

**RUSSIA'S ACCESSION TO THE WORLD TRADE
ORGANIZATION AND GRANTING RUSSIA
PERMANENT NORMAL TRADE RELATIONS**

HEARING

BEFORE THE

**COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES**

ONE HUNDRED TWELFTH CONGRESS

SECOND SESSION

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CONTENTS

	Page
Advisory of June 20, 2012 announcing the hearing	2
WITNESSES	
Ambassador Ron Kirk, United States Trade Representative, Testimony	7
Ambassador William Burns, Deputy Secretary, United States Department of State, Testimony	16
Panel 2:	
Mr. Doug Oberhelman, Chairman and Chief Executive Officer, Caterpillar Inc. on behalf of The Business Roundtable and The National Association of Manufacturers, Testimony	56
Mr. Wayne H. Wood, President, Michigan Farm Bureau, Testimony	68
Mr. Michael Rae, President, Argus Ltd., Testimony	73
Mr. James P. Mackin, Senior Vice President and President, Cardiac Rhythm Disease Management, Medtronic, Inc., Testimony	79
SUBMISSIONS FOR THE RECORD	
Computer & Communication Industry Association	102
Distilled Spirits Council of the United States	105
National Milk Producers Federation	110
National Pork Producers Council	113
U.S. Chamber of Commerce	117
MATERIAL SUBMITTED FOR THE RECORD	
Questions for the Record:	
Questions	124

**RUSSIA'S ACCESSION TO THE WORLD TRADE
ORGANIZATION AND GRANTING RUSSIA
PERMANENT NORMAL TRADE RELATIONS**

WEDNESDAY, JUNE 20, 2012

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The Committee met, pursuant to call, at 9:30 a.m., in room 1100,
Longworth House Office Building, the Honorable Dave Camp
[Chairman of the Committee] presiding.
[The advisory of the hearing follows:]

HEARING ADVISORY

Chairman Camp Announces Hearing on Russia's Accession to the World Trade Organization and Granting Russia Permanent Normal Trade Relations

Wednesday, June 20, 2012

House Ways and Means Committee Chairman Dave Camp (R-MI) today announced that the Committee on Ways and Means will hold a hearing on Russia's accession to the World Trade Organization (WTO) and granting Russia permanent normal trade relations (PNTR). **The hearing will take place on Wednesday, June 20, 2012, in 1100 Longworth House Office Building. The first panel will consist of Administration witnesses and will begin at 9:30 A.M. The second panel will consist of private sector witnesses and will begin at 2:00 P.M.**

In view of the limited time available to hear the witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing. A list of invited witnesses will follow.

BACKGROUND:

In December 2011, the WTO Membership invited Russia to become a Member of the WTO. Under WTO rules, Russia will automatically join the WTO thirty days after depositing its instruments of ratification, which is to occur once the Russian legislature votes on the WTO accession package. That vote is likely to occur in the next few weeks.

Russia is currently the largest economy that is not a WTO Member. As a member of the WTO, Russia will be required to decrease its tariffs and remove barriers to imports of goods and services. Russia will also be required to comply with WTO requirements regarding transparency in setting rules, intellectual property rights (IPR) protection, science-based sanitary and phytosanitary (SPS) standards, and other obligations. WTO Members will be able to use the WTO's dispute settlement procedures to enforce these obligations.

The United States does not now provide Russia unconditional normal trade relations, or permanent normal trade relations (PNTR), as required under WTO rules, because Russia is subject to Title IV of the 1974 Trade Act, including the so-called "Jackson-Vanik" amendment. This law requires annual determinations to provide normal trade relations for all countries that were Communist when the law was enacted, instead of the permanent, unconditional trade relations that the United States typically offers to WTO Members. To avoid being in violation of its WTO obligations, the United States has invoked "non-application" of WTO rules with respect to Russia, which it can revoke at any time if Congress passes PNTR. The effect of the non-application is that the United States and Russia would not have a WTO relationship, and neither Russia nor the United States would have rights or obligations under WTO rules with respect to each other. This could place American employers, workers, farmers, and ranchers at a disadvantage in the Russian market versus their competitors in other WTO Members.

In announcing this hearing, Chairman Camp said, **"We should explore every opportunity to open markets for U.S. employers, workers, farmers, and ranchers. Granting Russia PNTR is a way to create American jobs and increase our exports. If Congress does not grant Russia PNTR, the benefits of Russia's membership in the WTO will go only to our foreign competitors. Clearly, there are non-economic concerns with Russia, but blocking PNTR does not increase our leverage in addressing those items. I look forward to the administration's active engagement on all of the issues surrounding Russia PNTR."**

FOCUS OF THE HEARING:

The focus of the hearing will be the significant opportunities presented upon Russia's accession to the WTO and commercial areas requiring continued attention, such as enforcement of IPR and Russian SPS standards relating to U.S. agriculture exports. The hearing will also explore the impact on U.S. employers, workers, farmers, and ranchers if Congress does not grant Russia PNTR and they are unable to obtain the benefits of Russia's membership. In addition, the hearing will provide an opportunity for addressing Members' non-commercial concerns regarding Russia.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, <http://waysandmeans.house.gov>, select "Hearings." Select the hearing for which you would like to submit, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on Thursday, July 5, 2012**. Finally, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225-1721 or (202) 225-3625.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word format and **MUST NOT** exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone, and fax numbers of each witness.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available on the World Wide Web at <http://www.waysandmeans.house.gov/>.

Chairman CAMP. Good morning. I want to welcome everyone and extend a special welcome to our guest, the United States Trade Representative, Ambassador Ron Kirk, and the Deputy Secretary of

the United States Department of State, Ambassador William Burns, as well as our second panel of witnesses, which will begin at 2 o'clock this afternoon.

I am looking forward to a discussion about Russia's accession to the WTO and permanent normal trade relations, or PNTR, for Russia. Our ongoing relationship with Russia is a complex one, but also one with considerable potential for both countries. That is why I welcome Russia's membership in the WTO, and that is why I support PNTR for Russia.

The economic benefits are clear; greater opportunities for U.S. employers, farmers and ranchers to sell American goods and services to Russia. We would give up nothing, not a single U.S. tariff, but we would obtain a powerful new enforcement tool and important rights, while bringing our two countries closer together on multiple fronts.

No matter what, Russia will join the WTO in a couple of months, and to obtain the benefits of the concessions Russia made to join the WTO, we must grant Russia PNTR. However, Russia continues to generate considerable skepticism on Capitol Hill. Some of the skepticism is rooted in the significant bilateral commercial issues that we have with Russia. For example, Russia continues to be on USTR's priority watch list for inadequate enforcement and protection of intellectual property rights. This problem is especially acute regarding Russia's failure to address Internet piracy.

Another serious problem is Russia's abuse of sanitary and phytosanitary requirements to keep out U.S. meat exports. When Russia joins the WTO, it must adopt science-based SPS requirements that reflect international standards. But there is the concern that Russia will continue to discriminate against U.S. meat exports, particularly pork.

These issues reflect the overall concern of how much Russia will live up to its WTO obligations. It is one thing for our country to promise to follow WTO rules, but it is another to actually follow those rules. Members must have confidence that these outstanding commercial issues will be adequately addressed, and that the administration has a plan to ensure that Russia lives up to its WTO commitments.

Member skepticism about Russia is also due to non-commercial issues, and I share the view of many Members that Russia poses significant problems relating to foreign policy and human rights. However, while these issues must be discussed, I believe that holding up PNTR because of nontrade concerns does not increase our leverage to address them and does not delay Russia's WTO accession.

I also think that legislation granting Russian PNTR should be clean and targeted, or else the legislation could be unduly complicated and delayed.

I welcome today's hearing so that Members can raise the issues that are on their minds about Russia, giving the administration the opportunity to respond to all concerns. In my view the Administration has not been vocal enough in promoting PNTR, although I do note an op-ed in the Wall Street Journal by Secretary of State Hillary Clinton, which is certainly very welcome on this issue. I am glad to see that Monday's joint statement by the President and

Russian President Putin began by mentioning Russia's accession to the WTO and granting Russia PNTR, and I hope that the President will follow up with even more engagement with Congress and the American people and a strategy for Congressional consideration of PNTR. I hope that today's hearing will be an important step in the administration's effort to make its best case for why Russia—why Congress should act this year on PNTR.

Finally, I also welcome the opportunity to hear from the private sector this afternoon about why Russia joining the WTO and granting Russia PNTR is so important to them. Russia has a significant and growing economy, yet our economic relationship with Russia isn't that large. This imbalance indicates a substantial new opportunity to sell our goods and services in Russia and create jobs here at home. However, every day we delay gives our foreign competitors and their workers a chance to get ahead, something we can hardly afford at this time.

Chairman CAMP. Before yielding to the Ranking Member, without objection, the opening statement of all Members will be included in the record.

And at this time I yield to Mr. Levin for his opening statement.

Mr. LEVIN. I thank you, Mr. Chairman.

Welcome to our two distinguished witnesses and to everybody else who is here to listen today.

We need forthright consideration of what PNTR means and how it fits within an overall relationship with Russia. I urge that these are key points. One, Jackson-Vanik was an amendment to a trade bill—that is often forgotten—that was an important part of trade policy at that time. That amendment has served its purpose with respect to Russia. Russia now has a 20-year record of allowing its citizens to freely immigrate. Despite earlier efforts to repeal Jackson-Vanik separately, it has not proven possible to do so, and it should now be repealed as part of action on PNTR.

Two, there are clear commercial advantages to granting Russia PNTR. PNTR gives U.S. companies, workers and farmers full advantages of Russia's WTO Membership. And as we all know, failing to grant PNTR does not prevent Russia from joining the WTO; it only prevents the U.S. from gaining the benefits of Russia's WTO Membership.

Three, based on past experiences there is reason to be concerned whether Russia will live up to the letter and spirit of its WTO commitments. In addition to a general concern as to whether Russia will comply with its obligations, there are specific concerns over Russia's enforcement of intellectual property rights, its commitment to the WTO information technology agreement, and its unjustified barriers to U.S. meat exports. We will likely discuss all of these issues in this hearing.

Because follow-through is so important, as has been discussed between our staffs and with the Senate, we should spell out specifically these trade issues in the PNTR legislation not as conditions, but as clear understandings as to what actions will be taken by Russia.

Four, there is real, significant cause for concern about the status of the rule of law and human rights today in Russia. For two reasons, and I emphasize this, there is need to find ways to reflect

that concern in the PNTR legislation. If there is an absence of the rule of law in the area of human rights, it is more likely to also be absent in other areas, including commercial relations. Further, trade between nations needs to be viewed as more than just about dollars and cents because its impact is more than just that.

This needs to be reflected in the contents of trade agreements, including PNTR, as was true with China PNTR. So PNTR legislation should not be enacted without the Magnitsky bill to address gross human rights violations. And we should consider other legislative proposals to strengthen the rule of law in Russia and to protect and make whole U.S. investors that have been harmed by the lack of rule of law there.

Number five, I believe that everybody on this committee shares a deep concern about tragic events in Syria. As we meet, its government is engaging in the slaughter of its people, including innumerable innocent, helpless children. Somehow each of us must raise our voices.

In a joint communication on Monday, President Obama and President Putin stated their purpose to, and I quote, “prioritize the expansion and diversification of our bilateral trading investment through nondiscriminatory access to our markets based on international rules. An important step in this direction is Russia’s accession to the WTO.” In the same communication the two Presidents expressed their intention to stop the bloodshed in Syria and called for, and I quote, “an immediate cessation of all violence and express full support for the efforts of the U.N. League of Arab States Joint Special Envoy Kofi Annan, including moving forward on political transition to a democratic, pluralistic political system,” end of quotes. The Two presidents were, in quotes, “united in the belief that the Syrian people should have the opportunity to independently and democratically choose their own future,” end of quotes.

There is an overarching need to see if in the near future Russia acts to implement its words. I know that PNTR may or may not provide this Congress considerable leverage regarding Russia’s conduct relating to the Syrian government, and that in general there can be perils in linking trade and overall foreign policy issues. At the same time the particular situation in Syria is extraordinary and dire. Therefore, I urge that in order for us on this Committee to carry out our responsibilities with jurisdiction over trade issues, we work together on a bipartisan, bicameral basis on a PNTR bill that, number one, includes the mentioned provisions relating to trade enforcement; two, will include Magnitsky legislation; and three, with the clear understanding that after a bill is reported out of Committee in the near future, action on the floor will be withheld for a period of time to determine whether Russia will join our Nation and others in steps to address the Assad regime’s horrendous violence against its own people. We can do no less. Trade is about commerce. It also can be about conscience.

Thank you.

Chairman CAMP. Thank you very much.

We will now turn to our panel of Administration witnesses. And I want to welcome Ambassador Ron Kirk, United States Trade Representative, and Ambassador William Burns, Deputy Secretary, United States Department of State. Thank you very much for being

with us today. And each of you will have 5 minutes to present your testimony, with your full written testimony being submitted for the record.

And, Ambassador Kirk, we will begin with you. Welcome.

**STATEMENT OF AMBASSADOR RON KIRK, UNITED STATES
TRADE REPRESENTATIVE**

Ambassador KIRK. Good morning. Thank you, Mr. Chairman, Members of the Committee. To Chairman Camp, Ranking Member Levin and Members, I am here to share our thoughts with you about how we can work collaboratively together to take an important step to help support jobs for Americans, and that is by terminating the Jackson-Vanik amendment and authorizing the President to provide permanent normal trade relations to Russia in order to secure a level playing field for U.S. exports of goods and services to this large and growing market.

Under President Obama's leadership we have worked with this Committee and this Congress as a whole to bring U.S. trade policy into greater balance with the needs and concerns of American businesses, workers and families, and I believe these efforts are contributing to our U.S. economic recovery.

The Commerce Department estimates that U.S. exports have grown by one—jobs supported by U.S. exports have grown by at least 1.2 million jobs from 2009 to 2011 under the President's National Export Initiative.

As we said last December, when Russia was invited to join the WTO, and as President Obama amplified in Mexico, the administration strongly supports legislation to terminate application of the Jackson-Vanik amendment and authorize the President to provide permanent normal trade relations to Russia. And we join you, Mr. Chairman, and the Ranking Member in your efforts to advance such legislation in the House and to coordinate with similar efforts in the Senate.

It is important to note, as both the chairman and Ranking Member have noted, this legislation doesn't give Russia any special trade privileges. Rather the purpose of this legislation is to ensure that the WTO Agreement applies between the United States and Russia so that American companies, American workers, our farmers, ranchers, manufacturers, innovators and service providers reap the full benefits of Russia's WTO Membership, and, just as critically, that they will have access to the multilateral trade enforcement tools in place to enforce Russia's WTO commitments.

I want to be very clear: Russia will be a Member of the World Trade Organization by the end of the summer, and if the WTO Agreement does not apply between the United States and Russia, our businesses, and innovators and exporters will effectively be at a competitive disadvantage compared to their local counterparts.

I have gone into this in more detail in my full testimony, but I do want to highlight just a few of the important examples that would operate to our detriment.

Many of our businesses won't enjoy the guaranteed access to Russia's expanding services market which isn't covered by our previous bilateral agreements. Our ranchers, farmers and agricultural producers won't enjoy the protection of the SPS agreement that re-

quires science-based sanitary and phytosanitary measures. Our innovators and creators won't reap the benefits of stronger protection and enforcement of intellectual property rights that Russia has agreed to as part of its WTO accession. And finally, we won't have access to the WTO's multilateral enforcement mechanisms, including dispute resolution.

Russia's membership in the WTO won't solve all of our concerns about Russia, but having clear rules of the road will provide the predictability, transparency and market access that our business and exporters seek. Indeed, our negotiators insisted that Russia integrate the WTO rules into its legal regime before it was invited to join the WTO, and as a consequence Russia has already put in place the laws and regulations necessary to implement the WTO rules. But as you have both noted, these rules and obligations are only as good as our ability to enforce them.

Terminating Jackson-Vanik and extending PNTR to Russia is in the absolute best interest of American businesses, workers and innovators, and we will continue to address trade and other issues with you along with the Russians. But in the interim, let us not penalize U.S. companies and workers by forcing them to effectively compete with one hand tied behind their backs. I respectfully ask you to move forward quickly to terminate Jackson-Vanik and empower the President to extend PNTR to Russia.

Thank you for your time. I look forward to engaging your questions.

Chairman CAMP. Thank you very much, Ambassador Kirk.
[The prepared statement of Ambassador Kirk follows:]

**Testimony of Ambassador Ron Kirk, U.S. Trade Representative,
before the House Ways & Means Committee,
June 20, 2012**

Chairman Camp, Ranking Member Levin, Members of the Committee, thank you for the opportunity to testify.

Under President Obama's leadership, the Administration has worked with this Committee and Congress as a whole to bring U.S. trade policy into greater balance with the needs and concerns of American businesses, workers and families. Market-opening measures such as new trade agreements with Korea, Colombia, and Panama, coupled with stronger enforcement of U.S. trade rights, have helped to secure a more level playing field for U.S. exporters to sell more U.S. products and services to consumers worldwide. These efforts have clearly contributed to economic recovery. The Commerce Department estimates U.S. exports supported at least 1.2 million additional American jobs from 2009 to 2011.

Continuing cooperation between Congress and the Administration is essential to provide the American people with additional job-supporting trade opportunities. Last time I was here in March to discuss the President's 2012 trade agenda, we talked about Russia's impending membership in the World Trade Organization (WTO) and I underscored the President's priority for legislation to ensure that U.S. workers and businesses -- including farmers, ranchers, manufacturers, and service providers -- will enjoy the same benefits of Russia's membership that their international competitors will soon have.

Specifically, since we concluded the 18-years long multilateral negotiations on Russia's WTO accession package last year, the President and members of the Administration have repeatedly urged Congress to terminate application of the Jackson-Vanik amendment and authorize the President to provide Permanent Normal Trade Relations (PNTR) to Russia before it joins the WTO later this summer.

Russia will take the last step in its long journey toward WTO membership this summer, when it ratifies its WTO accession protocol. On June 7, the Government of Russia submitted legislation to the Duma to do so. And when I was in Moscow earlier this month, first Deputy Prime

Minister Igor Shuvalov assured me that Russia would notify the WTO that it had completed its domestic procedures to join the WTO by the July 23 deadline. Thirty days after the WTO receives Russia's notification, Russia will -- automatically -- become a Member of the WTO. In other words, we can expect that Russia will be a Member of the WTO no later than August 22.

Terminating application of Jackson-Vanik and authorizing the President to provide permanent normal trade relations is not a gift to Russia. Rather, taking such action will ensure that the WTO Agreement will apply between the United States and Russia, and that U.S. businesses and workers will have the opportunity to enjoy all of the benefits of Russia's membership in the WTO. If, however, the WTO Agreement does not apply between us, then U.S. exporters and investors will be put at a competitive disadvantage in Russia. We do not want that to happen, especially now when we are trying to do everything possible to spur economic growth and job creation. That is why the Administration has strongly and repeatedly urged Congress to act on these measures in order to ensure that U.S. workers and businesses will reap the full range of benefits from Russia's WTO membership -- benefits that U.S. trade negotiators have worked hard over many years, on a bi-partisan basis, to secure.

Russia Today

The Russia that joins the WTO this summer is significantly different from the Russia that started the negotiations 18 years ago. In 1994, Russia was still coming out of the chaos of a deep economic crisis following the collapse of the Soviet Union, with a 50 percent decline in GDP and industrial output. Russia was the 16th largest economy in 1994 at \$277 billion (based on the current exchange rates), just ahead of Switzerland and only 4 percent the size of the U.S. economy. Real GDP had dropped nearly 13 percent in 1994, and Russia's economy continued to decline for the next 3 out of 4 years. At that time, per capita GDP was only \$1,865.

Today, Russia is the 7th largest economy in the world, its GDP is \$1.9 trillion and its per capita GDP is nearly \$13,000-- the highest among the BRICS countries. Real GDP growth was above 4 percent for the past two years, and is forecasted to continue at around 4 percent for the next 5 years. But Russia is only our 20th largest trading partner, with \$42.9 billion in two-way trade in goods in 2011.

We therefore see significant opportunity for increasing exports of U.S. goods and services to Russia. From 2010 to 2011, our exports increased by nearly 40 percent. In fact, in April, U.S. goods exports to Russia reached a record \$1.1 billion. The Department of Commerce reports that every \$1 billion of U.S. exports of goods and services supported over 5,000 jobs in 2011. And these are well-paid jobs-- jobs supported by goods exports pay roughly 13 percent to 18 percent more than the national average.

The Russia that will become a WTO Member in August is an expanding market with a vibrant middle class that is demanding better products and services. In addition, the highest levels of Russia's government recognize that Russia needs to diversify its economy away from its dependence on extractive industries, primarily oil and gas. Both of these factors suggest that there will be significant new demand in Russia for exports of U.S. goods and services.

That is why our priority is for Congress to terminate the Cold-War era Jackson-Vanik amendment as it applies to Russia in a clean bill that enables us to maintain our competitive edge. We do not pretend that terminating Jackson-Vanik and having Russia as a WTO Member will resolve all of our differences with Russia. But maintaining the application of Jackson-Vanik to Russia offers no leverage with Russia over areas of disagreement.

Why Terminate Application of Jackson-Vanik

The message I have today is the same as it was in March, and is one I understand you have repeatedly heard from the American business community in the intervening months. The key benefits of Russia's WTO membership are clear and fall into two major categories: improved market access for exports of U.S. goods and services, and Russia's implementation of established, enforceable, multilateral rules.

U.S. businesses and workers will not, however, be able to reap many of the benefits of Russia's WTO membership if the WTO Agreement does not apply between us.

Improved Market Access***Tariffs***

One of the most obvious benefits of Russia's accession is that Russia has "bound" every one of its more than 11,000 tariff lines, and in many cases agreed to a bound rate below its current applied rate. As a WTO Member, Russia will no longer be able to suddenly and arbitrarily raise its tariffs above its bound rate in order to protect a particular domestic industry.

Today, for industrial and consumer goods, Russia's average tariff rate is about 10 percent. When all of its tariff commitments are phased in, the average bound rate will be under 8 percent. U.S. negotiators pushed particularly hard for tariff reductions in sectors of importance to U.S. businesses, such as wide body aircraft, combine harvesters, wine, medical equipment, chemicals and construction equipment. Russia will also implement the Information Technology Agreement (ITA), ensuring duty-free treatment for U.S. exports of all IT products covered under this important plurilateral agreement.

In agriculture, Russia established a 430,000 ton duty-free global tariff rate quota (TRQ) for pork, a 60,000 ton U.S.-specific TRQ, and a U.S.-specific definition for high-quality beef (HQB) which is separate from the TRQ.

Although our current bilateral Agreement on Trade Relations provides that these lower tariff rates should apply to our exports, unless the WTO Agreement applies between Russia and the United States, our exporters will not have the certainty that Russia will not suddenly raise its tariffs -- as it has done in the past -- without providing compensation. Of more immediate impact, if the WTO Agreement does not apply between us, we will not have access to the non-MFN country-specific parts of Russia's tariff commitments, such as the U.S. specific TRQ on beef or to the U.S.-specific definition for HQB.

Non-Tariff Barriers

As part of its WTO accession negotiations, Russia has already repealed or revised many of its rules and requirements that have presented obstacles to U.S. exports in the past, including, for instance, onerous import licensing requirements on consumer electronic products and distilled

spirits. Unless the WTO Agreement applies between us, however, U.S. exports will not be protected against these and other non-tariff barriers.

Services

Russia is undertaking enforceable commitments to open its services sectors in unprecedented ways, particularly in sectors of significance to U.S. service providers. These sectors include audio-visual, telecommunications, distribution, express delivery, energy, and financial services (including insurance, banking and securities). The United States enjoys a global trade surplus in services, and securing strong commitments in Russia was a priority for a broad array of U.S. industries. But if the WTO Agreement does not apply between us, Russia will not have to grant this new access to U.S. service providers.

Playing by the Rules

Let me mention just a few areas where Russia's compliance with WTO rules will help U.S. exports and exporters:

Intellectual Property Rights

An area of particular concern to the Committee is the protection and enforcement of intellectual property rights (IPR). On day one as a WTO Member, Russia must comply with all of the obligations of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), as well as specific additional commitments in its Working Party Report.

It is important to note that Russia has already put in place a revised legislative framework to protect and enforce IPR. Russia amended its Civil Code and other relevant laws to modernize its legal regime for IPR protection, including providing rights called for in the TRIPS Agreement, improvements in civil enforcement of IPR, and elements of the legal framework for implementing the World Intellectual Property Organization Internet Treaties. In addition, amendments to the Criminal Code strengthened the authority of Russia's Government to take down infringing websites. Changes to Russia's customs law, along with the Customs Union Customs Code, implemented TRIPS provisions on the protection of IPR at the border, including

granting customs officials *ex officio* authority to act on their own initiative to take action against infringing products at the border. All of these measures -- which we fought hard to achieve -- are already in force in Russia.

Of course, how these laws and regulations are applied will be critical. But if the WTO Agreement does not apply between us, Russia will not be required to apply the stronger commitments on IPR protection and enforcement to U.S. rights holders, and we will not have the WTO tools to ensure that Russia complies with the stronger commitments in its terms of accession.

Sanitary and Phytosanitary Measures

On day one as a WTO Member, Russia must comply with its WTO obligations on sanitary and phytosanitary measures (SPS). Russia's Working Party Report contains extensive commitments on how Russia will comply with the WTO's SPS rules, including disciplines to protect against requirements that are not based on science and a risk assessment; procedures to recognize the equivalence of SPS measures; and requirements to harmonize its SPS measures with international standards.

Our negotiators worked with Russia to ensure that the Customs Union and Russia adopted the legal framework necessary for Russia to comply with its SPS obligations. Thus, as is the case with its IPR regime, Russia has the legal framework in place to apply the WTO SPS rules to U.S. exports. But we will not be able to ensure that Russia complies with the WTO SPS rules and its commitments unless the WTO Agreement applies between us.

State-owned Enterprises

Because the State remains active in parts of Russia's economy, our negotiators insisted that state-owned or -controlled companies must be subject to the WTO rules. Accordingly, on day one as a WTO Member, Russia will ensure that its state-owned or -controlled enterprises (SOEs) as specified in its Working Party Report, when engaged in commercial activities, will operate based on commercial considerations, such as price, quality, availability, and marketability. In addition,

these SOEs must provide U.S. and other WTO Member companies adequate opportunity, in line with customary business practices, to make purchases from and sales to these enterprises.

However, if the WTO Agreement does not apply between us, Russia has no obligation to treat U.S. businesses or exports in a non-discriminatory manner.

Transparency

Transparency is a core principle of the WTO. In addition to the notifications that Russia will need to provide to WTO Members and the review of Russia's measures that will take place in various WTO committees and councils, Russia will have obligations to provide notice to the public on the full range of trade-related issues. For example, through the course of the accession negotiations, our negotiators worked with Russia to ensure that laws, regulations and other measures on WTO-related matters will be published before they are enforced, and are subject to "notice and comment" procedures. Compliance with these rules will not only give interested persons (e.g., U.S. producers and exporters) an opportunity to provide input into the rules governing international trade, but will also ensure advance notice of any changes.

If the WTO Agreement does not apply between us, however, Russia will not be required to give U.S. interested persons the opportunity to participate in the rule-making process.

Dispute Resolution

Rules and obligations are only as good as the right and ability to enforce them.

The Administration is working on a variety of fronts to enforce U.S. trade agreements to ensure that other countries are "playing by the rules" so that U.S. businesses and workers face a level playing field. We will continue to work with Russia on issues of concern, and we will remain vigilant.

Fortunately, the WTO has strong mechanisms, starting with review and work in the committees, consultations and, in appropriate cases, dispute settlement, to enforce those rules. As this Committee is aware, the Administration has a strong record of taking enforcement actions where necessary to ensure compliance with WTO rules. And this effort will only become more robust with the establishment of the new Interagency Trade Enforcement Center announced by

President Obama. The United States has aggressively enforced the rules with our trading partners – large and small. You can rest assured that we will be equally vigilant with regard to ensuring that Russia plays by the rules and implements all of its WTO commitments.

But we cannot use the mechanisms of the WTO to enforce Russia's commitments unless the WTO Agreement applies between us.

Conclusion

Again, I appreciate the Committee's invitation to testify on this important issue. Terminating application of the Jackson Vanik amendment and providing PNTR to Russia is a priority for this Administration, it is a priority for American businesses, and I know it is a priority for many of you. I urge this committee to move quickly on legislation to give American businesses a level playing field to grow their businesses in Russia and expand jobs here at home.

Chairman CAMP. Ambassador Burns, you are now recognized for your statement. You have 5 minutes.

STATEMENT OF AMBASSADOR WILLIAM J. BURNS, DEPUTY SECRETARY, UNITED STATES DEPARTMENT OF STATE

Mr. BURNS. Thank you very much, Chairman Camp, Ranking Member Levin, Members of the Committee. Thank you very much for inviting me here today.

I have spent a good deal of my diplomatic career helping administrations of both parties navigate our complicated relationship with Russia. I have seen moments of considerable promise at the

end of the cold war and more recently in deepening cooperation on Afghanistan and nuclear arms reductions. I have seen moments of sharp differences, whether during the Russia-Georgia war in the summer of 2008 or over our enduring human rights concerns. And I have seen through all those years the importance of carefully assessing what is at stake for the United States and being clear-eyed about American interests and Russia's long-term evolution.

That is the prism through which I believe we can see clearly and unmistakably the importance of terminating application of Jackson-Vanik and extending permanent normal trade relations to Russia. Jackson-Vanik, which restricts trade with countries that limit emigration, was adopted by Congress four decades ago to help thousands of Jews leave the Soviet Union. It long ago achieved this historic purpose.

