.

A lot of us are not feeling like this is a good time to be rewarding Russia for anything. The recent elections make a mockery of democracy. Democratic governments are far better for business to operate under. Transparency, rule of law, safety of contracts, protection of intellectual property—that happens more likely in a democracy than not. The human rights situation in Russia is not improving.

The case of Sergei Magnitsky, which my colleague Senator Cardin has been the champion of, is not an exception, unfortunately, by any means. When we asked for help from Russia at the U.N. Security Council to stop Iran from acquiring a nuclear weapon, and to help prevent the killing of innocent citizens in Syria, we got “nyet” in return.

Now, let me make the case for our business friends about how that affects us here. Look at what gas prices are going through because of instability in Iran, gas prices not only for consumers in America and drivers in America, but for the creation of products, when all of you use fuels that are necessary for creation of a product or the transportation and delivery of your products to the marketplace. So I look at this, and I can make real connections, not only on the principle of human rights, but on the economics of it as well, domestically.

So what I would hope we would see from the business community, which seems to be lacking, is a dual-track approach that addresses everyone’s needs and concerns, where we find a way forward on repealing Jackson-Vanik but also find a way forward on trying to improve Russia’s human rights records. We need a vehicle like the Magnitsky bill, for example, that sends a message to Russia that we are serious about human rights and that we will deny visas and block assets of persons who are human rights violators.

So I would like to ask, particularly the members of the business community here, do you not see the correlation between the consequences of a Russia that does these things and the domestic concerns that we have that actually affect your businesses, in addition to the value that you obviously see, as it relates to WTO accession?

And can you not join in the voices that say, yes, let us remove Jackson-Vanik so that we can get the full benefit of Russia’s participation in the WTO, but let us also pursue these other things that actually have an effect, not only in terms of our legitimate interests in human rights and democracy, but also in real economic consequences here back at home.

And then finally, I would like to ask that of all the business leaders. To Mr. Larson, I would like to ask, do you perceive the ability of Russia to eliminate the pervasive corruption that seems to affect all aspects of Russian life?

Many American companies, particularly in the energy sector, have seen contracts broken and agreements altered by heavy-handed regulation and open-handed bureaucrats. Will the WTO membership actually solve all those problems? So I would like to get those two, quickly if we can, because I have about a minute left.

Mr. ALLEN. So, my quick part, I would say, first, most people recognize India as a large democracy. We deal with every bit of the corruption in India that we deal with in Russia. So I think we certainly want to see that corruption change, but the culture and the continued movement forward is going to be a long process. It will not be an event-driven process.

Senator MENENDEZ. And on the first part of my question, do you not see the nexus between the actions Russia takes that affect us here domestically, economically? You do not see that effect upon your company?

Mr. ALLEN. Yes, I do see those actions. There is a timing issue that is also—the part that I keep trying to reinforce is, they are going to move into the WTO, and we are going to lose any additional leverage as a result of that. They will be doing trade with other partners, and we will be at the disadvantage, and we will have less opportunity to influence them going forward as a result of that.

Senator MENENDEZ. Mr. Chairman, if I could just get Mr. Larson to answer the latter question.

Mr. LARSON. Thank you, Senator Menendez. What I have recommended is that, on the occasion of congressional consideration of PNTR, that the administration should present a plan for tackling some of these corruption issues: (1) making sure that Russia adheres to its obligations under the OECD anti-bribery convention, which it has just joined; (2) that there be serious cooperative effort to tackle the issue of corruption in customs, tax administration, and the judiciary; and (3) that there be scope for civil society organizations to report on instances of suspected corruption.

I think all of that is part of creating a strong rule of law framework for business. I also believe that the extension of PNTR and repeal of Jackson-Vanik is a part of that rule of law framework. That also will assist, but I think we should do both.

The CHAIRMAN. Thank you.

Senator Kerry?

Senator KERRY. Mr. Chairman, thank you. I want to thank you for your statement. I thought you hit the nail on the head, and I appreciate your leadership in this effort. As chairman of the Foreign Relations Committee, I think we are all, on our committee, pretty sensitive to the complexity of our relations with the Russian Federation. We held hearings recently on the subject of human rights and democracy in Russia, and I expect we will continue to do that.

But, I would say to Senator Kyl and others who are sort of questioning this thing, we are sort of talking past each other a little bit here and I think missing the point. Russia is going into the WTO. This is not a negotiation like Panama or one of the other trade treaties we had, where we were opening up and lowering tariffs, and doing things. We are not there. We do not do anything. Russia is in the WTO. If we do not lift Jackson-Vanik, we are denying our own workers access. That is all that happens here.

What is interesting is—I hope, Senator Kyl, you have seen the letter recently. It was an open letter by Russian opposition activists stating their strong view that the continued application of Jackson-Vanik to Russia is “not helpful for the promotion of human rights and democracy in Russia,” and efforts to punish Russia by retaining Jackson-Vanik restrictions only “darken Russia’s political future, hamper its economic development, and frustrate its democratic aspirations.” So, I think we have to listen to the folks in Russia who are on the ground fighting for some of these things, number one.

Number two, we ought to just sort of look basically and factually here. Russia is going to join the WTO whether or not we grant PNTR. Granting PNTR is the only way American workers and producers are going to see the benefits of Russia’s accession to the

WTO. So, if we want to cut off our nose to spite our face, we can sit here and complain about what is happening there. It is a pretty simple equation.

So let me ask Mr. Pollett, who produces in our State—and we are proud of what GE does up there in its aviation subsidiary—will failing to pass PNTR for Russia not put your workers in Massachusetts at a disadvantage when we are trying to sell into the market without it?

Mr. POLLETT. It would absolutely put us at a competitive disadvantage to our European and Asian counterparts.

Senator KERRY. And you would not have recourse to WTO arbitration, would you?

Mr. POLLETT. Correct, Senator.

Senator KERRY. So what are the risks of losing market share in Russia if we do not pass PNTR?

Mr. POLLETT. To the tune of hundreds of millions of dollars, and probably several hundred U.S. jobs in the aviation industry.

Senator KERRY. And I understand that the bilateral treaty that we have on the most favored nation status only applies to exports in goods. Is that correct?

Mr. POLLETT. Correct.

Senator KERRY. So even with our bilateral agreement, if we do not pass the PNTR, that does not deal with it, because the largest trade gains are probably going to be in services. Is that not correct?

Mr. POLLETT. Also correct.

Senator KERRY. And the only way we open that up is to lift Jackson-Vanik?

Mr. POLLETT. Correct.

Senator KERRY. Because Jackson-Vanik, which is—incidentally, I would say to my colleagues, we ought to do the things we say we are going to do. Jackson-Vanik is about emigration. Every President has signed off, since it went into effect in 1974, that they are dealing with emigration. We did it in order to allow the emigration of Soviet Jews. That has happened, and is happening.

So we send a terrible message as we try to negotiate with people when we kind of pull things out and misapply them and counter-apply them. We do not have any protection under the bilateral agreement, do we, on intellectual property rights? I think Mr. Williams spoke to that. And the dispute settlement process at WTO at least gives us that kind of protection, does it not, Mr. Williams?

Mr. WILLIAMS. Well, in China WTO did not exactly solve all of our problems. To give that specific example, in 2001 China was admitted to WTO. In 2009, they established a rate for our music on radio and television. Incidentally, it was a tiny rate, and they paid us for that year and that year only.

So, as I listen to you talk about the human rights issues and all these elements and the problems everyone is facing, you make amazing sense. I understand that. But for my organization, we are looking at a situation where WTO is simply, without really aggressive action from our government to protect—

Senator KERRY. Well, we need aggressive action. I mean, a lot of folks here, myself included, have been arguing that we need to get tougher.

Mr. WILLIAMS. Yes.

Senator KERRY. And we can do more within the context of China, and I think we are pushing to do that. But my time is running out. I do not mean to cut you off, but I want to ask Mr. Larson one question here.

Does the existence of Jackson-Vanik today further the cause of democracy and human rights in Russia in any way that we can measure?

Mr. LARSON. I have testified that I think that removal of Jackson-Vanik and extension of PNTR is an important step in establishing a rule of law basis for our relationship. I think there are a lot of other things that we should do, and I am urging that we go forward with those as well.

Senator KERRY. Our Ambassador to Russia has called for \$50 million of new money to be supportive of civil society development efforts in Russia. Given your familiarity with Russia, do you think we should make that money available, and could it be put to good use for reform efforts?

Mr. LARSON. I think that would be a good step. We have to strengthen civil society in Russia. One of the things I advocate is that we work with the Russians to establish more space and freedom for civil society organizations, like Transparency International, to call out instances of suspected corruption and deal with them. I think strengthening non-governmental organizations such as those is a good thing. As I understand this proposal, that would be one additional tool for doing so.

The CHAIRMAN. Your time is——

Senator KERRY. Sorry. My time is up.

The CHAIRMAN. I think Senator Kyl would like to——

Senator KYL. Just one second. Since Senator Kerry might have been out of the room when I put the letters in the record, the piece in the *Wall Street Journal* by Kasparov and Nemtsov specifically referred to the letter that you quoted.

As they say, of course no one in Russia is foolish enough to defend Jackson-Vanik, but we also understand it should be replaced with something else, and we said as much in our letter when we recommended the passing of the Magnitsky Act, as has been done in Europe.

The CHAIRMAN. Next, Senator Grassley?

Senator GRASSLEY. I was in and out because of other committee meetings. I think that, looking over your testimony and hearing what I heard, I do not have any disagreement with the points you made.

I would like to make this point, and maybe it refers more to agriculture than it does to other aspects of our economy. But Russia was invited into the WTO, and, if they change their laws by a certain date in June that they have to change them, then it is our responsibility to deal with Jackson-Vanik. In various times in the past, I have found reason to vote to change Jackson-Vanik for particular countries.

The thing that bothers me is that, once a country is in the WTO, I know we have the process of the WTO to resolve differences. It is kind of a very rigorous process, and one that is not very easy to predict what might happen, but you hope the rule of law is going to govern in the final analysis.

But between now and whenever we have to deal with Jackson-Vanik, it seems to me that the White House is not doing what they ought to be doing to use the pressures that we have yet to make sure that, particularly in agriculture and particularly with pork, that Russia lives up to the spirit as well as the responsibilities of the WTO. That is what I would call upon the White House to do, if they want to have smooth sailing on the Jackson-Vanik proposition.

I will yield back the rest of my time, Mr. Chairman.

The CHAIRMAN. All right. Thank you, Senator.

Senator Wyden?

Senator WYDEN. Thank you very much, Mr. Chairman. I thank you for holding this hearing. I think it is particularly important. I chair the Trade Subcommittee here at the Senate Finance Committee, and to me, really the threshold question on this whole issue is respect for rules.

The question about how permanent normal trade relations for Russia would in effect bring about better compliance of trade rules—as a trade supporter, I have consistently supported these trade agreements. What I have tried to say is, free trade does not mean trade free from rules.

I have real questions with respect to the United States using its WTO rights to insist that Russia comport with global trade rules, and I think part of what you have said in particular today, Mr. Williams, raises some of those concerns. That is what I want to explore for a minute. You all have talked about the challenges in terms of doing business in Russia. We are talking about discrimination, corruption, expropriation, a failure to enforce intellectual property rights, a host of issues that relate to this question about rules compliance.

For me, an indicator of the administration's appetite to enforce Russia WTO commitments might be found in looking to the degree of interest we have seen in enforcing the eligibility criteria for the Generalized System of Preferences, what is known as GSP. I want to just spend a quick minute looking at how GSP has applied to Russia.

Now, GSP is a preferential program—we have looked at it on the Trade Subcommittee—that provides duty-free treatment of imports from Russia so long as Russia complies with the eligibility criteria that Congress established in the program. The criteria include effective protection of intellectual property, equitable access to Russian markets, and a requirement that Russia not expropriate property. So I want to ask a question of you, Mr. Williams, and you, Mr. Larson, because you have touched on it.

So you have had some experience, Mr. Williams. This is not an abstract kind of question. You have had experience with respect to the intellectual property question. I would just like to ask you about what happened when you brought your concerns about Russia's lax enforcement of intellectual property to the U.S. Trade Representative. What did they do about it?

Mr. WILLIAMS. You know, this is a greatest country in the world to be a songwriter in. I had complete access to State, to Commerce. I can sit down with Victoria Espinel at the IP Enforcement Office, and I get an immediate response. We have used a 301 in other

areas, in China and in the Caribbean. What we are dealing with in Russia that is unique, I think, is that the organization that we are dealing with, RAO, is pretty straight-ahead.

This is not a fly-by-night organization, but they are constantly—the Russian government is completely unwilling to really accept the fact that they represent us and that we can do business back and forth.

So my problems are not with the way that we are being handled in the United States. I have had wonderful access. What you have given us today, the opportunity to really, as you look at PNTR, you give us the unique position of being able to come and walk into this room and state our position.

So, we have had wonderful response from our own government, but we need more aggressive—if we are going to move forward with or without the PNTR, we really need more aggressive action from our government to the Russian government in protecting our rights. This value-added tax is horrific and has the potential for affecting our livelihood in the future.

Senator WYDEN. My concern, Mr. Williams, is, if we are not seeing GSP criteria used to try to get you and others a fair shake—and it goes to a point Mr. Larson made as well—why would we expect it would be used on WTO rights?

Mr. WILLIAMS. I do not know. The quick, honest answer is: I do not know. All I know is we have tools that can be used within the government, and my request is that you will honor us with that.

Senator WYDEN. My time is up. Mr. Chairman, can Mr. Larson just respond?

The CHAIRMAN. Go ahead. Did you have another question?

Senator WYDEN. No, no, Mr. Chairman. My time is up. If Mr. Larson could just respond to the question.

The CHAIRMAN. Sure.

Senator WYDEN. Great. Thank you, Mr. Chairman.

Mr. LARSON. Senator, my point of view is that we do need to make a concerted push as a country on a range of rule of law issues in Russia. I advocate the extension of PNTR and the repeal of Jackson-Vanik. But I think at the same time it would be important for the administration to come forward, to the Congress, with a plan for addressing some of the issues you just raised, some of the issues I raised in my testimony about the investment relationship, and some of the issues that we all have with the corruption environment, and to present it to the Congress, and for the Congress to have a process for holding accountable the administration and making progress to address these issues.

This would be a path going forward that would have us working together, between the Congress, the administration, and Russia, to strengthen the rule of law. It would not interfere—I am not talking, Mr. Chairman, about a conditional extension of PNTR. I am just saying, let us tackle all of these problems right now as we tackle immediately the PNTR issue.

Senator WYDEN. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Mr. Larson, I am glad you made that very clear, that it would not be conditional. I think that is a very important point you just made, that it not be conditional. You would like the United States,

as we all would, to negotiate a bilateral investment treaty with Russia.

You would like us to grant PNTR to Russia. Ordinarily, in all negotiations with countries and businesses and whatnot, you sequence your goals and you try to leverage one against the other to get a mutual agreement. You would agree, would you not, that this is not that case? That is, there is no leverage here. I believe that countries generally do not grant concessions, trade concessions, altruistically out of the goodness of their heart. They do not do that. They only do it if there is leverage. You have to leverage a country to give in to something, to do something it knows it should do, but otherwise gets away with not doing. You need leverage.

Now, in this case PNTR is not leveraged. There is no leverage here. If the United States does not grant PNTR, that does not hurt Russia one whit. It hurts the United States dramatically. If we do grant PNTR, it helps Americans. It does not help Russia, it helps us. As was pointed out earlier, this is not a free trade agreement negotiation. There is no negotiation going on here. Either we grant PNTR—that is, ourselves—or we do not.

If we do not, we deprive Americans access to Russian markets, we deprive Americans access to the WTO procedures. We are just hurting ourselves; we are not hurting the Russians. I agree, we should talk to Russia about a bilateral investment treaty. We cannot sequence these things, because there is no leverage. There is no leverage here.

The United States has no leverage over Russia on PNTR. We only hurt ourselves; we do not hurt them. But it is true. At the same time, in my judgment, we should start talking aggressively and seriously to Russia and to China, and every other country that is not following the law and the rules here.

Mr. Larson?

Mr. LARSON. I agree with that. But I do think we have leverage with Russia, but not on PNTR.

The CHAIRMAN. Not on PNTR.

Mr. LARSON. No. We are in agreement.

The CHAIRMAN. And this hearing is on PNTR.

Mr. LARSON. No, no. And all I am saying is that I think in the context of considering extending PNTR, it is the time to have a plan for tackling these other issues, and to make sure that we are aligned between the Congress and the administration.