Some argue that continuing to apply Jackson-Vanik to Russia would give us leverage with Russia. We disagree, and so do leaders of Russia's political opposition. They have called on the United States to terminate Jackson-Vanik despite their profound concerns about human rights and the Magnitsky case concerns, which we strongly share.

PNTR is not a gift to Russia; it is a smart, strategic investment in one of the world's fastest-growing markets for U.S. goods and services. A vote to extend PNTR will be a vote to create and sustain jobs in America. When Russia joins the World Trade Organization later this summer, it will be required for the first time to establish predictable tariff rates, ensure transparency in enactment of laws, and adhere to an enforceable mechanism for resolving disputes. If we extend PNTR to Russia, we will be able to use WTO's tools to hold it accountable for meeting those obligations. Until then Russia's markets will open, our competitors will benefit, but American companies will be disadvantaged.

We are under no illusions about the challenges that lie ahead. The fact is that U.S.–Russia relations are often an uneasy mix of competition and cooperation, and while it may be tempting to downplay Russia's importance, we simply do not have that luxury. As a permanent member of the United Nations Security Council, as one of the world's largest nuclear powers, and as the world's single largest producer of hydrocarbons, Russia's strategic importance to the United States will matter for many years to come.

To be sure, we have real and continuing differences with Russia. We disagree fundamentally about the situation in Georgia. On Syria we are urging Russia to push the Syrian regime to implement Kofi Annan's six-point plan, end the violence, and work with the international community in promoting a serious and rapid political transition that includes Assad's departure.

We have consistently and directly stressed our concerns about human rights in Russia, and we have taken steps to address these challenges, including programs that support rule of law and civil society in Russia.

Following the tragic death of Sergei Magnitsky, we imposed restrictions to ensure that no one implicated in his death can travel to the United States. But we continue to believe that it is in America's long-term strategic interest to work with Russia in areas where interests overlap. Already our work together over the past

3 years has produced significant results, including the New START Treaty to reduce strategic nuclear weapons, an agreement on civil nuclear cooperation, military transit arrangements to support our efforts in Afghanistan, and cooperation on Iran sanctions. With PNTR we would add expanded trade to that list.

PNTR is also an investment in the more open and prosperous Russia that we would like to see develop. As the demonstrations across Russia over the past 6 months made clear, the country's emerging middle class is seeking a more transparent and accountable government and a diversified economy. We should support these Russian efforts.

PNTR and WTO membership by themselves will not suddenly create the kind of change being sought by the Russian people, but they can help open Russia's economy and reinforce rule of law beyond just trade. PNTR should be one part of a stronger and fuller rule-of-law framework that we pursue with Russia, combined with investment protections such as a new bilateral investment treaty and the OECD Antibribery Convention, which Russia joined earlier this year.

As Ambassador Kirk said, Russia's membership in the WTO will soon be a fact. Failing to lift Jackson-Vanik and extend PNTR will not penalize Russia, nor will it provide a lever with which to change the government's behavior. It will only hurt American workers and American companies. By extending PNTR we can create new markets for our people and support the political and economic changes that the Russian people are seeking. PNTR is clearly in our economic self-interest, and it is an investment in a better partner over the long term for the United States.

Thank you.

Chairman CAMP. Thank you very much for that testimony.

[The prepared statement of Mr. Burns follows:]

**DEPUTY SECRETARY OF STATE WILLIAM J. BURNS
STATEMENT BEFORE THE WAYS AND MEANS COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES
JUNE 20, 2012**

Chairman Camp, Ranking Member Levin, Distinguished Members of the Committee: thank you for inviting me to appear before you today.

This hearing comes at an opportune moment. This summer, Russia will become a member of the World Trade Organization. Before this happens, Congress has a choice: it can extend Permanent Normal Trade Relations (PNTR) to Russia, giving American exporters and workers a level the playing field in one of the fastest growing markets in the world; or it can keep Jackson-Vanik in place, preventing American companies from reaping the benefits of an unprecedented opportunity to boost trade in a large and growing market.

Terminating the Jackson-Vanik Amendment's application is not a favor to Russia. It is a step to help create American jobs. And, as Russia's aspiring democrats have made clear, it is a smart, strategic investment in the kind of country Russia's emerging middle class is striving for -- a Russia that promotes a strong rule of law. This step is in the Russian people's own self-interest and to the practical benefit of American companies and workers.

I. The Economic Stakes

At a time when the economic needs of the American people are great, U.S. foreign policy must help American workers and businesses connect to markets abroad to drive our economic recovery at home.

The upside of opening Russian markets to American exporters is clear. From 2009 to 2011, U.S. exports to Russia rose 57 percent, and total U.S.-Russia trade rose over 80 percent. However, U.S. trade with Russia still totals less than one percent of our global trade. Russia may be the world's seventh-largest economy, but it is our 20th largest trading partner.

Lifting Jackson-Vanik and extending PNTR does not require the United States to change any of its tariffs, services, market access, or other World Trade Organization (WTO) commitments. It simply makes permanent the treatment we have already extended to imports from Russia every year since 1992 and ensures that the WTO Agreement will apply between us. If the WTO Agreement does not apply between us American companies will be at a disadvantage. While America's

competitors will enjoy more liberal treatment for exports of goods and services and stronger commitments on protection of intellectual property rights, American companies will not. Russia will not have an obligation to apply science-based food safety standards to U.S. exports of meat and poultry or WTO rules on antidumping, leaving American companies vulnerable. Worse still, when our economic competitors from Brazil, Europe and China have grievances in Russia, their governments will be able to turn to a binding WTO dispute mechanism. The United States will not.

II. The Strategic Backdrop

Beyond the benefits to immediate U.S. economic interests, extending PNTR to Russia is a strategic investment in our long-term relationship. Our strategic interests around the world demand that we cooperate with Russia in a number of areas. Russia is a permanent member of the Security Council and a member of the P5+1. Together Russia and the United States hold 90 percent of the world's nuclear weapons. Russia is the single largest source of the world's hydrocarbons. Russia sits astride Europe, Asia, and the broader Middle East, three regions whose geostrategic importance will continue to shape American interests for years to come.

By working together with Russia over the last three and a half years, we have shown that we can achieve tangible results that matter to our own self-interest and national security. We are implementing the New START Treaty. Together, we are disposing of enough weapons-grade plutonium for 17,000 nuclear warheads. Russia joined with other members of the United Nations (UN) Security Council in supporting Security Council Resolution 1929 and voluntarily cancelled the sale of a sophisticated air defense system to Iran, a contract worth over a billion dollars. This week, Moscow hosted international talks to press Iran to comply with its international obligations regarding its nuclear program. Russia also provides critical logistical support to international forces in Afghanistan: many of the supplies that transit the Northern Distribution Network go through Russia and a majority of our troops traveling to Afghanistan transit through Russian airspace -- over 370,000 military personnel in all.

The United States and Russia have achieved gains that extend beyond security and global politics to touch the daily lives of Americans and Russians. Last July, Secretary Clinton and Foreign Minister Lavrov signed an agreement to build trust and transparency on the sensitive issue of inter-country adoption. They also

approved a reciprocal visa agreement to makes it easier for business people and tourists to travel between our countries. And through the U.S.-Russia Bilateral Presidential Commission and its 20 working groups, we have built new partnerships and engaged our citizens, businesses and non-governmental organizations in areas such as health care and energy efficiency.

Even as we seek progress on areas of mutual interest, there are also areas of real difference between our countries on issues ranging from missile defense and Georgia to Syria and human rights. We continue to believe that cooperation with Russia on missile defense can enhance the security of the United States, our allies in Europe, and Russia. In pursuing cooperation on missile defense, the United States will not agree to constrain or limit our missile defenses. U.S. support for Georgia's sovereignty and territorial integrity within its internationally recognized borders will not change. On Syria, our message to our Russian colleagues has been clear and consistent. Assad's campaign of terror against his own people is unconscionable. It is past time for action to meet our obligations as UN Security Council members to protect peace and security and allow the Syrian people to pull their country back from the brink and embark on a political transition.

We have serious concerns about democracy and human rights in Russia -- including the unsolved murders of journalists like Paul Klebnikov and the tragic death of Sergey Magnitskiy. In these instances and many others, we have not hesitated to voice our concerns publicly and directly with Russia's leadership. We have also taken action. Thanks to existing authorities and the President's Proclamation on Human Rights last August, we have taken steps to deny visas to those who have committed serious human rights abuses, including those involved in the Magnitskiy case. Through U.S. assistance programs, we are also supporting the Russian people in their efforts to promote transparency, accountable government, and the fair application of the rule of law.

Today, a deeper economic partnership represents one of our greatest opportunities to work to build trust and pursue common interests with Russia. The removal of Jackson-Vanik would give ballast to our overall relationship with Russia and strengthen the case of those who argue that greater cooperation with America is good for the Russian people.

Jackson-Vanik has served a noble and historic purpose. It put American law firmly behind the liberation of hundreds of thousands of Soviet Jews trapped on the wrong side of the Iron Curtain and achieved its goal. Years ago, the National Conference on Soviet Jewry began advocating for an end to Jackson-Vanik. The

American Jewish Committee, echoing statements of other Jewish groups, joined Russian democrats in reaffirming its "support for Russia's graduation from the Jackson-Vanik amendment, a Cold War relic which remains one of the thorns in the side of ties between the U.S. and Russia."

Keeping Jackson-Vanik in place for Russia also provides political ammunition for those in Russia who argue that the United States is stuck in a Cold War mentality. It puts our companies at a competitive disadvantage and diminishes our ability to hold Russia to its commitments to transparency and increased market access.

III. Russia's Changing Landscape

Two decades ago, many were overly optimistic about how quickly change would come to Russia. The reality is that real political and economic transition in Russia is likely to take decades to complete. However, change is already happening, and the pace is increasing. After a decade of growth, an emerging generation of Russians aspires not just to see their country as a wealthy great power -- but a modern nation in which they have the opportunity to compete and innovate in the global marketplace; a nation in which they have a say in how they are governed and how their taxes are spent.

Young Russians' connections to the world are growing and irreversible: half of Russians over age eighteen are on the Internet today. Three million Russians are blogging. Russians made over thirty-six million trips abroad last year. More Russians received visas to travel to the United States than ever before -- twice as many as came just seven years ago. Russians have become accustomed to and expect basic personal freedoms: the freedom to travel, to shift jobs and residence, to own and convey property, and to express themselves in cyberspace.

The fact that, beginning last December, tens of thousands of Russians have taken to the streets repeatedly to carry out peaceful demonstrations is a vivid reminder that Russians want a political voice and want to help shape their own future. They are a reminder that an empowered middle class, with a demand for accountability and transparency, can also drive political and economic change.

Our goal is to be supportive of efforts made by Russians themselves to modernize their economic and political systems. Russian civil society activists argue that increased trade with the United States would help strengthen this new middle class. They argue that greater transparency and accountability in rules will help attract

the investment needed to move Russia's economy away from its dependence on hydrocarbons and generate new sources of economic growth. They argue that a level playing field, including better legal protections and transparent, predictable rules applied uniformly across Russia's territory, will help provide a hedge against corruption and monopolistic control. Refusing to lift Jackson-Vanik and extend PNTR gives America no leverage over Russia in the areas where we differ. This is why leaders of Russia's political opposition have called on the U.S. to terminate Jackson-Vanik, notwithstanding their concerns about human rights and the Magnitskiy case -- concerns which we share. Similarly, Georgia recognized the benefits of increased trade and, notwithstanding its disagreements with Russia, joined a consensus agreement to support Russia's WTO accession.

Over time, extending PNTR can help Russians achieve their goal of building a modern, successful and prosperous nation. Upon accession to the WTO, Russia will join the United States and others in taking on obligations to increase transparency and predictability in laws and regulations. WTO membership and PNTR alone will not cut the Russian economy free from what Russia's own leadership recognizes are the crippling effects of corruption and weak rule of law. Other complementary measures such as beginning negotiations on a new Bilateral Investment Treaty and Russia's progress toward OECD accession are also important to continue to support Russia's modernization and openness to free trade. While challenges will remain for a long time to come, this long-term strategy of greater economic engagement, grounded in a rules-based system, can help to open up Russia's economy and society and to reinforce rule of law.

Ultimately, the Russian people themselves will have to choose their country's direction. In the meantime, we will support Russians' own efforts to create the kind of country they strive for: an open society that protects fundamental freedoms, property rights, transparency, competition and free trade; and a modern Russia that partners with the United States to promote global security and prosperity.

Navigating relations with Russia in the months and years ahead will not be easy. It will involve a complicated mix of managing cooperation and differences. However, as Russia prepares to join the World Trade Organization, the economic needs of the American people and the Russian people's vision for their own future both point us in the same direction: toward an end to the application of the decades-old Jackson-Vanik Amendment and the beginning of a new chapter in our economic and trade relationship with Russia.

Chairman CAMP, Ambassador Kirk, last October Mr. Levin, Senator Baucus, Senator Hatch and myself sent you a letter urging you to insist that Russia meet high standards in the negotiations regarding their accession to the WTO. And some of those concerns in the letter were raised were about Russia's protection of intellectual property rights, their commitment to join the information technology agreement and its unscientific and opaque sanitary and phytosanitary standards, and its auto investment policy. We obviously said these issues should be significant to the Congress in considering whether to remove Russia from Jackson-Vanik.

And my question to you is did Russia agree to a high standard agreement to accede to the WTO as we asked for in our October letter of last year, and have those concerns that we raised in that letter been sufficiently addressed?

Ambassador KIRK. Mr. Chairman, I believe that we were able to address all of those concerns with the exception of the auto provisions, which we have worked with Russia to make sure that is phased out with the WTO and consistent.

More critically, on IPR Russia has already passed and put into place laws to improve its intellectual property rights regime. The day that Russia becomes a Member of the WTO, it will be in full compliance with the trips-related aspects of the world trade agreement organizations. They will also become a part of the ITA when they join. And we have gotten Russia to agree that they will comply with the WTO's disciplines as it relates to the application of sanitary and phytosanitary procedures as well.

Because of many of the concerns raised by this committee, the strongest lesson that we learned and discipline we brought to this process was to have Russia put these rules in place before it joined the WTO rather than giving them the liberal time to change their laws as we did in the case of previous accession. So we have addressed all of those on the case of autos. We got Russia to agree to dial that back in terms of the content required, and they would phase that program out by 2018.

Chairman CAMP. I am glad to hear much of that. And I understand we will have to watch Russia very carefully. But just to clarify, in your view will Russia be in compliance with its WTO commitments on day one when they become a Member?

Ambassador KIRK. In most of those areas, Russia has adopted the WTO rules, but as we have seen with other countries, we still have to be diligent in holding them accountable. There is still—the WTO rules for us represent, and I don't mean this in a pejorative way, a *de minimis*. In many cases our own standards for intellectual property rights, as you know, are much higher, and we detail those in our annual report to Congress in the 301 report.

So we will also work with Russia on an action plan to try to attack Internet powers, for example, and force these disciplines at a higher level. But Russia will be in compliance with its WTO commitments the day that it becomes a Member.

Chairman CAMP. Thank you.

And, Ambassador Burns—and, Ambassador Kirk, you may want to answer after I give him a chance to comment on this—I said in my opening statement that a lot of skepticism about granting Russia PNTR relates to noncommercial concerns. Why does the administration think we should go ahead with Russia PNTR despite those concerns, and what is the administration doing to engage and convince Members of the benefits to the United States in moving forward?

Mr. BURNS. Well, Mr. Chairman, thank you very much. I would say first, as Ambassador Kirk has emphasized, extending PNTR was very much in America's economic self-interest, and withholding PNTR at this stage is only going to disadvantage American workers and American businesses.

Second, we also understand the importance of Russia's accession to the WTO and extending PNTR to further embedding the rule of law in Russia and providing reinforcement for the efforts and the aspirations of an emerging middle class in Russia, people who want to see greater accountability and transparency. And I do believe it is a smart long-term investment in the emergence of that kind to Russia.

Third, as both you and Ranking Member Levin have pointed out, we have a very complicated relationship with Russia. We have some quite significant differences over questions like Syria, over Georgia, over human rights concerns in Russia, and we are not at all shy about expressing those concerns. We have taken specific steps on human rights, for example, following the unlawful detention and tragic death of Sergei Magnitsky, using existing authorities under the Immigration and Naturalization Act, as well as a proclamation that President Obama issued last year to ensure that no one implicated in that tragic death can enter the United States. And we also appreciate very much the continuing dialog we have had with the sponsors of legislation in both Houses on the Magnitsky case. We appreciate the fact that some of the concerns we have raised have been addressed, and we look forward to continuing that dialog.

On Syria, President Obama was very direct in the long conversation, candid conversation, he had with President Putin in Mexico a couple of days ago about our conviction that the longer the bloodshed continues in Syria, the greater dangers for the Syrian people, but the greater dangers for a region which already has more than its share of instability. And that adversely affects not only the interests of Syria and the region, but also the United States and Russia.

There is no prospect for a stable outcome in Syria so long as Bashar al-Assad is in power. There is an urgent need for a political transition, which Kofi Annan is trying to draw up, that requires the firm support of the international community if it is ever going to be put into force, and that requires Russia to make some choices about where its interests lie.

Chairman CAMP. Thank you. That was a pretty complete answer.

Ambassador Kirk, do you have anything to add?

Ambassador KIRK. Mr. Chairman, I think we are one mind on this. Both you and the Ranking Member have noted, I think, the commercial imperative for this. We understand the difficulty is that for some the timing probably could not be worse because of our concerns over human rights and others. But I do believe the most responsible action we can take now with Russia's certainty of becoming a WTO Member is to move forward and repeal Jackson-Vanik and give the President the authority to grant them permanent normal trade relations.

Chairman CAMP. All right. Thank you.

Mr. Levin may inquire.

Mr. LEVIN. Thank you, and thanks again for your testimony.

Let me just say a few things if possible. So, the record is clear. A number of us have been working to repeal Jackson-Vanik for some time separately from PNTR. The Russian government wasn't

interested. And our government wasn't committed to that idea, and we did not want to give up PNTR to repeal Jackson-Vanik. It is the only way we have. If we grant PNTR by repealing Jackson-Vanik, we are out. I mean, you can consult us; it doesn't matter Republican Or Democratic administrations. That was true with China. That was our handle on this Congress playing a role. And so now we should repeal Jackson-Vanik as we take up PNTR.

Second, I don't think Russia PNTR can pass except on a bipartisan, bicameral basis, and I hope very much we can work on that basis. I hope, Mr. Chairman, our staffs have had some discussions about provisions relating to IPA. They still haven't signed on to IPR, to SPS. And there is interest in the Senate in putting in some provisions that aren't conditions that state clearly our concern in these areas, and I hope we can continue to work on these and incorporate them in a PNTR bill.

On human rights let me just say a word. I am glad, Mr. Secretary, you indicated your desire for continuing dialog, because I think it is now clear that without a human rights provision, it will be difficult for PNTR to pass the Senate and the House. I think it is not only difficult, but I think it is also unlikely.

And I just want to point out there is a precedent for incorporating human rights provisions in PNTR. That was true in China PNTR, as a human rights provision was placed in there establishing the Congressional Executive Commission that has been a very valuable tool in terms of issues relating to human rights, including worker rights in China. It was not the complete answer, but it was in there as one step.

And let me just last say something about Syria. I heard the President last night after the G-20 meeting talk about this and indicated his hope that there would be some movement in the next few weeks by the Russians carrying out what they indicated their belief in the joint communication. And I think it is important for us in the Congress to indicate our concern that in the next weeks that there be movement by Russia, because to bring up PNTR, if there are pictures of mass slaughter in Syria by the government, it makes it extremely difficult to move a trade bill.

I mean, trade is not only commercial, as I said. We have boycotts. We use trade boycotts for nontrade purposes. And so I think it is wise for us to make clear that we want some movement. I don't say that is leverage, but I think this Congress needs to find a way to express itself in support of the Administration's effort to move Russia to not look the other way in the Security Council or other places as the killing of innocent people in Syria continues.

Thank you.

Chairman CAMP. Mr. Herger is recognized for 5 minutes.

Mr. HERGER. Ambassador Burns, your experience gives you particular insight into Russia, both as government and people. Corruption has been a barrier to greater economic engagement between our two countries. I would like to know how Russia's membership in the WTO would improve the business climate, and also what impact it would have on the lives of the Russian people.

Mr. BURNS. Thank you very much, sir.

I am convinced that Russia's WTO accession and the extension of PNTR over the long term will contribute to embedding the rule

of law in Russia and to a more transparent and accountable system of governance. It will help Russia to modernize and diversify its economy to move beyond what is now an overdependence on oil and gas exports. It will help provide positive reinforcement to one of the most significant phenomena that I think you see in Russia today, and that is the emergence of a middle class of people who have an interest in the rule of law, the kind of rule of law that the WTO helps to protect, to protect their property and to provide some consistency in the way in which not only the economic system, but ultimately the political system operates. So I think it is a very smart long-term investment.

Corruption, as you rightly said, is a very significant problem in Russia; it is something that former President Medvedev acknowledged on a number of occasions, but frankly the Russian government has not done very much at this stage to address.

I think WTO accession, playing by international rules and international standards through the enforcement mechanisms that exist, joining the OECD Antibribery Convention, which Russia did last year, hopefully beginning to negotiate a new bilateral investment treaty between the United States and Russia, all of those steps, I think, can help contribute not only to a better partner for the United States in Russia, but to a more open, economic and political system in Russia over the coming years.

I don't mean to suggest WTO accession or extending PNTR is a magic cure or an overnight cure, but I do believe it is a very important contribution to that sort of a more positive evolution in Russia.

Mr. HERGER. Thank you.

Ambassador Kirk, there is a lot of doubt in Congress about whether Russia would live up to its WTO obligations. Russia has a poor track record on economic reform, and many are skeptical that Russia's joining the WTO would improve that record. Russia's past international behavior also does not give much assurance that it will respect politically sensitive rulings by the WTO's dispute settlement body. While WTO members can retaliate if Russia does not comply with its obligations, the fact that a large portion of Russia's exports is energy and highly sought commodities may mean that retaliation is not a viable option for many WTO Members.

What do you think can be done to address this mistrust and ensure that Russia lives up to its obligations, and would denying PNTR address this problem?

Ambassador KIRK. Well, Mr. Herger, if I might, I will start at the end. Denying PNTR would absolutely not address the problem and actually put us in a much less difficult—a much more difficult position because we wouldn't have access to any of the dispute settlement mechanisms within the WTO to take any of the actions that you mentioned.

I don't feel comfortable suggesting that we should trust or to try to predict Russia's behavior in the future. I would say to you, for many of the reasons articulated in Chairman Camp in his letter from this Committee to us last October, our negotiators worked very hard with Russia through the working part of the report before they came into the WTO to have them put the rules of the WTO in place and to amend their laws. I can only tell you that

they did that. By now extending them PNTR, we would have the full range of disciplines available to us to protect our interests, including pursuing dispute settlement actions within the WTO.

And I can only ask you to look at this administration's record, and I think we have demonstrated no hesitancy to do that against any WTO Member. And I would remind you that in the State of the Union last year, the President committed and has done so to create an Interagency Trade Enforcement Center so that we would bring even more resources and discipline to our ability to protect America's interests.

So I can tell you that we are prepared to take actions. We will also continue to work with Russia in good faith to try to get them to comply with the rules that they have agreed to.

Chairman CAMP. All right. Thank you. Your time has expired.

Mr. Rangel is recognized for 5 minutes.

Mr. RANGEL. Thank you once again, Mr. Chairman, Mr. Levin. And it is good to see my good friend, the Ambassador, and also my career diplomat, which it is also a pleasure to see my country moving in that direction.

My problem is that I don't know what this complex relationship is with the Soviet Union any more than I know what it is with the people in China. We have voted to allow China to get into the WTO, and we have out challenges with this complicated situation as we encourage them to move toward more a democratic principle. There is not a meeting that we don't have that situation has improved and is fluid, and it takes more time because it is still a developing country.

And I still get the impression with Russia that they are untrustworthy. This is language that, of course, diplomats can't use, and I encourage diplomacy rather than invasions. But the truth of the matter is that I think I heard you say, Ambassador, that we can only hope that they do the right thing; we can only hope that they comply with the WTO, they are a world force militarily and economically, and that it is in our best economic interest to have some type of an agreement rather than just allow it to be there.

But at some point in time I wish that we can be candid enough to share with me what is the objective that the Russians have, what is their relationship with Iran, what is their commitment to world peace? Because if they have a different philosophy, I don't see how we are protecting ourselves by having these type of unenforceable agreements, and they have an agenda that has us on the destruction list.

And I know right now you are not in a position to say that they are enemies, but I don't think that you are in a position to say they are friends. I mean, the way I look at it, if European or Israel, you are our only friends, and the rest of it we have to play with China and with Russia to see what those people that are a threat to the entire world, that we have to ask them, which side are you on, which side is Russia on when we are talking about terrorists and the security of the United States, which side are they on?

Mr. BURNS. Well, Congressman Rangel, I would be glad to try to address that.

As you rightly said, our relationship with Russia today is a very important one, but it is a mix of cooperation and competition. Over the last 3 years, we have deepened cooperation on some issues, some challenges, which are very important to both of us. Afghanistan is one example where today, because of transit arrangements that Russia has entered into with the United States and our ISAF partners, most of the American military personnel that move to Afghanistan come through the northern distribution network across Russia. And the significant majority of military equipment that we move also comes through Russia. That is a very tangible contribution to a high priority for the United States and an issue on which Russia has a significant stake. So I offer that as one example of where we have found common ground unsentimentally, because this is very much in Russia's self-interest as well, and we have been able to build on it.

At the same time we are clear about areas where we have differences over human rights, as we have discussed before, and over Syria. We need to try to work through those differences, be honest about them in our dialog with Russia, and to look for ways in which we can narrow the differences over time.

Mr. RANGEL. Mr. Ambassador, what would you say professionally is the overall international objective? Is it fear of the United States? Is it apprehension with Communist China? I mean, what is the motivation that we can't get their cooperation on issues that concern the United States security, but theirs as well? I mean, what are they trying—are they looking to conquer the world, as one might say that China has indicated that she is going to be the next world power?

Mr. BURNS. I think with regard to Russia, Congressman, that is not the ambition. I think Russia, both as a government and as a society, is very much at a crossroads today. There is a deep interest on the part of not only the government, but the people in modernizing the economy and building the kind of prosperity, which clearly an emerging middle class wants to build in Russia and that requires diversification of the economy beyond overdependence on oil and gas exports, that requires becoming more competitive in other sectors, and it requires the rule of law. I think that is an area in which WTO accession, extending PNTR is a smart investment for the United States.

Mr. RANGEL. But it doesn't give us too much encouragement as with China that we have any tools that enforce the violation of the WTO regulations.

In other words, I don't get the concept, and maybe this is the wrong forum, I think it is the wrong forum, but friendship never is considered to be a factor in these negotiations. All of this is at arm's length. And if that is the way it is, that is the way it is. But it is hard for us to go back home and explain our relationship with these Communist countries and their violations of international standards and then to define what is our relationship with them.

Thank you. I don't need an answer to those things because it is probably too complicated.

Chairman CAMP. If you want to just quickly, because we are way over time.

Ambassador KIRK. I did want to clear up one point, Mr. Rangel, that I hope I didn't give the impression that saying by letting Russia coming into the WTO, we could only hope. If there is any reason for us to repeal Jackson-Vanik and grant PNTR, it is that we no longer have to hope. We now have the enforceable disciplines of the World Trade Organization. And I think this administration has demonstrated, as I said in response to Mr. Herger, that we will not hesitate to protect our rights within the WTO. So we will have clear, enforceable rules.

Chairman CAMP. Thank you very much.

The chairman of the Trade Subcommittee Mr. Brady is recognized for 5 minutes.

Mr. BRADY. First, Mr. Chairman, thank you for hosting this hearing. It is a very important topic.

At the end of the day, this is a bipartisan jobs bill, and in this economy it is not simply buy American, we have to sell American all throughout the world. Russia is the 11th largest economy, and sales to Russia matter for our manufacturing companies at home, for our farmers and ranchers, for our technology companies, and for our energy industry as well.

And this is also about accountability. Russia is the largest economy in the world that is not in the WTO rules-based system. So this gives us Americans the opportunity to hold them accountable, to play by the rules. Those are two very strong reasons to pass this as a clean bill and do it as soon as possible.

There are, as Chairman Camp mentioned, Ambassador, real concerns about Russia's living up to its commitments. I have concerns about intellectual property rights. I am not pleased, and I know the pork industry is concerned, about discriminatory and non-science-based SPS rules, to market access there, and I encourage you to continue working in those areas.

So what I want to ask you how will USTR ensure that Russia will live up to its new commitment? And, Ambassador Burns, and Ambassador Kirk, if you will leave me 1 minute, I want to ask Ambassador Burns a question about Syria as well.

Ambassador KIRK. Thank you, Mr. Chairman, and I appreciate you framing this as it is, because this is about protecting and giving us the opportunity to support more jobs by selling to Russia.

Mr. Chairman, I hope we have demonstrated that we will vigorously monitor Russia's behavior, but probably no—none of our exporters have been more frustrated by, frankly, the arbitrariness of Russia's rule standards than in the ag sector. Having them a part of the WTO discipline, and agreeing from day one that they will now comport with the rules and the standard on sanitary and phytosanitary standards is going to be a big behavior.

Now, we have to monitor that and stand up to it, but specifically, as it relates to our pork and beef and poultry producers, we also negotiated a greatly expanded tariff rate quota. If we don't move forward in a positive way, we lose the benefits of all of that, and we are back where we are now basically complaining about it. We will have the right to go in, take them to the WTO, and enforce our rights.

Mr. BRADY. All right. Thank you, Ambassador.

Ambassador Burns, there has been in a general sense a concern that this strengthens President Putin at home, but you made the point that his political opponents within the country support Russia moving into a rules-based system. And there has been not just today, but in a general sense a thinking that perhaps withholding or delaying PNTR would somehow provide us additional leverage as we continue to work with and push Russia regarding Syria. Can you comment on both of those?

Mr. BURNS. Sure. I would be glad to, Congressman.

First, I would reemphasize that we do have differences over Syria with Russia today, as the President emphasized when he met with President Putin 2 days ago in Mexico. We are going to continue to urge Russia strongly to join the international community in trying to ensure a rapid and serious political transition in Syria in everyone's interest.

I do not believe, however, that withholding PNTR gives us leverage with Russia on that issue. I do believe that moving ahead on PNTR not only provides all of the economic benefits for American workers and American companies that Congressman Kirk has stressed, but it also is the smart investment in the rule of law in Russia.

That is exactly why, as you said, sir, many of the leading political opponents and the sharpest political critics of the current Russian government have been strongly supportive of WTO accession and repeal of Jackson-Vanik, precisely because they understand that encouraging the rule of law, greater accountability and transparency in Russia is in the long-term interest of a more open economic and political system. And so I think it is very important to keep in mind that perspective as we move forward.

Mr. BRADY. Thank you, Ambassador.

I yield back, Mr. Chairman.

Chairman CAMP. Thank you.

And the Ranking Member of the Trade Subcommittee Mr. McDermott is recognized for 5 minutes.

Mr. MCDERMOTT. Thank you for coming, and thank you, Mr. Chairman, for calling this hearing.

All of a sudden in this Committee, and you have heard it from a number of different points of view, worry about the human rights issues in some of the countries we trade in. We have gone through it with China, we have gone through it through Colombia, we have gone through it in a variety of places, and this interaction between trade and human rights is a very complex one.

The use of Jackson-Vanik obviously had a point at some time in the past. Probably for the last 10 years it has been irrelevant, because the Russians were letting people do whatever they wanted. So it didn't really make any sense, but we kept it because it was, quote, "our lever."

And now we are sitting here talking about letting the lever go, and everybody is talking—you heard the chairman or the Ranking Member Mr. Levin talk about the Magnitsky case as if there is not a provision in the agreement that has to do with civil rights, however you want to put it, human rights, then it is going to be hard to pass.

I am not sure everybody on this Committee understands the Magnitsky case and why it is sitting there, why is it being discussed here. And I would like you, for the benefit of all of us, to tell us what that—why that case is a case we ought to be discussing when we are talking about trade.

Mr. BURNS. Congressman, first, as you know, we have been pursuing our concerns about the Magnitsky case on a different track from trade. And as I said before, we have had continuing constructive dialog with sponsors of legislation in both Houses on the Magnitsky case.

Sergei Magnitsky was a lawyer who was detained, brutally treated, and then died in detention in 2009. A series of Russian investigatory commissions found that he had been treated—mistreated brutally.

Mr. MCDERMOTT. What were the charges under which he was detained?

Mr. BURNS. This was with regard to alleged corruption in the case of diversion of tax revenues, as I recall, charges which are unfounded and which the investigatory commissions that were undertaken, these are Russian investigatory commissions agreed were unfounded. They also highlighted the brutal treatment that he received before his death in detention.

As a result of that, the executive branch has used existing authorities under the Immigration and Naturalization Act, as well as new powers which President Obama made clear in a proclamation which he issued last year, to ensure that no Russian official implicated in that wrongdoing in the tragic death of Sergei Magnitsky can enter the United States.

So we take this issue very seriously. We share the serious concerns of the Members of the Congress. We have acted on it, and we look forward to continuing our dialog as part of our broad range of concerns about human rights in Russia. But as I said, we pursue that on a track that is separate from the issue that we are discussing today on extending PNTR.

Mr. MCDERMOTT. Where do you see the use of that issue in a trade negotiation—or I guess that is what you would call this bill that we have in front of us a kind of a trade negotiation bill. How do you word that so that you make that something that is enforceable or even can be judged? I mean, I am not quite sure if we are talking about cutting off trade with them, or are we simply saying that we want you to know we want you to be good boys? I mean, is that what we put in? You must be good people; you must follow the rule of law with no enforcement? Tell me how to think about this.

Mr. BURNS. Well, Ambassador Kirk may want to add to this, but as I said, Congressman, we are pursuing these issues on different tracks. Doesn't mean we take human rights concerns, in particular the Magnitsky case, any less seriously. As I said, we have already acted to demonstrate our concern on that case, but we believe repeal of Jackson-Vanik, extending PNTR makes sense on the merits as Ambassador Kirk has described.

Ambassador KIRK. I don't know that I can add much more than Secretary Burns other than that in order for us to have the full

benefits of Russia's WTO Membership, we have to be able to extend most-favored nation status on a permanent, nonconditional basis.

Our challenges, as you have noted, even though we have left Jackson-Vanik in place, we extend it to them annually, but it is conditional, and that is the difficulty we have. And I believe that we just have to be able to address these issues simultaneously, but then we have made it plain that we think and we would like to have a clean bill that addresses only the repeal of Jackson-Vanik and PNTR while we would continue to work with the Congress to address the human rights concerns.

But I do want to underscore what Secretary Burns said. We have not waited to act. We have provisions in place, and the Secretary of State and the President have used those to address the concerns around the Magnitsky case.

Chairman CAMP. All right. Thank you.

Mr. Tiberi is recognized.

Mr. TIBERI. Thank you. Thank you, Ambassador Kirk.

I am kind of conflicted. On one hand we have seen and we heard the benefits to American farmers, American manufacturers, American technology companies of opening up this vast market and the opportunities to expand American goods. On the other hand, as Mr. McDermott just mentioned, you have clear human rights violations. As Mr. Levin said, we have a situation in Syria. I have an employer in my district who has been active in Russia for many, many years, and they have seen a trend over the last several years that worries them so much that they are actually withdrawing their investments in Russia because of their concern about corruption, lack of transparency, human rights violations, even though this is a huge market and a huge opportunity. And they are speaking with their wallet.

So my question to you, Ambassador and Mr. Burns, is how do we proceed, and do we proceed by doing this, what you are advocating, do we lose our leverage in the future, do we lose what little leverage we have in trying to deal with opening up this market for our companies, with dealing with these human rights violations, with dealing with the corruption issue by giving it away now? And if we do do this, what further leverage do we have if that corruption and transparency, and the human rights violations get worse?

Ambassador.

Ambassador KIRK. Congressman, for the reasons I stated, and I hope I don't sound repetitive—

Mr. TIBERI. No, you are not.

Ambassador KIRK [continuing]. But for the reasons that your chairman articulated, and precisely for the reasons you articulated, we think the most responsible course of action is to make sure that businesses like that that you represent at least have some recourse.

I would say that absolutely the right thing to do to protect the interest of American businesses and workers is to make sure they reap the full benefits of Russia being in the WTO. All of us, I think, are conflicted because of what the other reasons you all have articulated, but I can't in my mind give you any example how us not moving forward in a manner recommended by your chairman gives us any more leverage than Russia.

And as Secretary Burns has noted, and I was just in Russia 2 weeks ago for the APEC summit and then in Moscow, the human rights activists and others in Russia are supportive of this because they believe putting Russia on a path that they begin to have the type of transparency in the operation of their laws as we do, and begin to act disciplines that are based on the rule of law, along with the other steps that the Secretary noted, embracing the principles of the Antibribery Convention within the OECD will over time help to create a better environment.

But we know these are complex relationships. This won't be the end of our engagement with Russia. We will continue to press them on other interests of human rights and stability within the region. But the responsible course for us to take to protect those like the company you recommended is to make sure that we move forward and repeal Jackson-Vanik.

Mr. TIBERI. Mr. Secretary, can you add anything to that?

Mr. BURNS. No. I entirely agree with what Ambassador Kirk just described. I think withholding PNTR does not provide us any additional leverage. I think moving ahead on PNTR not only benefits American companies and workers over the long term, builds greater respect for the rule of law and the kind of level playing field in Russia that benefits not just us, but Russia's economic and political evolution. We have lots of differences with Russia we have to engage seriously on, but I don't think withholding PNTR helps us on any of those issues.

And last, I would simply cite again the voices of some of the sharpest critics of President Putin and the current Russian government who have made the case for moving ahead with WTO accession and repealing Jackson-Vanik.

Mr. TIBERI. Can you provide that information to us?

Mr. BURNS. Sure. I would be glad to.

Mr. LEVIN. Will you just yield?

Mr. TIBERI. I will yield my 2 seconds.

Chairman CAMP. Seventeen seconds.

Mr. LEVIN. I think it is also correct that some of the opposition support the Magnitsky bill. I think that is true, Mr. Secretary. So I think we need to be a bit careful.

And let us remember Jackson-Vanik was a human rights provision in a trade bill. So that precedent goes back decades. It isn't as if we are talking about something without any precedent.

Thank you for yielding.

Mr. TIBERI. I yield back.

Chairman CAMP. Given the balance, I am going to go two to one now. So Mr. Davis is recognized for 5 minutes.

Mr. DAVIS. Thank you very much, Mr. Chairman.

I would like to follow up on this particular issue and address Ambassador Burns first and then ask Ambassador Kirk to comment.

When we had spoken at a previous meeting, I brought up the cold war. Some of us here were in the military or in Foreign Service at that time and saw it was a very imperfect execution where we were negotiating with an open hand on one count, and on the other hand we had complications in various parts of the world, Latin America, Africa, Southeast Asia, Eastern Europe.

And I suppose as we dealt with this, we were conducting trade, beginning to conduct trade, conducting intellectual arts and athletic interchanges during the seventies and the early eighties, and also dealing with very, I believe, much more serious human rights violations on the part of the then-Soviet Union.

Considering that we have permanent normal trade relations with China, which has an ongoing issue as they are moving into a more integrated society and more into the world, addressing some of these same issues with the rise of democratic and human rights activism in their home country, which we have been very supportive of, but the economic relationship between our two countries is frankly critical to both at this point.

I would like to move into one other area. I understand that Israel and Russia have a visa waiver program between their two countries, and one of the objections that I have heard to the repeal of Jackson-Vanik and moving in this direction from many of my colleagues is a concern over the situation with Syria and Iran, and that in some way there might be a threat to Israel.

What I would appreciate some commentary on is the current relationship between Israel and Russia, which appears to be quite robust. And, in fact, I would surmise, from my position, that, in fact, the repeal of Jackson-Vanik would be better for Israel than keeping it in place because of this connectedness that Russia would have not only in a WTO, but our ability to exercise greater linkage with less subjectivity in our policies, ultimately leading to a long-term game as we played 30 years ago. Would you comment on that?

Mr. BURNS. Yes, sir. I agree with you. I think Israel and Russia today have a growing relationship. I understand that President Putin may be planning to visit Israel sometime this summer. It is a fact that something like 20 percent of the current population of Israel are of Russian-speaking origin. And so the ties that bind Russia and Israel, I think, are increasing. That doesn't mean that there aren't differences and concerns over Iran, over Syria, over some of the same issues, which in some cases also divide us from Russia today.

But, you know, obviously the Israeli government can speak for itself, but I think there clearly is a broadly shared interest in Russia's integration into the global economy to encouraging a rules-based approach to Russia's economic modernization and to playing by international rules.

Mr. DAVIS. So, in a sense it would be enhancing to Israel's security versus the status quo that we have now in some degree in both in the region and for their economy if this were to continue?

Mr. BURNS. I think for all of the reasons I mentioned before, Congressman, I think this is not only in the short-term economic interest of the United States, extended PNTR, but it is also a smart long-term investment in Russia's evolution. It is not a magic cure. I don't mean to pretend that. There are a number of other steps that need to be taken over time. But I think this can contribute to the evolution of that kind of Russia we would like to see develop over time.

Mr. TIBERI. Appreciate it.
Ambassador Kirk.

Ambassador KIRK. I don't know that I could add much more, Congressman, and I want to be careful, as I said, because we care deeply about human rights concerns. But I do believe if you look over the last 50 years of trade policy, not just the U.S., but around the world, that a case can be made that liberalizing trade in a way that it encourages people to engage in commerce is a critical part of an overall strategy to move people away from violence. And so I think the benefits of having a stable system whereby people can have a more hopeful future has implications just beyond the commercial part of it.

And I do want to say there are those in Russia that very much believe it is in their interests, as Secretary Burns has said, to diversify their economy so more people can participate than just those who are involved in energy and extractive materials. And I believe that that leads to a more stable, open society that has to be a benefit not just to Russia and the U.S., but to Israel and others in the region as well.

Mr. DAVIS. Thank you. I yield back, Mr. Chairman.

Chairman CAMP. Thank you.

Mr. Doggett is recognized.

Mr. DOGGETT. Thank you, Mr. Chairman.

Thank you for your testimony. I believe for a number of years that we needed to move forward with Russia entering the WTO and with the repeal of Jackson-Vanik, but I fully subscribe to the comments and the issues that have been raised by Ranking Member Levin as an excellent statement of where we are today.

Indeed, as Ambassador Kirk just testified, the timing could not be worse for consideration of this matter. We know that over the course of the last year, the Russians have harassed and libeled our very excellent ambassador, Ambassador McFaul, to Russia. We know they had a very questionable election; that this very month the Russian Duma approved legislation to raise the fine on anyone who participates in an unauthorized protest from \$60 to \$9,000 for just showing up at a protest.

We know that the Russians' main interest in trade of late appears to have been forwarding weapons to the Assad government in Syria to murder its own people, including, as the Secretary of State recently observed, sending the attack helicopters that we see on television each night to murder innocent women and children in Syria.

Even the Washington Post editorial board, which I believe has been a cheerleader of every trade agreement that Ambassador Kirk or any of his predecessors in any administration has ever advanced here, says that a bill that grants Russia trade preferences and removes human rights conditions hardly seems the right response to Mr. Putin's recent behavior.

The Magnitsky case is not about one of the many courageous human rights protesters in Russia; it is directly linked to trade. It involves an attorney who found that in one of the largest investment firms in Russia, that the kleptocracy there, the Interior Ministry and the police, stole \$230 million. It is important not only from a human rights standpoint, but it is important from a commerce and trade standpoint in why it should be involved in this case.

Now, you both told us in your testimony that opponents of the Putin regime are in favor of lifting Jackson-Vanik, but that is only half the story, and it is only half the story from a number of months back. I am sure you recall the op-ed that appeared from Boris Nemtsov in the Wall Street Journal back in March, and let me just quote from it, because I think it is an important part of the story that has not been told this morning: 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 the 4th turns it into little more than a gift to Mr. Putin. Replacing Jackson-Vanik with the Magnitsky bill would promote better relations between the people of the United States and Russia, while refusing to provide aid and comfort to a tyrant and his regime at this critical moment in history.

That is a more full and complete statement of what the opposition has said than we have heard this morning.

I believe that, Ambassador Kirk, that you are sincere in saying that you care about human rights, as we all do, in Russia. The question is whether we are going to do anything about it. Senator Baucus has made it clear that the Magnitsky bill, some form of it, will be joined to this trade agreement. Senator McCain has been quoted this morning as saying that anything less than the full Magnitsky bill attached to this measure will doom it to failure.

Putting aside, as it is difficult to put aside, the problems in Syria, which raise real questions about whether we should act immediately on this, at a minimum I believe Senator McCain is right, and that the Magnitsky bill, without all the ifs, ands, and ors that are designed to make it meaningless and let the administration waive or postpone or delay or circumvent its requirements, if you want this measure passed, just simply do what has been proposed in the Senate and incorporate the Magnitsky bill with this measure, and we can move forward on it.

Though I often disagree with Mr. Brady on these matters, I agree fully with his comments as quoted in today's Congressional Quarterly that if it is the will of the Senate or the House that this be incorporated, that that is what will need to be done. Well, it is the will of at least this Member, and I think of a number of others, that we not at this critical time in our relations with Russia forget about these other issues. They can be combined, and we can and should move forward with a full and complete response to the outrage that is happening there.

I yield back.

Chairman CAMP. All right. Mr. Reichert is recognized.

Mr. REICHERT. Thank you, Mr. Chairman.

My microphone is—we will try it that way.

I want to just comment and touch on the human rights issue. I am an old cop, as both of you know, so if I can just kind of bring this down to maybe our everyday life. We build relationships every day with each other, within our family, outside our family, and across this country, State to State, government to government, agency to agency. We have these struggles, and I might be just oversimplifying this, but I feel sort of from my heart that I have to mention this.

What do we do with people in our community who are sometimes acting out in ways that we don't appreciate, even in ways that threaten us, even in ways that have taken the lives of others, maybe some of our friends and family Members? What do we do with folks who are drug addicts, who are alcoholics, or who are homeless? Russia has all of those problems.

The relationship we have with each other every day, we reach out a hand of friendship to those folks. We don't judge them because of the things that they have done or will do, but we reach out a hand. And what happens when you reach that handout? A lot have times you have success in building a relationship, a friendship that changes that person's behavior.

Now, I have been conflicted in my sheriff's career from time to time, and I am just going to share a quick story. My partner was shot and killed in 1982. I was the only homicide detective there. They put me in the back seat with this guy after he was running for 3 weeks in the woods. My job was to arrest him, advise him of his rights, take him to jail, hold him accountable to the rule of law.

But the other thing that I did, after 3 days this man was hungry, he was thirsty, and his handcuffs were too tight. I stopped and bought him food, gave him water, and loosened his handcuffs.

We need to be building a relationship with Russia. We know the rule of law is there. WTO is the rule of law that we can apply. If we do nothing, we lose not only the opportunity to help change a country, but change a world. We not only lose the opportunity to do that, but we lose the opportunity to build jobs here in the United States. So when we build that relationship, we build—we start to build a relationship built on trust.

And so my sermon is over. So in building on that trust, my interest, of course, in my district, there are two now; one is intellectual property rights, and some have touched on that today already, and the other is in the agricultural area. And I just would like to know from both of you, how will you monitor Russians—Russia's compliance and enforcement and keep Congress informed in the progress that we might be making as we build that relationship in protecting intellectual property rights and in the agricultural industry.

Ambassador KIRK. Mr. Reichert, thank you for your question.

Again, by repealing Jackson-Vanik, we make sure—and you represent a part of the country in which innovation is just embedded in our lifeblood. But we make sure that those innovators, these next generation of entrepreneurs that are going to come up with the next products to drive our economy, are going to be protected, and they are going to have the disciplines that protect every other Member of the WTO, which will enjoy those disciplines when Russia becomes a part of the World Trade Organization.

Now, if we don't move forward we aren't going to have that ability. We will not have the enhanced ability to combat piracy and counterfeiting and go in and get protection for our innovators than if we go forward and move. And I want to be careful that my comments about timing are not taken out of context. I was responding to the Member's question about timing, but I made it plain that the appropriate thing for us to do is to act.

As Chairman Brady says, and Mr. Doggett acknowledged, this is a jobs bill. And believe me, I know this is a tough vote for many

of you because of the human rights concerns, but I also know the beating that all of us will take from the American public if we stand by and do nothing, and then you begin to hear from our farmers and our manufacturers that we are at a competitive disadvantage because, whether it is Europe or Israel, and they are our friends, they are going to reap the commercial benefits of this. And we would be paying tariffs, sometimes double what other countries would be paying, and we wouldn't have any benefits of the rules system, and that is not an environment that I want to put American business and workers.

And so we have to be able to work with Congress to address the very real concerns on human rights, but we should also act responsibly and make sure we give American businesses and workers the chance to go in and compete for these new market opportunities that the rest of the world is going to compete for.

Chairman CAMP. All right. Thank you.

Dr. Boustany is recognized

Mr. BOUSTANY. Thank you, Mr. Chairman, for holding this hearing, and, gentlemen, thank you for your testimony.

Without going into all of the foreign policy concerns and human rights issues that you have already catalogued and has been discussed extensively, Ambassador Burns, I want to thank you for being here today for providing your extensive experience in dealing with Russia, the difficulties in dealing with Russia. I think what you have done in your career exemplifies the finest tradition that was set forth by George Kennan as we dealt with Russia. So I want to thank you for that.

Clearly, granting PNTR at this point to Russia does not give us leverage. That has been set forth, and it is pretty clear. But I firmly believe that a vibrant, growing trade relationship with Russia based on rule of law with real enforcement mechanisms and the connectivity that is going to grow as a result of that will help us create and build leverage as we deal with Russia.

A second point I would like to make is that in looking back at Russian history, whether it is Czarist Russia, Soviet Russian and today, one of the main motivations in foreign policy has always been deep water, warm—deep warmwater access. That is what motivates them primarily in Syria; it certainly has motivated much of their foreign policy over many decades. So clearly building a trade relationship with Russia would help us work with them to alleviate those concerns, and hopefully help us to modify some of their foreign policy behavior in the long run.

One final point I want to make about this before asking a question is that in the context of the crisis in Europe right now, the financial/economic crisis, it is going to be critically important to see integration of Russia into the global economy through this. And if we stay on the sidelines with this, we are really hurting moving forward and trying to solve some of these global economic problems. Our trade policy in this is a critical part, a component, of our foreign policy, and it has to be looked upon as such. So I find myself in complete agreement with both of you gentlemen as to the compelling reasons why we need to move forward with this.

Furthermore, Chairman Brady and others mentioned jobs. In 2011, Louisiana saw \$135 million in exports for Russia; not big, but

clearly an area where we can grow in agriculture, oil and gas, machinery exports. I have companies in my districts, small companies, that will benefit from an expanded export market there with enforcement mechanisms. So it is a jobs bill.

Ambassador Kirk, I have one quick question. We have gone through a lot of this with China, and we are still dealing with difficulties with them acceding to the WTO government procurement agreement. We have heard a lot of comments about how difficult it is for U.S. companies to deal with the Russian government.

Could you outline some of the commitments Russia has made to us so far to join the government procurement agreement under the WTO? When will those negotiations begin? Give us some sort of sense of a timeline and also lessons learned from dealing with China on this, how we can make sure that we move forward on this in a timely manner.

Ambassador KIRK. Thank you, Dr. Boustany, and thank you for acknowledging the role that this can help build small exporters not just in Louisiana, but all around the country.

And I would remind the Committee, 97 percent of U.S. exporters are what we define as small businesses. I know we tend to think it is just Boeing and Ford and Caterpillar, but it is small entrepreneurs from Washington to Texas to Louisiana.

The most important lesson we learned from China was we were going to give Russia 10 years to kind of adapt and change their laws as we did China. And we have heard that from you, we have heard that from businesses, and I can't emphasize enough I think the important work our team did with Russia. We asked them to make those changes in their rules before we would agree to the working party report and even invite them to join, and they did that. And so when Russia becomes a Member, Dr. Boustany, at the end of the summer, for the most part on balance they have changed and put in place those rules on IPR and others you have heard me to articulate.

Now, the government procurement agreement, like the information technology agreement, were sort of subsets of Members. China was given 10 years to join the GPA, and as we know, they still haven't. We got Russia to agree to less than half of that. So they have agreed they will seek admission to the government Procurement Act in particular within the next 4 years, but we have actually begun to work with them on strategies on how they can do that. It takes a little bit of effort to get their documents ready, but we are working with them on that already.

Mr. BOUSTANY. I thank you for the answer.

I yield back.

Chairman CAMP. Thank you.

Mr. Blumenauer is recognized.

Mr. BLUMENAUER. Thank you.

I would appreciate it if you could, Ambassador Kirk, if you could just pick up where you left off.

I appreciate attempts to inform and modify the approach we are taking to Russia based on the somewhat challenging and erratic response with China, but I am trying to get a sense of where is the leverage. We had agreements. We had timetables. I was one who actually supported extending most favored nation status to China,

trying to get them in a framework where it looked like we would be better off. That has had mixed results, as you know.

We have talked a little bit about this, and I know you have been focusing time and attention, but I want to get a sense of what is different here with Russia in terms of being able to actually have the leverage or the mechanisms to help make sure that it will, in fact, be different and the things that we have on paper are going to make a difference for American commerce.

Ambassador KIRK. Thank you, Congressman. I do appreciate the dialog we have had on that.

The single biggest difference, Congressman Blumenauer, is that Russia undertook these obligations before they joined the WTO. In many cases countries will argue because of their state of development, or capacity, or, you know, lack of rulemaking expertise, they should be granted 5 years, 10 years, some, you know, period of time to adjust and make those rules.

We learned from our experience with China, frankly, and we have heard again not just from Members of this Congress, but more critically from our businesses let us not do that again. So it is one of the reasons we took about the—you know, we dedicated most of 2010 working with Russia to put in place the rules, the changes to their law, that would have them be compliant with the rules of the WTO the day they come in. That is the single biggest difference.

When Russia comes into the WTO at the end of summer, they will be in compliance and held to the standards, more importantly, of our disciplines on everything from intellectual property rights, sanitary, phytosanitary standards. We don't have to do a thing.

And I want to clear up one thing. This is not a gift to Mr. Putin of Russia. The United States is not having to change one law, do one thing differently for Russia. The only issue before us is whether or not we are going to give the benefits of all our hard work to having Russia do this and make sure those benefits operate for American workers and exporters.

So I know I am going to sound repetitive, but the single biggest difference is that we heard you, we learned from that, and we went to Russia and said, you are going to have to do this up front, and they did it.

Now, we are going to monitor them. We are going to hold them accountable, just as we would not only China, or Mexico, or Canada, or Europe, but we are way ahead of the game compared to the experiences we have had in the past.

Mr. BLUMENAUER. Thank you, sir.

Secretary Burns, you have heard some apprehension expressed from colleagues on both sides of the aisle on this situation we are facing with Russian involvement with Syria, troubling developments still in Russia. But I wonder if you could just take a step back for a moment and set in context about the difference that we are facing today versus the situation of 30 and 40 years ago in terms of the relative balance, the progress, the prospects for profound differences going forward in Russia.

Mr. BURNS. Well, Congressman, I think the situation inside Russia, with all of the difficulties Russian society continues to face, is profoundly different today than it was 30 or 40 years ago, and

the same is true of our relationship with Russia compared to what it was three or four decades ago.

I think within Russia, what you have seen over the course of recent years, but particularly over the course of the last 6 months, with many of the demonstrations that you have seen, demonstrations animated in large part by an emerging middle class, is a thirst on the part of people not just for the benefits of an improving standard of living, which is a real concern on the part of people in Russia, just as it is in our country and anyplace else in the world, but also a thirst for greater participation in how important decisions are made in their societies, a thirst for the application of the rule of law so that there is some predictability and accountability. I think that is a very important phenomenon.

It is not going to transform Russia overnight, but it is also a trendline that is not going to go away either. And I think it is a trendline which, through a variety of means, it is important for us to try to reinforce. There are limits to our ability to influence that, but there are some things we can do, and I think encouraging Russia to integrate into the global economy, to play by international rules, to encourage the emergence of rule of law in Russia is a very smart strategic investment for the United States, and the investment over time, the emergence of a better and more predictable partner in Russia. It is not going to change a lot of the differences and the difficulties we have today, but I think it offers considerable opportunity.

Mr. BLUMENAUER. Thank you.

Thank you, Mr. Chairman.

Chairman CAMP. Mr. Roskam is recognized.

Mr. ROSKAM. Thank you, Mr. Chairman.

You know, maybe just more of an observation than a question for our witnesses, but when you have the benefit of sitting and listening for a couple of hours, you kind of notice the pattern and the cadence to this ongoing narrative and how it is being really disclosed and explained to the public.

I think, Ambassador, you put it well when you said that this is no gift to Putin; that the whole question is how do we position the United States vis-à-vis opportunities and the job creation theme that Mr. Brady mentioned.

I am from Illinois, and Illinois is the second largest exporter to Russia. I think that is largely based on Caterpillar's presence in Mr. Schock's district, and probably the suppliers in my district in suburban Chicago.

And, Ambassador, you made reference just a second ago to reinforcing a trendline. I think, you know, some of the time we come in—we come in to the great debate and discussions of our day, but it is an ongoing enterprise. We don't come in just with the ability to write a script clean from the very beginning. If you could, you can imagine a very different interplay and different dynamics, and we would insist upon this, and we would insist upon that, and we would walk away and, you know, the whole drama of how these things are negotiated.

But that is not the card deck that we are dealt. That is not the hand that we are dealt. We are dealt a situation on a multilateral

arena, a lot of moving parts, clearly, that we have heard discussed today.

And so the question is before this Committee that now finds itself in the middle of this drama, how do you sort of isolate one of these areas that is, to go to your point, Ambassador, moving and reinforcing a trendline from a trade point of view that is positive, and also saying, all right, let us enforce or reenforce or give support to this emerging middle class in Russia to empower them on what? Goals that are mutual, and that is a growing democratization, rule of law, and to begin on the commercialization of that effort that is a building block to move forward.

Now, it just so happens that there is an economic benefit to the United States. That is not to say that all the drama, and the hardship, and the coarseness actually of Russian foreign policy adventures are to be ignored, but that is to say let us take advantage of this area where we can move the ball.

So, look, I appreciate the challenge of articulating this. I appreciate the responsibility that this Committee has in communicating to our colleagues the nature of this opportunity, and also the recognition that if you are going to go to a clean slate, you might do something different. But the whole question now is can this committee use its influence and its ability to persuade other Members to come along and take advantage of something that makes good commercial sense and ultimately foreign policy sense?