The CHAIRMAN. Right. And I think, why did Russia join the WTO? Well, Russia wants to join the WTO, and I guess it will if the Duma grants it later on this year, because it wants to be part of the world community, and it will help Russia's economy as well as its stature if it is part of the WTO. But Russia is already going to be part of the WTO, irrespective of what the United States does here.

So the question is, once Russia has joined the WTO, do we help ourselves by granting PNTR, or do we hurt ourselves by not granting PNTR? At the same time, I believe Russia very much—many in Russia, not all; I am sure there is a battle in Russia going on—does want to address a lot of the concerns we have been talking about.

For example, a more independent judiciary. I have spent a lot of time—not a lot, some time—in Russia talking about the need for a more independent judiciary in several ways. One is to have a transcript. Have a transcript of proceedings, judicial proceedings. There are no transcripts these days. Second, to have default to trial by jury, not by the judge. Third, transparency—open judicial proceedings, not closed judicial proceedings. You get all that together, and that is going to very much help.

I asked President Medvedev about those three points and he, I will not say disagreed, but he basically agreed. Then I asked, do you agree with the premise of my question that these changes are really critically necessary for Russia to advance, and he said, yes, he agrees to the premise of my question.

Then after that, too, with all the points that human rights groups have made over there in Russia, namely repeal of Jackson-Vanik helps us address our human rights causes. It does not hurt us, it helps us, because otherwise sometimes Putin, sometimes others, will then use the failure of the U.S. to grant PNTR as leverage, as a foil to attack the United States and help themselves politically. So I just think this is a no-brainer.

At the same time, we have to work very hard to address the Syria issues, Iran, Magnitsky, missile defense. They are all extremely important, but we do not have leverage over Russia on any of those issues with respect to PNTR. We would have to find other ways to use leverage.

Senator KYL?

Senator KYL. Well, Mr. Chairman, let me just ask a question of Mr. Larson. If we pass legislation for PNTR and nothing else—in other words, we do not deal with Jackson-Vanik—have we accomplished anything?

Mr. LARSON. Senator, I think the way that we can accomplish something, and what I—

Senator KYL. No, this is a really simple question. I will put it a different way.

Mr. LARSON. All right.

Senator KYL. Is it not necessary to repeal Jackson-Vanik for the adoption of PNTR to mean anything for U.S. businesses?

Mr. LARSON. We need to repeal Jackson-Vanik and extend PNTR for our businesses to get the benefit of Russia joining the WTO.

Senator KYL. Exactly. That is why there is leverage. Nobody here can say that the Russians do not want repeal of Jackson-Vanik. They do. This is something the Russian leadership wants desperately. It is something Putin talks about. Mr. Chairman, your comments reflect that. So there is leverage. There is leverage with regard to Jackson-Vanik.

The CHAIRMAN. Just so I am clear—because that is not what I said—I want to make clear what I said. I said that Putin and others used failure to repeal Jackson-Vanik as leverage. So, if we repeal it, it is no longer leverage.

Senator KYL. The point is, in deciding whether or not to repeal—

The CHAIRMAN. You want leverage to help them?

Senator KYL. Mr. Chairman, if you want to argue with me—they need Jackson-Vanik repealed. They want it repealed desperately. That is beyond any argument.

The CHAIRMAN. I disagree with that.

Senator KYL. All right. Then we have a disagreement here on the dais.

The CHAIRMAN. That is not what I found.

Senator KYL. And I believe that the United States has leverage with Russia, that good Russian commercial business folks would like to see the United States have an opportunity to do better business with Russia. They would like to see these rule of law changes that all of you have identified here. They understand that corruption and the lack of an investment treaty are hurting investment in Russia. They understand that.

They would like to see Jackson-Vanik repealed so that the PNTR would be effective, and that would help us as well. But I think it is absolutely erroneous to say that there is no leverage for the United States with respect to Jackson-Vanik.

The question is, will it go beyond the human rights abuses, like the Magnitsky Act, which I presume will be a part of this, or will it involve other changes as well? I am simply suggesting that we have an ability here to get the Russians more engaged than they have been, and that rather than doing this without any other conditions, as you say, like the Magnitsky Act, I think we ought to consider that. This is not a question, but I think, Mr. Larson, your comment is, yes, it would be ineffective without the repeal of Jackson-Vanik, just passing PNTR.

Mr. LARSON. What—

Senator KYL. And also your point, which is that there is some leverage between the two branches of government here, that Congress has an ability to engage the administration perhaps more than the administration has been engaged.

Mr. LARSON. I just want to state the sentence the way I see it, and try not to step in between the chairman and Senator Kyl on this last issue.

The CHAIRMAN. No, no, no.

Mr. LARSON. But here is what I am advocating, Mr. Chairman.

The CHAIRMAN. You can step in wherever you want to step in. Do not worry about that.

Mr. LARSON. Here is what I am advocating. I think that it is the right time for the administration to work with the Congress to establish a plan for moving forward on all of these aspects of rule of law. They all relate to the business environment: investment, corruption, and PNTR. I think, as I have said before, that we should move forward.

As part of that consideration, we should move forward with the extension of PNTR. I think you said, Mr. Chairman, that the Duma itself has to—Russia has to take its actions. I understand that intelligent observers believe that is likely to happen sometime in June or July.

So I think we should be thinking about what needs to be done in the United States in that same time frame, one, on PNTR, but two, on cooperation between the Congress and the administration

on how we are going to tackle the other rule of law issues that we see.

Senator KYL. Thank you.

The CHAIRMAN. Thank you.

Just one final point for Mr. Taylor. Watty, I might tell you that a few people in our State have been following this and want us to grant PNTR. Last weekend when I was home, I got my hair cut at the Capital Barbershop in Helena, MT by Larissa. Larissa is a Russian. She told me that she has been following this, and that she had written to her relatives in Russia, telling them they could expect to get more American beef, especially Montana beef. I was very, very pleased to hear that.

Could you just tell us a little bit about how we can improve our export markets under this proposal?

Mr. TAYLOR. Senator Baucus, going to PNTR is going to give us country-specific tariff rate quotas that we do not currently have under the bilateral agreement or Jackson-Vanik. The other thing that this does is, this opens us up to high-quality beef, which is what we are very good at producing in this country. That will go in under, I believe, a 5-percent tariff with no quota. I think we can take full advantage of this.

To address some of these other issues, I guess what I would like to say is this. If we do not do it, if we are not trading with Russia, somebody else will. I think we want our influence to be in Russia. I think we want them to go to a democratic style of government.

Our people who are sending cattle over there, and are in those enterprises over there, I think are a perfect example, and they can show these people what democracy is all about. I think that is something that agriculture, I think, displays very well.

The CHAIRMAN. Thank you so much for saying that. One thing that struck me, and I had mentioned this already to Mr. Allen, and it just stuns me, is how big the potential of agriculture is in Russia. When your manager there, Mr. Allen, told me that in Russia—first of all, I was very impressed with the equipment over there. He was very, very careful when I asked, well, what is your Russian competition?

He did not want to be too critical, but he was very appropriate in describing just the high quality that Deere has. But the main point I am making is, your manager over there told me that, when a manager of a Russian farm tells his operator where to combine, where to disk, where to drive his tractor, the manager tells the operator, well, you get up first thing in the morning and you just go straight as far as you can, and do not turn. You just go straight. Then midday, you stop and you turn around and come back. That is how big some of those fields and pastures are over there. I was just stunned.

He told me also about the arable lake regions in Russia. He told me about the water. Irrigation is going to soon be available. How much water there is in Russia on a per-person or per-hectare basis compared with other countries—it is just tremendous potential over there. But I would tell you, Watty, we think we have big places in our State? Some of the places over there are pretty big. But thank you for your testimony.

Senator Thune?

Senator THUNE. Thank you, Mr. Chairman. Thanks for holding the hearing. I want to thank our panelists for coming and providing your testimony and responding to questions. This hearing is somewhat unique in that we are actually talking about whether or not to repeal the law, the Jackson-Vanik amendment as it currently applies to Russia. I think a lot of people believe it has outlived its usefulness.

I know that that will probably be a discussion that will continue here. But I think it is important that we do everything we can to provide U.S. businesses greater access to markets. There is a growing export market in Russia.

I know that people like Mr. Williams are interested in intellectual property protections, which is something obviously that would be addressed when Russia does come into the World Trade Organization, with some of the disciplines that exist there.

So I guess this is an issue where, as you look at the economics of it at least, it certainly looks like it is sort of a 1-way street in terms of the benefit to U.S. producers and exporters.

But I wanted to just ask a question, and I guess maybe of Mr. Pollett and Mr. Allen. It is hard to ignore the fact that American companies have very little market penetration in Russia. In fact, right now, U.S. producers account for about 4 percent of Russia's total import market, while the EU accounts for about 43 percent.

I guess my question is, why is this the case? Then perhaps a follow-up to that, if the United States does not grant Russia PNTR status, do you expect this disparity to grow even larger than it is today?

Mr. ALLEN. From our standpoint, maybe to frame it, we did about \$800 million of business in Russia this last year. Seventy percent of that was products that came out of the Midwest. So, that is kind of the opportunity. Because of what the chairman talked about in terms of Russian agriculture potential, we think our market is going to grow by 4 to 5 times.

It has not grown up to this point in time because the whole country is starting to develop and move away from the Russian-based equipment that is very low in productivity, to running high-productivity farm operations, but that transition is now going on.

To answer the second part of your question, our number-one competitor over there is another western company called Claas out of Germany. Germany will have the benefits of WTO with Russia, so, if we do not pass PNTR, what is going to happen is, they immediately have a major benefit from a cost standpoint to us, and, instead of seeing our business grow 4 or 5 times, we will see our business shrink.

Mr. POLLETT. Senator, I think one of the reasons why we are so small over there is because of historic and geographic issues. They are pretty far away. Germany is much closer, France is much closer, much more competitive as well. I mean, I think one of the things that these countries do is they very much focus on exports. They bring out their principals to sell their products, and that is something that the U.S. could do more of to help us sell more.

I also think that the improvement of U.S.-Russia relations has helped to actually improve the business case, and it is going to help us going forward. We might say that the relationship has not im-

proved, but I think it has improved pretty much over the last several years from what it used to be, and that has helped U.S. businesses; it has helped open doors.

Senator THUNE. If we do not grant Russia PNTR status, the second question is, do you see the disparity that exists today between—I mean, you have described what I think are some of the geographic advantages built in for Europe, but does that disparity in terms of penetration in that market grow—

Mr. POLLETT. We will be looked at as basically giving them an economic slap, and they can throw their government orders to other countries that would cooperate more on an economic front with them. I think it would have a negative reaction.

Senator THUNE. I want to just follow up. The Senator from Montana would like to export more Montana beef. We would like to export more South Dakota beef.

The CHAIRMAN. A little of both.

Senator THUNE. Yes. A little of both. It is a big pie. We need to grow the pie. But in your testimony, and I would say this to Mr. Taylor, you did talk about the importance of beef producers and of Russia's WTO commitments on sanitary and phytosanitary standards.

Which of these commitments do you believe are most important to ensure market access for U.S. beef? How important is it for beef producers to have access to the WTO dispute settlement procedures to ensure that Russia's commitments are enforced?

Mr. TAYLOR. Senator, I think all these are important, simply from the fact that, as you go down the road, some of them always become protectionism. But I think trying to bring Russia in line with scientific data and international standards is what we seek from all our trading partners. That is what levels the playing field for all of us.

But we most definitely have a product that, 10 years ago, was not even going into Russia. Today, we are exporting over 45,000 metric tons. That is more than what we are sending to the EU. So, it is definitely an expanding market. From our standpoint as cow/calf producers, the profit that is coming to our business is from our export market, whether it be Russia, Korea, or whatever. That has substantially helped us. We need it, to keep up with the cost of doing business.

I know from my standpoint, I am not making any more money today than I was 5 years ago, maybe less, because it costs me that much more to do business than what we have been getting.

Senator THUNE. I see my time has expired, Mr. Chairman. I do think that there is tremendous upside for American agriculture. If we are going to continue to see the types of commodity prices that have helped agriculture prosper in the last few years, we have to continue to look for ways to open up more markets around the world. Ninety-six percent of the world's population, as we know, lives outside of the United States. So there is, I think, tremendous upside. You look at what we are doing in Russia today relative to what we might be able to do, and it certainly looks like a target-rich environment.

Mr. TAYLOR. Senator, your State is involved in this, in the export of live cattle to Russia. It has been brought to my attention that

the population of cattle in Russia in 1917 was 18 million. That is roughly one-fifth of what we have in the United States. Today, it is 400,000. We will probably ship somewhere close to 50,000 head to Russia in the next year.

We have a long ways to go to get Russia up to the standards they need to meet. We have an expanding population worldwide that we are going to have to feed on the same land that we have today. So, I think it is pretty crucial and critical to all of us to move Russia forward.

Senator THUNE. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Thank you, all witnesses. You were all very, very helpful. I deeply appreciate your taking the time to come and talk to us. Thank you very much.

The committee is adjourned.

[Whereupon, at 11:47 a.m., the hearing was concluded.]

A P P E N D I X

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

**STATEMENT OF
SAMUEL R. ALLEN
CHAIRMAN AND CEO
DEERE & COMPANY
BEFORE THE COMMITTEE ON FINANCE
UNITED STATES SENATE
WASHINGTON, DC
MARCH 15, 2012
RUSSIA'S WTO ACCESSION –
IMPLICATIONS FOR THE UNITED STATES**

Chairman Baucus, Ranking Member Hatch, and members of the Senate Finance Committee. Good morning and thank you for the opportunity to appear before the committee today to discuss a topic of considerable importance to John Deere and to the American business community.

I am Sam Allen, Chairman and CEO of Deere & Company. I am speaking today on behalf of my company and the Business Roundtable, of which I am a member.

Later this year, Russia will accede to the World Trade Organization, an event that has been many years in the making. The United States business community has long supported Russia's WTO membership, both as a means for accelerating its growth and development, and as a means for strengthening commercial ties between the two countries and creating a business environment where Russia ascribes to global rules and norms.

While Russia's membership in the WTO is a significant achievement, a considerable impediment to expanded U.S.-Russia trade and commercial activity remains -- the U.S. Congress must now pass legislation graduating Russia from the 1974 Jackson-Vanik amendment and establishing permanent normal trade relations (PNTR) with Russia. U.S. companies will not be able to receive the full benefits of Russia's accession, and thus will be unable to compete for Russian customers on a level playing field, until Congress passes such legislation.

PNTR with Russia is, simply put, a benefit to the United States rather than an accommodation to Russia. Here is a concrete example. Russia has committed upon accession to significantly reduce its tariffs on imported agriculture equipment – from 15% to 5%. However, it is possible that Russia would withhold the lower, WTO-negotiated tariff rates from our U.S.-made products until the United States granted Russia PNTR status. That would place U.S. companies like John Deere at a competitive disadvantage relative to our foreign competitors, and with no recourse when disputes arise. And that would negatively impact our U.S. operations because the products we sell in Russia are closely connected to jobs in our facilities in the American Midwest.

Approving PNTR with Russia will:

- Directly benefit U.S. manufacturers, service providers, agricultural producers and U.S. workers as our exports increase, helping to create and maintain good jobs here in the United States.
- Ensure that U.S. companies realize the benefits and protections of Russian WTO membership that our foreign competitors will. Failure to approve PNTR not only will penalize U.S. exporters but could well invite discrimination against U.S. companies with a presence in the Russian market.
- Greatly improve the environment for firms doing business in Russia by increasing certainty through WTO rules ranging from services regulations to agricultural standards to intellectual property rights.
- Subject Russia to the WTO-based adjudication process when trade disputes arise.

There clearly is a strong *business* case to be made for Congressional approval of PNTR. I urge the Congress to carefully consider the matter but then to act quickly to ensure that U.S. companies, their workers and shareholders, receive the benefits from the outset of Russia's long-awaited WTO membership.

Russia is one of the world's largest markets, with a nearly \$2 trillion economy and a rapidly growing, well-educated middle class. The large and growing economy in Russia, coupled with PNTR, presents significant opportunities for many U.S. companies across several sectors to develop a strong market presence in Russia. In addition to the agriculture, forestry and construction equipment sectors, Russia's growing consumer economy will create significant demand for imported products from the U.S., especially agricultural and food products, thus expanding opportunities for U.S. producers to participate.

Brief Introduction to Deere and Deere in Russia

Perhaps I can make the stakes for our company more concrete by providing some additional context. Deere's major product lines are agriculture, forestry and construction equipment, and we operate a financial services company as well as a precision irrigation business. We long have had a presence in the Russian market, tracing our first equipment sales there to more than 100 years ago. In fact, sales to Russia for payment in gold bullion during the Great Depression enabled our company to continue operations and allow American farmers to recover from the turbulent times.