So we are—you know, speaking on behalf of this Member—pleased to be working with the administration now and trying to make this effort. But it is a pivotal time, but it is a pivotal time in terms of the trendline, and I appreciate the opportunity.

Thank you, Mr. Chairman. I yield back.

Chairman CAMP. Thank you.

Mr. Pascrell.

Mr. PASCARELL. Thank you, Mr. Chairman.

I want to start by commending both of you for the hard work you have put in. I have noticed in the past couple of years that for the first time I can feel some confidence in carrying out and implementing conditions on trade throughout the world from the United States. I think we are trying to get some enforcement abilities. I know that isn't easy.

But I must say about what we have before us today, yeah, we must deal with the cards that we have dealt to us, but I would venture to say that if at 9 o'clock this morning we were told we would be a day and a half late, that the Russian government had a shipload of vehicles and weaponry which was headed toward Syria and wound up in England on the way to Syria, and then suddenly turned around—that is what we are told—that didn't happen in a vacuum. I would say that perhaps maybe the chairman or some of us would have asked for this committee hearing not to happen today, because this the kind of betrayal that we are very used to. This is very serious business.

As we talk about trade between our two countries, and Russia accessing WTO, and innocent people, citizens—and I am not telling you something you don't already know, but I want to reiterate this because this is important. When people dismiss the question of human rights as almost like an addendum, that really sets me off.

I want you to know that. And while no one is advocating violations of human rights, we are sitting here talking about a deal, and what is happening in another part of the world is affecting us just as well as American citizens.

So I want to associate myself with the comments of my colleagues regarding the relationship between trade and human rights. As Mr. Levin stated, Jackson-Vanik was a human rights amendment to a trade deal, to a trade bill. So it is entirely appropriate that we insist that if we repeal one human rights provision, we replace it with another, the Magnitsky bill, which I am a co-sponsor.

I am also incredibly concerned with the timing of this bill with reports of election fraud in Russia, we didn't invent that; Putin's inconceivable actions with regard to that; selling weapons to the Assad regime right in the face. I mean, what is going on right now, we have a discussion in Mexico, for one, just as we are taking the possibility of Russia's accession into the WTO. I find that like a Fellini movie. It is bizarre. And for us not to be affected by that and simply think that we are just talking about a trade deal here, and we can take it out of context, as some have suggested, and forget about those kinds of things I don't think is realistic, Mr. Ambassador. I really don't.

We can't change Russia. Russians change Russia. So I would like to ask you a couple questions along those lines. Given the difficulty that we have experienced and the resources spent holding China to the commitments—and that is the big deal here, how do we do this, how do we hold a country to its commitments to us once we sign the deal when they join the WTO—what has USTR done differently this time to ensure Russia's compliance? If I can ask that question.

Ambassador KIRK. Yes, Congressman, my response will be very similar to that—to Mr. Blumenauer's in that one of the most important differences in our approach, Congressman Pascrell, was that we again insisted that Russia make those critical changes to their laws necessary to comply with the WTO rules on the front end. China was given a 10-year grace period to do that. We did not do that in this case.

Mr. PASCARELL. Mr. Ambassador, we have been told that about some other trade deals. I won't go through chapter and verse with regards to that. I would like to request that you provide my office with a comprehensive written itemized list of the differences between Russia's WTO accession agreement and China's, and why there isn't improvement. If I could ask through the chair that information.

Chairman CAMP. I am sure the Trade Office will respond in writing.

Mr. PASCARELL. I would appreciate that, Mr. Chairman. Thank you very much.

Chairman CAMP. Thank you.

Time has expired. Mr. Smith is recognized.

Mr. SMITH. Thank you, Mr. Chairman, and thank you to our ambassadors here today. I appreciate your service in so many ways, and certainly this issue is one that is by no means an easy situation. And I don't expect you to be too repetitive here, but I do

want—and I appreciate the attention given to the sanitary and phytosanitary issues that we know exist.

Hearing from meat and poultry producers in Nebraska, for example, there is a bit of skepticism in terms of how effective our efforts can be in terms of enforcement and various other nontransparent standards that really have no basis in science, and I know that there are concerns with other countries as well.

Can you highlight perhaps a timeline that we could expect? I know that it has been mentioned the WTO accession with Russia, you know, improves many things and does open up some access there, but there is still, like I said, that skepticism that does exist, that that may not be as effective of a tool as perhaps we would like it to be. If you could elaborate, Ambassador Kirk.

Ambassador KIRK. I can, and I will try to be brief.

The WTO accession process is sort of a three-part process. They appoint a group of Members to work with the country on different issues that we have bilaterally, and we actually produce a working party report, which then goes to our ministerial. All of this happened last fall in which we formally invited Russia to join the WTO. Then Russia has to undertake a final set of legislative actions, which they have introduced in their Parliamentary body 2 weeks ago, and they have until, I believe, August the 23rd to complete that process. Every one of us believes they will do that because they have initiated to do it. Thirty days after that, Russia will be a Member of the WTO.

So the concerns about timing and why now is there is some sense of urgency that if we don't act, we will be in a situation where we have not acceded to that process because of the presence of Jackson-Vanik. When Russia becomes a part of the WTO, they have agreed they will apply the SPS disciplines within the body. Now, you and I both know then we have to follow them and see how they implement that and make sure that they are science-based as opposed to what they say. And just as we have with other countries, we will be prepared from day one to challenge those actions, those standards that we believe are not WTO-consistent, but at least we have that ability. Right now our frustration is all we have had is a conversation.

Additionally, since you mentioned agriculture in particular, we negotiated a higher TRQ, a tariff rate quota, specifically for WTO Members. If we don't go forward and repeal Jackson-Vanik, we lose the benefit of that. So we would not have the benefit of competing under the TRQ for the higher amount. We wouldn't have the ability to challenge their standards if they aren't compliant with the SPS rules of the WTO. It isn't going to be a panacea, but at least we will have an enforcement monitoring mechanism that we have lacked up until now.

Mr. SMITH. Okay. Thank you.

Ambassador KIRK. I hope I didn't leave you more confused than when I began.

Mr. SMITH. No, I appreciate that. And if you could just keep us informed as perhaps new developments occur, I would appreciate that. And I will also submit some additional questions for the record and would appreciate a written response. So thank you. I yield back.

Chairman CAMP. Thank you.

Mr. Schock is recognized.

Mr. SCHOCK. Thank you, Mr. Chairman, and thank you to both of our witnesses here.

First my question dealing with human rights as was mentioned by my colleagues on this side and my Democratic colleagues as well. Russia is already failing to comply with the existing commitments to the U.S. made as a part of its WTO accession.

In 2006, Russia signed letters as part of its U.S.-WTO working party agreement with specific and time-binding undertaking to improve its IP protections and access for agricultural goods. It has failed on those undertakings. It has further reneged on them by halting and banning U.S. poultry imports on the ground of arbitrary and nontransparent sanitary requirements in 2010, as was mentioned by Representative Smith. And Russia has a track record of noncompliance with its international obligations.

Additionally, Russia has signed numerous international agreements under U.N. human rights, anticorruption, antitorture; the Helsinki Human Rights and Rule of Law Courts; the Council of Europe Rule of Law, Human Rights and Anticorruption Conventions; however, it does not comply with any of them. Compliance with the European Human Rights Convention was the precondition of Russia joining the Council of Europe in the late nineties. Today Russia is the worst violator of almost all of those basic human rights enshrined in the convention.

I mention all of these in detail because I think we share a concern, those of us on this Committee and representatives. We hear from our constituents the great concern about Russia's willingness to really deal with these commitments, and then the question of whether this is somebody we would want to enter into an agreement with.

My question for Ambassador Burns is whether your opinion of us establishing PNTR with Russia will help us press any of these issues.

Mr. BURNS. Well, Congressman, I do believe it is an investment in the rule of law in Russia, aside from all of the practical benefits for American workers and American companies. There is a lot to be concerned about about Russian compliance with international obligations and certainly about the human rights situation in Russia today. And we have not been shy about expressing our concerns, nor have other countries around the world, in support of a number of very thoughtful Russians who have raised these concerns and are working to build a more open society over time.

But as I said before, I truly do believe that taking this step that we are discussing today, extending PNTR, because Russia is going to become a Member of the World Trade Organization, is not only a benefit to the United States and to our economic interests, but it is also an investment in a Russia in which rule of law is going to be more respected over time.

Mr. SCHOCK. So you would subscribe to, I guess, the one of two paths that we can go down. One is either isolationism as a means to try and force them to do what we want, or bridge building as was described by Representative Reichert as a means to get them

to do more of what we would like. You would prefer bridge building as opposed to isolationism.

Mr. BURNS. Well, Congressman, you know, the truth is that in a complicated relationship like the one we have with Russia, we have to on the one hand be very direct where we have concerns about human rights, or Syria, or Georgia or other issues that divide us. But at the same time, I think we have to bear in mind what serves our own national interests especially economic self-interest, but also look at the way in which Russian society can evolve, and how we can best serve that over time. And so I know it is a complicated situation in which to navigate, but I think that is the reality of what we are dealing with.

Mr. SCHOCK. Ambassador Kirk, again, welcome back to the Committee. It has been great working with you. Congratulations on all of the advancements we have been making with trade since you have been our ambassador to trade. We appreciate all that you have been doing.

I guess my question would be very direct and frank to you about the administration's willingness to play a role in advocating for this within the Congress. Having been a part of the Colombia, Panama and South Korea trade agreements, to be very honest with you, while you were very active and other Members of your team, I did not sense a great amount of effort being put forward on behalf of the White House encouraging Members of Congress to get on board with those trade agreements.

Clearly this is going to be a controversial move, clearly based on the concerns raised by Republicans and Democrats on this committee, certainly will be shared by the Congress at large. What does the President specifically and the higher-ups of his administration—have they communicated with you their willingness to really play a role, knowing that this is an important issue for the business community for us to address before the election? What is their willingness to really get involved with the lobbying and encouraging of Members of Congress to go in this direction?

Chairman CAMP. And if you could answer quickly, because time—

Ambassador KIRK. I will.

I will remind you that I am a part of the administration. I represent the President and Congress on trade matters.

The President spoke to this directly in Mexico. The President has spoken before. I will remind you when I was here urging the Congress to move on Panama, Korea and Colombia, I raised the issue of repealing Jackson-Vanik then, and the response from the Committee was, we won't talk about it until we do Panama, Korea and Colombia. I understood that.

But the administration is engaged. But this Congress singularly has the ability to repeal Jackson-Vanik and give the President the authority to grant PNTR, but we will be working with the leadership and Congress to get that done.

Chairman CAMP. All right. Thank you.

Ms. Jenkins is recognized.

Ms. JENKINS. Thank you, Mr. Chairman, and thank you for holding this important hearing.

Thank you, gentlemen, for joining us today and for your good work.

Ambassador Kirk, as you know, service jobs account for 80 percent of U.S. private sector employment, and we enjoy a substantial trade surplus in services. As a result we must focus on ensuring that this important part of our economy continues to grow internationally.

How will Russia's WTO Membership give U.S. service providers better access to the Russian markets, and do you see any particular sectors of the service industry especially benefiting from greater access to Russian markets?

Ambassador KIRK. Well, thank you, Congresswoman. I appreciate you bringing it up, because this is one area that this is clearly a win for us.

We have had for the last 20 years or so a bilateral commercial agreement with Russia. Services is not covered under that at all, so right now we have effectively no access to that market. When Russia becomes a part of the World Trade Organization, they have committed to reasonably full liberalization of their services market. And you will hear, I think, from industry this afternoon, but it is the one area that I think many of our businesses are most excited. I don't have the full list, but everything from banking, financial services, telecommunications, audiovisual, a number of sectors in which we excel.

And as you noted correctly, we have a trade surplus. We would have access to Russia's market if we repeal PNTR. More critically, if we don't, that is one area where we would get none of those benefits.

And 80 percent of Americans are employed in the service sector. We are proud of what we are doing in manufacturing. In others it is back-up. But it would be a huge loss for us were we to deny our service sectors access to this important growing market.

Ms. JENKINS. Excellent. Thank you.

And finally, the role of state-owned or controlled enterprises in the global economy is a growing concern. The governments that own or control such companies often give them unfair advantages ranging from providing favorable financing to exempting them from taxes and regulations. So how will Russia's WTO Membership address Russia's state-owned and -controlled enterprises?

Ambassador KIRK. The WTO doesn't have specific disciplines on that, but we have recognized—again this Committee has raised this issue with a number of countries from China, Vietnam and others. And what we have engaged in bilaterally is the need to bring that transparency and discipline so that they operate more like for-profit groups.

Now, in many areas, Congresswoman, Russia has agreed to reduce a percentage of their government ownership. In some of the energy sectors and others, they have already put those out, frankly, for privatization. So, I mean, again, we are going to have to monitor them. But I think, as Ambassador Burns has noted, Russia understands they need to reform and modernize their economy. But that could be an important opportunity for us in some of those sectors where Russia puts these particular industries out for purchase by the private sector.

Ms. JENKINS. Okay. Thank you, Mr. Chairman. I yield back.
Chairman CAMP. Thank you.

Mr. Neal.

Mr. NEAL. Thank you, Mr. Chairman.

Let me get your views on the Russian Government's expropriation of the large oil company Yukos. When Russian authorities dissolved Yukos, it took over its assets, Yukos investors, including many from Massachusetts, received nothing. I understand a number of these investors have petitioned the State Department to espouse claims of all U.S. investors in Yukos, and espousal certainly would be helpful to many of my constituents who invested in Yukos and thousands of others throughout the country who collectively lost \$12 billion.

Mr. Ambassador, I am interested in your observations on how Russia should be held accountable for its massive expropriation of U.S. investments in Yukos. I would also be interested in both of you having an opportunity to comment on how State Department efforts to secure compensation for harmed U.S. investors can complement the extension of PNTR and achieve a sustainable investment climate for U.S. business.

Mr. BURNS. Thank you, Congressman.

We obviously are strongly supportive of the interests of American investors. We have expressed over the course of a number of years, both publicly and also directly to senior Russian officials, our concerns about the Yukos case, and in particular our concern that the claims of American investors be addressed fairly and correctly.

There are a number of international arbitration processes under way right now, which we are monitoring very carefully. We are taking careful consideration of the request for espousal that has come to the U.S. Government and evaluate that partly in light of how we see these international arbitration processes unfolding. But I can assure you that we continue to take this very seriously, and we will continue to make it a high priority in defense of American claimants.

Mr. NEAL. And for many of those who lost money, as you know, that is how some retirements are paid, and that guarantee of retirement has been abridged by this decision to expropriate Yukos. And I hope that this remains a priority because it is a difficult issue, as you might expect, going forward.

And secondly, and just as importantly, according to the AFL-CIO, Russia's labor code fails to secure fundamental labor rights, and its enforcement is worse, citing brutal assaults on union leaders and censorship of union communications. Will either of you please comment on Russia's record on labor rights and how you think we can respond to this record?

Ambassador KIRK. We have heard from the AFL-CIO and have pressed and will continue, Congressman, to press Russia on improving their record and respect for unions and others. I would only add in response to Ambassador Burns' response to your other question on Yukos, it is one of the reasons we are also moving simultaneously to engage Russia on a bilateral investment treaty that would give us a tool that would not only protect those investors, but at least give us another vehicle to engage Russia on these issues of labor and worker rights in particular.

But we are going to have to continue to engage them on that. The WTO doesn't extend the labor rights. That is typically done through our free trade agreements, or in the case if we could get them to move forward a bit, we would at least have a discussion on some minimum standards.

Mr. NEAL. I mean, I understand how difficult this is and the challenge that is out there for all of us, because we all see what the final game plan might look like if we can get past some of these interceding difficult issues. But in the decision to expropriate Yukos, that was a pretty good hit for a lot of people, and I hope that you will not let that issue recede in our collective or individual memories.

Thank you, Mr. Chairman.

Ambassador KIRK. We will not.

Chairman CAMP. Thank you.

Mr. Buchanan is recognized.

Mr. BUCHANAN. Thank you, Chairman Camp, for holding this important hearing today. And I would also like to thank our witnesses.

I would like to give a special thanks to Ambassador Kirk, because I know with these other trade agreements, without your leadership and us working together, I question whether they might have got done. So I want to personally thank you for that.

To me, it is about jobs. That is why we are here today. With sustained high unemployment in Florida and other places, it is imperative that we explore ways to expand the economy. In 2010, my home State of Florida, our overall exports, shipment of merchandise to all markets totaled about \$55 billion. Of that, less than \$150 million went to Russia, and that was in 2010. I am pleased to say that in 2011, we did double it up to about \$300 million in terms of exports to Russia from Florida. But thinking about that, Russia is the world's ninth largest economy, and yet accounts for a small fraction of goods exported from Florida, and I am sure the country as well.

Ambassador Kirk, will PNTR with Russia help increase trade for Florida?

Ambassador KIRK. Well, Congressman, first of all, thank you for your kind words and your work with this. And I want to be careful. My job is to make sure I try to increase trade for everybody, not just Florida, but from Illinois to Texas, to Maine and others. But Florida—

Mr. BUCHANAN. I said Florida and the country, but I am looking at Florida.

Ambassador KIRK. Florida is one of those States that is uniquely positioned because you are such a major port and a gateway, I think, to benefit as well.

And I might note that thanks to the work of this Committee on Panama, Korea and Colombia, that the agreement with Korea went into effect on March 15th after only 6 months, the agreement with Colombia is now in effect, and we are moving forward quickly with Panama as well.

But we will have the ability to increase our exports to Russia only if—I know it is going to sound like a broken record—we need to give American exporters' businesses the ability to go and com-

pete, and that would require us repealing Jackson-Vanik and granting PNTR.

Mr. BUCHANAN. Let me ask you, Ambassador, and maybe you touched on this, because I had to run out for a minute, but do you have any figures in terms of what it might mean to Florida or the U.S. in terms of jobs going forward? I mean is that something you have looked at?

Ambassador KIRK. We are working on those, Congressman. We can try to noodle a little bit what we sell. There is about a 40, I think, 9 billion dollar relationship now. Much of that is energy, petroleum products, extracted materials we buy from Russia. But because they are going to bound their tariff rates for the first time, we know that our tariffs in most cases are going to drop, you know, by 10, 20 percent or more. So for what we sell, that will be a benefit.

Congresswoman Jenkins mentioned in particular one of the areas we think we have a huge opportunity, frankly, is in services, because we have been denied access to that market. And then Russia—notwithstanding our difficulties, Russia is one of our strongest markets for protein, for beef and pork and poultry. If we can get them to adhere to more recognized international standards, I think we can see growth in all of those as well.

Mr. BUCHANAN. Thank you.

Just quickly, I know my time is short, but, Ambassador Burns, let me ask you, and I know it has been touched on a little bit, the Middle East, as all of us know, is a very dangerous place. Israel has been a bastion of freedom in the area and a great ally to the U.S. and obviously in a very tough spot. I am concerned about Russia's support of the repressive regimes of Syria and Iran. Does the State Department share those concerns? I am sure you do, and I am sure you touched on it, but I would like to take a minute and get your thoughts on that.

Mr. BURNS. Well, on Syria we certainly do share widespread concerns about the horrific situation on the ground for Syrians, and will continue, as the President did in his meeting with President Putin on Monday, to push Russia to speak out and act more forcefully in support of a real political transition in Syria, which is the only way in which you are going to see a stable future there and the only way in which you are going to avoid the spillover of sectarian violence into other parts of the region that already has more than its share of troubles.

We have worked, I think, effectively together on the Iranian nuclear issue. Both Russia and the United States share an interest in ensuring that Iran does not acquire a nuclear weapon. In the most recent five-plus-one talks with the Iranians in Moscow over the last couple of days, I think the one thing that was striking was the unity of the five-plus-one group, including Russia and the United States, in stressing the need for Iran to meet its international obligations. And so we will look forward to continuing to work with Russia on that essential issue as well, which is extremely important not just to the United States, but to Israel as well.

Mr. BUCHANAN. Thank you both, and, Mr. Chairman, I yield back.

Chairman CAMP. Thank you.

Mr. Marchant is recognized.

Mr. MARCHANT. Thank you, Mr. Chairman.

Greetings to you, Ambassadors.

The question that I have today has to do with direct investment in Russia. There are many businesses in my district and in Texas that, instead of taking their business over there, they choose to make direct financial investments in existing companies that are in Russia.

Does granting the PNTR enhance the protections that those investors have in the companies that are there, and does the Membership in the WTO give any additional protections to those that choose to make direct investment instead of building plants there?

Ambassador KIRK. Congressman, it will certainly open up more markets, particularly in services Russia is committed to. But to get the full protections, we will want to negotiate, and we are engaging Russia commensurate with this on a bilateral investment treaty, which would really cement the protection and treatment for U.S. investors directly in Russia.

But as one of the commitments Russia is making as part of the WTO, they are opening up their economy for more investment so the people don't have to, say, invest in another company. They would be able to buy those companies and have 100 percent ownership of them in many very critical areas.

So it is a good step forward. They will have much more protection, Congressman Marchant, than they have now. But I want to make it plain, we would really advance the ball even further if we are able to move forward with Russia to complete a bilateral investment treaty, and we have engaged them about reinvigorating that.

Mr. MARCHANT. And the threshold for that would be granting this PNTR?

Ambassador KIRK. Yes. If we don't repeal Jackson-Vanik, to the degree that Russia is opening up liberalizing its services market, investment market, we lose all of the benefits of that. We would have some protection under this bilateral commercial agreement we have had, but it did not cover services and investment. That would be one area that we have a really glaring lost opportunity.

Mr. MARCHANT. Thank you.

Ambassador Burns, do you have anything to add to that?

Mr. BURNS. No, sir, not today.

Mr. MARCHANT. Thank you, Mr. Chairman.

Chairman CAMP. Thank you.

Mrs. Black is recognized.

Mrs. BLACK. Thank you, Mr. Chairman.

And, Mr. Kirk, I want to go back to the service industry, because, as you know from previous hearings, it is one of those areas I am very concerned about. And obviously the service jobs represent about 80 percent of our U.S. private-sector employment, and we do have a trade surplus in services. So that is a very, very important industry.

Do you see any particular service sectors of the service industry especially benefiting from the greater access to Russia's market?

Ambassador KIRK. Well, as I said to Congresswoman Jenkins, I believe that we will see a number of areas, because we have been locked out of their services market generally. They are going to liberalize in everything from banking, and finance, and audiovisual and telecommunications.

I think there are a number of areas that would benefit, and some of it will depend on the interest of our industry. When I was in Russia 2 weeks ago, I met with our American Chamber of Commerce, and there were over 160 businesses there that are just anxious for us to lift Jackson-Vanik so they can begin to explore opportunities.

But I think it is a—because they have been so closed, it is sort of a wide-open territory for us. But U.S. service providers are some of the best in the world. Whether it is architects, finance, engineering, you know, and agribusinesses and others, this is a huge opportunity for us.

Mrs. BLACK. Okay. So I would like now then to turn our attention to government procurement. And my understanding is that it is very difficult for U.S. companies to sell to the Russian government. Has Russia made any commitments to join the WTO's government procurement agreement?

Ambassador KIRK. As part of their WTO commitments, they have—that is, you know, a separate agreement of like-minded countries, Congresswoman, but they have agreed that they will seek participation in the government procurement agreement within 4 years from when they become a member.

Mrs. BLACK. We are all frustrated that China committed to joining the GPA. Did China make the same commitments as Russia in this regard?

Ambassador KIRK. No. And one of the lessons I was sharing with your committee, your committee members, is perhaps the most compelling lesson that we heard from this committee, was let's not give Russia that 10-year liberal period that China—China agreed that they would join the GPA within 10 years. But we asked Russia to make those changes to their law and adopt those disciplines of the WTO before they entered, and others would come into effect on day one. And that is probably the most important difference between our experience here and what we went through with China.

Mrs. BLACK. And then finally, I know we have had a big concern about intellectual property with China. And looking now at Russia and making sure that we don't get into that same situation with them, can you talk a little bit about how we might monitor Russia and in the compliance and enforcement?

Ambassador KIRK. Yes, ma'am. One, as you know, we provide a report to Congress every year, our 301 report, on the compliance of all of our partners around the world with the intellectual property rights commitments.

Again, most importantly for Russia, the day they become a member of the World Trade Organization, they will have to comply with the world trade—what we call the TRIPS agreement, the trade-related aspects of intellectual property rights. So we will have substantially enhanced protection from day one.

Secondly, we recognize, though, this is sort of the lowest common denominator in terms of protecting IPR, and we are separately negotiating and working with Russia on an intellectual property rights action plan to provide an enhanced level of protection.

Mrs. BLACK. Thank you, Mr. Chairman. I yield back.

Chairman CAMP. Thank you.

Mr. Berg is recognized.

Mr. BERG. Thank you, Mr. Chairman.

I want to thank our witnesses here for being part of this critical and important discussion debate.

North Dakota, of course, granting permanent trade relations are very important. Our farmers, ranchers and small business have been critical in really growing our jobs in North Dakota, and this obviously helps move them even further forward. North Dakota since 2000 has increased trade over 400 percent. And a lot of the trade that we are doing with Russia—I think last year we had close to \$30 million of trade with Russia, and that has actually gone up almost 300 percent the first quarter of 2012.

And so I guess just to boil it down kind of a bottom line as it relates to these groups, and a lot of our trade is ag machinery coming from North Dakota to Russia, but really I would ask Ambassador Kirk really two questions: One, how will this benefit those farmers and small businessmen in North Dakota? And then also, how would they be disadvantaged if we don't move forward with this?

Ambassador KIRK. Thank you, Congressman.

The benefit immediately—and my staff always cringes when you all ask me about specific tariff lines, but I remember this one. I can tell you because Russia will bind their tariff rates from day one, the tariffs, for example, on ag machinery is going to come down dramatically. So that, you know, is a benefit to your producers and sellers. They can cut their costs; they can sell more machinery.

More critically, if we don't repeal Jackson-Vanik, we are going to be at that higher arbitrary rate against competitors from around the world. They are your farmers, your ranchers that maybe sell pork or protein or soybean critically will now for the first time have Russia in a system where they have agreed they will have to apply internationally recognized science-based standards in the sanitary and phytosanitary area. Again, if we don't repeal Jackson-Vanik and extend PNTR, we have none of those protections.

Now, this isn't going to cure everything overnight, but it is the one area where for now all we have had the ability to do is talk. If we repeal Jackson-Vanik, we have an actionable tool that we can use to protect particularly those in our agribusiness.

Mr. BERG. Thank you. I will yield back.

Chairman CAMP. Thank you.

Thank you both for your testimony. The committee stands in recess until 2 o'clock or until after a series of votes that may begin at 1:45, whichever is later. Thank you.

[Recess.]

[2:30 p.m.]

Chairman CAMP. Good afternoon, and welcome back to the Committee on Ways and Means hearing on Russia's Accession to the World Trade Organization and granting Russia PNTR. We will now

hear from our private sector witnesses, and today, four witnesses will join us on our second panel.

Our first witness will be Mr. Doug Oberhelman, Chairman and Chief Executive Officer of Caterpillar. He is also testifying on behalf of the Business Roundtable and the National Association of Manufacturers.

And after him, we will hear from Mr. Wayne Wood, The President of the Michigan Farm Bureau.

And a special welcome to you, Wayne. You have been a good friend to Michigan agriculture for many years.

Often people think of Michigan as only a manufacturing State, but we both know that Michigan has a well-developed agricultural industry as well.

Our third witness will be Mr. Michael Rae, President of Argus Ltd.

And finally, we will hear from Mr. Pat Mackin, Senior Vice President and President, Cardiac Rhythm Disease Management for Medtronic, Inc.

Before we begin, I would like to ask Mr. Schock to provide further introduction to Mr. Oberhelman.

Mr. SCHOCK. Thank you, Mr. Chairman.

And thank you, Doug, for being back at this committee.

For those that don't know, Doug Oberhelman is the chairman and chief executive officer of Caterpillar, Incorporated, based in my hometown of Peoria, Illinois. Caterpillar is the country's and the world's leading manufacturer of construction and mining equipment, diesel and natural gas engines, industrial gas turbines and diesel electric locomotives. Doug joined Caterpillar fresh out of college as a financial analyst and over Doug's 35-year career, he has held a variety of positions within Cat around the globe. He was elected as vice president and chief financial officer of the company in 1995 and became a group president and member of Caterpillar's executive office in 2002.

In October of 2009, he was named vice chairman and chief executive officer elect. During this time, he led a team that developed the future strategic plan for the company. In 2010, Doug was elected chairman and chief executive officer.

In addition to his work at Caterpillar, he serves as a director of the boards on Eli Lilly, World Resource Institute, Wetlands America Trust, and the Nature Conservancy, Illinois Chapter.

Doug is also the vice chairman and incoming chairman of the National Association of Manufacturers.

Once again, welcome back, Doug, it is great to have you.

Mr. OBERHELMAN. Good to see all of our representatives here. I did bring a little show and tell piece for all of you. This is a truck built in Illinois.

Chairman CAMP. You may want to turn on your microphone.

Mr. OBERHELMAN. This is a truck built in Illinois. Thank you. Thank you, Mr. Congressman. It carries a 100 ton payload. This is one of our smallest ones. We have a leading position in this around the world, but it is this truck and other machines like it that are made in Illinois and are only made in Illinois for Caterpillar around the world that we are talking about today selling more of eventually to Russia. So on behalf of Caterpillar—

Chairman CAMP. Before you begin, we will introduce another witness.

Mr. OBERHELMAN. Oh, I am sorry.

Chairman CAMP. And then I will come back to you.

Mr. OBERHELMAN. I am ready to go, Mr. Chairman.

Chairman CAMP. I am glad you are. Now we know why Caterpillar is such a successful enterprise.

Mr. Paulsen is going to provide a further introduction to Mr. Mackin.

Mr. PAULSEN. Thank you, Mr. Chairman.

I also just want to welcome Mr. Pat Mackin who is here today from Medtronic in my home State of Minnesota. And Medtronic, as most folks on this panel know, is a global leader in medical technology, and I think he is also going to demonstrate one of the products that they produce in terms of its American components and why trade is so important to the United States and to companies like Medtronic.

Pat is the senior vice president and president of the Cardiac Rhythm Disease Management at Medtronic. He first joined Medtronic as vice president and general manager of the company's endovascular business back in October of 2002. He has also served abroad and so he has experience understanding the competitiveness that other countries and other organizations provide and face as a component of trade and tax policy, et cetera. So he is a valuable resource to us here today, Mr. Chairman.

And I think he will also explain pretty directly why this issue of extending permanent normal trade relations to Russia is so critical to providing job growth here in the United States.

And so, with that, I will yield back, Mr. Chairman.

Chairman CAMP. Thank you.

We welcome all of you to the Ways and Means Committee. We look forward to your testimony. I would ask that each of you keep your testimony to 5 minutes.

So, Mr. Oberhelman, you will be first. Your written statement, like all of those on the panel, will be made part of the record, and you are recognized for 5 minutes.

STATEMENT OF DOUG OBERHELMAN, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, CATERPILLAR INC., ON BEHALF OF THE BUSINESS ROUNDTABLE AND THE NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. OBERHELMAN. Thank you, Mr. Chairman, and it is a pleasure to be here on behalf of Caterpillar, and the National Association of Manufacturers and the Business Roundtable. And it is a pleasure and an honor to share our views on Russia's entry into the WTO and the discussion on why we need permanent national trade relations with Russia.

We are also pleased to co-chair the Coalition for U.S.-Russia Trade, which is a pretty broadbased group of manufacturing services and ag interests around the country. I have provided my written comments, and I would like to make a few points that I think are most important to this discussion.

Russia is a huge opportunity for the world, sixth largest economy, 142 million people, growing middle class. We are pleased to

say that Russia has more dirt and energy than anybody else, and as a Caterpillar person, I like that. It is a hardworking population and very educated, and I think you all know that.

In theory, Russia should be a major export destination for American companies. Unfortunately, it is not. As a rule, the European and Asian manufacturers that we compete with do a far better job in Russia than we do. In fact, the United States accounts for only 5 percent of Russia's imports.

At Cat, during the last 5 years, we have exported about \$2 billion of U.S. goods to Russia. That is not too bad, but I think we could do a lot better. Keep in mind, we exported last year alone \$20 billion from the United States. That is why Russia's accession and membership in WTO is critical. The price of admission to WTO included a commitment from Russia to further open its market and provide better protection of IPR property rights and a lot of other reforms.

Part of that commitment includes reducing tariffs. At Cat, we would see an immediate tariff reduction on this truck of 10 percent immediately. And that is important because really our only competition for this truck in the worldwide market is from Japan. If we don't allow ourselves to compete with the Japanese in Russia via WTO, we see a 10 percent price premium on day one. These are American jobs out in Illinois versus Japanese jobs over in Japan. Critical.

As it stands today, 154 WTO members will benefit from Russia's WTO membership. As I mentioned, Japan is one of them. One notable question mark is the United States, however. Will American companies, workers, and farmers benefit from Russia's more open market, or will we get left behind? That is up to all of you to decide.

I believe without PNTR, American companies run the risk of being outliers in the Russian marketplace. The cold war is over. The Jackson-Vanik amendment is outdated as Russia no longer restricts Jewish emigration.

Our relationship with Russia is complicated, and I understand that, but we believe delaying PNTR while we try to solve the other issues would be counterproductive or worse.

As an example, I remember so well in the early 1980s, a total embargo by the United States on Russia. We gave up, as a result of that embargo, hundreds of pipe-laying machines for a pipeline they were putting through. Immediately, our Japanese competitor received the orders. Russia built the pipeline on time. All we did was cost our central Illinois workers about 12,000 man years of production. American jobs.

Two thousand twelve is a lot different than the early 1980s. We need jobs badly in this country and manufacturing jobs. These are high paid, union hourly jobs out in central Illinois. It is a critical time, and we need more exports and manufacturing jobs. Cat employees could certainly benefit, as I described. Russia could see more mining trucks and bulldozers from Illinois, more gas turbines from California, more skid steers from North Carolina, and more engines and locomotives from Indiana, jobs all across States that you all represent.

At Cat, we move dirt and create energy, and as I said earlier, Russia has more dirt and energy than anybody else. It just doesn't make sense to give our foreign competitors an advantage in the Russian marketplace. Instead, we need to act with urgency and make up the lost ground that we have today.

Mr. Chairman, Ranking Member Levin, and members of the committee, Russia's membership in the WTO is a good thing. It is an important step in the right direction. We don't want to repeat the mistakes of the past and give our competitors a chance to leapfrog us further in Russia. The best way to keep that from happening is for Congress to approve PNTR before the August recess so that on day one, American companies and workers can benefit. On day one, a 10-percent increase in our price or decrease depending on what we do with PNTR.

Mr. Chairman, thank you. I will be pleased to take any questions, of course.

[The prepared statement of Mr. Oberhelman follows:]



Hearing of the Committee on Ways and Means
U.S. House of Representatives

Russia's Accession to the World Trade Organization and
Granting Russia Permanent Normal Trade Relations

June 20, 2012
1100 Longworth House Office Building

Testimony by Mr. Douglas R. Oberhelman
Chairman and CEO, Caterpillar Inc.
Peoria, Illinois

on behalf of

Caterpillar Inc.
Business Roundtable
National Association of Manufacturers

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Chairman Camp, Ranking Member Levin, and Members of the Committee:

I am Doug Oberhelman, Chairman and CEO of Caterpillar. Today, on behalf of Caterpillar, the Business Roundtable and the National Association of Manufacturers, I am honored to testify in support of legislation to graduate Russia from the Jackson-Vanik amendment and to authorize Permanent Normal Trade Relations (PNTR) with Russia. The Business Roundtable and the National Association of Manufacturers are strong advocates of expanding U.S. trade because the thousands of American companies that are their members and the tens of millions of Americans working for these companies benefit from initiatives to open foreign markets for U.S. goods and services. Caterpillar is also pleased to be a co-chair of the Coalition for U.S.-Russia Trade, a broad-based group that represents U.S. manufacturing, services and agricultural interests.

Before addressing the specific issues of today's hearing, I would like to take a moment to put Russia's accession to the World Trade Organization (WTO) and PNTR legislation into the broader context of the overall importance of international trade and investment for generating new economic growth and job creation opportunities for U.S. businesses and workers.

- In 2008, more than 38 million jobs in the United States—more than one in five—depended on international trade—exports and imports.
- In 1992, a year before the implementation of a series of U.S. bilateral, regional and multilateral trade agreements, the total of trade-related jobs in the United States was only 14.5 million.
- The growth of 24 million new trade-related jobs for U.S. workers in two decades demonstrates clearly that trade is an important engine for economic growth and job creation.
- In 2009, more than 275,000 U.S. companies exported merchandise to customers abroad. Of those companies, 230,000 were small and medium-sized enterprises, and accounted for nearly 30 percent of U.S. merchandise exports.
- In 2009, nearly 180,000 U.S. companies imported raw materials, components and finished products for U.S. manufacturers, service providers and consumers.
- More than 95 percent of the world's population—and 80 percent of the world's purchasing power—is outside the United States. That means, U.S. economic growth and job creation depend on expanding U.S. trade and investment opportunities, so that U.S. companies, farmers and workers can sell more American products and services to these customers.

When the United States negotiates trade and investment agreements like Russia's accession to the WTO, foreign barriers fall and new markets open for U.S. manufacturers, service providers, farmers and workers. And growth in U.S. exports is one of the fastest and surest ways to support U.S. economic and job growth.

The most significant pending opportunity the United States has to increase U.S. exports to another country is by approving PNTR with Russia. Russia is the world's sixth largest economy in terms of purchasing power. It has a population of 142 million with a rapidly growing middle class. Russia imported nearly \$300 billion in goods in 2011, yet the United States accounted for only 5 percent of those imports. An economy of this size should not be just our 31st largest goods export market. Clearly there is tremendous opportunity to increase U.S. exports to Russia.

PNTR is vital because Russia will join the WTO later this summer with strong open market and rule of law commitments negotiated in large part by the United States. When Russia enters the WTO all of its 155 members—except perhaps the United States—will be eligible to receive the full benefits of Russia's market-opening concessions.

In its consideration of this important issue, Congress should keep in mind that a vote for Russia PNTR legislation is not a vote for the benefit of Russia, but a vote for the benefit of American companies, farmers and workers.

First, if Congress doesn't act, *Russia will still join the WTO*. This isn't a vote about whether to allow Russia to join the WTO; that issue is already settled.

Second, Russia PNTR *does not require* any U.S. trade concessions. Russia PNTR *does require* Russia to make concessions by locking in its tariff reductions and other market-opening commitments that will benefit the export of U.S. products and services.

Third, and most important, if Congress doesn't act, *only* our foreign competitors will get all the benefits provided by Russia's new WTO market-opening and rule of law commitments. Those benefits are substantial, including the ability to use the WTO's enforcement mechanisms to force Russia to keep its promises. American companies, farmers and workers will be left behind.

Because Russia PNTR legislation is so clearly in our national interest, there is broad public and business community support for its enactment. In March, more than 170 companies and associations wrote an open letter to Congress urging passage of legislation to graduate Russia from the Jackson-Vanik amendment and establish PNTR with Russia. Earlier this month the Business Roundtable released a new public opinion survey showing that 70 percent of Americans favor Congressional action to allow U.S. businesses to sell more to Russia.

PNTR Is Needed to Sell More U.S. Goods and Services to Russia
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From the perspective of the business community, Russia's WTO market access commitments, which require no reciprocal U.S. economic concessions, will

create substantial new opportunities for the sale of products and services made by American workers, farmers and companies. But for the United States to capitalize on those opportunities, Congress needs to pass PNTR with Russia.

Manufacturing: As a condition for joining the WTO, Russia has agreed to reduce tariffs on manufactured goods from an average rate of 9.5 percent to 7.3 percent, and to bind these reductions. While Russia did agree in its 1992 trade agreement with the United States to give the United States “most favored nation” or MFN treatment for tariffs, that agreement does not have any enforcement provisions. When it joins the WTO, Russia will become subject to the WTO’s dispute settlement provisions, but the United States cannot take advantage of those enforcement provisions until Congress passes PNTR with Russia. Russia PNTR is, therefore, the key to ensure Russia keeps its promise to open its market for manufactured products and for U.S. manufacturers to take advantage of the extraordinary opportunities created by an open Russian market.

With an estimated 60 percent of Russian industrial enterprises seeking to replace obsolete and outdated equipment within the next 3-5 years, the Russian market offers extraordinary new export opportunities for American manufacturing companies and workers producing a wide array of manufactured goods, from construction machinery and cars to chemicals and medical equipment. For example, from Caterpillar’s perspective, Russia ranks among our top ten export destinations; in fact, in the last five years, Caterpillar exports to Russia were nearly \$2 billion. But because Russia is the world’s largest country by territory and the world’s largest exporter of energy, Russia should be our largest export market. With PNTR, Caterpillar’s products will be more competitive in Russia.

With PNTR, other U.S. manufacturing sectors will also have an opportunity to take advantage of Russia’s need to replace obsolete and outdated equipment. For example, Russia has about 8 percent of the world’s farmland and needs to replace an estimated 70 percent of its aging agricultural machinery in order to efficiently develop its agricultural resources. Also, nearly two-thirds of Russia’s medical equipment is obsolete. Moreover, Russia’s domestic chemical industry can only produce enough to satisfy half of its domestic market demand, so there are major market opportunities for U.S. chemical manufacturers.

Services: U.S. service providers are among the most competitive in the world. They are poised to take full advantage of Russia’s extensive WTO commitments to improve market access in 116 service sub-sectors and to ensure full national treatment in 30 sub-sectors, ranging from telecommunications, computer and transportation services to banking and insurance services. Russia will also allow 100 percent foreign ownership of banks, broker dealers and investment companies.

Agriculture: Under its WTO commitments, Russia's average tariff ceiling for agricultural products will drop to 10.8 percent from the current 13.2 percent. The United States was the third largest supplier of agricultural goods to Russia in 2010. With over 140 million consumers, a rapidly growing middle class and an appetite for agricultural goods expected to grow 20 percent over the next few years, the Russian market offers exceptional opportunities for selling U.S. agricultural products.

The combination of Russia's WTO market-opening commitments and increasing demand in Russia for manufactured goods, services and agricultural products create extraordinary opportunities for increasing our exports. But these opportunities are not a secret. Our foreign competitors also know about them, and are preparing to take advantage of the opportunities as well. With PNTR, we will all be on a level playing field and can effectively compete with our foreign competitors for these exports to Russia. Without PNTR, our companies, farmers and workers will face a disadvantage that will certainly hurt our competitiveness.

<p>PNTR is Needed to Provide Rule of Law Protections for U.S. Companies</p>
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Trade barriers can take many forms, which is why the rule of law is so important to ensuring a level playing field in international commerce. As part of its WTO accession, Russia is undertaking substantial rule of law commitments. But for the United States to fully benefit from those commitments, Congress needs to pass PNTR with Russia.

Intellectual Property: Because intellectual property is the foundation for innovation, its protection is essential to the competitiveness of American companies. It is significant that Russia has agreed to legislation which complies with the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Russia has also agreed to implement specific additional commitments, including internet piracy and stronger enforcement.

Sanitary and Phytosanitary Standards(SPS)/Technical Barriers to Trade: Standards and technical barriers are among the most difficult trade-related barriers to overcome, so it is significant that Russia: (1) has committed, in accordance with the WTO's Agreement on the Application of Sanitary and Phytosanitary Measures, to provide a scientific justification for any SPS measure that is more stringent than the relevant international standard and to ensure that its control, inspection and approval procedures are not more trade restrictive than necessary to achieve the appropriate level of consumer safeguards; and (2) has agreed that all legislation related to technical standards and conformity assessment procedures complies with the WTO's Agreement on Technical Barriers to Trade.

Customs Rules: Clearing goods through customs is often one of the most difficult barriers to trade to overcome, so Russia's commitment to implement the WTO's Agreement on Customs Valuation is an important step in opening its market.

Transparency: Transparency is essential to the rule of law because if a company doesn't know the rules which regulate the sale of its products and services, it cannot be competitive in a foreign market. Russia's commitments to adhere to WTO standards for transparency will enhance the ability of foreign companies to compete in the Russian market with the added benefit of constraining corruption.

Dispute Settlement: Dispute settlement is in essence the glue that holds the WTO trading system together. By joining the WTO, Russia is subjecting itself to the WTO's dispute settlement process. WTO members will have the right to use that process to challenge Russia if it enacts any laws, rules or policies which conflict with its WTO obligations. Given that the 1992 U.S.-Russia trade agreement does not have an enforcement mechanism, it is critical for the United States to be able to use the WTO's dispute settlement system to protect U.S. companies, farmers and workers if Russia violates any of its WTO commitments. But the United States will not be able to use the WTO enforcement process until Congress approves PNTR with Russia.

PNTR Will Help Support Much-Needed U.S. Economic Growth and Jobs

Russia is the world's sixth largest economy in terms of purchasing power with a rapidly growing middle class, yet it is currently only the United States' 31st largest goods export market. Russia's accession to the WTO coupled with PNTR will give U.S. companies, farmers and workers a dynamic new opportunity to expand their exports. And exports help create new jobs and sustain the current jobs of the hard working men and women across the United States whose jobs depend on trade like the Caterpillar employees in more than three dozen facilities spread across the country.

With the Russian economy growing rapidly over the past decade, U.S. exports to Russia have already grown more than twice as fast as U.S. exports to the world, according to the U.S. International Trade Commission. This makes Russia an important market for several major categories of U.S. exports.

Today, U.S. exports to Russia are growing, up by more than 50 percent from 2005 to 2010. Moreover, 2011 data show that U.S. exports grew more than 40 percent over 2010 levels. Clearly, there is strong and growing demand for U.S. goods and services in Russia. The President's Export Council has estimated that Russia's accession to the WTO could double or triple U.S. exports to Russia over the next five years—adding jobs in the services, agriculture, manufacturing and high tech sectors.

In March, the Business Roundtable released state-by-state economic analyses which show current trade with Russia and how every state has the potential to increase exports to Russia *provided* Congress passes Russia PNTR. For example, in Michigan, companies exported \$225 million worth of goods to Russia in 2011. In 2011, 12 other states—including Illinois where Caterpillar is headquartered—also exported more than \$200 million to Russia. Another 11 states exported in excess of \$100 million to Russia. Eighteen more had exports of more than \$10 million to Russia. Each Business Roundtable state fact sheet identifies the state's major exports to Russia and highlights how U.S. exports to Russia are already falling behind exports from Asia, Europe and elsewhere, and could fall even further behind if Congress does not pass PNTR.

While Russia may present a new opportunity for many American sectors, it has been an important market for Caterpillar for many years. By landmass, Russia is the world's largest country. It has more minerals and energy than any other nation. Caterpillar's export to Russia of U.S.-manufactured heavy equipment has played an important role in thousands of construction and extraction projects across Russia and the Commonwealth of Independent States. Our commitment to selling in Russia is evidenced by the fact that Caterpillar has put in place a comprehensive dealer network to support Caterpillar customers in Russia.

As I mentioned earlier, in the last five years, Caterpillar exported nearly \$2 billion of products to Russia. I believe PNTR with Russia will give Caterpillar and our employees the opportunity to grow our exports to Russia.

This could mean our employees in Illinois could build and ship more mining trucks and bulldozers to Russia. Our employees in California could build and ship more gas turbines to Russia. Our team in North Carolina could build and ship more skid steer loaders to Russia. Our employees in Indiana could build and ship more engines and more locomotives to Russia. I could go on and on with examples from all the other states where we have people and factories that would benefit from PNTR with Russia, but hopefully I have made the point. For Caterpillar and the nearly 55,000 employees we have in the United States, PNTR with Russia is a winner. And it's also a winner for the hundreds of companies that supply parts and components to Caterpillar and all of their employees.

We cannot, however, rest on our success. Caterpillar faces intense competition from European and Asian manufacturers. These competitors will be handed a huge advantage in the Russian market if Congress does not graduate Russia from the Jackson-Vanik amendment and approve PNTR. This situation would amount to a repeat of history, in which the United States chooses to disadvantage itself rather than level the playing field.

I refer to the early 1980s, when, as a method of protesting the construction of a Soviet gas pipeline to Western Europe, the United States imposed sanctions that virtually cut off bilateral trade with Russia. The results were devastating. Caterpillar was forced to cede its 85 percent market share in the then-Soviet Union to its Japanese competitors. This came at a huge cost to our company and our American workers. In effect, 12,000 man-years of work were transferred from Illinois to Japan. In the end, the decision only hurt U.S. companies. The pipeline was completed ahead of schedule using Japanese pipelayers.

Thirty years later, we still make pipelayers in East Peoria, Illinois, but our market share for pipelayers in Russia has not recovered to pre-sanction levels. I urge Congress to use history as a guide and to not make another mistake that could harm our competitiveness and potentially cost U.S. jobs.

The pipeline debacle, together with the Soviet grain embargo, had a long-term negative impact on the U.S. economy and U.S. jobs. But as the years pass, memories fade—which is why I think it's important for the Committee to be aware of this experience. For Caterpillar, the lesson learned was that it can take decades to earn the business of your overseas customers, but only days for the government to cede that business to your competitors.

To avoid a repeat of history for all of American business, Congress needs to graduate Russia from the Jackson-Vanik amendment and approve PNTR as soon as possible. Jackson-Vanik is a relic with respect to Russia. It was enacted in 1974 to put pressure on the Soviet Union to end policies that prevented Jewish emigration. In 1991, Russia terminated its exit fees on Jewish emigrants, and today Russian Jews freely emigrate.

Since 1992, U.S. presidents of both parties have certified annually that Russia complies with Jackson-Vanik, and the United States has maintained Normal Trade Relations (NTR) with Russia on a temporary, year-to-year basis. The WTO, however, requires its members to give each other PNTR. Secretary of State Clinton, and a long list of former U.S. diplomats, have endorsed Russia PNTR because they know that a deeper and permanent economic relationship will create a more constructive foundation to work on human rights, foreign policy and national security issues.

Conclusion

To sum up, *the good news* is that Russia's accession to the WTO will create dynamic new opportunities for U.S. companies, farmers and workers to increase their exports to Russia.

The glitch is that we will be able to take advantage of these dynamic new export opportunities *only* if Congress passes legislation to graduate Russia from the Jackson-Vanik amendment and to establish PNTR with Russia.

The risk is that Congress will not move the needed legislation forward quickly enough to prevent American companies, farmers and workers from losing their competitiveness in the Russian market. Our foreign competitors will immediately benefit from all of Russia's WTO commitments when it joins the WTO this summer, and we will get left behind.

The solution is that Congress shouldn't give our European and Asian competitors an advantage in Russia. It should pass PNTR this summer so U.S. companies, farmers and workers can be competitive in the Russian market from day one, and so the United States can hold Russia accountable to its WTO commitments.

Let's not take any chances. I urge you to pass Russia PNTR legislation before Russia joins the WTO in August.

Chairman CAMP. Thank you very much. We will begin questioning after the entire panel has given their statements.
Mr. Wood, you are recognized for 5 minutes.

**STATEMENT OF WAYNE H. WOOD, PRESIDENT, MICHIGAN
FARM BUREAU**

Mr. WOOD. Thank you, Mr. Chairman.

I would say good afternoon to the Committee members. My name is Wayne Wood. I am a dairy farmer from Marlette, Michigan. I currently serve as president of the Michigan Farm Bureau and also am a member of the American Farm Bureau Board of Directors. Part of my responsibility there is to serve on the American Farm Bureau's Trade Advisory Committee. I will summarize my full statement.

Approval of permanent normal trade relations with Russia is the American Farm Bureau Federation's top trade priority for 2012. Russia was invited by the WTO to become a Member on December 16, 2011. Long negotiations resulted in Russia committing to enact many trade-related domestic reforms.

Russia is expected to complete adoption of those measures and formally join the WTO this summer.

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. Farm Bureau supports the legislation introduced by Senator Baucus last week, which extends PNTR to Russia. 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 sanitary measures that would impede further trade with Russia. Russia's compliance with its obligations, including those on tariffs and non-tariff measures, will be enforceable through the WTO dispute settlement procedures.

In 2011, the United States was the third largest supplier in the Russian market where the U.S. imports of U.S. food and agricultural products exceeded \$1.36 billion.

Congressional approval of PNTR will result in improving market access for U.S. agriculture. Upon accession, average tariff rates for agriculture goods will drop from 13.2 to 10.8 percent. The tariff reductions and market access for agricultural products contained in Russia's accession agreement will assist in expanding trade opportunities for U.S. agriculture to Russia.

With regard to sanitary and phytosanitary measures, Russia has undertaken commitments on how it will comply with the WTO SPS agreement affecting trade in agricultural products. This 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 agreed to rules harmonizing SPS measures applied in Russia with the 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.

The history of Russia using SPS barriers to stop imports of U.S. pork in 2009 and poultry in 2010 make it critical that Russia be-

come a part of an enforceable rules-based organization and that the U.S. be able to use science-based WTO commitments to ensure consistent trade.

While not all of agricultural trade issues were settled in the accession agreement, including specific concerns for pork and dairy exports, there is ongoing discussion between the U.S. government and Russia about improving the conditions of trade for these commodities. We support the continuing efforts by the Office of the U.S. Trade Representative and the United States Department of Agriculture to improve agricultural trade with Russia.

On behalf of producers across the country, we urge USTR and all other agencies involved in enhancing agriculture trade to vigorously support the appropriate enforcement of sanitary phytosanitary rules. The importance of exports is not lost on Michigan's more than 2,000 hog farmers, who raise 2.1 million hogs annually. The ability to export pork products without the impediments to countries around the world, including Russia, generates an additional \$110 million for Michigan farmers and is important to the future success of Michigan agriculture.

Russia needs to embrace economic and trade reform, and the WTO is the most effective means to achieve that goal.

In conclusion, Farm Bureau supports nations becoming a Member of 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 expanding opportunities will benefit both the U.S. and Russia. Our competitors for the Russian market will have the benefit of Russia's accession agreement commitments when Russia becomes a full WTO Member.

American agriculture must not lose market opportunities to other countries due to inaction. Farm Bureau urges Congress to support the granting of permanent normal trade relations with Russia.

Thank you, Mr. Chairman, and Members of the Committee.

[The prepared statement of Mr. Wood follows:]



**Statement of the
American Farm Bureau Federation**

**TO THE
HOUSE COMMITTEE ON WAYS and MEANS
REGARDING: PERMANENT NORMAL TRADE RELATIONS WITH
RUSSIA**

**Presented By:
Wayne Wood, President
Michigan Farm Bureau**

June 20, 2012

Good afternoon Mr. Chairman and members of the Committee. My name is Wayne Wood. I am a dairy farmer from Marlette, Mich. and I currently serve as president of the Michigan Farm Bureau. I am also a member of the Board of Directors of the American Farm Bureau Federation and serve on their Trade Advisory Committee.

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 to become a member of the World Trade Organization (WTO) 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 \$1.36 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 were \$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 21.0 kg, 19.9 kg and 16.6 kg, respectively. Russia's meat consumption compared to the U.S. is low, where per capita consumption of poultry, pork and beef were 43.4 kg, 27.9 kg 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 percent and 85 percent within five years, depending on the variety and season.

Cheeses: Russia is reducing its maximum tariff bindings on cheese from 25 percent 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. We support the continuing efforts of the Office of the U.S. Trade Representative and the U.S. Department of Agriculture to work with the Russian government to improve the conditions of trade for our agricultural exports. Russia needs to embrace economic and trade reform and the WTO is the most effective means to achieve that goal.

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 WTO 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.

Our competitors for the Russian market will have the full benefit of Russia's accession agreement commitments when Russia becomes a full WTO member. American agriculture must not lose market opportunities to other countries due to inaction.

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

Chairman CAMP. Thank you.
Mr. Rae, you have 5 minutes.

STATEMENT OF MICHAEL RAE, PRESIDENT, ARGUS LTD.

Mr. RAE. Thank you.

Chairman Camp and Members of the Committee, thank you for the invitation to speak on a topic which I know very well. It is U.S. trade with Russia. I am happy to speak to you as president of Argus Limited, a company with 31 years of experience in business with Russia and as a Member of the U.S.-Russia Business Council. In fact, I began doing business in what was then the Soviet Union back in 1973. It is coincidentally even before the enactment of the Jackson-Vanik amendment.

In retrospect, the amendment achieved its goals, but clearly, it has no place in today's world. When I began my business career, Secretary of State Henry Kissinger wisely saw that building trade relations was a good way to diffuse tension between the super-powers. Thus, began the period of detente, which was the first real break in the cold war.

Please bear in mind that all of this was just over 10 years after the Cuban missile crisis and the building of the Berlin Wall. Veteran entrepreneur and Russian business expert, Dr. Armand Ham-

mer, then chairman of California based Occidental Petroleum Corp., came to the Soviet Union with pioneering deals involving trade and fertilizer chemicals and the construction of plants and pipelines. I met Dr. Hammer on a number of occasions and was involved in subcontracting under the Occidental Petroleum umbrella.

At that time, just to let you know how things have changed, everything was conducted exclusively with Soviet foreign trade organizations. You were dealing basically with the government. Negotiations were endless, nerve-wracking and arduous. Extracting concessions in price and terms was the main object for the Soviet side and occasionally political lectures accompanied the negotiations.

I founded our company, Argus Limited, perhaps at what was maybe the worst of times in 1981, a time alluded to previously, a time of embargoes. Many industrial products that were made in the United States were considered to have military applications. Thus exporting them to Russia was controlled very strictly by the U.S. Department of Commerce.

Despite all the ups and downs, we persisted. Argus came to specialize in supplying U.S.-made equipment and services for the construction and rehabilitation of oil and natural gas pipelines, principally for welding high alloy steel cross-country pipelines as well as products to protect steel pipe against corrosion. In addition, we supply equipment and services for testing the pipewelds, bending the pipe, and testing the integrity of the pipelines after they have been built.

We also offer a full array of equipment to clean up oil spills and to remediate the land, which was polluted by petroleum. Our company Argus became a one-stop shop for the Russian pipeline construction industry. We are a factory authorized distributors for America's leading companies in our field, none of whom are really household names. We provide services in the form right now of contract welding of pipelines and we operate oil waste sludge treatment facilities in Russia.

Things have changed a lot. The monopoly of the government trading corporations is over. We are dealing with oil companies and contractors of all kinds. Even as we speak, our technicians are working welding on land and offshore on the Russian pipelay barges in the Arctic Sea and around Exxon's oil fields offshore Sakhalin Island, north of Japan.

We were pleased to learn last year that our sale of American-made compression equipment which is used in testing the integrity of gas pipelines in Siberia, was the largest U.S. EX-IM bank deal in Russia over the last 15 years. Yet, it was only \$45 million, which in fact is a small figure compared to the potential for U.S. exports to Russia.

We achieved a 95 percent U.S. content on that particular contract.