We have greatly expanded our presence in the Russian market in recent years with investments in two factories there, including our newest facility just outside Moscow, which Chairman Baucus recently visited. These facilities primarily use components produced and exported from our U.S. facilities in Iowa, Illinois, North Dakota and other states to produce agriculture, forestry and construction equipment sold in Russia. We also maintain a large spare parts depot near Moscow that serves our customers there and in the broader Eurasian market.

The products from these facilities in Russia utilize components manufactured in Deere facilities in the United States and exported to Russia. This activity directly affects jobs at more than a dozen Deere factories, including eight in the U.S. which are supported by our almost 2,800 suppliers located in 45 states.

It is clear that many Deere jobs in the United States -- including many UAW jobs -- are directly connected to the production of the more than a dozen product lines that are exported for final assembly at our Russian facilities. Some significant examples include large tractors and engines (Waterloo, IA); combine harvesters (East Moline, IL); motor graders, backhoes, 4WD loaders, and skidders (Dubuque and Davenport, IA); planters (Moline, IL); seeders (Valley City, ND); tillage equipment and sprayers (Des Moines, IA); and precision farming components from Iowa and North Dakota. The Business Roundtable has produced state fact sheets that provide additional examples and that show trade ties between each U.S. state and Russia.

Let me also note, Mr. Chairman, that we are also exporting our Deere business values and standards to our Russian operations. Our facilities there are held to the same high standards we require in the United States -- the same standards for compliance, integrity, safety for our workers (even using OSHA measurements) and customers, product quality and environmental stewardship.

Significant Potential of the Russian Economy

Our investments to-date reflect the enormous potential of the Russian economy. This potential is especially significant for our business -- Russia will make a very significant contribution to meeting the world's growing demand for food and forestry products as the global population grows and becomes more affluent. But these investments are not just in Russia. In fact, just two weeks ago we announced a \$70 million investment in Waterloo, Iowa to expand our production capabilities for large tractors, with Russia being one of the large export markets driving this investment.

By now, we are all familiar with the challenge of meeting the food, housing and infrastructure needs of a global population growing from seven billion today to well over nine billion by 2050 and becoming more affluent all the while. Experts tell us that we must double agricultural output to meet the needs of this population that will be fully 70% urban by 2050. And, you can imagine the infrastructure and housing needs that this will entail. This is challenge enough, but we also know this must be done in a sustainable way—with

limited arable land and water resources on the planet, ever mindful of our environmental footprint, while taking account of the highly uncertain effects of coming climate change.

Now, against that backdrop, consider that Russia, with but 2% of the global population has:

- 9% of the world's arable land, with a significant amount still unutilized or underutilized;
- 8% of the available freshwater; and
- 23% of the world's forested area.

Russia clearly has enormous potential to significantly and sustainably expand its agricultural and forestry output and to play a much greater role in global markets for those products. This is a stated goal of the Russian government. For example, with rapid modernization, it is not unreasonable to expect significant expansion in grain output and agricultural exports to the world market. Realizing the full potential of the agricultural and forestry sectors will require continued development of the infrastructure including investment in farm-to-market roads, storage, water management facilities, product processing, and rail and port facilities. Thus, the country offers significant near- and long-term investment potential across many sectors of its economy.

The opportunities afforded Deere and many other U.S. companies can be highly beneficial to both our economies—it can be a “win-win” situation. But, the Congress must act quickly and decisively if we are to enable this potentially positive outcome to be realized, or these benefits will accrue only to exporters in Europe, Asia and South America.

The Deere Experience in Russia

Let me close with a few words about Deere's business experience in Russia to date. Our experience has been positive—yes, with frustrations from time to time but little different than in other emerging markets. We understand the challenges of doing business in Russia, but we recognize the enormous opportunity as well. Enhancing trade relations and increasing business connections will certainly improve the business climate, to the benefit of both the American and Russian peoples. And, stronger business ties can well lead to more harmonious relations between our two countries generally.

Thank you Mr. Chairman, for the opportunity to appear here today. I look forward to our discussion and will attempt to answer questions you and the committee may have.

Thank you.

COMMITTEE ON FINANCE
NEWS RELEASE



Max Baucus (D-Mont.)
<http://finance.senate.gov>

FOR IMMEDIATE RELEASE
March 15, 2012

**Hearing Statement of Senator Max Baucus (D-Mont.)
Regarding Permanent Normal Trade Relations with Russia and Repealing Jackson-Vanik**
As prepared for delivery

Catherine the Great once said, "There is nothing . . . so difficult as to escape from that which is essentially agreeable."

Russia joining the World Trade Organization presents a lucrative opportunity for the U.S. economy and American jobs. We can all agree on that. We must embrace rather than escape this opportunity.

Russia is the largest economy currently outside the WTO. It is the sixth-largest economy in the world.

To allow American businesses, workers, farmers, and ranchers to seize the opportunity that Russia joining the WTO presents, Congress must act. We must pass Permanent Normal Trade Relations, or PNTR, to ensure our exporters can access the growing Russian market.

If the United States passes PNTR with Russia, U.S. exports to Russia are projected to double within five years. If Congress doesn't pass PNTR, Russia will join the WTO anyway, and U.S. exporters will lose out to their Chinese and European competitors. These competitors will expand their exports at our expense.

Russia PNTR is a one-sided agreement that benefits American workers and businesses and requires them to give up nothing in return. Unlike a free trade agreement, the United States will not further open its market to Russia. We will not lower any of our tariffs or make any other changes to our trade laws.

Russia, on the other hand, will lower its tariffs and open its market to U.S. exports. U.S. service providers will gain access to Russia's telecommunications, banking and other key markets. U.S. meat producers will secure greater access to the Russian market, including a generous U.S.-specific beef quota of 60,000 metric tons.

And the United States will get new tools for our toolbox to hold Russia accountable to its obligations. These include binding legal enforcement and transparency measures.

But in order for U.S. businesses and workers to benefit from Russia joining the WTO, Congress must pass PNTR and repeal the Jackson-Vanik amendment.

Jackson-Vanik denies normal trade relations to Communist and former Communist countries unless the President determines that the country permits free and unrestricted emigration of its citizens.

Congress originally passed the law in response to the Soviet Union's emigration restrictions, particularly with respect to its Jewish citizens.

Jackson-Vanik served its purpose and helped millions of Jews emigrate freely, but it is now a relic of the past. Every President, regardless of political party, has waived Jackson-Vanik's requirements for Russia for the past twenty years.

When I traveled to Russia last month, I met with Russian and American business leaders, including Ron Pollett who is here with us today. I also met with activists working to improve democracy, human rights and corruption in their country, and I met with leaders of the Jewish community.

The message from all of these activists was clear: the United States should repeal Jackson-Vanik and pass Russia PNTR. In fact, earlier this week, leading Russian democracy and human rights activists wrote two letters calling on Congress to repeal Jackson-Vanik. I'm entering both letters into the record as part of this statement.

One letter from the activists states that today the Jackson-Vanik amendment, "only hinders [the] interaction of the economies and peoples of the two countries and worsens the human rights situation in Russia."

Repealing Jackson-Vanik weakens the ability of the hardliners in Russia to rally anti-American forces. The activists in the other letter explained that Jackson-Vanik is a very useful anti-American propaganda tool.

As they stated, it provides a tool that helps "to depict the United States as hostile to Russia, using outdated cold-war tools to undermine Russia's international competitiveness."

Repealing Jackson-Vanik takes away this tool and opens Russia to U.S. competition, ideas and transparency.

These activists have all raised serious questions about Russia's human rights and democracy record. I share these questions, but like the activists, I believe that PNTR should not be in question.

We owe it to American businesses, ranchers and farmers who are working to increase exports to the growing Russia market. We owe it to U.S. workers, whose jobs depend on those exports. And we owe it to the Russian activists who are asking for our help in their fight for democracy.

So let us embrace this opportunity for our economy and for American jobs. To invoke Catherine the Great, let us move forward with that which we can all agree. And let us work together to pass Russia PNTR.

ПОНЕДЕЛЬНИК, 12 МАРТА 2012 Г.

Remove Russia from Jackson-Vanik!

Removal of Russia from the provisions of the Cold War era Jackson-Vanik Amendment has long been an issue of political debate. Although the outdated nature and irrelevance of the amendment is widely recognized, some politicians in the United States argue that the removal of Russia from Jackson-Vanik would help no one but the current Russian undemocratic political regime.

That assumption is flat wrong. Although there are obvious problems with democracy and human rights in modern Russia, the persistence on the books of the Jackson-Vanik Amendment does not help to solve them at all. Moreover, it brings direct harm. It limits Russia's competitiveness in international markets for higher value-added products, leaving Russia trapped in its current petro-state model of development and preventing it from transforming into a modern, diversified and more hi-tech economy.

This helps Mr. Putin and his cronies, who continue to benefit from control over raw materials exports and who have no real interest in diversifying Russia's economy. During the period of their rule, dependence on oil and gas exports has become even greater than before. Needless to say, hanging in a petro-state limbo prevents the emergence in Russia of an independent and advanced middle class, which should be the main source of demand for pro-democracy political transformation in the future. More and more talented and creative Russians are leaving the country because there are better opportunities for finding good jobs in hi-tech industries abroad.

At the end of the day, those who defend the argument that Jackson-Vanik's provisions should still apply to Russia in order to punish Putin's anti-democratic regime only darken Russia's political future, hamper its economic development, and frustrate its democratic aspirations.

Jackson-Vanik is also a very useful tool for Mr. Putin's anti-American propaganda machine: it helps him to depict the United States as hostile to Russia, using outdated cold-war tools to undermine Russia's international competitiveness.

We, leading figures of the Russian political opposition, strongly stand behind efforts to remove Russia from the provisions of the Jackson-Vanik Amendment. Jackson-Vanik is not helpful in any way -- neither for promotion of human rights and democracy in Russia, nor for the economic interests of its people. Sanctions which harm the interests of ordinary Russians are unhelpful and counter-productive -- much more effective are targeted sanctions against specific officials involved in human rights abuse, like those named in the Senator Benjamin Cardin's list in the Sergey Magnitsky case (Senate Bill 1039).

It is time to remove Russia from Jackson-Vanik!

Sergey Aleksashenko

Political Council member, People's Freedom Party (Parnas)

Alexander Lebedev

Independent businessman and politician

Vladimir Milov

Leader, "Democratic Choice" movement

Alexey Navalny

Attorney and civil activist

Boris Nemtsov

Co-chairman, People's Freedom Party (Parnas), "Solidarity" movement

Ilya Ponomarev

State Duma member, Just Russia Party

Vladimir Ryzhkov

Co-chairman, People's Freedom Party (Parnas)

The Honorable Harry Reid
United States Senate

The Honorable Mitch McConnell
United States Senate

The Honorable Max Baucus
United States Senate

The Honorable Orrin Hatch
United States Senate

The Honorable John Boehner
United States House of Representatives

The Honorable Nancy Pelosi
United States House of Representatives

The Honorable Dave Camp
United States House of Representatives

The Honorable Sandy Levin
United States House of Representatives

Dear Leadership, Chairmen, and Ranking Members of the House and Senate,

In connection with the discussion in the U.S. Congress of the possibility of repealing the J-V Amendment and establishing PNTR with Russia, we, citizens of the Russian Federation, who are opposed to the political regime which exists in our country, want to express our opinion in the hope that it will help members of Congress make the correct decision.

Many in the U.S. believe that repeal of the J-V Amendment would be a “gift for Putin”, and thus, a betrayal of those in Russia who are struggling for human rights and democracy. We wish to assure you that this is not so. Keeping the amendment is precisely what would be a “gift”-- for conservative forces.

In 1974 passage of the amendment became a genuine tool for the defense of human rights in the USSR and other communist countries. Today, however, the amendment only hinders interaction of the economies and peoples of the two countries and worsens the human rights situation in Russia. Its archaic character and disconnect from current realities -- (if anything, the right to emigrate is the single human right in our country that has not been violated now for more than twenty years) -- allow opponents of democracy in Russia to use it as an effective propaganda instrument. They tell Russian society that the U.S. is not at all a country which defends high principles; quite to the contrary, the U.S. maintains double standards and is prepared to ignore reality for the sake of achieving political goals.

The amendment creates an opportunity to intensify pressure on the opposition which advocates the values of democracy and freedom, on human rights organizations and on other NGOs which receive grants from abroad, and on all those in Russia who support universal human values. Inside the Russian

leadership the amendment strengthens the positions of those who strive for confrontation with the U.S., NATO, and with the West in general. We likewise do not rule out that without clear signals of the U.S. Congress' intention to repeal the amendment, conservative forces will succeed in voting down ratification of the WTO agreements in the State Duma.

Among the current Russian opposition and human rights advocates it is difficult to find anyone who would advocate retaining the amendment. In particular it damages democratic forces in Russia and strengthens the positions of our opponents.

Needless to say, we would welcome continued attention by the U.S. Congress to the issue of human rights in our country and all over the world. Today, however, that ought not be through the J-V Amendment, but through some other instrument.

Respectfully,

Lyudmila Alekseeva, Moscow-based Helsinki Group, Chairperson

Svetlana Gannushkina, Civil Assistance Committee, Chairperson

Leonid Gozman, All-Russian Public Movement Union of the Right Forces, President

Dmitry Oreshkin, Public Movement Citizen Observer, Initiators

Georgy Satarov, INDEM, President

Lilia Shibanova, Association In Support of Voters Rights GOLOS, Director

Irina Yasina, journalist, human rights activist

SUBMITTED BY SENATOR JOHN CORYN

United States Senate
WASHINGTON, DC 20510

March 12, 2012

The Honorable Leon E. Panetta
Secretary of Defense
1000 Defense Pentagon
Washington, DC 20301-1000

Dear Secretary Panetta:

We write to express our grave concern regarding the Department of Defense's ongoing business dealings with Rosoboronexport, the same Russian state-controlled arms export firm that continues to provide the Syrian government with the means to perpetrate widespread and systematic attacks on its own people. According to the United Nations, over 7,500 Syrian civilians have reportedly been killed in the attacks by the desperate regime of Syrian President Bashar al-Assad, and we continue to receive grisly accounts that his government forces are summarily executing, imprisoning, and torturing demonstrators and innocent by-standers.

Russia remains the top supplier of weapons to Syria, selling reportedly \$1 billion or more worth of arms to Syria in 2011 alone. Its arms shipments to Syria have continued unabated during the ongoing popular uprising there. According to Thomson Reuters shipping data, since December 2011, at least four cargo ships have travelled from the Russian port used by Rosoboronexport to the Syrian port of Tartus. Another Russian ship that was reportedly carrying ammunition and sniper rifles, weapons which Syrian forces have used to kill and injure demonstrators, reportedly docked in Cyprus in January and then went on to deliver its cargo directly to Syria. In addition, recent reports from human rights monitoring organizations confirm that Russian weapons such as 240mm F-864 high explosive mortars have been found at the site of ongoing atrocities committed against civilians in Homs, Syria. In January of this year, Rosoboronexport reportedly signed a new deal with the Syrian government for 36 combat jets.

Even in the face of crimes against humanity committed by the Syrian government during the past year, enabled no doubt by the regular flow of weapons from Russia, the United States Government has unfortunately continued to procure from Rosoboronexport. It is our understanding that the DoD, through an initiative led by the U.S. Army, is currently buying approximately 21 dual-use Mi-17 helicopters for the Afghan military from Rosoboronexport. This includes the signing of a no-bid contract worth \$375 million for the purchase of aircraft and spare parts, to be completed by 2016. Media reports indicate that the contract included an option for \$550 million in additional purchases, raising the contract's potential total to nearly \$1 billion.

While it is certainly frustrating that U.S. taxpayer funding is used to buy Russian-made helicopters instead of world-class U.S.-made helicopters for the Afghan military, our specific concern at this time is that the Department is procuring these assets from an organization that had for years been on a U.S. sanctions list for illicit nuclear assistance to Iran and in the face of the international community's concern is continuing to enable the Assad regime with the arms it needs to slaughter innocent men, women, and children in Syria. Other options are very likely available as demonstrated by the fact that the first four Mi-17 helicopters that the U.S. Navy purchased for Afghanistan came through a different firm. We ask that the DoD immediately review all potential options to procure helicopters legally through other means.


U.S. taxpayers should not be put in a position where they are indirectly subsidizing the mass murder of Syrian civilians. The sizeable proceeds of these DoD contracts are helping to finance a firm that is essentially complicit in mass atrocities in Syria, especially in light of Russia's history of forgiving huge amounts of Syria's debt on arms sales, as occurred in 2005 during President Assad's state visit to Moscow.

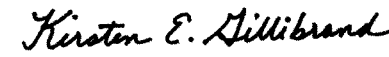
President Obama has called on President Assad to step down, and he has declared that "Preventing mass atrocities and genocide is a core national security interest and a core moral responsibility of the United States." As such, we urge you to use all available leverage to press Russia and Russian entities to end their support of the Assad regime, and that includes ending all DoD business dealings with Rosoboronexport, which is within your authority as Secretary of Defense. Continuing this robust business relationship with Rosoboronexport would undermine U.S. policy on Syria and undermine U.S. efforts to stand with the Syrian people.

This is a serious policy problem, and we ask for your personal attention to help solve it. Thank you for your service to our nation and your dedication to the members of our Armed Forces.

Sincerely,


JOHN CORNYN
United States Senator

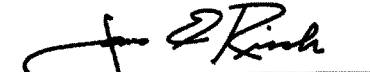

RICHARD J. DURBIN
United States Senator

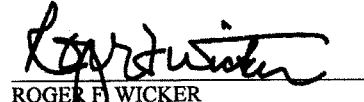

KIRSTEN E. GILLIBRAND
United States Senator


KELLY AYOTTE
United States Senator



 RICHARD BLUMENTHAL
 United States Senator


 ROBERT MENENDEZ
 United States Senator


 JAMES E. RISCH
 United States Senator



 ROGER F. WICKER
 United States Senator


 DAVID VITTER
 United States Senator

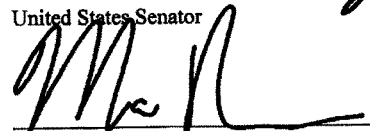

 ROBERT P. CASEY, JR.
 United States Senator

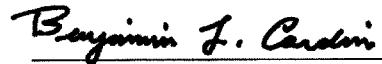

 SHERROD BROWN
 United States Senator



 MARK KIRK
 United States Senator


 CHUCK GRASSLEY
 United States Senator


 RON WYDEN
 United States Senator


 MARCO RUBIO
 United States Senator


 BENJAMIN L. CARDIN
 United States Senator


 JON KYL
 United States Senator

CC: The Honorable Hillary Rodham Clinton
 Secretary of State
 2201 C Street N.W.
 Washington, DC 20520

**STATEMENT OF HON. JON KYL
U.S. SENATE COMMITTEE ON FINANCE HEARING OF MARCH 15, 2012
RUSSIA'S WTO ACCESSION: IMPLICATIONS FOR THE UNITED STATES**

WASHINGTON – U.S. Senator Jon Kyl (R-Ariz.), a senior member of the U.S. Senate Finance Committee, delivered the following opening statement today at a committee hearing examining the accession of Russia to the World Trade Organization (WTO):

Thank you, Mr. Chairman. I think that I understand the message this hearing is meant to convey: "American businesses want access to Russian markets. We should repeal Jackson-Vanik and grant Russia Permanent Normal Trade Relations without delay and without conditions. It's a slam dunk."

But it isn't a slam dunk.

Let's stipulate that American businesses, farmers, and ranchers should be able to sell products to Russia, and that free trade is important and beneficial to the United States.

We still need to determine whether America is getting a good deal through Russia's WTO accession, and whether more should be done to protect our interests. For example, Russia has never ratified the bilateral investment treaty that the Senate ratified years ago. That treaty would prevent Russia from expropriating businesses, an admittedly big problem in Russia. This is a very basic economic right that isn't being protected.

In addition, one of our witnesses will discuss Russia's failure to remit royalties, which is also not directly covered by the WTO agreements.

And I submit that the Administration is also missing the point on the repeal of Jackson-Vanik, which ties most-favored nation status to freedom of emigration. While emigration may no longer be an issue, Russia's blatant disregard for human rights and rule of law is every bit as relevant today as it was decades ago. Human rights cannot be divorced from the discussion of our economic relationship with Russia, particularly since some of the most egregious cases of abuse involve citizens exercising their economic and commercial rights.

Consider the case of Sergei Magnitsky, a young lawyer who was imprisoned, tortured, and died in prison because he sought to expose economic corruption at the highest levels of Russian government. Several of us have joined Senator Cardin in cosponsoring legislation to send a clear message that those who commit gross violations of human rights will not have the privilege of visiting or accessing the financial network of the United States.

When the U.S. Ambassador to Russia, Michael McFaul, suggests that there is no association between a country's respect for individual liberties and its business environment, he is simply denying reality.

When two parties enter into a contract, it is essential that both parties operate in good faith. There is scant evidence that the Russian state operates in good faith.

Russia has a troubling pattern of intimidation, disregard for rule of law, fraudulent elections, human rights abuses, and government-sanctioned anti-Americanism.

Contrary to the Administration's assertions, Russia is moving further away from international norms and values. In recent months, Moscow has not only blocked UN Security Council action on Syria, but has continued to sell arms to Assad's regime, which is responsible for the slaughter of innocent civilians. This is not a government that can be trusted to uphold its international commitments or give a fair shake to American businesses.

And looking only at the WTO context, Russia has not even lived up to all the commitments it already made on intellectual property rights, for example, as a condition of joining the WTO. Russia remains on the U.S. Trade Representative's Special 301 Priority Watch List for IP violations. What makes us think it will live up to its commitments after joining the WTO?

Yes, we would have access to a WTO dispute settlement process if we grant Russia PNTR. But what has that gotten us in our trade relationship with China?

Twelve years ago, Congress repealed Jackson-Vanik and authorized PNTR for China.

How did that work out?

Well, USTR reports to Congress annually on China's compliance with WTO commitments. The most recent report is 127 pages filled with problems. The U.S. has used the formal dispute settlement process to address these issues only a handful of cases, and one case has remained open since 2007. Even in the rare cases that we get justice, it isn't speedy justice.

Despite all the structures of the WTO, China cheats and continues to get away with it. If this is what we get from China, which ranks 75th among all countries on Transparency International's Corruption Perceptions Index, what can we expect from Russia, which ranks a dismal 143rd on the same list?

China was not granted PNTR "without condition and without delay." It takes only a couple pages of legislative text to repeal Jackson Vanik, but the bill Congress passed had six separate titles dealing with the U.S.-China relationship.

Given the current problems with our trade relationship with China, it probably wasn't enough. It is simply unreasonable to believe that PNTR can be extended to Russia without a more thorough examination of the issues.

Yes, we should have free trade. Yes, Russia should become part of the community of law-abiding commercial nations. The question is whether the proposed agreement and repeal of Jackson-Vanik gets us there.

Mr. Chairman, I hope this is not our last hearing on this topic.

Thank you.

From *The Wall Street Journal*

March 15, 2012

OPINION

The Right Way to Sanction Russia

With the repeal of Jackson-Vanik, it's more important than ever to hold the Russian oligarchy accountable.

By Garry Kasparov and Boris Nemtsov

Moscow—On Thursday, the U.S. Senate will hold a hearing to discuss the accession of Russia to the World Trade Organization and the repeal of the Jackson-Vanik amendment that impedes American trade relations with Russia. The Obama administration has portrayed it as little more than overdue Cold War housekeeping while touting the imagined economic benefits for American farmers that could result from freer trade with Russia.

But the reality on the ground in today's authoritarian Russia is far more complex. We support the repeal, both as leaders of the pro-democracy opposition in Russia and as Russian citizens who want our nation to join the modern global economy. It is essential, however, to see the bigger picture of which Jackson-Vanik is a part.

The "election" of Vladimir Putin to the presidency is over, but the fight for democracy in Russia is just beginning. At both major opposition meetings following the fraudulent March 4 election, we publicly resolved that Mr. Putin is not the legitimate leader of Russia. The protests will not cease and we will continue to organize and prepare for a near future without Mr. Putin in the presidency. Getting rid of him and his cronies is a job for Russians, and we do not ask for foreign intervention. We do, however, ask that the U.S. and other leading nations of the Free World cease to provide democratic credentials to Mr. Putin. This is why symbols matter, and why Jackson-Vanik still matters.

The new U.S. ambassador to Russia is Mike McFaul, who has a long and accomplished career as a champion for democratic rights. But he's now become the principal architect of the Obama administration's attempt to "reset" U.S.-Russian relations after the Bush presidency, and he has recently been pushing the case for repealing Jackson-Vanik. Earlier this week he told an audience at the Peterson Institute for International Economics in Washington, D.C., that there is "no relationship" between the repeal of Jackson-Vanik and the promotion of Russian democracy. "If you don't believe me," he said, "ask [Alexei] Navalny," the Russian blogger who has become one of the charismatic new leaders of Russia's democracy movement.

So we asked Mr. Navalny, who, along with several other members of the opposition leadership, signed a letter cited by Mr. McFaul calling for the removal of Russia from Jackson-Vanik. "Of course no one in Russia is foolish enough to defend Jackson-Vanik," he told us. "But we also understand that it should be replaced with something else. And we said as much in our letter when we recommended the passing of the Magnitsky Act, as has been done in Europe."

Mr. Navalny is referring to the Sergei Magnitsky Rule of Law Accountability Act of 2011, which was introduced in the U.S. Senate last May with wide bipartisan support. Named for the Russian attorney who died in police custody in 2009 while investigating official corruption, the Magnitsky Act would bring visa and asset sanctions against Russian government functionaries culpable of criminal and human rights abuses.

“Such legislation is not anti-Russian,” Mr. Navalny explained. “In fact I believe it is pro-Russian. It helps defend us from the criminals who kill our citizens, steal our money, and hide it abroad.”

It will not be easy to match the legacy of Jackson-Vanik. On March 15, 1973, Sen. Henry “Scoop” Jackson introduced the amendment on the Senate floor. It focused on a specific human-rights issue—the right of Soviet Jews to leave the U.S.S.R. The amendment’s greatest opponent was then-National Security Adviser Henry Kissinger, who worried it would upset his vision of détente with the Soviets and instead advocated “quiet diplomacy.” In contrast, the Russian dissident and Nobel Laureate Andrei Sakharov praised the amendment as a “policy of principle” that would further détente, not hinder it. The well over one million émigrés who escaped the repressive Soviet state would surely side with Sakharov.

Jackson-Vanik is a relic and its time has passed. But allowing it to disappear with nothing in its place, and right on the heels of the fantastically corrupt “election” of March 4, turns it into little more than a gift to Mr. Putin. Our economy, like our people, will never truly flourish until Mr. Putin and his mafia structure are expunged.

Moreover, if economic engagement is the best way to promote an open society, why does the Obama administration not forge a free-trade pact with Iran instead of levying sanctions? Russia will be joining the World Trade Organization regardless of what the U.S. does. But WTO membership will not undo Mr. Putin’s monopolization of political and economic power. If Mr. Putin and his oligarchs believed for an instant that the WTO might weaken their grip, they simply would stay out.

The Obama administration is not only attempting to overturn a law, but also its spirit. As Mr. Kissinger did 39 years ago, Amb. McFaul is trying to make the case that human rights should not get in the way of realpolitik and the business of doing business. He reminds us that the State Department already has its own secret list of banned Russian officials, and so nothing more need be done. But the entire object of such laws is to publicly shame and punish the rank and file of Mr. Putin’s mob so they know the big boss can no longer protect them.

The Sergei Magnitsky Rule of Law Accountability Act is an example of such legislation. Replacing Jackson-Vanik with it would promote better relations between the people of the U.S. and Russia while refusing to provide aid and comfort to a tyrant and his regime at this critical moment in history. This, too, would be a policy of principle.

Messrs. Kasparov and Nemtsov are co-chairs of the Russian Solidarity movement.

Strengthening the Rule of Law for U.S. Business in Russia
Testimony of Alan Larson
before the Senate Finance Committee
March 15, 2012

Chairman Baucus, Ranking Member Hatch, and other distinguished Senators—thank you for the invitation to testify at this hearing. My name is Alan Larson. I am a Senior International Policy Advisor at Covington & Burling LLP, the Chairman of the Board of Directors of Transparency International-USA (TI-USA), and a former Under Secretary of State for Economic Affairs during the administrations of Bill Clinton and George W. Bush. My testimony has been informed by experiences in each of these roles, but my testimony today reflects my personal views and it does not necessarily represent the views of any of the organizations with which I am or have been affiliated.

Russia is a proud country, a permanent member of the United Nations Security Council, a military superpower and a member of essential economic policy forums such as the Group of Twenty (G-20) and the Group of Eight (G-8). The United States should seek to have relations with Russia that are grounded in mutual trust and mutual respect.

I believe that the United States stands to benefit greatly as Russia becomes a full participant in those rule of law disciplines that provide a foundation for international business relations. I believe that three sets of such rule of law disciplines—one can think of them as three sides of a triangle—form the foundation for a solid rule of law framework for international business relations: (1) trade disciplines, including especially WTO disciplines; (2) investment disciplines, including those found in bilateral investment treaties; and (3) institutional integrity disciplines, which ensure that the rule of law is applied in an evenhanded manner, including arrangements that control corruption. These three sets of disciplines form an interlocking triangle. When only one or two sides of the triangle are in place, the rule of law framework is not as strong or as stable as it is when all three sets of disciplines are in place. I urge Congress and the Administration to work together with the Russian government to make simultaneous progress in all three areas, even as Congress moves swiftly to extend Permanent Normal Trade Relations (PNTR) to Russia.

It is a very good thing that Russia has completed the process of accession to the World Trade Organization. Russia's accession to the WTO serves the trade and foreign policy interests of the United States in many important ways. WTO accession means that the rule of law will apply to most important parts of the trade relationship between Russia and the United States, putting into place one side of the rule of law triangle. Russia's commitment to rule of law disciplines with respect to trade represents a very important step forward for U.S. business.

Congress should extend PNTR status to Russia right away. Russian businesses and workers should obtain the access to the market of the United States that the Government of Russia bargained for in its negotiations to accede to the WTO. The trust on which good relations between Russia and the United States are premised will be reinforced when the United States extends PNTR to Russia. Moreover, the extension of PNTR is necessary to allow U.S. firms to

gain the benefits that flow from Russia's accession to the WTO. If Congress were to delay the extension of PNTR to Russia, U.S. firms would find themselves at a competitive disadvantage in the Russian market in comparison to firms from third countries.

WTO disciplines usually are subject to state-to-state dispute settlement. This means that if either Russia or the United States were to take actions that may violate its WTO commitments, the other party can challenge the disputed practice before a WTO dispute settlement panel. This ability to bring challenges before a neutral third party provides a powerful reinforcement of the rule of law to trade practices, protecting traders against arbitrary and mistaken national application of internationally agreed trade rules. Access to third party dispute settlement is an essential part of the international system of checks and balances that helps ensure the fair application of the rule of law within jurisdictions such as Russia.

Resort to dispute settlement procedures by no means indicates that the parties to a dispute do not enjoy friendly relations. The United States enjoys excellent relations with the European Union and is a treaty ally of many of the European Union's member states. Nevertheless, the United States and the European Union regularly bring WTO dispute settlement cases against each other. In fact, the ability to put contentious trade disputes into a technical forum for resolution actually enhances the friendly relations between us by limiting the extent to which trade disputes become political disputes.

Prompt extension of PNTR to Russia is a necessary condition for the rule of law to be extended to the business relationship between Russian and the United States, but it is not a sufficient condition. The rule of law, including the well-established strictures of customary international law, should apply to investments in the United States made by Russians and Russian companies and to investments in Russia made by Americans and American companies. Investment disciplines can be thought of as the second side of the triangle that is necessary for a solid rule of law framework for international business.

The most important investment disciplines are included in bilateral investment treaties or "BITs." BITs generally provide guarantees of non-discriminatory treatment, protection against unlawful expropriations, and opportunities for investors to resort, if necessary, to investor-state dispute settlement with independent arbitration panels. At present, the United States and Russia do not have a BIT governing investment relations. The two countries signed a BIT in 1992, and the United States Senate ratified the agreement in 1993, but the Russian Duma never followed suit, reportedly due in part to Russian legislators' fear that the BIT would give Western energy companies too much leverage over Russian natural resources and in part to domestic political conflict between the parliamentary majority and then-President Yeltsin.