Year in, year out, our major vendor is Houston-based CRC-Evans Pipeline, a world class manufacturer, now part of the Stanley Black and Decker group, with plants in Houston and Tulsa, Oklahoma. Another vendor is the Polyken Division of Berry Plastics, based in Franklin, Kentucky, which has been providing corrosion protection for steel pipes in the Russian market since the seventies.

Repealing the Jackson-Vanik amendment with respect to Russia will bring U.S.-Russian trade relations into harmony when Russia joins the WTO later this year. But what are the benefits that it would bring to the U.S. businesses. There are very many, many of them dealing with improved transparency.

One good example is World Customs magazine regularly rates the Russian customs service near the bottom of its list in terms of transparency and convenience. The documentation requirements are extreme. A simple typographical error can lead to having a shipment of goods being seized indefinitely. Harmonization of customs procedures for the WTO will go a long way to overcoming that obstacle.

Finally, I would like to—there are a lot of things I could say, but I would like to make a separate comment on visa facilitation. When you are in the services businesses, you need to get people into and out of the country in an efficient way. Russia presently has a very laborious multiple entry visa system, which requires people to leave the country every 90 days out of 180. We are convinced that the visa regime will be greatly improved with the onset of the WTO.

In summary, Russia is presently the world's number one producer of oil and the number one producer and exporter of natural gas. American companies are ideally suited to service that industry. Plentiful supply of energy sources benefits us all. We have acute competition from other countries, as my colleagues have said, and we need all the help we can get. Russia's business climate has improved, but it will improve even more greatly with the WTO.

Chairman Camp and Members of the Committee, please do all in your power to remove the restrictive legislation as soon as possible, paving the way for fruitful trade to revitalize American manufacturing and meet the President's goal of doubling U.S. exports in 5 years.

Thank you.

[The prepared statement of Mr. Rae follows:]

***Testimony before the House Ways and Means Committee
Subcommittee on Trade***

June 20, 2012

*Michael Rae
President
Argus Limited*

Chairman Camp and Members of the Committee:

Thank you for the invitation to speak on a topic which I know very well, U.S. trade with Russia. I am happy to speak to you as president of Argus Limited, a company with thirty-one years of experience in business with Russia, and as a member of the U.S.-Russia Business Council.

In fact I began doing business in what then was the Soviet Union back in 1973, coincidentally, even before the Jackson-Vanik amendment was enacted. In retrospect, the amendment achieved its goals, but it clearly has no place in today's world.

Allow me to brief you a bit on my background. When I began my business career, Soviet General Secretary Leonid Brezhnev had made his historic visit to the United States following President Richard Nixon's ground-breaking 1972 visit to Moscow. The Vietnam War was still underway. Secretary of State Henry Kissinger wisely saw that building trade relations was a good way to defuse tension between the superpowers. Thus began the period of *détente*, the first real break in the Cold War. Please bear in mind that this was just over ten years after the Cuban Missile Crisis and the building of the Berlin Wall.

Veteran entrepreneur and Russian business expert Dr. Armand Hammer, then chairman of California-based Occidental Petroleum Corporation, came to the Soviet Union with pioneering deals involving trade in fertilizer chemicals and the construction of plants and pipelines. I met Armand Hammer on several occasions and our company was involved in subcontracting under the Occidental Petroleum umbrella.

At that time all business was conducted exclusively with Soviet state foreign trade organizations. Negotiations were endless, nerve-racking and arduous. Extracting concessions in price and terms was the main object for the Soviet side. Political lectures occasionally accompanied the negotiations.

Nevertheless, our business grew gradually until, in 1979, the US responded to the Soviet Union's invasion of Afghanistan with a raft of trade restrictions and boycotted the 1980 Moscow Olympic Games. It has been a see-saw ride ever since.

I founded our firm, Argus Limited, perhaps at the worst of times, in 1981. Many industrial products made in the United States were considered to have military applications. Thus exporting them to Russia was controlled very strictly by the U.S. Department of Commerce.

Despite all the ups and downs, we persisted. Argus came to specialize in supplying U.S. made equipment and services for the construction and rehabilitation of oil and gas pipelines, principally for welding high-alloy steel cross-country pipelines, as well as equipment and materials for treating steel pipe against corrosion, along with equipment and services for testing pipe welds, bending pipe and testing the integrity of pipelines after they are built. We also offer a full array of equipment to clean up oil spills and remediate land polluted by petroleum.

Argus became a "one stop shop" for the Russian pipeline construction industry. We are factory-authorized distributors for America's leading companies in our field, none of them household names. We bring the equipment into Russia, install it, train customer technicians, provide technical manuals in the Russian language, and maintain large warehouses to be sure that spare parts are always at hand. We provide services in the form of contract welding of pipelines and operating oil waste sludge treatment facilities in Russia.

The end of the Soviet Union brought an end to the monopoly of government trading corporations. We now contract with Russian oil companies, as well as pipeline construction companies for the gas giant Gazprom and the oil pipeline operator, Transneft. Our technicians are welding pipe aboard Russian pipeline barges in the waters of the Arctic Sea and around Exxon's oilfields offshore Sakhalin Island.

We were pleased last year to learn that our sale of American-made compression equipment, used in testing the integrity of gas pipelines in Siberia, was the largest U.S. Ex-Im Bank deal with Russia over the last fifteen years. Yet it was only \$45 million in value, a small figure compared to the potential for U.S. exports to Russia. As you probably know, the Ex-Im Bank requires that products sold abroad under its guaranty must be 85% American made. Given the globalization of industry many companies have encountered great difficulty in meeting that benchmark. On that particularly deal all our products were manufactured in Ohio, Indiana and Oklahoma to the extent that our domestic content exceeded 95%.

Year in, year out our major vendor is Houston-based CRC-Evans Pipeline, a world class manufacturer now part of the Stanley Black & Decker group, with plants in Houston, Texas, and Tulsa, Oklahoma. Another major vendor is Berry Plastics Polyken Division whose plant in Franklin, Kentucky, has been providing corrosion protection pipewrap tapes to the Russian market since the 1970s.

Repealing the Jackson-Vanik amendment with respect to Russia will bring US-Russian trade relations into harmony when Russia joins the WTO later this year.

But what benefits will Russian WTO accession bring to US businesses exporting to Russia? There are many.

For years high-ranking Russian trade figures have complained to me about the discrimination their country experiences in its trade with the United States because each year, the president must waive the outdated Jackson-Vanik Amendment and allow Russia, for the next twelve months, to enjoy "most favored nation" status. In fact "most favored" means normal status, i.e. no discrimination. As a result our company was excluded from taking part in several tenders where our competitors were from European countries that had no similar discriminatory treatment. In fact, the Russian tender system is arbitrary and subjective. I am hopeful that this would change with Russia's graduation from Jackson-Vanik and the U.S. Congress acting to extend permanent normal trade relations to Russia.

In a practical sense there are other restrictions that affect us. Since my time is brief, I will provide just a few examples.

1. *World Customs* magazine regularly rates Russia's customs service near the bottom of its list in terms of transparency and convenience. Documentation requirements are extreme. Simple typographical errors can lead to shipments of goods being seized indefinitely. Harmonization of customs procedures with WTO will go a long way to overcoming that obstacle. Taking the arbitrary and subjective elements out of customs decision-making will be a major improvement.

2. When we perform services, such as contract welding on pipelines in Russia, the tax authorities withhold 20% of what we earn unless we can produce a letter from the U.S. Internal Revenue Service confirming that we are current on our taxes. In that case, they will waive the withholding under the US-Russia Treaty on Avoidance of Double Taxation. The only problem is that the I.R.S. will grant such a letter only at the time taxes are paid, in April. The I.R.S. tells us they offer a standard form for this kind of a request that appears to be accepted everywhere but Russia. We understand that WTO accession does not directly address this specific concern, but overall we would hope that with Jackson-Vanik lifted for Russia, Russia's willingness to work in a more cooperative fashion with U.S. companies and not require unnecessary documentation could be a spillover effect from the WTO's emphasis on transparency.

3. As I understand it, Russia's WTO accession removes restrictions on construction and engineering services, so we would hope that the unpredictability and discrimination we have experienced in the Russian market would dissipate with Russia's removal from the Jackson-Vanik amendment.

Finally, I'd like to make a separate comment on visas, which, although it is not covered by rules related to Russia's WTO accession, is particularly important in the services business, where people must be able to be brought into and out of the country as efficiently as possible. At present, Russian multiple-entry business visas

are very laborious to obtain. They are valid for only one year and require the visa holder to spend no more than 90 days in country of every 180. When working on large infrastructure projects like the construction of pipelines in remote areas, visa restrictions become a problem. It will be of great benefit to companies like mine when the multi-year visa regime is finally approved.

Russia is presently the world's number one producer of oil and number one producer and exporter of gas. American companies are ideally suited to service that industry. Plentiful supply of energy resources benefits all. We have plenty of competition from other countries so we need all the help we can get.

Chairman Camp and Members of the Committee, please do all in your power to remove this restrictive legislation as soon as possible, paving the way for fruitful trade to revitalize American manufacturing and meet the president's goal of doubling U.S. exports in five years.

Thank you for your attention.

Chairman CAMP. Thank you.
Mr. Mackin, you are recognized.

**STATEMENT OF JAMES R. MACKIN, SENIOR VICE PRESIDENT
AND PRESIDENT, CARDIAC RHYTHM DISEASE MANAGE-
MENT, MEDTRONIC, INC.**

Mr. MACKIN. Chairman Camp, Ranking Member Levin, Members of the Committee. It is my pleasure to be here today to present on behalf of Medtronic and the medical device industry. We are in support of Russia's accession to the WTO and urge support for legislation granting permanent normal trade relations with Russia.

This summer, Russia will formally join the WTO. According to some estimates, Russia's accession to the WTO could double U.S. exports, supporting U.S. jobs in many sectors, including some of my colleagues here, agriculture, manufacturing and, in our case, technology.

U.S. economic benefits from Russia joining the WTO are not automatic. They will only become available and enforceable if Congress passes the PNTR.

A little bit about Medtronic. We were founded in 1949 in a garage in Minneapolis, and today we are the largest standalone medical device company with over 40,000 employees around the world. We serve 120 countries, including Russia. We have over 71,000 different technologies in production. We are the global leader. We have treated over 7 million patients per year, which means about every 4 seconds, somewhere someone in the world will get a

Medtronic technology will improve their life or potential for survivability.

Russia's one of the fastest growing countries in the med tech sector. We are a very key player in this segment in the Russian medical device market. Currently, Medtronic works with more than 400 health service institutions, hospitals in Russia, and we serve more than 75 cities. Since 2005, Medtronic has trained more than 10,000 professionals in Russia as they become familiar with our technologies. In the last 5 years alone, nearly 70,000 patients in Russia have benefited from our technology.

Russia's population as you have already heard, 142 million, is the ninth largest in the world. But today only about 20 percent of Russians have access to quality health care. The government expands or plans to expand access to medical care in Russia, making this a significant emerging market for a company like Medtronic that provides cutting-edge technologies. Spending on health care in Russia is on the rise.

Today its four times higher than it was in 2001, reaching almost \$93 billion last year. Since the Russian health care market is almost entirely public, we rely on the Russian government to pay for our products.

At the same time, the incidents of chronic disease is high, in fact too high. Cardiovascular disease alone is responsible for more than half the deaths in Russia and the scores of diabetes is also on the rise. Still, there are too many patients in Russia without access to our therapies to treat those and other chronic illnesses. Devices that are commonplace here today like this pacemaker I am showing, and I am glad that the size of our product is a little smaller than the Catapillar guy, so I could actually bring one in for you. But most patients in Russia can't get a pacemaker today. Only 20 percent of them have access to health care.

At the same time, spending on health care in the interest of chronic disease will continue to grow and making products like this available to them will be very important.

Nearly two-thirds of Russians medical equipment is obsolete so the demand for medical devices is great, and Russia currently imports almost 60 percent of their medical devices to date, 25 percent of those imports come from U.S. companies, making us the second in market share after Germany.

Russia has agreed to substantial tariff reductions, as is in the case of Caterpillar, and on day one, if this doesn't pass, we will have about a 5 percent price differential for our products. Meanwhile PNTR does not require any tariff reductions or market liberalizations by the U.S. Russia's WTO commitments promise to greatly improve the climate for companies doing business with Russia. There are robust laws to protect and enforce intellectual property rights, which are essential for a thriving and successful innovation environment like medical technology, and a strong intellectual property environment is a non-negotiable element of any investment.

U.S. companies will benefit from Russia's adherence to the rules of international trade regarding intellectual property rights as well as science and risk-based regulations but only if Congress passes PNTR. Approval of PNTR is a critical step toward ensuring U.S.

companies like Medtronic remain competitive in that market. If PNTR is not in place when Russia joins the WTO, we will not be able to take full advantage of the market open benefits and other commitments made by Russia, nor able to enforce them when necessary.

In contrast, all other WTO countries, including European competitors, will enjoy the benefits immediately. If PNTR is not granted, they will have a competitive edge over Medtronic and other U.S. companies in this increasingly important Russian market. Without PNTR, U.S. companies will sit on the sidelines on the Russian market at a disadvantage for lucrative contracts without the full tools of the WTO relationship.

If Congress fails to grant PNTR, Russia will accede to the WTO but only U.S. companies will be penalized. Further, we fear any lost market share or forfeited growth opportunity will be hard to reclaim in the future. Medical technology is the priority sector under the President's National Export Initiative, 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 export sales into Russia. This will lead to job creation here at home but only if we compete with PNTR.

Going back to my pacemaker example, of over 900 components that are in the pacemaker, almost all of those are tied to U.S. jobs and manufacturing facilities in many of the areas that you represent.

We cannot afford to miss this opportunity to remain competitive. I 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.

Once again, I want to thank Chairman Camp and Ranking Member Levin for the opportunity to present here today, and we will move to questions.

[The prepared statement of Mr. Mackin follows:]

Statement of Pat Mackin

Senior Vice President and President of Cardiac Rhythm Disease Management

Medtronic, Inc.

Before the House Committee on Ways and Means

**Hearing on Russia's Accession to the World Trade Organization and
Granting Russia Permanent Normal Trade Relations**

June 20, 2012

Chairman Camp, Ranking Member Levin and Members of the Committee, thank you for the opportunity to testify 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 just a few weeks, 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 countries 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. Even devices that are commonplace here in the U.S., like this pacemaker, are hard to come by for Russian citizens who need them.

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. Russia has a tremendous scientific and technological capability. Pioneering work in the applied sciences including medical devices provide Russia a rich culture of innovation. The Russian Government is committed to building on this foundation to reorient its R&D capability toward global economic competitiveness. In this regard, the Russian Government is installing support infrastructures to protect and commercialize the intellectual property that is produced. Specifically, the Russian government is actively sponsoring technology parks, business incubators, venture capital and stronger intellectual property and licensing laws. Russia understands that robust laws to protect and enforce intellectual property rights are essential for a thriving and successful innovation environment. This is in line with American firms for whom a strong intellectual property environment is a non-negotiable element of any investment. 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.

Once again, I want to thank Chairman Camp, Ranking Member Levin and the Committee for inviting me to be here today. I appreciate this opportunity to testify and would be happy to answer any questions you might have.

Chairman CAMP. Thank you very much.

We are now going to move to questions. We have a couple of members who were not able to question in the first panel so we will go to them first.

Mr. Paulsen, you are recognized for 5 minutes.

Mr. PAULSEN. Thank you, Mr. Chairman, and you kind of summed up, Mr. Mackin, I was going to ask you, without the passage of PNTR, what that would mean actually for a company like Medtronic and maybe you can elaborate a little bit in terms of the competition that is out there from your competitors in other countries, for instance if you are going to do business say in Brazil or

you are going to go somewhere else, what does it mean when you don't get to enter the market in a country like Russia, for instance? Because this is an opportunity where I think we have heard testimony today where this is a win-win for us to making sure we have got—now that Russia is going into the WTO, maybe elaborate a little bit about the results of us not actually moving forward with this. This a lose-lose, right, I think for a company like a Medtronic or Caterpillar or the others that are here today.

Mr. MACKIN. Yeah. So, in the case of Russia, one of the competitors in our market is a German-based company. Without the passage of PNTR, they will immediately get a competitive advantage. They won't pay any tariff, and they won't have any of the restrictions that we will be up against from not passing this. We have experience in Brazil for other reasons. We left Brazil 20 years ago when their currency fell down, and that same competitor went into that market and is now the market leader. Whereas U.S. companies like Metronic are the market leaders in every other market in the world. We are not in Brazil because we weren't there on day one, and I fear that exact same thing is going to happen in Russia if we don't pass PNTR. They will get in first. They will train the physicians. They will build the relationships, and they will put a corner on the market, and then it is going to be very difficult to reclaim if that happens. So actually passing this as fast as possible is very important for us.

Mr. PAULSEN. Mr. Oberhelman and others, can you comment from your perspective, a similar situation or?

Mr. OBERHELMAN. Yeah. I would echo what my colleague said here, but in our case, we have seen it so many times around the world. Our only competition for the types of work that is being done in Russia is non-U.S.—Swedish, Chinese and Japanese, for the most part. There are a few ours. And I hate to cede American jobs because we can't compete because of a tariff premium, which is what we will see on day one, and allow our competitors to get kind of benchmark position as first in first movers, and we have seen that everywhere we go. It just is a lot harder to compete once you are not established and are the leader going in or where you are today.

And Brazil, in our case, is a great example. We have been there a long time. We are the industry leader. We can keep the Chinese at bay and compete with them, but only because we have such a presence there. We do not have that in Russia today.

As a short anecdote here, we are in Russia every day trying to win deals and the first bullet point by any of the Russian negotiators on that side of the table is you are not a reliable supplier; we prefer Japanese because they won't do to us what you did to us back in the embargoes of the eighties, and it happens every day. They have long memories, as we all do where we are trying to negotiate deals, and we have that to overcome, not to mention a price premium down the road if we are not careful. So it is a very serious situation and a huge opportunity for us, and that is really what I think all of us are talking about here, the opportunity that in our case add American jobs for our companies at a time when we really need jobs.

Mr. RAE. If I could add a word to this. We start out with a geographic disadvantage. For example, our leading competitors in the welding area, we are working with Lincoln Electric in Cleveland, Ohio. Our competitors are either Swedish or German. So the product is right there. We have to bring the products there, store them, pay oftentimes large fees storing them in duty-free warehouses on the borders of Russia. If we in addition face tariff differences, it is really going to be a killer. And this is a lot of business. I mean, the companies whose products we sell, we keep a lot of people working in the factories in the States. So that is my addition.

Mr. PAULSEN. Mr. Wood, anything?

Mr. WOOD. Thank you for the opportunity. As you know, American agriculture has a lot to gain. If our consumers take a look at the importance of exports in maintaining a stable food supply here in the United States, they certainly recognize the importance of having the opportunity to take that, take that relationship to Russia and supply that market over there.

We have the opportunity to enhance our markets. We have the opportunity to continue to provide high-quality food around the world, and we don't want to find ourselves in a position of becoming the residual supplier when other countries are short.

So we are asking for the opportunity to compete.

Mr. PAULSEN. Thank you, Mr. Chairman.

Chairman CAMP. Thank you.

Mr. Nunes.

Mr. NUNES. Thank you, Mr. Chairman. I will be real brief.

When we look at Russia over the last 12 years, my personal opinion is, is that we have really become or we are looking at what has become authoritarian, almost a dictatorship, with a growing population that is trying to revolt against that authoritarianism that is taking place there.

And so I understand all of the business reasons to vote for this, but we are going to see opposition to removal of these barriers by folks who will say that we are choosing big business over human rights.

So I would just pose to the panel, maybe we will start on the left and give each of you an opportunity just to answer those.

Mr. OBERHELMAN. Sure. Yeah. I have got two things I would like to say to that. Again, with my National Association of Manufacturers hat on, about 80 percent of those, 90 percent of those 12,000 Members are small enterprises, under 500 employment level. And the debate for them is the same that I have described here. Many of them are suppliers to us. Many of them export directly to Russia. It is not just big business that is really looking for this opportunity.

Second, while I could acknowledge kind of the macro political points you are making, we take as an American country something very, with a very high bar to Russia and that is our standards and values from this country. And it has manifested itself in something called the Foreign Corrupt Practices Act. In every country where I have gone in my 37 years at Caterpillar, where we go in and compete against other countries who don't have that level of standards, we raise the bar in the country in which we are competing, whether it is Russia, Brazil I mentioned earlier, Indonesia. I can give ex-

ample after example after example where not only our standards are higher, our laws are higher. And that in my mind has encouraged country after country after country to acknowledge a higher standard and a much better bar on the playing field in terms of a lot of the things you are talking about. There are issues.

Mr. NUNES. Thank you, Mr. Oberhelman.

Mr. Wood.

Mr. WOOD. Well, while I certainly respect your opinion on this, I would say to you, when we look at things worldwide, when we look at a society that wants to take control of the future, not only in their lives but in their country's lives, we have to recognize that protein and the availability of food and having their stomachs full certainly helps make that change. If your concern is that the dictatorship will not get the food to the people, which we have heard before, you know, we certainly don't enhance that by not providing the food.

We believe that the middle class in Russia is growing, just as it is in China, and that the opportunity for them to enhance their diet through quality American agricultural products is one that certainly would be very beneficial to the future of Russia.

Mr. NUNES. Thank you, Mr. Wood.

Mr. Rae.

Mr. RAE. Thank you.

As far as I understand what we are really talking about is the repeal of the Jackson-Vanik amendment. It is outdated. I don't think there is anybody here who if they read it would disagree that it is not time to take it away. Leaving it is a symbolic gesture toward, of some concern we have for human rights wouldn't make sense because what we are talking about if you look at it very specifically allowing Jewish emigration from Russia. That has happened. Everyone who wanted to leave left. It worked.

But it—what we are talking about is an anachronism right now and so to take—to still have this on the books as a discriminatory feature which would harm our ability to have a WTO relationship with Russia, I just don't get it.

Mr. NUNES. Thank you.

Mr. MACKIN. Yeah, the human rights issues are obviously very important, and I think that is part of your guys' job to figure out. I mean, I think from a Medtronic and a medical device industry standpoint, I think that is better left in the hands of Congress to figure out how to best handle that.

I think, from an American competitiveness, American jobs, the Russian market is 140 million people. It is going to explode over the next decade, and passing this or not passing this will decide whether or not the U.S. plays in that market or not. It is my fastest growing country in the world right now. If we don't get access to PNTR, we are going to open up the market to foreign competitors, and we are talking about lots of jobs for Americans.

The other thing is we are talking about life-saving medical technologies here. They are going to be growing their health care spending as the middle class evolves, and the market is going to happen and the question is do you want American companies there or not.

Mr. NUNES. Thank you.

Thank the panel.

Thank you, Mr. Chairman.

Chairman CAMP. Mr. Thompson.

Mr. THOMPSON. Thank you, Mr. Chairman. I thank you for holding the hearing.

I thank the witnesses for being here. Mr. Chairman, I would like to yield my time to Mr. Blumenauer.

Mr. BLUMENAUER. Thank you.

Thank you, Mr. Thompson.

Mr. Oberhelman, can you—you mentioned you have currently \$2 billion that you have been able—business that you have been able to accomplish in the last 5 years, a little back-of-the-envelope calculation suggests that you represent 2 or 3 percent of our total exports to Russia right now, just your company. Do you have any sense at all about what the upside of that could represent as the country with the most dirt and the most energy.

Mr. OBERHELMAN. Yes. Thank you.

It is really hard to estimate that because it depends on the growth of Russia, and if we can engage Russia in a way to, one, enhance and open their economy, which I think we do by engaging them and taking them, taking some of the things to them that WTO brings, like a level playing field for imports, exports, intellectual property among other things, the economy does start to grow, we could easily see, easily see a factor of maybe 5 to 10 times what we are exporting as a country today, and obviously, we would benefit from that as well.

We have been very lucky because Russia really needs things around oil and gas and mineral extraction, and we supply that. But every day, it is a challenge to compete there and bringing them into WTO really opens the boundaries and levels that playing field, and that is probably the single biggest thing that is the benefit to the world trading system and to companies that compete. If we aren't allowed to compete because we have a premium on tariffs or whatever it is because we are not part of WTO, we sacrifice that, one for our companies and for our jobs.

Mr. BLUMENAUER. You also referenced long memories. I mean, we have had over the last 70 years, ups and downs with the former Soviet Union, allies winning World War II, bitter adversaries to where 50 years ago, on the brink of perhaps nuclear war, coming back. You referenced this long memory. I think every Member of the Committee is deeply concerned about what is happening in Syria, deeply concerned about the bumpy ride of late in Russia.

I am curious if you or other panel Members would care to elaborate on what it means to enhance and engage the Russian economy, people who are well educated, people who are going to have a fast-growing economy, what is the potential for us to have perhaps more of a breakthrough than we have seen, for example, in China with having this level playing field and a different type of commercial relationship.

Mr. OBERHELMAN. I for one will start and certainly deeply believe in an open and fair and free trading system around the world. The days are gone when we represented 5 percent of the world's population and 95 percent of the world's commerce. It is not quite the converse of that, but it is getting that way. We need markets

for our jobs. And in hearing rooms all over Washington, we are talking about how to create more manufacturing jobs. Certainly trade has done that over the years.

I like to look forward in terms of Russia. I lived through the cold war, I guess, as a kid and saw a lot of that and the real deep gives and takes, but I don't know how in this day and age in 2012, we can ignore a market of 2012 and let other countries potentially influence that trading system and not us. And I for one would like to be engaged and influence them through WTO and other regimes that we have to take them on.

I think it is up to the State Department and the administration to engage them on human rights like we do with many countries around the world. America is a beacon for human rights. We need to keep that going, but I don't know how we can ignore 95 percent of the world's markets, consumers, and population outside of our borders.

Mr. BLUMENAUER. Other panel members have any observations about this engagement and what difference it will make from your vantage point?

Mr. WOOD. Thank you. From our vantage point, we look at this as, do we play in this game or do we not play in this game? American agriculture is very productive. Somebody is going to get that market, and somebody is going to have the benefits of that market to help balance their supply at home. So enhancing that quality of life in Russia certainly provides an opportunity for our enhancement of jobs here in the United States.

Just think about the fact that the world trade tariff rate quota for fresh and chilled beef is going to be 11,000 tons. But they are willing to give U.S., U.S. specific, the opportunity of 60,000 tons of chilled beef. That is just one example of how we can help them out and help ourselves out.

Mr. BLUMENAUER. Thank you.

Chairman CAMP. Time has expired.

Mr. Wood, you mentioned the importance of the Russian market. And in 2010, the U.S. was the third largest supplier to the Russian market, and exports of food and agricultural products were almost \$1.3 billion.

On the other hand, their discriminatory requirements in their non-science-based sanitary and phytosanitary standards, they have been a challenge for a lot of years for our farmers. And it makes it very difficult for us to export into the Russian market.

What do you think are the most significant barriers to agricultural exports to Russia? And how do you think their Membership in the WTO will help address those barriers?

Mr. WOOD. Thank you, Mr. Chairman.

The most significant barriers as we see them is the instability of what they are going to do with the tariffs, what they are going to put in as sanitary, phytosanitary standards, which are not transparent or risk based. And the issue of, you know, rejecting, and that became a real issue with both the poultry and the pork. As we got product there, they would reject the whole boatload because of one little thing.

The opportunity for them to be part of WTO and for us to give this relationship provides us the opportunity to have an outside

party enforce some of the standards that the rest of us operate under and a discipline system that allows us to challenge their thinking if they do know how to play by the rules. The important part here to remember is that the WTO permanent normal trading relations also provide us the opportunity to have stability, to have uniform standards, and to open that market for agriculture products.

Chairman CAMP. Thank you. Mr. Levin.

Mr. LEVIN. Thank you.

I note your testimony is important, instructive, so let me just make a few comments.

Mr. Rae, really the main issue before us isn't Jackson-Vanik. As I said this morning, a number of us wanted to end it separately from the PNTR issue. And there was resistance to doing that from Russia, also some within our country.

I think there is a broad feeling that Jackson-Vanik is now no longer necessary. It is interesting though when you say it worked, it did. It was a human rights provision within a trade bill. And there was some resistance, if not then, I wasn't here then, but after that, to having a human rights provision in a trade bill. But the problem with that argument was that Jackson-Vanik was working for hundreds of thousands of people I think in the end in terms of their lives.

And we are facing not the identical issue but another human rights issue relating to the Magnitsky bill, and I think we are going to have to resolve that as was resolved with Jackson-Vanik decades ago.

Mr. Chairman, you raised issues, outstanding issues, like phytosanitary. And I do think it would be wise for us to have some clear reference in our bill to it because, as you mentioned, Mr. Wood, there are several areas that haven't been yet fully resolved and that are under further negotiation.

And I don't suggest we refer to them as conditions, but I do think we need to signal this Committee and the Congress the need to resolve them.

And the same is true about IPR. I think Mr. Kirk, Ambassador Kirk, discussed this morning that there is in process an action plan which hasn't been resolved, and there is some very considerable work that still needs to be done. And if it isn't completed before we were to act on PNTR, I think it would be important for us to have some clear reference to that.

And to finish. I think your reference to jobs, and others have mentioned it, Mr. Oberhelman, is very germane. And it is another day, but I hope this Committee will be taking up jobs legislation, because you very saliently point out that jobs are at stake in this legislation, but in terms of numbers, we have got many, many more thousands of jobs at stake whether or not we take action in this Congress. And I hope we will listen to you and your emphasis on the importance of jobs.

So, again, thank you for your testimony. I think they are positive steps toward action. Thank you.

Chairman CAMP. Thank you.

Mr. BRADY.

Mr. BRADY. Thank you, Mr. Chairman, for holding this hearing and thank you to all of the witnesses. This is very helpful.