The absence of BIT protections has been a serious shortcoming, especially for U.S. investors in the energy sector. To take one example in which I have been involved as a policy advisor, the Government of Russia took actions between 2004 and 2007 that dismantled Yukos Oil Company, a privately-owned Russian oil company whose shares were available to foreign investors. U.S. investors, both investment funds and about 20,000 individual investors, collectively owned about 15 percent of Yukos. Experts on Russia's domestic politics have speculated that then-President Putin wanted to re-establish the control of the Russian government

over Russia's oil sector and may have been concerned about the potential political competition that Yukos CEO Mikhail Khordokovsky could present. Whatever its motivation may have been, Russian government's actions amounted to an expropriation of the investments of U.S. and other foreign investors in Yukos in a manner contrary to customary international law. The total loss to the U.S. investors was about \$12 billion. Because Russia never ratified the Russia-U.S. BIT, U.S. investors do not have the same opportunity to pursue investor-state arbitration as do investors from many other jurisdictions. In commenting on this case, a State Department press spokesman said at the time, "Many of the actions in the case against Khodorkovsky and Yukos have raised serious concerns about the independence of courts, sanctity of contracts and property rights, and the lack of a predictable tax regime. The conduct of Russian authorities in the Khodorkovsky Yukos affair has eroded Russia's reputation and confidence in Russian legal and judicial institutions."

My colleagues at Covington & Burling LLP and I represent certain U.S. investors in Yukos who have petitioned the State Department to "espouse" their claims. Through espousal, the United States government would take on the claims of all U.S. investors in Yukos and would seek to work out a collective settlement with Russia, either through negotiation or the establishment of an *ad hoc* arbitration process established by Russia and the United States for this purpose. In reflecting on the predicament faced by U.S. investors in Yukos, I have seen in a new light the vulnerability of such investors in the absence of the dispute settlement provisions provided by a bilateral investment treaty. I obviously and admittedly represent an interested party in this particular matter, but my experience in working on it has persuaded me that the United States should immediately espouse the claims of the U.S. investors in Yukos, even as the United States moves immediately to extend PNTR to Russia. Russia and the United States each need to demonstrate that they are committed to the rule of law, especially as it pertains to U.S. investments and U.S. investors.

In addition, the United States should seek immediately to initiate negotiations with Russia on a new, more up-to-date bilateral investment treaty. Such a treaty, once ratified by both countries, would provide protection for Russian investors in the United States as well as for U.S. investors in Russia. In doing these things, Russia and the United States would be putting into place a second side to the rule of law triangle for business relations between our two countries.

On February 9, 2011, Prime Minister Putin published in the *Washington Post* an essay on the importance of stamping out official corruption. He wrote that "[t]o combat systemic corruption we need to unbundle power and property and to separate executive power from the system of checks over it. The political responsibility for the fight against corruption must be shared by the government and the opposition." He also called for increased salaries for government officials and managers of state-owned companies in exchange for "absolute transparency" regarding their personal finances and proposed an expansion of the court system to hear more complaints against corrupt officials.

It is heartening that the Prime Minister, who has claimed victory in Russia's March 4 elections to select Russia's next President, acknowledges the importance of ensuring institutional integrity, the third side of the rule of law triangle for international business. Institutions imbued with integrity are essential for the functioning of the rule of law. Without such institutions, the rule of

law can be distorted into a corrupt and authoritarian parody that former Secretary of State Albright once called not rule-of-law but “rule by law.”

In 2009, TI-USA and I were part of a private sector study group composed of Russian and American NGOs and business associations. We prepared a joint report called *Russia-US Joint Working Group on Investment and Institutional Integrity* and submitted this report to President Medvedev and President Obama. On the margins of the July 2009 Medvedev-Obama Summit meeting, President Obama listened while my counterpart, the Chair of the Russian chapter of Transparency International, Elena Panfilova, presented our summary conclusions.

Some of these conclusions already have been adopted. Notably, Russia has passed a law making it a prosecutable offense for Russian business executives to bribe foreign government officials in order to secure business. In addition, Russia has acceded to the Anti-Bribery Convention of the Organization for Economic Cooperation and Development. These are important and very welcome steps.

Accession to the OECD Convention does not mean, of course, that Russia’s new law will be instantly and comprehensively enforced. It took several years for many Western European firms to begin carrying out their obligations under the OECD Convention; some signatories to the Convention still are not carrying out their responsibilities as fully as we in TI-USA think they should. In fact, TI-USA has joined several business organizations and the AFL-CIO in urging the Administration to take vigorous action to level the international commercial playing field by ensuring that all signatories to the OECD Convention fully implement their obligations under the Convention. We believe the Administration should apply the same standard to Russia.

Even full Russian implementation of its obligations under the OECD Convention will not directly address the problem of corruption within Russia, which is widely seen as infecting Russia’s administration of tax and customs policy and its judiciary. Former Secretary of State Condoleezza Rice stated in a *Washington Post* Op-Ed on March 8, 2012 that, “When Putin took office, he reestablished the arbitrary power of the state—destroying the independence of the judiciary; appointing governors rather than electing them; and all but closing down independent television.”

Russia and the United States apparently are working together, through the Bilateral Presidential Commission Working Group on Rule of Law, under the leadership of the U.S. Department of Justice and the Russian Ministry of Justice to address issues of the rule of law and controlling corruption. This work deserves to be given the highest priority.

I also believe it continues to be important that representatives of civil society organizations be afforded opportunities to contribute to such work, as TI-Russia and TI-USA did in the *Russia-US Joint Working Group on Investment and Institutional Integrity*. Civic organizations provide an essential role as watch dogs, helping to ensure institutional integrity. It is important that civic organizations be permitted to monitor, investigate and report on suspected instances of corruption.

By vigorously pursuing full implementation of the OECD Convention, by engaging an active bilateral Russia-U.S. agenda on the rule of law and by expanding the scope for civil society organizations to play a watch dog role, Russia and the United States can assure increasing levels of institutional integrity, laying down the third side of the rule of law triangle for stable business relations.

Mr. Chairman, let me summarize my recommendations:

1. I recommend that Congress immediately extend Permanent Normal Trade Relations to Russia.
2. I recommend that the Administration and Russia, with the support of Congress, immediately initiate and vigorously pursue negotiations for a bilateral investment treaty.
3. I recommend that the Administration, with the support of Congress, advocate for U.S. investors in Russia and immediately and vigorously espouse the claims of the U.S. investors in Yukos, whose investments in Russia were expropriated.
4. I recommend that the Administration, with the support of Congress, immediately and vigorously work to ensure that all parties to the OECD Anti-Bribery Convention, including Russia, fully carry out their commitments under the Convention.
5. I recommend that Russia and the United States, with the support of Congress, immediately and vigorously intensify their cooperative work to ensure that their respective government operations and judiciaries are governed by integrity and the rule of law, and are resistant to corruption.
6. I recommend that Russia and the United States, with the support of Congress, cooperate in immediately and vigorously expanding the scope for civil society to play an independent watch dog role on rule-of-law issues, especially corruption.

By taking all these actions with vigor and determination, the United States and Russia can ensure that Russia's WTO accession and the establishment of Permanent Normal Trade Relations between our two countries will mark the beginning of a new era, one that is marked by the full application of the rule of law to our bilateral business relations.

Testimony before the United States Senate Committee on Finance

March 15, 2012

Ronald J. Pollett
President & CEO, GE Russia & CIS

Introduction

Chairman Baucus, Ranking Member Grassley, and distinguished members of the Committee, thank you for the opportunity to testify today on a subject that I feel is of critical importance: the opportunity to grow the US economy and US jobs by establishing permanent normal trade relations with Russia.

Just a moment of background about me: a US citizen, I was born and grew up in New York City and attended Colgate University, where I majored in Russian Studies. I joined GE in July 1991 and was posted to the region shortly thereafter. For the past 12 years, I have been living and working in Russia to build our business. For the past 6 years, I've also served as Chairman of the Board of AmCham Russia, the largest and most influential foreign business association in the country; its 700+ active members account for \$30 billion in revenues and support tens of thousands of jobs in the US and Russia.

So, I have been in a unique position to witness firsthand the dramatic changes Russia has undergone in a short period of time, and I truly believe that Russia is now poised to become an even more active and significant player in the global economy. But I've also been in a position to observe how, on the whole, US businesses are underrepresented in the Russian market and underperform relative to their European and Asian counterparts, which have stronger historical ties and a bigger presence. I believe PNTR can change this.

Fundamental strengths of the Russian economy

If I have just one message to you today, it is that Russia presents incredible opportunities for US companies provided we are afforded a level playing field. A few facts:

- Russia is a big, growing economy: its GDP has more than doubled in the past decade and is expected to grow an average of 4% in the next 3 years.
- US trade with Russia is growing. In 2011, US exports were \$8.3 billion, up 39% from 2010 and more than double the growth rate for overall US exports worldwide. But the US also has a relatively small presence in the Russian market -- accounting for just 4% of Russian imports. By contrast, East Asia and the European Union accounted for 29% and 43%, respectively, of Russian imports.
- While Russia's economy continues to be driven by its incredible natural resource strength, particularly oil and gas, metals, and minerals, the Government is very much looking to diversify its economy. It has an ambitious modernization plan that includes upgrading infrastructure, modernizing healthcare, growing its high technology sector, and diversifying

revenue streams. It is also looking to continue to invest in raising the standard of living of its own people, who have a great amount of respect for American business acumen.

GE provides a case in point of how Russia can be a great market for a company willing to engage. When I arrived in Russia in 1998, GE had a mere \$110 million in sales. Last year, we had more than \$1.6 billion in sales, and our industrial businesses alone saw almost \$1.2 billion in US-origin orders from Russia -- up from \$410 million in 2010. Today, GE is the largest foreign industrial company operating in Russia, and these orders will support more than 3,000 jobs for GE and its suppliers in the US. Even more encouraging, we believe that our sales in Russia could triple by 2020 with PNTR. In short, Russia is a profitable part of the world with enormous growth opportunities for GE as well as other American companies -- with the prospect for more jobs for American workers.

Why PNTR for Russia is good for the American economy

For US companies to take full advantage of Russia's growing market, Congress must repeal the Jackson-Vanik amendment, a political anachronism, and establish permanent trade relations with Russia -- key to US economic success in the region.

Bringing lower tariffs, reduced non-tariff barriers, and enhanced transparency, Russia's accession to the WTO is a good thing for the US economy. Again, let me offer a few examples of what it will mean for my own company:

- Russia is looking to double its per capita spending on healthcare. With more than 22,000 employees in the United States, GE Healthcare will now see tariffs on the medical diagnostic equipment we produce fall from the current average of 15% to an average of 4.3%.
- Russia is the fourth-largest electric utility market in the world. GE Energy will see average tariffs fall from 12% to 5% on gas turbines and from 10% to 5% on turbine parts. The Greenville, SC plant where we make gas turbines employs more than 3,000 workers and supports another 1,300 supplier jobs.
- GE is the largest supplier of foreign aircraft engines to Russia and the largest aircraft lessor. GE Aviation and our GECAS leasing business stand to benefit as Russia reduces its tariffs on aerospace products from 20% to 8.3% -- and 5% on engines themselves. These GE products are made in Ohio, Vermont, Kentucky, North Carolina, and elsewhere in the US -- not to mention the hundreds of our suppliers in 34 states.
- Russia has the world's second-largest railway system; some 10,000 locomotives will need upgrades in coming years -- to the tune of \$10 billion. This represents an enormous opportunity for GE's Transportation business, which is based in Erie, PA and employs some 8,300 workers in the US.

And it is not simply lower tariffs. Although we have witnessed an improved business environment, Russia is still a difficult place to do business. Russia has come a long way, but it still has a long way to go. Its WTO commitments to eliminate non-tariff barriers, implement a high standard of IPR protection, and improve transparency may be as or more critical for US companies -- like ours -- that often need to do business in partnership with local companies. Russia's accession to the WTO also covers trade in services, such as financial services, that are not covered under any other agreement

the US has with Russia. While Russia joining the WTO does not solve all the issues, it is a big step in the right direction. Together with Russia's recent accession to the OECD's Anti-Bribery Convention, it will improve rule of law, introduce strict disciplines on IPR, and promote transparency. Moreover, the more American companies are able to take advantage of opportunities to do business in Russia, the more Russia's business climate will evolve to meet international standards.

Simply stated, government policies matter. If the US does not grant PNTR to Russia, American companies and their workers will be at a competitive disadvantage relative to our global competitors, who will enjoy the benefits of Russia's commitments.

As you know, there is already in force a bilateral agreement between the US and Russia that provides for the mutual extension of "most favored nation" benefits. But without PNTR, the US would have no recourse to WTO dispute settlement should disputes arise and could also face a more challenging trade environment.

Equally important, I believe, is the signal that would be sent to Russia if the US -- alone in the world -- were not to take advantage of the benefits of PNTR. At a time when export growth is key to US competitiveness, we would be rejecting an important opportunity while our competitors in Europe, Japan, and elsewhere rush to do more business with Russia. And for what gain? Russia already enjoys broad access to the US market because our tariff levels are already very low and our market is very open. It would be US businesses and US workers -- not Russians -- who would be at a disadvantage. PNTR is not a gift to Russia. It is about US jobs and US competitiveness.

Conclusion

I realize that the benefits of global markets can seem remote for many Americans. The issue may be particularly complicated when dealing with a foreign trading partner that, like Russia, presents difficulties for the US in many other spheres. But one thing is clear: Russia will join the WTO whether or not the US grants PNTR. The vote to accord PNTR to Russia is about one thing and one thing only. It is about the ability of American companies to compete, on a level playing field according to the same set of rules, with foreign companies eager to do business in a fast-growing economy that presents great opportunities. I urge this Committee and Congress to let the American economy and American workers reap the benefits of these opportunities.

Testimony
on behalf of the

Montana Stockgrowers Association Inc.

with regard to

Russia's Accession to the WTO

submitted to the

United States Senate Committee on Finance

The Honorable Max Baucus, Chairman

submitted by

Watty Taylor

President

Montana Stockgrowers Association Inc.

March 15, 2012
Washington, D.C.

Good morning Chairman Baucus and members of the committee. Thank you for the opportunity to speak to you on behalf of the members of the Montana Stockgrowers Association (MSGA) regarding our point of view on Russia's accession to the World Trade Organization (WTO). My name is Watty Taylor and I am a rancher from Kirby, Montana. I currently serve as the President of the Montana Stockgrowers Association, one of the nation's oldest and most historically significant cattle ranching organizations, established in 1884. I, along with my wife and three sons, operate a commercial Hereford and Angus cow/calf operation on 30,000 acres in southeastern Montana. Ranching has been a vital part of my family's heritage for many years.

96 percent of the world's population lives outside the borders of the United States. We must have access to the additional demand for beef from consumers that live outside the U.S. if we hope to remain successful. Russia was the U.S.'s fifth largest export market for beef in 2011. We can now achieve a significant increase in our exports to Russia, thanks to the provisions of Russia's WTO accession agreement. These provisions include a large, country-specific beef quota and lower tariffs for "high quality beef." This will be greatly beneficial to my family's ranch, if Congress passes PNTR legislation. I am confident that we can provide a significant amount of "High Quality Beef" as that is defined by the agreement. Montana is leading the way to produce large volumes of USDA quality grade "choice" and "prime" cuts of beef. We have a reputation for raising superior cattle genetics that perform in many different kinds of harsh environments. Our hearty northern tier ranch-level certified calves will meet the demand for "High Quality." It is also exciting that Montana is currently exporting several thousand head of our superior cattle to Russia to help establish a more vibrant domestic beef industry. The possibilities are endless. In fact, Montana ranchers are currently living and working in Russia to establish Western style cattle ranching enterprises.

While Russia is a tremendous opportunity for our beef, we need to ensure that we don't run the risk of facing unscientific restrictions. Montana's ranchers have always appreciated the efforts by Chairman Baucus to move us towards trade agreements that are based on sound science and international standards. In particular, ensuring that Russia lives up to its WTO commitments on Sanitary and Phytosanitary (SPS) standards along with other technical issues for beef is crucial. Without PNTR, we will not be able to enforce these commitments.

Recognizing international science-based standards is very important. It not only creates less market volatility but it also encourages the safest and most prudent production practices. Issues that are of the most important to ranchers with regards to Russia include:

- Tetracycline: We encourage the adoption of the Codex standard for tetracycline residues in beef.
- Beta Agonists: We encourage the adoption of standards for beta agonist residues in beef that are based on scientific risk assessments, conducted according to internationally recognized methods.
- Bacterial Parameters: We encourage the adoption of science-based standards for bacterial contamination in the unfortunate event that beef becomes contaminated with bacteria such as Salmonella or Lysteria.
- Sanctions Policy: Once Russia has adopted science-based standards, we encourage them to implement a risk-based sanctions policy for U.S. beef shipments that do not comply with those standards.
- Veterinary Equivalence: We encourage the use of the planned 2012 meat plant audits by the Russia veterinary service to make a determination of the equivalence of the U.S. meat inspection system.
- USDA Food Safety Inspection Service (FSIS) as the Competent Authority: We encourage the recognition of FSIS as the competent veterinary authority of the United States. This includes recognizing FSIS's authority to approve and suspend U.S. beef establishments for export to Russia.

In addition, we need to ensure that Russia fully implements the tariff and quota concessions they have agreed to make on beef. Extending Permanent Normal Trade Relations to Russia will give us the means to enforce those concessions, and give Montana's family ranchers the momentum we need to benefit our rural ranching economy at home. Exports create jobs. Our competitiveness depends on profitability and attracting the next generation of ranchers back into the business. Our ranch families' livelihoods depend on exports which are our most dynamic and vibrant opportunities for long-term sustainability. I appreciate the opportunity that I have been granted to present my testimony today and I look forward to working with you throughout the course of this process to secure Permanent Normal Trade Relations with Russia. I am happy to answer any questions that you may have. Thank You.

**HEARING BEFORE
THE U.S. SENATE COMMITTEE ON FINANCE**

**RUSSIA'S WTO ACCESSION –
IMPLICATIONS FOR THE UNITED STATES**

**STATEMENT OF PAUL WILLIAMS,
PRESIDENT AND CHAIRMAN OF THE BOARD OF
THE AMERICAN SOCIETY OF COMPOSERS, AUTHORS AND
PUBLISHERS (“ASCAP”)**

**THURSDAY, MARCH 15, 2012
10:00 AM**

DIRKSEN SENATE OFFICE BUILDING

March 13, 2012

Members of the Senate Finance Committee,

It is an honor and a privilege to speak to your Committee in my capacity as President and Chairman of the Board of ASCAP, the American Society of Composers, Authors and Publishers, and on behalf of ASCAP's over 427,000 songwriter, composer, and music publisher members, living throughout America.

I submit this testimony not to address problems of piracy or corruption in Russia which have been historically addressed by other U.S. copyright groups.¹ Rather, I submit it to bear witness to the challenges U.S. songwriters, composers, and music copyright owners face in having their public performance rights in music represented through "normal" legal channels in Russia.

Why ASCAP?

ASCAP members are overwhelmingly the owners of the smallest of American businesses. Along with other creators, they make an enormous contribution to our economy. Music creators and owners depend on the efficiencies of performing rights organizations ("PROs") to license their rights and distribute royalties to them.

For example, I have been blessed with the gift of having written many popular songs, but how am I, a songwriter living in California, to collect royalties for performances of my songs throughout the United States, much less in Russia?

This is why I love ASCAP. It exists to ensure music creators and owners receive fair payment for the public performance of their musical works. To do this, ASCAP grants public performance licenses to a wide

¹ See International Intellectual Property Alliance ("IIPA"), 2012 Special 301 Report on Copyright Enforcement and Protection, available at: <http://www.iipa.com/rbc/2012/2012SPEC301RUSSIA.PDF> (advocating that Russia remain on the USTR's Priority Watch List) ("IIPA 2012 Special 301 Report").

range of music users in the U.S., such as television and radio broadcasters, hotels, nightclubs, universities, municipalities, and Internet services.

Foreign PROs

In order to collect overseas, ASCAP relies on a network of reciprocal relationships with foreign PROs in countries throughout the world. ASCAP collects and passes on to those PROs the royalties for public performance of their members' music in the U.S. Similarly, the foreign PROs collect royalties for performances in their territories, and distribute those royalties to affiliated PROs, including the U.S. PROs. The good news is that American music is extremely popular around the world. We have a positive trade balance in the export of the product we create.

Due to changes in the music industry and, of course, piracy, certain forms of royalties, particularly for the reproduction of music, have declined. As a consequence, ASCAP members and those of our U.S. sister PROs are increasingly reliant on public performing royalties for their livelihoods. An ever increasing share of those royalties is from overseas; last year, foreign PROs paid U.S. songwriters and composers nearly two-thirds of a billion dollars in royalties.²

These foreign royalties account for well over a third of the money ASCAP distributes to its members. For many American songwriters and composers, performance royalties now make the difference between being a professional music creator as opposed to a plumber with a music-writing hobby. Indeed, it is not a stretch to say that the future of professional songwriting and composing, so central to American culture, depends on ensuring that our rights are enforced around the world.

The Russian Authors Organization (RAO)

Here, I am sad to report that Russia's PRO, the Russian Authors Organization or RAO – falls short, and it is our belief that it is largely due to the Russian legal system. RAO's collections are remarkably low.

² Foreign PROs' payments flowing into the U.S. are distributed almost entirely to individual songwriters and composers. U.S. music publishers tend to have affiliated foreign publishers based in the territory of the foreign PRO and thus, collect directly from the foreign PRO in the territory of the foreign publisher.

While the French and Italian economies are roughly the same size as Russia's, performance royalties collected in 2009 in France are 11.3 times greater, and in Italy, 8.75 times greater, than in Russia. Denmark, with only 4% of Russia's population, and an economy one-tenth the size of Russia, collects nearly twice as much for public performances as Russia in dollar terms; 18 times as much per dollar of GDP; and 42 times as much per capita. Based on these comparisons, and on the Russian population's passion for American music and movies, it is clear that U.S. music creators are being grossly underpaid for performances of their music in Russia.

Russian Legal & Court System

While ASCAP depends on RAO to collect Russian performance royalties, the Russian legal system handicaps RAO's efforts. Russian courts have in recent years demanded extraordinary documentation of RAO's rights to represent ASCAP members' rights or worse yet, simply refuse to recognize the standing of RAO to represent the rights of ASCAP members.

In one instance, ASCAP's Legal Department received an email inquiry directly from a Russian judge who did not believe that RAO had standing to represent ASCAP – this despite the fact that we had previously sent documentation to RAO confirming RAO's authority in this regard; and, despite the fact that RAO is fully qualified under Russian law to act as a collecting society for the rights of U.S. music creators. RAO is not some newly created "self-appointed" representative, as some other U.S. industry sectors have unfortunately experienced in Russia.

Further, ASCAP receives royalties from societies all over the world for the public performance of music in movies, exhibited in movie theaters – with the exception of China. Even RAO has sent such royalties to ASCAP in the past. And there is no doubt that American movies are enormously popular and widely distributed in Russia.³ For the month of

³ "According to 'Film Business Today' (Russia), box office receipts in Russia and the other Commonwealth of Independent States (excluding Ukraine) set a new record in 2011 – US\$1.16 billion (an 11.74% increase from 2010)." See IIPA 2012 Special 301 Report, *supra*, at note 1, page 97.

January 2012, 3 of the top 5 grossing movies in Russia were American movies; including the movie *Hugo*, the musical score for which was composed by ASCAP member, Howard Shore.⁴ However, in recent years, due to meritless legal challenges, RAO's authority to collect for this important use of U.S. music has been threatened.⁵

VAT

Finally, Russian fiscal authorities require RAO to collect a "Value Added Tax" or VAT at a statutory rate of 18% from its royalty distributions. No other PRO in the world deducts a VAT in this manner from the royalties sent to the U.S. or elsewhere. Since 2008, this amounts to a loss of approximately \$1.5 million that might have otherwise gone primarily to U.S. songwriters and composers, thus, hurting them as well as the American economy and our culture. Although Russia grants a VAT exemption for some intellectual property rights, this exemption is not extended to copyrights. This is just plain unfair. U.S. songwriters and composers cannot recover the Russian VAT, nor can they take a foreign tax credit to compensate for this large deduction. This is a kind of "rancid icing on the cake" issue for us, insult to injury if you will.

Closing Comment

We know there is no magic wand that our Government can waive to ensure American music creators and copyright owners are fairly compensated for public performances of music in Russia. However, regardless of what happens with whether to grant permanent normal trade relations ("PNTR") and Russia's entry into the WTO, we do think the U.S. Government should work with the Russian Government to better train

⁴ See http://www.sras.org/russia_top_movies_jan_2012.

⁵ See page 18 of the IIPA 2010 Special 301 Report on Copyright Enforcement and Protection, available at <http://www.iipa.com/rbc/2010/2010SPEC301RUSSIA.pdf> (advocating that numerous provisions of Russia's Civil Code, Part IV, be amended to enable better enforcement of copyright owners' rights; this would include confirmation of the public performance right of music contained in audiovisual works and exhibited in theaters).

judges and lawyers in the handling of foreign copyrights, change its law regarding the VAT, and clarify its law regarding performance rights in music in theatrical exhibitions of movies.

If the Congress decides to grant PNTR, the US Government must aggressively use all available WTO tools to protect American songwriters, composers, and publishers. Based on our ongoing problems with China, we are under no illusions that Russia's entry into the WTO, by itself, will improve the predicament of ASCAP members. Agreements without enforcement may be worse than no agreements at all.

Thank you again for granting me the privilege to address your Committee.

COMMUNICATIONS



**Statement of the
American Farm Bureau Federation**

**TO THE
SENATE COMMITTEE ON FINANCE
REGARDING: PERMANENT NORMAL TRADE RELATIONS WITH
RUSSIA**

March 15, 2012

Approval of Permanent Normal Trade Relations (PNTR) with Russia is the American Farm Bureau Federation's top trade priority with Congress in 2012.

Russia was invited by the World Trade Organization (WTO) to become a member on Dec. 16, 2011. Long negotiations resulted in Russia committing to enact many trade-related domestic reforms. Russia is expected to complete the adoption of these measures and formally join the WTO in July 2012.

PNTR for Russia must be enacted by Congress in order to guarantee U.S. access to the market opening and legal commitments that are part of Russia's WTO accession agreement. In 2011, the United States was the third-largest supplier in the Russian market, where imports of U.S. food and agricultural products exceeded \$1.3 billion.

Russia PNTR is a critical step towards ensuring the United States benefits from Russia's WTO Accession and remains competitive in that market.

PNTR makes permanent the trade status the U.S. has extended to Russia on an annual basis beginning in 1992. Normal trade relations (NTR) or most-favored nation (MFN) status refers to the non-discriminatory treatment of a trading partner compared to that of other countries. Title IV of the Trade Act of 1974 applies conditions on Russia's status, including compliance with freedom of emigration criteria under Section 402 – the "Jackson-Vanik amendment." Because of this, the U.S. will not be in compliance with the WTO requirement of "unconditional MFN" without Congress lifting the applicability of the Jackson-Vanik amendment as it applies to Russia.

Due to the "Jackson-Vanik amendment," the U.S. invoked the WTO non-application provision, meaning that the WTO obligations from Russia's accession agreement to the WTO will not apply to the United States.

Russia's Membership in the WTO will provide significant commercial opportunities for U.S. agriculture.

U.S. farmers and ranchers will have more certain and predictable market access as a result of Russia's commitment not to raise tariffs on any products above the negotiated rates and to apply non-tariff measures in a uniform and transparent manner. In particular, Russia has committed to applying the WTO Agreement on Sanitary and Phytosanitary Measures, limiting its ability to impose arbitrary measures that have impeded trade in the past. Russia's compliance with its obligations, including those on tariffs and non-tariff measures, will be enforceable through use of WTO dispute settlement procedures.

Russia has a strong capacity for growth in food imports from the United States. U.S. agricultural exports to Russia are forecast at \$1.36 billion for 2011. Russia has the potential for significant increases in poultry, pork and beef consumption. In 2010, per capita consumption of poultry, pork and beef in Russia were 21.0kg, 19.9kg and 16.6kg, respectively. Russia's meat consumption compared to the U.S. is low, where per capita consumption of poultry, pork and beef were 43.4kg, 27.9kg and 38.8 kg, respectively. With this potential for expanding meat

exports, the establishment of necessary Tariff Rate Quotas (TRQ) and clear Sanitary and Phytosanitary (SPS) rules by the WTO accession agreement are important for U.S. agricultural export growth to Russia.

Congressional approval of PNTR for Russia will result in improved market access for U.S. agriculture.

Beef: The United States will have access to 11,000 tons of a global TRQ for fresh/chilled beef, and a U.S. country specific TRQ of 60,000 tons for frozen beef. Both TRQs have an in-quota tariff of 15 percent. In addition to access under these TRQs, the United States will be able to export high-quality beef outside the TRQ at a 15 percent tariff rate.

Poultry: Russia will maintain a 250,000 ton TRQ for chicken halves and leg quarters, with an in-quota tariff rate of 25 percent and separate TRQ access for commercially important turkey products.

Pork: Russia has agreed to a TRQ of 400,000 tons for fresh/chilled/frozen pork and a separate TRQ of 30,000 tons for pork trimmings. Both TRQs will have zero in-quota rates. As of Jan. 1, 2020, Russia will adopt a tariff-only regime for pork with a bound duty of 25 percent and will apply this duty to all imports, including from countries exporting under Russia's tariff preference program.

Apples: Russia will reduce its tariff rate for apples between 70 to 85 percent within five years, depending on the variety and season.

Cheeses: Russia is reducing its maximum tariff bindings on cheese from 25 to 15 percent, with most reaching the final bound rate within three years.

Soybeans, soybean meal and soybean oil: Russia will bind its tariff on soybeans at zero and cut its tariff on soybean meal from 5 percent to 2.5 percent within one year. Russia has also committed to bind its tariffs on soybean oil to 15 percent upon accession.

Passage of PNTR is also necessary to guarantee enforcement of key commitments by Russia for the agriculture sector.

Sanitary and Phytosanitary (SPS) Measures

Russia has established the legal framework necessary to comply with the WTO SPS Agreement. In addition, Russia has undertaken commitments on how it will comply with the SPS Agreement and its other commitments affecting trade in agricultural products. These commitments will provide U.S. exporters of meat, poultry and other agricultural products an enforceable set of disciplines against trade restrictions that are not based on science and a risk assessment. Russia has also agreed to strong rules on harmonizing SPS measures applied in Russia with international standards. Russia's accession negotiations focused on ensuring that Russia would pass and implement laws and resolutions requiring its government agencies to follow international SPS standards.

In the accession agreement, Russia has committed to develop and apply international standards on SPS measures through membership in the Codex Alimentarius, the World Organization for Animal Health (OIE) and the International Plant Protection Convention.

While not all issues were covered in the accession agreement, including specific concerns for pork and dairy exports, there is continued discussion about improving the conditions of trade for these commodities.

Domestic Support

Russia has committed to bind its aggregate measure of support (AMS) of trade-distorting agricultural subsidies at \$9 billion for 2012 and 2013, with a gradual phase down to \$4.4 billion by 2018. Russia has also agreed to eliminate the use of all agricultural export subsidies.

Conclusion

Farm Bureau supports other nations which wish to join the World Trade Organization as long as they agree to conduct themselves in accordance with WTO rules. An agricultural trading relationship based on international scientific standards and expanded opportunities will benefit the U.S. and Russia.

Farm Bureau urges Congress to support the granting of Permanent Normal Trade Relations with Russia.

FINANCE COMMITTEE HEARING

"Russia's WTO Accession – Implications for the United States"

Date: Thursday, March 15, 2012

STATEMENT

for inclusion in the hearing record

by

Dmitri Daniel Glinski, Ph.D.

Yuriy Gusev, Ph.D.

Sergey Semenov

Pavel Ivlev

Tatiana Yankelevich

Tanja Nyberg

Hon. MAX BAUCUS
Chairman, Finance Committee, U.S. Senate
Hon. ORRIN G. HATCH
Ranking Member

DEAR MESSRS. SENATORS: As U.S. citizens, natives of Russia, and representatives of the recently formed national not-for-profit organization, **American Russian-Speaking Association for Civil & Human Rights** (ARA), we would like to take this opportunity to submit this statement in advance of the Committee hearings. The purpose is to add our voices in support of the proposal to repeal the Jackson-Vanik Amendment and establish permanent normal trade relations with Russia, while balancing this decision with simultaneous measures that would send a strong message about the United States' commitment to human rights and help the people of Russia in their uphill struggle against corruption, election fraud, and the violation of their civil rights by their present government. The simultaneous adoption of S. 1039, the "Sergei Magnitsky Rule of Law Accountability Act of 2011" (hereinafter referred to as the "Magnitsky Act"), currently pending before the U.S. Senate Committee on Foreign Relations, would create such balance.

The Jackson-Vanik amendment (Section 401, Title IV of the Trade Act of 1974, P.L. 93-618) is widely and justly credited for having played a significant role in changing the Soviet system and winning the freedom of emigration for Russian Jews as well as a number of other persecuted minority groups in the former Soviet Union. Now, twenty years after all government-created obstacles to emigration from Russia have been removed, the Jackson-Vanik amendment is clearly a relic from the past. Its continued application to Russia is also contrary to the United States interest, putting it at a disadvantage vis-à-vis its competitors in the Russian market. The urgency of its removal enjoys a broad consensus across the spectrum of Russia's society, including its civil and human rights advocates.