This is an opportunity for a bipartisan jobs bill at a time when our companies, our farmers, and ranchers are looking for, technology companies are looking for new customers and competing around the world.

There have been some suggestions that we delay moving on this bill as a Congress or that we withhold passage of—repeal of Jackson-Vanik in hopes of achieving some goals. And I want to ask your view of that delay or withholding.

Seems to me that each of you are selling products that require a reliable partner, and you are selling products that are not quickly replenished. We are not selling copy paper that you are replenishing every 2 weeks but major equipment that goes with the high-ticket items—and not just the sale of equipment but the service, the repair, and the relationship that goes with it. I think in agriculture, you are selling a reliable partnership in Russia. In technology, I would imagine some of those med tech devices are expensive but require extensive service agreements.

So if you lose these contracts to Japan and China and Sweden and others, is it accurate to say they are not easily recouped, that these have longstanding job damage upon us if we don't act promptly to move this?

And I would start with Mr. Oberhelman and walk down. Can you comment on the long-term impact of delays that cause you to lose these contracts?

Mr. OBERHELMAN. Yes, I will, but first, I would like to comment on the delay question you asked, Mr. Congressman. A delay would be devastating. And I think it is exactly the wrong thing to do because a delay only hurts our country.

We have lost leverage on this debate with Russia. We need to engage them on all levels from human rights to business to WTO, whatever it may be, in other ways. The leverage is gone because on day one of the bill or day one of WTO, as you suggest, our competitor, Japanese competitor for example, goes in and sells a truck that will last maybe 12 to 15 years. And we see that today I referenced that pipewire business back 25 years ago. Those Japanese pipewires are still around over there doing something inside Russia, and we haven't sold any since that time. So not only do we lose the new sale, which are jobs in this case Decatur, Illinois, but the parts and aftermarket and service business for that for the lifetime of that truck or bulldozer, which is in excess of 15 years in many, many cases. So once you see the first deal, it is hard to get back; it is hard to get that back. We lost check 85 percent market share with the embargo. We have not—we are nowhere near close to—probably 10 percent of that today.

Mr. BRADY. After all of these years?

Mr. OBERHELMAN. Especially after all of these years.

Mr. BRADY. Thank you.

Mr. Wood.

Mr. WOOD. Well, you know, the opportunity may not come for many, many years. We looked at a soybean embargo. We looked at a seed embargo, and we have been a long time overcoming that.

In American agriculture's eyes, this issue is one of delay, inaction becomes an action. It sends a signal to what America expects out of agriculture. This is an opportunity to enhance that by opening a market, by leveling the playing field that we always talk about in trade, by providing the rules that we know ahead of time to play by, and so I would urge on behalf of American agriculture that we move and we move expediently and continue to negotiate any of the final details that we need to.

Mr. BRADY. Thank you very much. Mr. Rae.

Mr. RAE. Yes. I think timing is everything. Your question about delay, we are looking in our industry at the construction of some very important 56-inch gas pipelines both throughout the Asian part of Russia and Europe. The timing is all coming, this autumn and into next year. The timing for us would be terrible if we were kind of kicked out of the box. We do the best we can to get specified but every company that we have has a competitor. The company that I mentioned from Houston has a very formidable competitor in France for automatic welding technology, which will pretty much be ceding the business that we built up over all these years to them.

Mr. BRADY. So that is a very large opportunity on the time table?

Mr. RAE. Yes. The timing is key.

Mr. BRADY. Can I ask 10 seconds for a reply?

Mr. MACKIN. Yeah, really simply, my business we had 50 percent worldwide market share for Medtronic. In Russia, we are growing at 30 percent, and we have 50 or 60 percent market share. If this doesn't happen, that will probably be cut in half similar to what you heard from Caterpillar in my fastest growing market.

Mr. BRADY. Thank you very much.

Chairman CAMP. Thank you.

Mr. Schock is recognized.

Mr. SCHOCK. Thank you, Mr. Chairman.

Well, a lot of my good questions have been taken by my fellow Committee Members.

I thought I would follow up with Mr. Oberhelman. Specifically you mentioned that some of your European and Asian companies are already doing better in Russia than you, even though Caterpillar is the leader in what you build around the world. Why is it that they are already doing better than you there even before August?

Mr. OBERHELMAN. Several things. Certainly the embargoes mentioned did not help us. The long tail on not being there and trying to penetrate the long memories that they have that they used to negotiate against us.

But second, and it is kind of a Ways and Means discussion, competitiveness of U.S. companies over my career is in question. When I started at Cat, we did, for example, and this is near and dear to this Committee, we did tax analysis at 35 percent plus 3 percent for States, 38 percent statutory rate. Every one of our competitors at that time, and there weren't many, Europeans primarily and one or two Japanese companies paid 60, 70 percent in tax rates. Today, we are still at 38 percent, going up, by the way, and all of our com-

petitors today pay a tax rate that is a factor less than that. In most cases, many factors less than that.

Mr. OBERHELMAN. So reform on that is needed. The overall aggressiveness of our government to help exporters compared to aggressiveness of European and Japanese to help their exporters. Ex-Im Bank is a classic example. We just went through a huge debate on that. Europeans and Japanese export credit agencies would never think about, or the Canadians would never think about a discussion like that. They use that as a way in which to compete.

I mean, we ought to have the debate with all the competitors not to have export credit agencies, I understand that, but as long as we have it, how can we tie one hand behind our back and expect to compete in Russia against the Japanese or Europeans?

So there are a couple of examples for you, Mr. Congressman.

Mr. SCHOCK. Great.

I wanted to follow up, too, on Mr. Brady's question about the first-mover advantage and to the point where we haven't caught up because of the embargo of decades ago. When you sell a piece of equipment, I know some of your colleagues at Cat have told me this, you know, whether it is a X million-dollar piece of equipment, over the lifetime of that piece of equipment, tell the Committee a little bit about how much in part, services and so forth, what that means in terms of jobs and revenue for the company.

Mr. OBERHELMAN. I will put my sales hat on, Mr. Congressman, and go at it. But this hundred-ton truck, for example, is a couple million dollars, and it will be worth three times that over its lifetime in parts and service revenue to us and our distribution over its life, whether it is 8 to 12 years, depending on the application. So it is a huge opportunity that we miss out on if we don't get the initial sale.

Mr. SCHOCK. So the initial \$2 million, couple million bucks, and then over a 12-year period three times that amount?

Mr. OBERHELMAN. That is a fair average to use for our equipment that is in production 24 hours a day, 7 days a week, like this truck is.

Mr. SCHOCK. And finally, I am just curious if any—what percent of the business you all are doing in Russia is with actual state-owned enterprises as opposed to privately held corporations?

Mr. OBERHELMAN. Well, I will start on that. The majority of our businesses have some state-owned enterprise ownership, probably less than we would see in China, but certainly that is a big player in that part of the world.

Mr. SCHOCK. Okay. How about the other panelists?

Mr. RAE. The way it works with us is that we are selling to primarily private contracting companies, who in turn are building pipelines for Gazprom, which is now 50 percent plus one share owned by the government, up from 35 percent. And then the other pipeline operator is a state company called Transneft. But we are not dealing directly with them, we are dealing with people who are getting contracts from them to build pipelines, and we are helping those people build the pipelines.

Mr. MACKIN. We don't do anything with state-owned. It is all private, mostly on the distribution side. So the selling and the servicing of the technology.

Mr. SCHOCK. Okay. All right.

Well, I just say in closing I think the degree we want to influence the humanitarian issues there and the political situation there, I think to the degree we can empower and build the wealth of the private sector is to the degree we can change the political system there. So I think that is a point to be made that the people that we are working with, the people that are buying our products, and the people who will benefit financially from it in many cases are ordinary Russian businesspeople who can be a part of helping to change that.

So thank you all for—Mr. Rae, you had a—

Mr. RAE. I just wanted to make one comment on that last point you had, which I think Congressman Blumenauer raised, too. It is the whole soft power thing. We were talking about how much things have changed. Nobody could travel before; nobody could ever leave Russia. We are inviting people who are customers of ours, they are coming to America, they are familiarizing themselves, they are tourists coming here, they are watching American movies, television shows. That soft power argument, I think, is one that is going to help us out with this whole human rights issue. It is not going to be a dictatorship forever.

The more that we have this kind of contact—before it was all very controlled. Official delegations that were watched by KGB minders and all that kind of thing, that is all gone. So we have a real possibility to do something. And business can be the facilitator for that.

Mr. OBERHELMAN. I mean, if I can just add, Mr. Congressman, a bit parochially, I might say, and I attribute this to Joint Chiefs of Staff Mullen, who said, the greatest might America has is a strong economy. And I think that is well said, whether it is competing with Russia or competing with any other country in the world. We have to be strong economically, and more jobs here allow us to do that and engage then those countries in a much stronger way.

Mr. SCHOCK. Excellent point.

Thank you guys.

Mr. BRADY [presiding]. Thank you.

Ms. Jenkins is recognized.

Ms. JENKINS. Thank you, Mr. Chairman.

Thank you all for joining us. I appreciate your insights.

Mr. Mackin, given that you help run a high-tech company, I imagine that protecting your intellectual property rights is a significant concern. How important is it to you that Russia will be subject to the WTO's obligations for protecting intellectual property rights? And understanding that we have to keep a close eye on Russia, particularly on enforcement, are you satisfied that Russia will be in compliance with its obligations upon accession?

Mr. MACKIN. Obviously as a high-tech medical device company, intellectual property is the lifeblood of our company. The invention, the protection of the invention over the life of the patents, and the respecting of those intellectual properties over that period are crucial to our business model. That is the first point.

The second point is that in 20 years in the medical device field, I have never been involved with any intellectual property problem

in Russia. That is not to say that it can't happen or won't happen, but it doesn't exist at this point, at least in the medical-device sector.

I think the third piece is that one of the advantages of WTO is that there will be a mechanism by which to raise grievances. So if in the future something does happen, I think this has been brought up by several of the panel members, this will provide a mechanism to raise a grievance to go after something like an intellectual property violation. And then we will obviously defend our intellectual property on a global basis through our own mechanisms from a legal standpoint, but WTO does provide a venue and a mechanism to raise those type of grievances.

Ms. JENKINS. Thank you, Mr. Chairman. I yield back.

Mr. BRADY. Thank you.

Mr. Marchant is recognized.

Mr. MARCHANT. Thank you, Mr. Chairman.

This question is for Mr. Oberhelman. You talk about the jobs that can be created through the treaty. How quickly will it take—once we take action, and you begin to be able to meaningfully bid on these projects, how long will it take for that to translate to jobs?

Mr. OBERHELMAN. Yeah. Thank you, and it is a good question. In our case it would take several months, because the bidding process typically is longer. And the pipelines my colleague is mentioning here are on the books, they are going to happen. When they are let for bid, it is a process that takes a while, and if we win the bid, it takes a while to get equipment there. So really inside of 1 year would be a fair answer to that in terms of seeing increased exports. And I think I can safely say that would happen.

Mr. MARCHANT. So fairly immediately in government?

Mr. OBERHELMAN. Fairly quickly.

Mr. MARCHANT. Is there a ready workforce? If you need to hire new employees, are there people ready to go to work?

Mr. OBERHELMAN. We are ready to go, yeah. We are ready to go. We have been—in this particular case in Decatur, Illinois, where these trucks are made—our large bulldozers are made in Peoria, Illinois, where I live, and our large loaders are made near Chicago—we have lots of capacity to meet this demand that we would see in the first couple of years, so no problem.

Mr. MARCHANT. So then are your suppliers ready to step up their operations, and fill the orders, and provide the components?

Mr. OBERHELMAN. Well, that is a fair question. I think a lot of that depends on what the economy is a year from now. And, boy, we all need a better economy in this country, and I would like to see a shortage, but today I don't see that. In fact, I see it slowing down, if anything, a little bit. We are doing pretty well. But I would not put worker availability on the list here with us or our supply chain.

Mr. MARCHANT. So this could be something that, other than the House sending 30 jobs programs over to the Senate that they are using basically as doorstops, the bills, this could be something we could do, both Houses could do, tangibly that within a year would result in new jobs, new economy throughout the supply chain?

Mr. OBERHELMAN. Definitely. A brand new market, increased shipments and exports at a time when the world is a little soft would be—I can't say would be a boom, because in an \$70-billion company, it would take a lot to move the needle, but for Russia and for these trucks, it would really help us immediately.

Mr. MARCHANT. Thank you.

Mr. Mackin, people in Russia that are getting these pacemakers, do they have a—is there a broad range of companies worldwide that are willing to come in there and fill the void if you were to be capped in what you would be able to do?

Mr. MACKIN. Yes. There is five what I would call major players, and there is a few minor players. The biggest one, not dissimilar to some of my colleagues, is a German company in particular that will immediately see this as an advantage, competitive advantage, and kind of swoop in like they did in Brazil.

And I think it is different from the Caterpillar example, well, you sell the truck, and there is this tail. Our challenge is if you train the doctor on this device, or you train it on the competitive device, that is what they learn to put in, and in a year or two from now, if it takes that long, the game is going to be over. The market first-mover advantage is gone, and to break back into that is very difficult. The market is happening now.

Mr. MARCHANT. And, Mr. Wood, is there plenty of capacity? Do the farmers in the United States have plenty of capacity to ship grain and chilled beef and pork if the market is ready to be opened up?

Mr. WOOD. Somebody is going to fill that market. U.S. farmers look forward to filling that market. There is capacity.

We talked about intellectual property rights here a minute ago. That is important to us, and we always look at that as a high-tech country, but we look at that in genetics in what we are doing to ably increase food supply, whether it be animals or whether it be crops. Those types of advancements certainly would help farmers address this market.

If we really think about American agriculture, it responds to the demand; sometimes an overresponse, and that is when we need your help, but it will respond. The food—the products will be there, and it won't take that long to get it there.

Mr. MARCHANT. Thank you, Mr. Chairman.

Mr. BRADY. Thank you.

Mr. Boustany.

Mr. BOUSTANY. Thank you, Mr. Chairman.

My home State of Louisiana has a real stake in this. We are a State that depends very heavily on trade and exports. We typically rank somewhere in the top 10 among the 50 States. And here we are looking at an economy in the top 10 in terms of its size, 142 million people, with a growing middle class, and yet we are only getting \$135 million worth of goods to Russia from Louisiana based on 2011 numbers. We have huge room to grow in this market.

And just a couple of examples. These are from the Business Roundtable. Louisiana was a top supplier of PVC plastics to Russia in 2011, with \$21.4 million in exports. But EU and China accounted for more than 60 percent of the Russian imports, so they are beating us there.

Louisiana exported \$6.3 million in heterocyclic compounds to Russia in 2011. Russian imports have increased 25 percent per year since 2000, but the U.S. share has fallen from 17 percent to 5. So, I mean, we are losing ground now, and if we don't do this, clearly we are going to lose out further.

The same thing in poultry exports, similar types of numbers.

So I think the case is there to move forward. I know many of the companies in my State that export are small companies. They are small businesses in oil and gas, chemicals, oil and gas equipment, farmers. We export rice. To me, having the enforcement and dispute resolution mechanism in place is absolutely critical for these small businesses, and I would like for all of you to comment on that. I know you are all from large companies, except maybe the Farm Bureau representing farmers. But could you comment on the importance of having that enforcement mechanism and dispute resolution mechanism in place?

Mr. OBERHELMAN. I will start, again representing the National Association of Manufacturers, which is really a huge organization of very small manufacturers. The WTO mechanism is critical. We would not be having this debate today if we didn't see the benefits of WTO coming. So I think given that that is already on the horizon, we have used it everywhere in the world for the 154 countries that are in the WTO effectively, they have used it with us when we are not playing by the rules, it is a great mechanism to level the playing field around the world. And I would compliment you, Mr. Congressman, on the Port of New Orleans, which is one of most efficient ports in the country. We use it a lot, and it has capacity for more exports.

Mr. BOUSTANY. Absolutely.

Mr. OBERHELMAN. So you are set up and ready to go.

Mr. BOUSTANY. Thank you.

Mr. Wood, do you have something?

Mr. WOOD. I would only concur that the level playing field, knowing the rules, knowing what is expected, and recognizing the stability of the standards and the enforcement system is very important as we look at the future of American agriculture and food production.

Mr. BOUSTANY. Thank you.

Yes, sir, Mr. Rae.

Mr. RAE. I wanted to say that I am not from a large company. Actually our firm is considered a small company. And I understand exactly what you are saying.

One of the things I mentioned in my remarks was about the difficulties with customs procedures; a little story about somebody putting a comma in the wrong place, and the customs seized the goods, confiscated the goods, several containers' worth, and it took several weeks to get it out. If you are a small company, and you are going to get paid only after those things are delivered to your customer, you are really in trouble.

And a lot of smaller companies are getting very eager and trying to do more exporting, and they need to have some protection. So if there is more transparency, there is more rule of law, and all of these things somehow—they won't go away right away, but they will go away. Russia is going to be brought into the mainstream

of the world trade system. It is going to benefit the smaller exporters as well.

Mr. BOUSTANY. Thank you.

Mr. Mackin, we share a common interest. Your business is in the medical field. I was in cardiovascular surgery as a surgeon. I used a lot of the products that you guys sell. And we have been a world leader in this area. And you were answering Mr. Marchant's question earlier about losing market share. You and I talked a little bit about the loss of market share in Brazil.

We have a trade surplus in services, and oftentimes in the medical field, the commodities, the technology you sell also comes with complementary increase in services linked to that. So could you comment on some of that and the potential for loss in market share if we don't move forward?

Mr. MACKIN. We have had the opportunity to open lots of markets. As I mentioned, we serve 120 countries around the world. And as you well know as a cardiac surgeon, the training, the infrastructure, not just of the physician, but of the nursing staff, actually outfitting and equipping a hospital with technologies that are compatible to the systems that work with the Medtronic system. In addition, we actually have a full line. We sell products for diabetes, heart surgery, interventional cardiology, so we have a full suite of programs.

These are literally a country where hospitals are opening, brand new government-funded hospitals, beautiful towers that are going to get filled up with equipment. Just like you guys said, someone is going to fill the farming void, someone is going to sell trucks. And I think the missed opportunity to be there on day one, we will be out of the game. And again, it is a barrier that doesn't need to exist.

Mr. BOUSTANY. Thank you. I see my time is expired. Thank you, Mr. Chairman.

Mr. BRADY. Thank you, Dr. Boustany.

You made the point about small and medium-size companies. I note the research done by the National Association of Manufacturers show that more than 8 out of 10 of the companies that sell to Russia are small and medium-size companies, and that what they sell account for 44 percent of what we sell, which is much higher than it is in the rest of the global market. So your point is noted.

And for the final question today, Mr. Berg.

Mr. BERG. Thank you, Mr. Chairman. I have been waiting for this.

First of all, I just really want to thank the panel here. I mean, you guys are the job creators. You are the ones that are making it happen. And I step back, and I just think America is headed down the wrong direction, and we got to get this turned around, and we got to create prosperity, we have got to create jobs, we got to make that happen. And what you are talking about is exactly what we need to do.

You know, it struck me here, it was great listening, but, Mr. Mackin, what struck me really hard is if we don't do something, it is not like we stay even. If we don't do something—in fact, the analogy I had in my head, it is like when you are at these airports,

you are on these moving walkways, but if you got on the wrong one, by us doing nothing, we will fall further and further behind.

And, Mr. Rae, you talk about a small company. I am actually—before I was in this business, we shipped to Russia. We had just a handful of employees, but we shipped something I don't think any of you shipped. We shipped live cattle. And so we flew 160 open heifers at a time. And it was a \$3,000 plane ticket for each one. But I can imagine if those had gotten held up at customs, you know, I mean, how could you bring that shipment back? It would be just so far out of the market and very difficult to do.

So, again, bottom line, I just really want to thank you all that you are here. I mean, this is about jobs. You hit the nail on the head. This is about jobs, this is about our future, this is what we need to do. And these are good American jobs that—I just loved your statement. I won't have it right. But I am not willing to accede American jobs to another country, and those would happen pretty darn quick.

Maybe just a final real specific question would be just as it relates to agriculture and ag equipment. If there is something specific, just how this will benefit—you know, Mr. Wood, maybe if you want to just talk about agriculture in general, and then, Mr. Oberhelman, if you want to talk just about ag equipment, I would appreciate that.

Mr. WOOD. Well, how specifically will we benefit? You know, that is a great question. And we will benefit because we will be able to move American agriculture forward because we have got another market open to us, a market that we know the playing rules and that we can compete with the rest of the world.

Your analogy of us falling behind in the airport is great, that moving sidewalk, and that is exactly what is going to happen. And we continue to look at farm programs, and a lot of those farm programs can be solved by opening up an export market to allow us to obtain those markets. If we look long range, that certainly benefits the American consumer because it provides a stable food supply here that we know how it is produced and not dependent on the rest of the world.

So, you know, I think we have a great opportunity with agriculture. We continue to enhance that productivity and will continue to do it as long as we have access to markets.

Mr. BERG. Thank you.

Mr. OBERHELMAN. I will just comment briefly. An interesting statistic, 6 of our 10 largest export markets are Latin America, Colombia being one of them, Peru, Chile. Small countries, but huge markets. Russia is a country 10 times bigger than Peru in terms of population with minerals and energy of probably 1,000 times greater. Imagine what we could export and the jobs we could add over time and keep our foreign competitors at bay.

Mr. BERG. Well, thank you.

Mr. Chairman, I will yield back. Thanks for your time.

Mr. BRADY. Well, thank you.

This has been a terrific panel. I want to once again thank our witnesses for appearing today.

And let me note for our witnesses that Members of the Committee may submit questions for the record. If they do, I hope you will respond promptly.

Mr. BRADY. Again, an excellent hearing. The Committee is adjourned. Thank you.

[Whereupon, at 3:50 p.m., the Committee was adjourned.]

[Submissions for the Record follow:]

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Computer & Communications Industry Association

June 18, 2012

The Honorable Dave Camp
 Chairman
 Committee on Ways and Means
 U.S. House of Representatives
 Washington, DC 20515

The Honorable Sander Levin
 Ranking Member
 Committee on Ways and Means
 U.S. House of Representatives
 Washington, DC 20515

Re: Internet Freedom and Granting Russia Permanent Normal Trade Relations

Dear Chairman Camp and Ranking Member Levin:

As the Committee prepares to examine the issue of extending permanent normal trade relations (PNTR) to Russia, I write to you on behalf of the Computer & Communications Industry Association (CCIA) to urge you to consider the issue of human rights and Internet Freedom as an important element in this relationship.

Russian PNTR entails repeal of the Jackson-Vanik amendment, which was intended to use trade as leverage against human rights violations and restrictions on freedom in the USSR. During the Cold War, the U.S. was a beacon of hope to those behind the Iron Curtain and the champion of freedom. The Cold War ended with the collapse of the USSR but Russia has increasingly seen a return to authoritarianism. It seems that the tide of freedom in Russia has been receding rather than advancing. Now is the time for the U.S. to again call attention to what Jackson-Vanik stood for: freedom and human rights.

CCIA has long characterized Internet freedom as nothing less than freedom of expression in the 21st century, and has opposed Internet censorship efforts by governments such as China, which continues to thumb its nose at the concept of Internet freedom a decade after its own WTO accession. As we take stock of our relationship with Russia at this pivotal moment, we should also consider the state of Internet freedom in Russia.

In recent months, there have been stirrings of popular unrest in Russia around the parliamentary and presidential elections. Mass demonstrations were informed and organized by utilizing social networks and the Internet. In response, there have been reports of online monitoring and disruptions by the government against Internet activism,¹ and government officials have made statements in support of Internet

¹ Henry Meyer, "Russia Tightens Censorship Ahead of Poll, Media Watchdog Says," Bloomberg, Dec. 1, 2011, available at < <http://www.bloomberg.com/news/2011-12-01/russia-tightens-censorship-ahead-of-poll-media-watchdog-says.html>>.

surveillance and control.² Russia, with other nondemocratic countries like China, North Korea and Iran, is also advocating for international regulation of the Internet through the United Nations' International Telecommunications Union.

While Russia has not had systemic blocking of the Internet like China's Great Firewall, Reporters Without Borders characterized Russia as a "Country Under Surveillance" in its 2012 Enemies of the Internet report, stating that, "The authorities have used the issue of national security to expand Web monitoring and censorship – even while continuing to promote and develop Internet access for the population at large."³

The State Department's "Country Reports on Human Rights Practices for 2011" stated that, "Threats to Internet freedom included physical attacks on bloggers, criminal prosecutions of bloggers for 'extremism' or libel, blocking of specific sites by local service providers, DDoS attacks on sites of opposition groups or independent media, and attempts by security services and some regional authorities to regulate Internet content."⁴

At a time when the Russian government's stance on Internet freedom is clearly worsening, Congress must highlight the importance of this issue. Faced with a potential democratic awakening in the very country that necessitated the enactment of Jackson-Vanik, pursuing Internet freedom in Russia would be an effective 21st century update of the U.S. commitment to human rights and democracy. This issue needs to be part of the committee's discussions as it considers the overall U.S. relationship with Russia, and we greatly appreciate your attention and your consideration of our views.

Sincerely,



Edward J. Black
President & CEO
Computer & Communications Industry Association

cc: Members of the House Committee on Ways and Means

² Sanya Khetani, "Russia's Interior Minister Pushes for Extreme Internet Censorship Measures," Business Insider, Mar. 30, 2012, available at <http://articles.businessinsider.com/2012-03-30/europe/31259054_1_extremism-duma-mass-media>.

³ Reporters Without Borders, "Enemies of the Internet Report 2012," p. 58, available at <http://en.rsf.org/russia-russia-12-03-2012_42075.html>.

⁴ U.S. Department of State, "2011 Country Reports on Human Rights Practices," Russia, p. 28, available at <http://www.state.gov/j/drl/rls/hrrpt/humanrightsreport/index.htm?dynamic_load_id=186397#section2a>.

Statement to be Attributed to

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Distilled Spirits Council of the United States

DISTILLED
SPIRITS
COUNCIL
OF THE
UNITED
STATES

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON WAYS AND MEANS

**HEARING ON RUSSIA'S ACCESSION TO THE WORLD TRADE ORGANIZATION
AND GRANTING RUSSIA PERMANENT NORMAL TRADE RELATIONS**

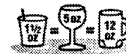
JUNE 20, 2012

**STATEMENT OF THE DISTILLED SPIRITS COUNCIL
OF THE UNITED STATES, INC.**

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A FACT ABOUT ALCOHOL CONTENT:



**U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON WAYS AND MEANS**

“Russia’s Accession to the World Trade Organization and Granting Russia Permanent Normal Trade Relations”

June 20, 2012

The following statement is submitted on behalf of the Distilled Spirits Council of the United States, Inc. (Distilled Spirits Council) for inclusion in the printed record of the Committee’s hearing on the extension of permanent normal trade relations (PNTR) to Russia in light of Russia’s upcoming accession to the World Trade Organization (WTO). The Distilled Spirits Council is a national trade association representing U.S. producers, marketers and exporters of distilled spirits products. Its member companies export spirits products to more than 130 countries worldwide, including to Russia.

I. OVERVIEW

U.S. distilled spirits exports have expanded rapidly over the past several years, reaching a record \$1.34 billion in 2011. This was the fifth consecutive year that exports of American-made spirits exceeded \$1 billion. The majority of U.S. spirits exports are comprised of whiskeys, including Bourbon and Tennessee Whiskey, which are distinctive products of the U.S. However, exports of rum and other spirits also make a significant contribution to the U.S. economy. As of 2008, the distilled spirits industry supported 676,000 direct employees. Continuing to expand exports supports current and future employment in the industry.

One of the industry’s key growth markets in the past decade has been Russia. Since 2002, Russia’s reported imports of U.S. distilled spirits have increased by an astounding 2,254 percent, reaching \$89.2 million in 2011. American whiskeys account for 55 percent of this total, while rum accounts for an additional 41 percent.



According to a recent report by McKinsey, beverage alcohol products are the most popular luxury items in Russia, accounting for 45% of all luxury goods purchases in 2011. Purchases of luxury goods increased 17% compared to the previous year to reach \$5.3 billion. With a population of over 138 million, a growing middle class, and one of the world's largest economies, our member companies see opportunities for continued strong growth in U.S. spirits exports to Russia. As such, U.S. spirits companies have invested significant resources in the market to compete with the wide range of international and domestic spirits products.

Despite these successes and opportunities, Russia remains a challenging market for U.S. spirits companies in many respects. The current regulatory framework for beverage alcohol imports into Russia places numerous burdens on U.S. companies, making the Russian market a costly and sometimes unpredictable place to do business. For example, Russian authorities have at times erected discriminatory regulatory barriers that have negatively impacted U.S. spirits companies' ability to operate in the Russian market. Often, such regulatory measures are adopted without prior consultation or advance notice. Moreover, U.S. exporters do not have the opportunity to provide feedback regarding such proposed regulations in a formal manner prior to implementation. However, Russia's accession to the WTO provides essential tools to address market access barriers as they arise, and will ensure that Russia is bound by the international rules-based trading system.

For all of these reasons, the U.S. distilled spirits industry strongly supports Russia's WTO accession, and extending PNTR to Russia is our top legislative trade priority.