That said, simply repealing the amendment and granting PNTR to Russia without additional steps would not be in the best interest of Russian and American people, given the difficult struggle for political and economic change in Russia in recent months, and is likely to be misinterpreted by both the Russian government and its critics, as a triumph of pure commercial interest over American values. Therefore, it is advisable that the decision on the Jackson-Vanik amendment and PNTR status for Russia be synchronized with the passage of the "Magnitsky Act" by the U.S. Senate.

The "Magnitsky Act" is named after Sergei Magnitsky, a Russian lawyer, who discovered large-scale government fraud and became a whistleblower. He was punished for this by being jailed in November 2008 and held without trial for 11 months in a Moscow prison. He died there on November 16, 2009, after being denied proper medical treatment, and his published diaries indicate that his detention conditions were made progressively worse as he refused the pressure by investigators to provide false testimony.

The "Magnitsky Act", introduced by Sen. Benjamin Cardin on May 19, 2011, would impose visa and financial sanctions upon individuals believed to be responsible for the detention, abuse, or death of Magnitsky; persons who committed the frauds that he discovered, including those who conspired to defraud the Russian Federation of taxes on corporate profits; as well as those responsible for extrajudicial killings, torture, or other human rights violations committed against human rights advocates and corruption whistleblowers. The bill has currently 28 co-sponsors in the Senate, including 15 Republicans, 12 Democrats, and one independent.

We hereby endorse the appeal in support of the "Magnitsky Act", addressed to Hon. Harry Reid and Hon. John Kerry by fifteen Russian human rights defenders, scholars, artists and public figures and included in the Congressional Record on February 16, 2012, as part of the remarks of Sen. Shaheen. As their statement says, "The threat of sanctions against the perpetrators of the Magnitsky tragedy struck a raw nerve with the Russian officials responsible for this tragedy. The consistent implementation of international pressure on the corruptioneers in the leadership circles of Russia will be a significant support for our civil society and for those honest people within the Russian power structures who are trying to renew and reform government institutions."

Such a support for Russian civil society is particularly needed now, when it has been experiencing a revival as a result of the repeated mass-scale protests against election fraud in Russia that were held on December 10 and 24, 2011, February 4, 19, and 26, 2012, and March 5 and 10, 2012, in major Russian cities (and, for the first time in decades, also held by Russian natives in the major cities of Europe, America, and Israel). This important movement is facing a protracted struggle against corruption and autocracy under highly unequal and unpredictable conditions, in which the government may use any perception of Western indifference to begin a crackdown on its opponents. In this situation, a signal from the U.S. Senate that the opinion of Russian human rights advocates is taken into account, will make a real difference – not only to those in Russia struggling for a better future, but also for those Russian-

Americans who in recent months have increasingly expressed their solidarity with this struggle, by joining the rallies in support of fair elections in Russia held in New York, Washington, San Francisco, Chicago, Kansas City, Boston, and Los Angeles. The Association that we represent was born in the course of these solidarity rallies and reflects the mandate of their participants.

Therefore, we call upon you, Honorable Senators, to make your decisions about the Jackson-Vanik amendment and PNTR in Russia in conjunction with such measures directed against the violators of human rights in Russia as the Sergei Magnitsky Rule of Law Accountability Act of 2011.

Respectfully,

Dmitri Daniel Glinski (New York, NY)

Yuri Gusev (Washington, DC)

Sergey Semenov (Chicago, IL)

Pavel Ivlev (Sparta, NJ)

Tatiana Yankelevich (Boston, MA)

Tanja Nyberg (Fairfax, VA)



BIPARTISAN POLICY CENTER

March 12, 2012

Chairman Max Baucus
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC, 20510

Ranking Member Orrin Hatch
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC, 20510

Dear Chairman Baucus and Ranking Member Hatch,

We strongly believe it is time to grant permanent normal trade relations (PNTR) status to Russia and modernize U.S.-Russia relations for the benefit of both countries. We applaud your decision to hold a hearing on this important matter and look forward to continued discussion in the weeks ahead.

We are proud to serve as co-chairs of the Russia Task Force at the Bipartisan Policy Center. We authored a report, released in January 2012, that calls on Congress to enact legislation that graduates Russia from Jackson-Vanik. As our report states in clear detail, we too believe the United States must extend PNTR status to take full advantage of Russia's WTO membership. This will encourage economic recovery by significantly expanding U.S. exports to Russia, creating more U.S. jobs across a range of important economic sectors, and ensuring favorable market access for U.S. companies. With Russia embedded in the WTO's institutions and commercial laws, the United States will also have a stronger set of tools for protecting its investors and resolving trade disputes. Failing to grant PNTR status would permit Russia to discriminate against U.S. trade and businesses, thus hurting job creation and economic growth here at home. We agree the United States cannot afford to miss this opportunity. Congress must act in a timely fashion to graduate Russia from Jackson-Vanik.

We also support efforts to hold Russian officials accountable for human rights abuses, for the sake of the Russian people and its society, and because liberal values are the foundation of the United States. Furthermore, we recognize Congress has little appetite to graduate Russia from Jackson-Vanik without replacement legislation targeting human rights and the rule of law. Therefore, we believe Congress should enact legislation that promotes more effectively Russian human rights and civil society. Russia's WTO accession and graduation from Jackson-Vanik should be part of a comprehensive policy framework – crafted by the Executive and Legislative Branches together with outside stakeholders – that advances U.S. interests, builds a more constructive bilateral relationship with Russia and promotes Russian human rights, rule of law, democracy, transparency, civil society, and commercial engagements.

As you and your colleagues on the Senate Finance Committee debate this important issue on March 15 and beyond, we look forward to working with you in the coming weeks on this bipartisan effort.

Very Truly Yours,

Secretary Donald L. Evans

Senator Charles S. Robb

Statement of Omar Ishrak

Chairman and CEO

Medtronic, Inc.

Submitted for the Record to

Senate Finance Committee

Hearing on Russia's WTO Accession – Implications for the United States

March 15, 2012

Chairman Baucus, Ranking Member Hatch and Members of the Committee, thank you for the opportunity to submit for the record this statement on behalf of Medtronic in support of Russia's accession to the World Trade Organization (WTO) and to urge Congressional approval of legislation granting permanent normal trade relations (PNTR) status for Russia.

In a few short months, Russia is expected to formally become a member of the WTO. According to some estimates, Russia's accession to the WTO could double U.S. exports, supporting U.S. jobs in numerous sectors, including services, agriculture, manufacturing and technology. U.S. economic benefits from Russia's accession to the WTO are not automatic; however, they will be secured and enforceable only if Congress passes permanent normal trade relations with Russia.

About Medtronic

Medtronic was founded in 1949, in a garage in Minneapolis, Minnesota. Today, we are the largest independent medical technology company, employing 40,000 people worldwide -- serving physicians, clinicians and patients in more than 120 countries, including Russia. With over 71,000 Medtronic technologies in production, Medtronic is a global leader in medical technology, serving over 7 million patients each year. Medtronic innovation leads the way as medical technologies change the ways physicians treat patients. Every 4 seconds, a Medtronic product saves or substantially improves the life of someone, somewhere in the world.

Medtronic in Russia

Russia is one of the fastest growing regions for the medical technology industry and Medtronic is a key player in the Russian medical device market. Medtronic works with more than 400 health service provider institutions and serves more than 75 cities across Russia. Since 2005, more than 10,000 Russian health care professionals have been trained in Medtronic technologies, and in the last five years, Medtronic technologies and therapies have benefitted nearly 70,000 patients across Russia.

Growing Market for Medical Technology

Home to 142 million people, Russia's population is the 9th largest in the world, but only 20% of Russians currently have access to quality healthcare. Russian government efforts to extend medical care to larger portions of the country make it a significant emerging market for companies like Medtronic that provide cutting-edge life science products.

Spending on healthcare in Russia is on the rise. Today, Russian healthcare spending is four times higher than it was in 2001. Russian spending for 2011 is expected to reach nearly \$93 billion, a nearly 14% increase over Russia's 2010 healthcare expenditures of more than \$81 billion. The Russian healthcare market is almost entirely public, meaning provided by the Government of Russia. Thus, healthcare companies like Medtronic are entirely dependent on the Russian government to acquire our products.

At the same time, the incidence of chronic disease is high in Russia, too high. Cardiovascular disease alone is responsible for 56% of all deaths, followed by cancer at roughly 13%. Still, there are too many patients in Russia today that do not have access to clinically indicated therapies to treat these and other chronic illnesses.

Nearly two-thirds of Russia's medical equipment is obsolete, creating demand for new medical devices. Russia's spending on medical devices is projected to reach \$6.4 billion for 2011, marking growth of nearly 17% over the previous year's total of \$5.5 billion. Russia imports 60% of its medical devices and 20-25% of these imports come from U.S. companies, giving the U.S. the second largest share in Russia's imported medical device market after Germany.

As a concession, Russia has agreed to substantial tariff reductions for imported medical equipment following WTO accession – Russian tariffs on these products will average 5%, giving U.S. medical technology companies the opportunity to realize significant expansion into the Russian market. Meanwhile, Russia PNTR does not require any tariff reductions or market liberalization by the U.S.

Additionally, Russia's WTO commitments promise to greatly improve the climate for companies doing business in Russia. U.S. companies will benefit from Russia's adherence to the rules of international trade with regard to intellectual property rights, as well as science- and risk-based regulations, but only if Congress passes Russia PNTR.

Russia PNTR is Essential for a Level Playing Field

Approval of Russia PNTR is a critical step toward ensuring that U.S. companies like Medtronic can benefit from Russia's WTO accession and remain competitive in that market. If PNTR is not in place by the date of Russia's accession to the WTO, Medtronic and other U.S. companies will not be able to take full advantage of the market opening benefits and other commitments made by Russia to join the WTO, nor be able to enforce them when necessary. In contrast, all other WTO countries – including our European competitors – will enjoy these benefits and, until

PNTR is granted, have a competitive edge over Medtronic and other U.S. companies and workers in the increasingly important Russian market.

Legislation to graduate Russia from the Jackson-Vanik amendment and establish PNTR is essential to ensuring that U.S. companies enjoy a level playing field and are able to compete for sales of goods and services in Russia with foreign competitors. Passing Russia PNTR will bring the U.S. into compliance with WTO rules requiring unconditional free trade between members. Jackson-Vanik is a condition on our trade with Russia. As no other WTO member country has a law similar to Jackson-Vanik which imposes such conditions, all of Russia's trading partners will realize an immediate benefit, leaving U.S. companies on the sidelines of the Russian market, at a disadvantage for lucrative contracts and without the full tools of a WTO relationship.

If Congress fails to grant PNTR, Russia will still accede to the WTO, but only U.S. companies will be penalized.

As you may know, the medical technology sector is a priority sector under the President's National Export Initiative, indicating that this is a solid source of American competitiveness and jobs. Russia is one of the fastest growing markets in the world for medical technology, and Russia's accession to the WTO will give U.S. companies like Medtronic a significant opportunity to expand our exports and sales to Russia, which leads to job creation here at home, but only if coupled with PNTR.

We can ill afford to forfeit this opportunity to remain competitive. Without PNTR, U.S. companies like Medtronic will be left behind our competitors in this growing and profitable market, losing ground that we may never be able to make up. I respectfully urge Congress to ensure that U.S. companies can take full advantage of Russia's WTO accession from day one by passing legislation to grant PNTR status for Russia now.

Thank you for the opportunity to weigh in on this very important matter.

**Statement for the Record of
Daniel Cruise**

**Vice President for Global Public and Government Affairs
Alcoa, Inc., and**

**Chairman, Russia Trade Relations Task Force
National Association of Manufacturers**

For the

**Senate Committee on Financial Services
Hearing on**

“Russia’s WTO Accession-Implications for the United States”

Thursday, March 15, 2012

The National Association of Manufacturers (NAM) welcomes this hearing on Russia’s accession to the World Trade Organization (WTO). As Chairman of the NAM Russia Trade Relations Task Force, I appreciate the opportunity to highlight the importance of broadening opportunities for U.S. manufacturers overseas by granting Permanent Normal Trade Relations (PNTR) status to Russia.

The NAM is the nation’s largest industrial trade association, representing small and large manufacturers in every industrial sector and in all 50 states. Its membership includes both large multinational corporations with operations in many foreign countries, and small and medium-sized manufacturers that engage in international trade. The manufacturing sector employs nearly 12 million Americans, and is the engine that drives the U.S. economy by creating jobs, opportunity and prosperity. Exports are vital to the success of American manufacturing, as they constitute 20 percent of U.S. manufacturing production and have increased at a rapid clip in recent years. In fact, over the past decade, exports grew more than five times as fast as shipments to the domestic market—with exports growing by 48 percent while domestic shipments grew by only 9 percent.

Russia is the 11th largest market in the world, with a \$1.9 trillion economy and a growing middle class that values high-quality goods. Russia imported \$310 billion in goods in 2011, yet the United States accounted for only 4 percent of those imports. About 60 percent of U.S. exports to Russia fall into three main categories: aircraft; machinery (mostly parts for oil and gas production equipment); and meat. Russia’s demand for heavy equipment and other capital goods, like construction equipment and aircraft, is strong. Russia and other former Soviet states will require 1,080 new planes valued at approximately \$110 billion over the next two decades. Russia also has the world’s second-longest railway network, which moves 85 percent of the country’s freight. A significant amount of Russia’s railcars and locomotives are aging and will require replacement in the next few years. The United States exported approximately \$275 million of oil and gas equipment to Russia in 2010, and opportunities will grow as Russia seeks modern technologies and introduces greater efficiencies in its extraction techniques.

Russia offers an excellent opportunity for U.S. manufacturers, and the President's Export Council has estimated that U.S. exports to the country could double over the next five years to \$12 billion. This will create manufacturing jobs in a wide variety of industries and boost economic growth, if Congress establishes PNTR with Russia.

Russia was officially invited to join the WTO on December 16, 2011, and will formally accede to the WTO upon action by the Russian Duma to ratify the agreement. The NAM strongly supports PNTR with Russia because it will give manufacturers better access to the Russian market and commit Russia to an enforceable set of international standards. Manufacturers in the United States will benefit from tariff reductions, Russia's commitment to join the Information Technology Agreement, non-tariff barrier reductions, enhanced intellectual property rights protection and enforcement, and loosened restrictions on services trade. Each of these additional protections will help American manufacturers sell more goods in Russia.

The United States must establish PNTR with Russia before American companies can receive the full benefits of Russia's WTO membership. To establish PNTR, Congress must graduate Russia from the Jackson-Vanik amendment. The Jackson-Vanik amendment to the Trade Act of 1974 was enacted to help facilitate Jewish emigration from the then-Soviet Union, and it has outlived its purpose. Russia terminated its exit fees and restrictions on Jewish emigrants in 1991, and Russian Jews can now freely emigrate. Since 1992, U.S. Presidents of both political parties have certified annually that Russia complies with the Jackson-Vanik amendment provisions. The United States maintains Normal Trade Relations (NTR) status with Russia, though it is not the unconditional PNTR required by the WTO.

Congress must enact PNTR with Russia so the U.S. can fully enforce Russia's WTO obligations. If Congress fails to act on PNTR, America's foreign competitors will have an advantage in accessing the \$200 billion Russian import market. Since Russia already has open access to the U.S. market, and is coming into the WTO with us or without us, the only companies hurt by failure to provide Russia PNTR would be NAM members and other U.S. companies.

On behalf of the NAM, and the Russia Trade Relations Task Force, I strongly urge the Senate Finance Committee to support legislation that will graduate Russia from the Jackson-Vanik amendment and establish PNTR for Russia. The Russian market presents an enormous opportunity for American exports, and the protections that would be gained under Russia's WTO accession are significant. Since no other WTO member has a law similar to Jackson-Vanik, the United States is the only country that will not immediately benefit when Russia joins the WTO. Russia is an important part of U.S. manufacturers' strategy to create and sustain jobs here in the United States by enhancing our competitiveness abroad, and American manufacturers can't afford to be left behind.

I appreciate the opportunity to submit this statement on behalf of the NAM. Manufacturers eagerly await further Congressional action on the establishment of PNTR with Russia and will continue to work toward creating future export opportunities within the rules-based global trade system.



The Pharmaceutical Research and Manufacturers of America (PhRMA)

950 F Street NW
Suite 300
Washington, DC 20004

Submission for the Record

**Re: Senate Finance Committee Hearing on Russia's WTO Accession-
Implications for the United States, March 15, 2012**

The Pharmaceutical Research and Manufacturers of America (PhRMA) appreciates the opportunity to provide this written submission for the record in conjunction with the Senate Finance Committee hearing held on March 15, 2012, to discuss repealing the Jackson-Vanik Amendment and establishing permanent normal trade relations (PNTR) with Russia. In this statement, we focus on the contributions of the research-based biopharmaceutical industry to the U.S. economy and to U.S. exports, as well as the importance of enhancing the global competitiveness of our industry through the establishment of PNTR with Russia.

PhRMA represents the country's leading innovative biopharmaceutical companies. The United States is a leader in discovering and developing innovative medicines and vaccines that enable patients to live longer, healthier, and more productive lives, and offering new hope to those suffering from life-threatening disease or disability. PhRMA member companies make substantial investments in research and development to understand the underlying causes and pathways of disease, test potential new medicines for safety and clinical efficacy, and refine complex chemical molecules and biotechnology processes to manufacture new medicines. In 2010, our industry invested an estimated \$67.4 billion in research and development for new medicines.

In order to continue to foster economic growth in the United States and the much-needed medical breakthroughs that will save lives, the U.S. Government must continue to pursue public policies that promote innovation, and that require protection of intellectual property rights and the removal of critical barriers to market access. Establishing PNTR with Russia will help address many of the concerns affecting our industry in exporting to and competing effectively in Russia.

The Biopharmaceutical Industry's Contributions to the U.S. Economy and U.S. Exports

The U.S. biopharmaceutical industry is a major U.S. employer, supporting 4.0 million jobs, including direct employment of more than 650,000 Americans¹. In 2009, every direct job in the biopharmaceutical sector supported nearly five jobs in other sectors.² The industry consists of companies ranging from large, multinational enterprises to medium and small companies. It also supports a network of suppliers, distributors and others who contribute to ensuring patients receive the medicines they need.

PhRMA member companies are important drivers of high-quality, innovative job creation in the United States, investing more per employee in research and development than any other manufacturing sector.³ Our industry is also a significant contributor to U.S. economic growth. Each job in the biopharmaceutical sector contributed more than double the average contribution to gross domestic product (GDP) from jobs in the rest of the economy.⁴ For every dollar that biopharmaceutical companies contributed to GDP in 2008, the ripple effect of that activity supported another \$1.91 in contribution to GDP from other sectors.⁵

As strong as our recent performance has been, it could be even stronger. Barriers to exportation still remain, as do limits on the ability to market and distribute innovative biopharmaceutical products in particular countries. Establishing PNTR with Russia is a positive step forward in eliminating those barriers in Russia and creating new export opportunities that will lead to high-skilled, high-value job creation in the United States.

U.S. Congress Should Quickly Pass Permanent Normal Trade Relations with Russia to Protect and Bolster U.S. Biopharmaceutical Jobs and Exports

The U.S. innovative biopharmaceutical industry supports Russian accession to the World Trade Organization (WTO). Russia received approval to join the WTO in December 2011 and will become a formal member by mid-2012. Russia's \$17.5 billion dollar biopharmaceutical market grew at approximately 16% in 2011⁶ and innovative medicines account for roughly 75% of the market in terms of value.⁷

If Congress fails to pass Permanent Normal Trade Relations (PNTR), the United States will not receive the same benefits as all other WTO members at the time of Russian accession. In short, the U.S. biopharmaceutical industry and all other U.S. manufacturers, service providers, and agricultural interests will be left behind. Extending PNTR with Russia will ensure:

Equal treatment for U.S. biopharmaceutical exports. Many U.S. and foreign manufacturers operating in Russia source products from the United States. If Congress does not extend PNTR,

¹ Battelle Technology Partnership Practice, *The U.S. Biopharmaceuticals Sector: Economic Contribution of the Nation*, July 2011. Battelle Memorial Institute. Prepared for the Pharmaceutical Research and Manufacturers of America. (Battelle Report).

² Id.

³ N. D. Pham, "The Impact of Innovation and the Role of Intellectual Property Rights on U.S. Productivity, Competitiveness, Jobs, Wages, and Exports," (Washington, DC: NDP Consulting, 2010).

⁴ Archstone Consulting and L. R. Burns, "The Biopharmaceutical Sector Impact on the U.S. Economy: Analysis at the National, State and Local Levels (Fact Sheet)," (Washington, D.C.: Archstone Consulting LLC, 2010).

⁵ Id.

⁶ "Russia: Pharmaceutical Market Growth Story Continues," January 17, 2012. Business Monitor International.

⁷ Pharmexpert Market Research Center. (<http://www.pharmexpert.ru/>)

these manufacturers will have an incentive to discontinue sourcing products from the United States. Instead, these companies may choose to source from countries that have PNTR with Russia because their products face less uncertainty and risk than those originating in the United States. This could result in unwarranted U.S. job losses.

In fact, biopharmaceutical exports have grown over the past five years, supporting domestic jobs even in the midst of the current global recession. Between 2006 and 2011, the U.S. exported more than \$248 billion in biopharmaceuticals – a 40 percent increase, from \$32.1 billion in 2006 to \$45.6 billion in 2011. This made the biopharmaceutical sector the sixth largest U.S. exporting industry.⁸ Our industry has shown strong export performance in the recent past, increasing exports by almost 150 percent in the last decade.⁹

Six years of regulatory data protection for U.S. biopharmaceutical companies. Russia's new law to protect biopharmaceutical clinical test data – a pre-condition for U.S. support for Russian accession – does not enter into force until Russia becomes a full member of the WTO. Strong regulatory data protection is critically important to the industry's ability to develop innovative, life-saving medicines. However, if the United States does not extend PNTR, Russia is entitled to withhold this accession benefit from U.S. biopharmaceutical companies.

U.S. recourse to WTO dispute settlement proceedings against Russia. Operating in the Russian market can be difficult because the enforcement of laws, regulations, and guidelines is often inconsistent. Additionally, some current policies and laws, including a local manufacturing requirement for a growing list of products that was developed in a non-transparent manner and government pricing policies that favor domestically produced medicines over imported products, clearly discriminate against U.S. biopharmaceutical firms. Many of these policies could be found to be inconsistent with WTO rules, but the U.S. Government would not be able to raise these issues or initiate a WTO case against Russia without PNTR.

Conclusion

The U.S. innovative biopharmaceutical industry is both a leading export industry and a strong contributor to U.S. economic expansion through the creation of high-skilled, high-value, knowledge-based jobs. As such, our industry relies heavily on the WTO to open foreign markets and help create new export opportunities for innovative medicines. PhRMA urges the U.S. Congress to move PNTR legislation forward expeditiously to ensure that the U.S. biopharmaceutical industry benefits from Russia's entry in to the WTO.

Using the U.S. membership in the WTO, and U.S. trade policy broadly, to address and dismantle trade barriers our industry faces in overseas markets is a winning strategy that adds to the innovative capacity and global competitiveness of the United States, while also expanding valuable employment opportunities for knowledge-based workers. PhRMA looks forward to working with the Committee and its Members in support of the objectives outlined in this Statement.

⁸ U.S. International Trade Commission, Trade DataWeb, accessed March 9, 2012, at <http://dataweb.usitc.gov/> (query run of U.S. domestic exports classified by 4-digit NAIC code 3254).

⁹ *Id.*



100 Years Standing Up for American Enterprise
U.S. CHAMBER OF COMMERCE

Statement of the U.S. Chamber of Commerce

ON: Russia's WTO Accession-Implications for the United States

TO: United States Senate Committee on Finance
215 Dirksen Senate Office Building

BY: U.S. Chamber of Commerce

DATE: Thursday, March 15, 2012, beginning at 10:00 a.m.

The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is pleased to submit this testimony for the record on Russia's accession to the World Trade Organization (WTO) and the case for congressional approval of Permanent Normal Trade Relations (PNTR) with Russia. The U.S. Chamber is the world's largest business federation, representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

No priority facing our nation is more important than putting Americans back to work. Fully 8.3% of the U.S. workforce is unemployed — a figure that soars to 15% when those who have stopped looking for jobs and the millions of part-time workers who want to work full time are included. As a nation, the biggest policy challenge we face is to create the 20 million jobs needed in this decade to replace the jobs lost in the current recession and to meet the needs of America's growing workforce.

World trade will play a vital role in reaching this job-creation goal. When President Barack Obama delivered his State of the Union address in January 2010, the U.S. Chamber and the rest of the business community welcomed his call for a national goal to double U.S. exports within five years.

The rationale is clear: Outside our borders are markets that represent 80% of the world's purchasing power, 92% of its economic growth, and 95% of its consumers. The resulting opportunities are immense.

Already, more than 38 million Americans jobs depend on trade. One in three manufacturing jobs depends on exports, and one in three acres on American farms is planted for hungry consumers overseas.

Nor is trade important only to big companies. Often overlooked in the U.S. trade debate is the fact that more than 97% of the quarter million U.S. companies that export are small and medium-sized enterprises (SMEs), and they account for nearly a third of U.S. merchandise exports, according to the U.S. Department of Commerce. In fact, the number of SMEs that export has more than doubled over the past 15 years.

The bottom line is simple: If America fails to look abroad, our workers and businesses will miss out on huge opportunities. Our standard of living and our standing in the world will suffer. With so many Americans out of work, opening markets abroad to the products of American workers, farmers, and companies is a higher priority than ever before.

It is within this context that we should consider one of the Chamber's top trade priorities before the Congress this year: Approval of PNTR and repeal of the Jackson-Vanik amendment with respect to Russia. (The other such priority is reauthorization of the Export-Import Bank of the United States.)

On December 16, 2011, trade ministers at the 8th WTO Ministerial Conference celebrated the conclusion of 18 years of negotiations for Russia to accede to the WTO and invited Russia to become the organization's 154th member. In those negotiations, Russia committed to enact a host of reforms to meet its extensive commitments to the WTO, and Moscow is expected to complete this work and formally join the WTO in July 2012.

That Russia will join the WTO is no longer in doubt. In fact, at this juncture, the United States can neither help nor hinder Russia in doing so. However, the U.S. Congress must act to ensure that the United States benefits from the reforms Russia undertakes as it joins the WTO.

Specifically, Congress must pass a short and simple bill that grants Russia PNTR and repeals the Jackson-Vanik amendment with respect to Russia. Failure to do so will put U.S. workers, farmers, and businesses at a unique disadvantage in the growing Russian marketplace and drive new sales, exports, and job-creation opportunities to our European and Asian competitors.

As President Barack Obama and the Russian President Dmitry Medvedev discussed in a meeting with the business community at the U.S. Chamber in July 2010, joining the WTO requires Russia to implement a host of economic reforms. The multilateral trade agreement governing Russia's accession requires Moscow to open its market to U.S. goods, services, and investment; ensure greater respect for the rule of law; and protect intellectual property. A summary of the commitments made by Russia as a condition of its accession to the WTO appears in Exhibit 1 (next page).

One little understood aspect of this process is that Congress does not vote on Russia's accession to the WTO and has no authority to block it. Rather, Congress must approve PNTR and repeal the Jackson-Vanik amendment with respect to Russia if American companies, workers, and farmers are to benefit from Russia's new openness as it joins the WTO.

Under WTO rules, every WTO member must grant all other members unconditional Permanent Normal Trade Relations (also known as "most-favored nation" status). This obligation originated in the WTO's predecessor, the 1947 General Agreement on Tariffs and Trade, and it mandates that any advantage granted to one WTO member by another member must be accorded unconditionally to all other members.

The United States will be in clear violation of this rule if it fails to repeal Jackson-Vanik with regard to Russia. Russia would thus be fully within its rights to withhold the benefits of its accession-related reforms from U.S. companies.

The Jackson-Vanik amendment to the Trade Act of 1974 was devised to press the Soviet Union to allow the emigration of Soviet Jews, prisoners of conscience, and victims of religious persecution. With respect to Russia, Jackson-Vanik has fully accomplished its objective. With the collapse of the Soviet Union two decades ago, Russia established freedom of emigration for all citizens. Since 1992, U.S. presidents of both parties have issued annual certifications of Russia's full compliance with the Jackson-Vanik amendment.

Because no other WTO member has a law similar to Jackson-Vanik, all of Russia's trading partners except the United States will immediately benefit when Russia joins the WTO in July. If Jackson-Vanik remains applicable to Russia, the United States will be in violation of WTO rules.

Failure to approve PNTR and repeal Jackson-Vanik with regard to Russia would allow Moscow the right to discriminate against U.S. companies and the workers they employ and deny them the full benefits of Russia's market-opening reforms. Meanwhile, European and Asian companies will be able to build on their already significant head start in tapping the growing Russian market.

Exhibit 1:
What Does PNTR Mean for the United States and Russia?
For the United States, all the benefits
For Russia, all the concessions

Which To-Do List Would You Rather Have?

United States of America TO DO:	Russian Federation TO DO:
<ul style="list-style-type: none"> ▪ Approve legislation providing PNTR and graduating Russia from the Jackson-Vanik certification process. 	<ul style="list-style-type: none"> ▪ Cut tariffs on manufactured products from 10% to 7%, with steeper cuts on priority goods: <ul style="list-style-type: none"> ○ <i>Eliminate duties on IT products.</i> ○ <i>Cut duties on wide body aircraft from as high as 20% to 7.5%.</i> ○ <i>Slash average tariff on chemicals to 5.3% from as high as 20%.</i> ○ <i>Cut tariffs on combine harvesters from 15% to 5%.</i> ▪ Reduce duties on farm products to 10.8% from 13%, with notable gains for key products: <ul style="list-style-type: none"> ○ <i>Expand market access for beef, poultry, and other products at reduced tariffs.</i> ○ <i>Require use of international standards and enforceable disciplines against trade restrictions that are not science based.</i> ○ <i>Cap farm subsidies at \$9 billion in 2012 and cut them in half by 2018.</i> ▪ Open services markets to U.S. firms: <ul style="list-style-type: none"> ○ <i>Allow 100% U.S. ownership of companies in banking, securities, nonlife insurance, telecommunications, audiovisual, wholesale, distribution, retail, and franchises.</i> ▪ Meet intellectual property commitments of the WTO TRIPS Agreement: <ul style="list-style-type: none"> ○ <i>Enhance enforcement on the Internet and new copyright and patent protections.</i> ▪ Cut the maximum customs clearance fee by two-thirds. ▪ Allow trade disputes to be taken to the WTO dispute settlement system.

Russia is the world's 11th largest economy and the last major economy to join the WTO. The President's Export Council estimates that U.S. exports of goods and services to Russia — which, according to estimates, topped \$10 billion in 2011 — could double or triple once Russia joins the WTO. Many U.S. companies are already active in Russia; to illustrate, the American Chamber of Commerce in Russia has more than 700 members. For many of these companies, Russia has proven to be a lucrative market for high quality goods and services.

Business opportunities in Russia are significant and are expected to grow substantially after Russia finalizes its accession to the WTO. The World Bank forecasts WTO accession could increase Russian GDP by 3.3% in the medium term and by 11% over a longer period as greater openness and competition in the marketplace compel the Russian economy to become more efficient. Russia's economy has been dominated by natural resource extraction and state-owned and state-influenced enterprises; joining the global rules-based trading system will foster diversification and openness and directly benefit consumers.

One often-posed question is: What happens if Russia fails to meet its commitments? In the area of intellectual property protection, for example, Russia continues to present significant challenges to U.S. innovators and creative artists. The Chamber will continue to urge the U.S. government to remain vigilant in ensuring that Russia implements its intellectual property commitments in full and makes greater progress with respect to combating online piracy.

However, addressing these challenges will be easier once Russia joins the WTO. Other countries will for the first time be able to use the WTO dispute settlement process to hold the Russian authorities accountable should they fail to fulfill their commitments as a new member of the organization. The WTO dispute settlement process affords graduated responses to the arbitrary imposition of trade barriers, including the possibility of WTO-sanctioned retaliation. At present, no such recourse exists, and U.S. authorities have few options to respond to Moscow's arbitrary trade actions. However, the United States cannot avail itself of WTO dispute settlement unless it grants Russia PNTR.

Russia's accession to the WTO has been a bipartisan American foreign policy goal for many years. In 1993, Russia applied to join the General Agreement on Tariffs and Trade (GATT), the precursor to the WTO. After years of talks, the Bush Administration took a big step forward in 2006 when it signed a bilateral agreement with Russia to address particular trade concerns. (Any WTO member may insist that an acceding nation negotiate such an agreement as a condition for accession.) The Obama Administration concluded the multilateral negotiations for Russia's accession in December 2011.

The longstanding bipartisan goal of bringing Russia into the global rules-based trading system is finally within reach. The only question now is whether U.S. companies, workers, and farmers will be able to secure the benefits of Russia's accession to the WTO. The answer rests with the Congress, which must approve PNTR and repeal Jackson-Vanik with respect to Russia. The U.S. Chamber of Commerce looks forward to working with the members of the Committee on this important task.