II. BENEFITS OF RUSSIA'S WTO ACCESSION TO U.S. DISTILLED SPIRITS EXPORTERS

Throughout Russia's WTO accession process, U.S. negotiators have insisted on securing strong market access commitments from Russia. As a result, the U.S. distilled spirits industry will enjoy many important benefits from Russia's upcoming WTO membership, provided that the U.S. extends PNTR to Russia. The benefits of Russia's WTO accession to the U.S. spirits industry include:

Tariff Reductions

Russia will reduce its tariffs from 2 Euros per liter to 1.4 Euros per liter for all whiskey imports over a three year phase-in period. This represents a 30% tariff reduction on the U.S.' largest spirit export category to Russia. Additionally, Russia will reduce the tariff on other spirit categories by 25% from 2 Euros per liter to 1.5 Euros per liter, also over three years. This reduction will be very positive for U.S. rum exports, which is another key export category.

Working Party Report Commitments

The Working Party report on Russia's WTO accession, which is the official record of negotiations and concessions made by Russia, contains many references to beverage alcohol. In particular, Russia has committed to transparent and fair licensing procedures for beverage alcohol warehouses, a non-discriminatory excise tax regime, reasonable bank guarantee requirements, and streamlined import licensing procedures. All of these commitments will help prevent trade blockages and ensure a level playing field for U.S. spirits on the Russian market.

Transparency Regarding Technical Trade Barriers

As a WTO member, Russia must notify the relevant WTO committees of proposed regulations that may act as barriers to trade in order to permit affected stakeholders an opportunity to review and comment on such measures. In many key export markets for U.S. spirits, and in Russia in particular, the industry has noticed that these regulatory measures can cause significant market access issues and even, in some cases, costly commercial disruptions. In general, as noted above, U.S. distilled spirits exporters are not provided advance notice of these measures in Russia. Moreover, when drafts are provided, industry is not currently able to submit comments on proposed regulations directly to the Russian government. In addition to notification, Russia must provide a “reasonable interval” between publication and entry into force, and to provide industry with sufficient time to comply with the new procedure. Russia must also ensure that its regulations do not discriminate against imported products.

The WTO’s committees, including the Sanitary and Phytosanitary (SPS), Technical Barriers to Trade (TBT), and Import Licensing Committees, in particular provide another opportunity for the U.S. government to raise concerns on behalf of U.S. industry about regulatory measures that pose trade barriers. In the past, these committees have been a very useful forum for addressing potential and current trade barriers, building support from other trading partners, and working to resolve complex regulatory obstacles. These commitments will be vital to ensuring that the Russian market remains open for U.S. distilled spirits exports.

Enforcement of Intellectual Property Rights

In bilateral negotiations, the U.S. insisted that Russia adhere to international intellectual property rights (IPR) norms and enforce its own legislation. As a result, Russia has made changes to its domestic legislation to adhere to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Russia’s enforceable IPR commitments will be of key importance to U.S. distilled spirits companies in terms of addressing concerns with respect to counterfeit products and protection of trademarks and trade dress, which are critical to protecting internationally-trade U.S. spirits brands.

Recourse to Dispute Settlement Process

As a WTO member, Russia will be subject to the dispute settlement process. The WTO’s dispute settlement process, or even the threat of a dispute settlement case, is an important tool in ensuring that WTO member adhere to principles of non-discrimination, science-based international standards, and the use of measures that are least restrictive to trade. The U.S. spirits industry has greatly benefitted from the use of this process in the past, which has addressed discriminatory taxes on imported spirits in Japan, Korea, Chile, and the Philippines. Should Russia fail to adhere to any of its WTO commitments, the U.S.’ ability to raise such non-compliance in the context of the dispute settlement process will be crucial.

III. THE NEED TO EXTEND PNTR TO RUSSIA

As Members of the Committee are aware, the U.S. must extend PNTR to Russia and end the application of the Jackson-Vanik Amendment with respect to Russia in order for U.S. industry,

including spirits exporters to take advantage of the benefits listed above. In particular, the U.S. would likely not be able to raise Russian trade barriers at the SPS, TBT, and other WTO committees. Even more troubling, the U.S. would not be able to initiate a WTO dispute settlement case against any Russian trade barriers. This deprives U.S. exporters of essential tools to ensure that Russia applies fair and equitable international trade rules to U.S. products.

Failure to pass legislation extending PNTR to Russia will therefore put U.S. spirits exports at a distinct disadvantage to competitive products from Europe and elsewhere.


IV. CONCLUSION

In summary, passage of legislation extending PNTR to Russia is absolutely vital to address the types of trade barriers that impede U.S. exports of distilled spirits to this important growing market. The Distilled Spirits Council, therefore, strongly supports swift congressional approval of this legislation. Failure to do so will leave U.S. spirits exporters at a serious competitive disadvantage vis-à-vis domestic producers and other imported spirits in the Russian market. We stand ready to cooperate closely with Congress in seeking the swift approval of PNTR, and in working with the Administration to ensure that Russia adheres to its WTO commitments.

Thank you very much for your consideration.

Written Statement of:

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National Milk Producers Federation

TESTIMONY OF THE NATIONAL MILK PRODUCERS FEDERATION &
THE U.S. DAIRY EXPORT COUNCIL
TO THE HOUSE COMMITTEE ON WAYS AND MEANS
REGARDING RUSSIAN ACCESSION TO THE WORLD TRADE ORGANIZATION
June 21, 2012

The National Milk Producers Federation (NMPF) and the U.S. Dairy Export Council appreciate the opportunity to express the views of America's dairy farmers on the importance of bringing Russia fully into the global trading system on terms that will provide U.S. dairy exports the same rights and advantages that Russia will afford to dairy products from other WTO member nations. This will only be possible if the U.S. provides to Russia Permanent Normal Trade Relations (PNTR) and graduates that nation from the provisions of the Jackson-Vanik amendment.

The National Milk Producers Federation (NMPF) develops and carries out policies that advance the well being of dairy producers and the cooperatives they own. The members of NMPF's 31 cooperatives produce the majority of the U.S. milk supply, making NMPF the voice of more than 40,000 dairy producers on Capitol Hill and with government agencies. The U.S. Dairy Export Council (USDEC) is a non-profit, independent membership organization that represents the export trade interests of U.S. milk producers, proprietary processors, dairy cooperatives, and export traders. The Council was founded in 1995 by Dairy Management Inc. (DMI), the farmer-funded marketing, promotion and research organization, to build global demand for U.S. dairy products and assist the industry in increasing the volume and value of exports.

While historically the U.S. dairy industry had not been heavily dependent on exports, our foreign sales have been on a strong upward trend for the past several years. In fact, the U.S. dairy industry has become a significant player in the world market, and these markets are playing a greater role in determining prices for dairy products in the United States. Last year the U.S. exported a record \$4.8 billion, accounting for roughly 13% of U.S. milk production. As exports have become more important to our industry, so have unfair trade barriers – and the legal tools available to address them.

Throughout Russia's almost two decade long WTO accession process, U.S. administrations have worked very hard to strengthen commitments Russia would be required to undertake in order to be admitted to the organization. The process was completed this past December when all 155 current members of the WTO approved Russia's membership.

As part of Russia's new trade obligations, it reduced tariffs in the agricultural sector and accepted commitments to operate sanitary and phytosanitary (SPS) measures in a manner consistent with WTO rules. The latter is particularly important given the many SPS challenges that a range of agricultural commodities, including dairy, have experienced with Russia over the years.

The following are some details relevant to U.S. dairy exports that were included in Russia's accession commitments:

Tariff Commitments

- Russia will establish a TRQ of 15,000 metric tons for whey products, with a 10 percent in-quota duty, for lines of commercial interest to U.S. dairy suppliers. The over-quota rate will be 15 percent.
 - In addition, Russia will reduce the duty from 15 to 10 percent after 3 years on two other commercially significant whey products.
- Russia is reducing its maximum tariff bindings on cheese from 25 to 15 percent with most reaching the final bound rate within 3 years.
- Despite EU attempts to craftily monopolize access to certain tariff lines, the United States succeeded in securing a commitment that product descriptions in Russia's tariff schedule that include geographical names for cheese should not give rise to enforcement of geographical indications at the border.
 - Further, any tariff concessions negotiated by other countries for particular cheese, e.g., with product descriptions that include geographical names, will apply to all cheeses, addressing the possibility that the EU (or others) could negotiate access for a cheese tariff line for themselves alone. (These provisions all also apply to wines.)
 - This was an important accomplishment in the face of strong EU efforts to restrict the ability of other suppliers to ship a given type of product to Russia under preferential tariff provisions.

SPS Commitments

- 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 dairy products with 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 its SPS measures with international standards.
- Although the Customs Union that Russia is a member of has adopted a common set of veterinary requirements and common veterinary certificates, it also has adopted measures that allow it to negotiate country-specific veterinary certificates that vary from the common requirements. These variances will be critical in the United States' ability to negotiate certificates with Russia.
 - This is particularly important for the dairy industry given our lack of market access to Russia since September 2010 when lack of agreement on a certificate led Russia to announce the closure of its market to U.S. dairy products until an agreement could be reached.
- In addition, Russia has committed to abolish its requirement that exporting countries provide a list of approved establishments in order to be permitted to ship product there, a requirement that had proved to be a key sticking point in past U.S.-Russia dairy market access discussions.

Once Russia completes its accession process by passing legislation to adopt the accession protocols, which is expected to happen by August, it will become a full WTO member automatically 30 days later.

The choice now before Congress is whether our exporters will be afforded the opportunity to take advantage of the commitments so arduously negotiated over the past 19 years. The failure of Congress to approve full PNTR for Russia will not alter Russia's entry into the WTO, nor even impact its timing. Nor will Congressional inaction on PNTR penalize Russia. Rather, it risks penalizing U.S. sectors hoping to gain new access to that growing market by allowing Russia to withhold trade benefits it will be providing to products of our competitors.

In the dairy sector, the U.S. has been working to restore access to the Russia dairy market since its abrupt closure in 2010 due to a disagreement over certificate and inspection requirements, as mentioned above. Russia is one of the world's largest dairy importers, purchasing over \$2 billion worth of dairy products in 2011. U.S. sales hit a record \$81 million in 2010, before the market closed.

NMPPF and USDEC are hopeful that ongoing negotiations with Russia and its Customs Union partners will prove successful in restoring access to that market and we believe SPS-related undertakings by Russia as part of its accession protocol will be helpful in that process. The binding nature of those commitments will be undermined in our dairy negotiations if the U.S. fails to grant Russia PNTR, is thus forced to continue to invoke the WTO "non-application" clause, and thereby loses the right to challenge WTO-illegal Russian measures.

We urge Congress to repeal Jackson-Vanik and extend full PNTR to Russia without delay in order to ensure that U.S. exporters are able to hold Russia to its commitments once it joins the WTO this summer.

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National Pork Producers Council

July 3, 2012

The Honorable Dave Camp
Chairman
Committee on Ways and Means
1102 Longworth House Office Building
Washington, DC, 20515
Submitted electronically via <http://waysandmeans.house.gov/committeesubmissions/>

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RE: Committee on Ways and Means hearing on Russia's Accession to the World Trade Organization and Granting Russia Permanent Normal Trade Relations

The National Pork Producers Council (NPPC) hereby submits comments for consideration by the Committee on Ways and Means with regard to their hearing on Russia's Accession to the World Trade Organization and Granting Russia Permanent Normal Trade Relations. This document is submitted for inclusion in the printed record of the hearing.

NPPC is a national association representing a federation of 43 state producer organizations, representing the federal and global interests of 67,000 U.S. pork operations that annually generate approximately \$15 billion in farm gate sales. The U.S. pork industry supports an estimated 550,000 domestic jobs, of which 110,000 jobs are generated directly by U.S. pork exports, and generates more than \$97 billion annually in total U.S. economic activity.

The U.S. pork industry is highly dependent on exports as a revenue source. Nearly twenty three percent of the pork produced in the United States in 2011 was exported, compared to about eight percent ten years ago. In 2011 the United States exported 2.3 million metric tons of pork, valued at \$6.2 billion.

The United States remains, on average, the low cost producer of pork in the world. It is no coincidence that the United States is also the number one pork exporter in the world. The vast majority of demand for pork in the world today is outside the United States. In order to remain successful, the U.S. pork industry needs to continue to expand overseas sales, by removing unfair barriers to U.S. pork exports.

I. The Russian Market for U.S. Pork

Over the last three years, while Russia worked to conclude its negotiations with the United States and other World Trade Organization (WTO) members on the terms of Russia's accession to the WTO, U.S. exports of meat products to Russia have unfortunately dwindled in size. The table

below shows the decline in the value of U.S. meat sales to the Russian market since the peak year of 2008, and Russia's rank as an export market for the U.S in 2008 and 2011.

	2008	Market Rank	2011	Market Rank
Poultry	\$.825 billion	1	\$250 million	4
Pork	\$.414 billion	3	\$213 million	7
Beef	\$.090 billion	10	\$249 million	5
Total Meat	\$1.329 billion		\$712 million	
Total U.S. Exports to Russia	\$9.335 billion			
Meat as Percent of U.S. Exports	14.2%		8.6%	

The decline in U.S. meat sales to Russia took place not because of market factors, but a series of import barriers that Russia imposed on U.S. pork and other meat products during the 2008-2011 period. This included Russia's unilateral reduction in the size of tariff rate quota for imports of pork and other meat products, and a long list of completely unjustifiable health and sanitary restrictions on U.S. pork that severely impeded U.S. pork export sales.

As one of its WTO accession commitments, Russia agreed to establish a tariff rate quota for pork that we believe will be beneficial to the U.S. pork industry. We are deeply grateful to U.S. negotiators for their success in the area.

Unfortunately however, and in spite of the best efforts of our negotiators, Russia will very likely retain upon its WTO accession a series of sanitary and phytosanitary (SPS) measures with the potential to do serious damage to U.S. pork exports to Russia. We are deeply concerned that, in spite of the market access opening created through Russia's WTO pork TRQ, the United States will be unable to take advantage of this concession because of the many Russian SPS barriers that will remain in place.

Following is a list of unjustifiable Russian SPS barriers to U.S. pork imports that will likely remain in place after Russia accedes to the WTO. We believe that all of these policies are in likely conflict with WTO rules, which require that Members base their SPS measures on risk assessments and sound science, and recognize the equivalence of other Members' SPS measures if these measures achieve an appropriate level of SPS protection.

Pork Plant Approval Policy

Russia has for the last four years maintained plant approval and delistment policies that have resulted in the arbitrary removal of many U.S. pork plants from shipping to the Russian market. Reasons for delistment range from failure to comply with Russia's unjustifiable zero tolerance policy for the antibiotic tetracycline (see details below), to minor administrative errors by U.S. plants in filling out Russian plant approval forms. At present, U.S. pork plants representing over 50 percent of U.S. pork production capacity are prohibited from shipping to Russia. Russia's arbitrary delistment of U.S. pork plants violates the terms of a 2006 U.S.-Russia Agreement on plant approvals.

Russia did make a commitment as part of its WTO accession to undertake an equivalence review of meat plant inspection and approval systems of all WTO members expressing an interest. But

in light of Russia's recent behavior on plant delistments and SPS issues in general, we have no confidence that such a review will lead to recognition of equivalence for U.S. pork plants.

It should be noted that both China and Vietnam provided the United States with bilateral commitments in the context of their WTO Accession, granting equivalence to the U.S. meat inspection and approval process. The United States has amply demonstrated to the Russian government through years of discussion the efficacy of our plant inspection and approval systems in protecting consumer and animal health, and there is no reason why Russia should not recognize the U.S. system as equivalent to its own.

Zero Tolerance for Tetracycline

Russia maintains an effective zero tolerance policy for the presence of tetracycline in pork products. The United States has sought Russian adoption of either the *Codex Alimentarius* recommended standard or the U.S. standard for maximum residue levels (MRLs) for the antibiotic tetracycline. The use of tetracycline in animal feed has been recognized as safe by the U.S. Food and Drug Administration, the *Codex Alimentarius*, and almost all U.S. trading partners. Numerous U.S. pork plants have been delisted, and shipments rejected, because of Russia's zero tolerance policy for tetracycline. Russia's recent "risk assessment" on tetracycline, which it used to justify maintaining its effective zero tolerance policy, has been reviewed by U.S. experts, who found that it was not really a risk assessment at all, and that the conclusions were not based on science. There are reports that Russia has intensified its testing for tetracycline in recent months, even as it prepares to accede to the WTO.

Zero Tolerance for Pathogens

Russia maintains an effective zero tolerance policy for pathogens on meat products including pork. No country in the world, including Russia, is able to meet this requirement. The United States has requested that Russia adopt *Codex Alimentarius* standards or the U.S. MRL for pathogens on meat. As with the zero tolerance policy for tetracycline, many U.S. pork plants have been delisted, and shipments rejected, because of Russia's unfounded zero tolerance policy for pathogens.

Trichinae Testing Policy

Russia requires that all U.S. fresh and chilled pork be tested for the presence of trichinae, or frozen as a mitigation measure. Consumption of uncooked pork harboring trichinae can cause disease in humans. Trichinosis has effectively been eliminated from the U.S. commercial herd - there has not been a detected case in the U.S. herd in over a decade. The possibility of a U.S. consumer getting trichinosis from the consumption of U.S. pork is therefore negligible, and estimated by experts at one in three hundred million. Russia's trichinae related testing requirements are not science-based and significantly limit U.S. pork exports.


Possible Ractopamine Ban

Many U.S. pork producers make use of ractopamine, a protein synthesis compound, as a way of improving production efficiency. Recent reports from Moscow indicate that Russia is considering imposing a ban on the use of ractopamine in pork production, possibly even before it accedes to the WTO. Russia has already reportedly taken action against Brazil, related to its use of ractopamine in pork production. The U.S. Food and Drug Administration, along with regulatory authorities in many other countries, have approved ractopamine for use in livestock production. The Joint Expert Committee on Feed Additives (JECFA), the scientific arm of the *Codex Alimentarius*, has also found the product safe for use in animal production. If Russia were to implement a ractopamine ban it would seriously disrupt U.S. pork sales to Russia.

II. Concluding Comments

Unfortunately, Russia has taken action after action in recent years to disrupt pork imports from the United States, even as it worked to accede to the WTO. The Russian government has clearly played to the sentiments of Russian pork producers, even though the actions Russia has taken are inconsistent with basic principles contained in the WTO SPS Agreement. U.S. pork producers are heavily reliant on potentially large overseas markets like Russia for their profitability, and want to ensure that as a WTO member, Russia abides by all of its WTO obligations, including those contained in the WTO SPS Agreement.

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U.S. Chamber of Commerce



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

**Statement
of the
U.S. Chamber
of Commerce**

ON: Russia's Accession to the World Trade Organization and
Granting Russia Permanent Normal Trade Relations

TO: U.S. House of Representatives Committee on Ways and Means

BY: U.S. Chamber of Commerce

DATE: June 20, 2012

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 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.

More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 70 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business—manufacturing, retailing, services, construction, wholesaling, and finance—is represented. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 115 American Chambers of Commerce abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross section of Chamber members serving on committees, subcommittees, and task forces. More than 1,000 business people participate in this process.

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. More than 8% 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 the Chamber's top trade priority before the Congress this year: Approval of PNTR with Russia and Russia's graduation from the Jackson-Vanik amendment.

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.

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 (GATT), 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 ninth largest economy and the last major economy to join the WTO. Even ahead of Russia joining the WTO, it has already emerged as a market of great promise: Of the top 15 U.S. trading partners, Russia was the market where U.S. companies enjoyed the fastest export growth last year — a robust 38%.

Furthermore, the President's Export Council estimates that U.S. exports of goods and services to Russia — which, according to estimates, topped \$11 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. For instance, the total cost of needed infrastructure spending over the next five years is conservatively estimated at \$500 billion, according to the American Chamber of Commerce in Russia. Private-sector participation in this building boom could offer significant opportunities for U.S. companies.

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 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.

MATERIAL SUBMITTED FOR THE RECORD

Questions for the Record:

Questions

Committee on Ways and Means Hearing on Russia's Accession to the World Trade Organization and Granting Russia Permanent Normal Trade Relations, June 20, 2012

Questions for the Record:

Congressman Tom Reed questions for Ambassador Ron Kirk, United States Trade Representative and Ambassador William Burns, Deputy Secretary, United States Department of State:

- 1.) The dairy industry in upstate New York views the Russian market as a key one and is eager to regain access to it. Can either of the witnesses provide information on its plan to work with Russia and its Customs Union partners in order to secure this reopening of their market as well as on how the Administration – both within USTR and the State Department as well as in other agencies – is working to bring all relevant resources to bear on resolving this issue?

Answer: USTR, USDA, and FDA are actively engaging Russia and its Customs Union partners to reopen the Russian market to U.S. dairy exports, including through negotiating a new export certificate. During Russia's WTO accession negotiations, we were able to ensure that Russia had the legal framework in place—particularly in light of the new competence of the Customs Union—to negotiate new certificates. We had initial discussions on the dairy certificate in April and we sent an interagency team to Moscow in June to continue the negotiations. In addition, senior officials continue to press Russia to work expeditiously and constructively with us to reopen this important market. We will continue to push to conclude a certificate that is commercially meaningful and in line with international standards.

- 2.) My district is home to steel companies, such as Nucor Corporation, that rely on domestic sourced hot-rolled steel. I am a strong believer that a vibrant U.S. hot-rolled steel industry is essential for the long-term health and strength of the nation's economy. That is why I am concerned about the recent surge of imports of hot-rolled steel from Russia. I understand that such imports increased by more than 50% between 2010 and 2011, hampering the economic recovery of the U.S. steel industry.

As you know, there is a suspension agreement covering these imports. In fact, the Department of Commerce and the U.S. International Trade Commission ruled last year that this remedy should stay in place to prevent injury to the industry. However, the remedy is no longer effective in preventing dumping. I understand that the Department of Commerce recently issued preliminary results of their Administrative Review of the suspension agreement, which stated that the Agreement is not meeting its statutory requirement to prevent price undercutting of domestic hot-rolled steel prices and that there is price undercutting by Russian hot-rolled steel imports.

I am pleased that the U.S. Government has taken such a hard line with the Russian Government on this Agreement, and I encourage you to remain steadfast in your efforts to ensure that the agreement is effective in preventing dumping. It is absolutely essential that the U.S. government vigorously enforce both our rights under new trade agreements and our trade laws. Can you please provide an update on the status of the suspension agreement?

Answer: I appreciate your interest in trade remedies. USTR is a strong supporter of U.S. antidumping and countervailing duty laws and we work closely with the Department of Commerce to defend our trade remedies and to ensure U.S. industries continue to have access to effective laws to address injurious unfair imports. The Department of Commerce, however, has the statutory authority to administer the U.S. antidumping law. As you note, Commerce is currently conducting an administrative review of the agreement suspending the antidumping investigation on imports of Russian hot-rolled steel. As part of the administrative review, U.S. domestic producers, U.S. importers and foreign exporters have the opportunity to provide information and arguments for consideration by Commerce. If you have further questions about the antidumping review, I would encourage you to contact the Department of Commerce.

Congressman Adrian Smith and Congressman Aaron Schock questions for Ambassador Ron Kirk, United States Trade Representative:

- 1.) As you are aware, other Members of Congress have written to USTR requesting a resolution to Russia's non-market pricing of natural gas to domestic industrial users, which has also been a legitimate concern to the U.S. nitrogen fertilizer industry. Could you please elaborate on Russia's accession commitments regarding pricing natural gas at market prices to commercial users? How will the Administration actively enforce this obligation?

Answer: While the situation regarding the price of natural gas in Russia, the United States, and other countries has changed significantly over the 18-year period of negotiations on Russia's accession to the WTO, the United States has obtained strong commitments from Russia on its pricing policies.

Russia has undertaken specific commitments that will go into effect when it becomes a WTO Member and that the United States can enforce if we are able to apply the WTO Agreement to Russia.

Russia's commitments specifically related to its pricing policies include a commitment that producers/distributors of natural gas in the Russian Federation would operate, within the relevant regulatory framework, on the basis of normal commercial considerations, based on recovery of costs and profit. Russia has also confirmed that its policy is to ensure, that these economic operators, in respect of their supplies to industrial users, would recover their costs (including the cost of production, overheads, financing charges, transportation, maintenance and upgrade of extraction and distribution infrastructure,

investment in the exploration and development of new fields) and would be able to make a profit, in the ordinary course of their business.

In addition, Russia has agreed that it will apply price controls on natural gas in a manner consistent with the WTO Agreement. Furthermore, as you noted, Russia agreed that price control measures will not be used for purposes of affording protection to domestic production of goods, or to impair the service commitments of the Russian Federation. Russia has also undertaken commitments on transparency with regard to its price controls.

The Administration will be monitoring Russia's implementation and compliance with these and other commitments. However, we will not be able to enforce these commitments unless the WTO Agreement applies between the United States and Russia. We encourage Congress to give us the tools to act and end application of the Jackson-Vanik amendment and authorize extension of Permanent Normal Trade Relations to Russia.

- 2.) In paragraph 133 of the Working Party Report, Russia agreed "price control measures would not be used for purposes of affording protection to the domestic production of goods." Is this language enforceable? And if so, does the Administration have the ability to actively and in a timely manner enforce this commitment, including in WTO dispute settlement, should Russia – after it fully accedes to the WTO – continue to engage in policies to the detriment of U.S. producers?

Answer: This language is part of Russia's commitment on pricing policies and is enforceable. As with Russia's other commitments, USTR is prepared to take appropriate actions to enforce U.S. rights under the WTO Agreement, including taking issues to dispute settlement, if necessary. Before we can do that, however, we need to be able to apply the WTO Agreement to Russia.

The Administration has a strong record of taking enforcement actions where necessary to ensure compliance with WTO rules. To continue that policy, the President has devoted additional resources to ensure enforcement of our trade agreements, most recently with the creation of the International Trade Enforcement Center. The ITEC will draw expertise from various agencies to focus on monitoring and enforcement and pursue trade issues with more resources than previously available. The ITEC will bolster the resources available to track Russia's compliance with its WTO commitments, including this commitment not to use price control measures to protect domestic production.

Congressman Adrian Smith questions for Ambassador Ron Kirk, United States Trade Representative:

- 1.) The state of Nebraska is the world leader in the manufacturing of center pivot irrigation, which allows farmers to improve yields while using a fraction of the water required by

traditional irrigation techniques. In fact, some of the world's top exporters of center pivot manufacturers are in the Third District of Nebraska. Mr. Ambassador, if Congress does not pass PNTR by the time Russia joins the WTO, how would U.S. manufacturers of agriculture equipment be disadvantaged versus their competitors in Europe and elsewhere?

Answer: On day one as a WTO Member, Russia will be required to comply with WTO rules prohibiting burdensome and trade distorting technical barriers to trade that can hinder U.S. exports of goods. Russia has also undertaken enforceable commitments to open its services market in ways that will allow engineers to accompany the irrigation systems to Russia to set up the equipment. Finally, the United States will have access to WTO mechanisms, including dispute resolution, to ensure Russia's compliance with the WTO trade rules.

However, if the WTO Agreement does not apply between the United States and Russia, U.S. manufacturers of agriculture equipment will not enjoy many of the protections and market access provisions in Russia's WTO accession protocol, while their global competitors will; nor will the United States have the tools to enforce these commitments.

- 2.) If Russia were to grant the U.S. the same low tariffs because of our existing agreement, would there be any implications from the Jackson-Vanik Amendment on future efforts of U.S. center pivot irrigation manufacturers to develop the Russian market?

Answer: You are correct that under the terms of our current Bilateral Commercial Agreement, U.S. exports of center pivot irrigation equipment will be subject to the same tariff rates as that from other countries. However, as explained above, those exports would not enjoy the same protection against any burdensome and trade distortive TBT measures, or the same access for services to set up and maintain the irrigation systems. Nor would the United States have the tools to enforce Russia's commitments on behalf of Nebraska's manufacturers, exporters, creators, and workers.

Congressman Devin Nunes question for Ambassador Ron Kirk, United States Trade Representative:

- 1.) I also understand that our dairy exporters have been officially blocked from that market for almost two years now (since Sept. 2010) due primarily to ongoing dairy certificate negotiations. Exports play a vital role in helping support our dairy sector, both at the manufacturing level and at the farm level and this is a major market – worth \$2B in total global dairy imports last year. When does USTR estimate we will be back into that important dairy market and is it a top priority in the US-Russia context?

Answer: USTR, USDA, and FDA are actively engaging Russia and its Customs Union partners to reopen the Russian market to U.S. dairy exports, including through negotiation of a new export certificate. During Russia's WTO accession negotiations, we

were able to ensure that Russia had the legal framework in place—particularly in light of the new competence of the Customs Union—to negotiate new certificates. We had initial discussions on the dairy certificate in April and we sent an interagency team to Moscow in June to continue the negotiations. In addition, senior officials continue to press Russia to work expeditiously and constructively with us to reopen this important market. We will continue to push to conclude a certificate that is commercially meaningful and in line with international standards.

Congressman Ron Kind question for Ambassador Ron Kirk, United States Trade Representative:

- 1.) I understand our dairy industry is supportive of PNTR but also quite concerned about reopening the Russian market which has been officially closed to our dairy products for almost two years, since September 2010. Can you provide an update on where USTR's efforts stand to reopen this market to our dairy products and ensure that workable terms are agreed to as part of that effort?

Answer: USTR, USDA, and FDA are actively engaging Russia and its Customs Union partners to reopen the Russian market to U.S. dairy exports, including through negotiation of a new export certificate. During Russia's WTO accession negotiations, we were able to ensure that Russia had the legal framework in place—particularly in light of the new competence of the Customs Union—to negotiate new certificates. We had initial discussions on the dairy certificate in April and we sent an interagency team to Moscow in June to continue the negotiations. In addition, senior officials continue to press Russia to work expeditiously and constructively with us to reopen this important market. We will continue to push to conclude a certificate that is commercially meaningful and in line with international standards.

