CREATING JOBS: ECONOMIC OPPORTUNITIES IN EUROPE AND EURASIA

HEARING

BEFORE THE

SUBCOMMITTEE ON EUROPE AND EURASIA

OF THE

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CREATING JOBS: ECONOMIC OPPORTUNITIES IN EUROPE AND EURASIA

TUESDAY, MARCH 27, 2012

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON EUROPE AND EURASIA,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 2 o'clock p.m., in room 2172 Rayburn House Office Building, Hon. Dan Burton (chairman of the subcommittee) presiding.

Mr. BURTON. The subcommittee will come to order. The title of today's hearing is Creating Jobs: Economic Opportunities in Europe and Eurasia. As I have made clear in the past hearings and statements, I am concerned about the state of Europe's economy and their financial markets. Giving this concern, you may be surprised that I think there is a lot of opportunity in Europe.

Despite the current financial crisis, the combined nations of the European Union remain the United States' largest trading partner. In addition, Turkey, Russia, Central Asia and emerging eastern European markets each present additional opportunities for American exporters.

The national tendency during tough economic and financial times is to insulate one's self from the fluctuating global markets. To some extent this makes sense. Some European countries remain volatile, and I just talked to you about that. And thus U.S. investors and exporters should remain cautious. However, there are European nations who are weathering the crisis and present opportunities for U.S. exporters and investors to capitalize upon. My colleague just got here.

We must not forget that growth is an important component of the solution to any economic crisis. The United States Government can help its citizens create growth by making it easier to do business at home and abroad. For example, a zero tariff agreement with the European Union would substantially increase the total trade and an enormous jump in our exports to Europe.

It is true that tariffs between the U.S. and our European partners are low. However, transatlantic trade is so important to economies on both sides of the Atlantic that dropping tariffs by just a few percentage points would allow U.S. exports to increase by tens of billions of dollars. Accordingly, some estimate that we could see upwards of 300,000 jobs created through just the goods portion of such an agreement.

Opportunities exist outside the European Union as well. Russia, my colleague and I are working on that. Russia might present one such opportunity. From 2005 to 2010, my fellow Hoosiers increased our exports of Russian goods by more than two and a half times. Russia is going to join the WTO this summer, and the increased trade that Russia's WTO membership will allow could support here in the United States, 50,000 new jobs within 5 years.

In the current economic climate we can't ignore such an opportunity to create jobs. Boy, that is an understatement. At the same time, we must preserve U.S. support for democracy and human rights. As I am sure everyone in this room knows, it is Congress' decision to graduate Russia from the Jackson-Vanik amendment and grant Russia permanent normal trade relations. Such action is required in order for U.S. companies to reap the benefits of Russia's WTO membership. There is a great deal of debate as to what action Congress should take. I am concerned about the timing of a repeal and what an alternative to Jackson-Vanik would involve.

However, we must also recognize that Jackson-Vanik is now largely symbolic. For almost two decades, the President has waived Jackson-Vanik anyhow, and granted Russia normal trade relations under the full compliance provision of the amendment. Regardless, if Congress decides to graduate Russia from Jackson-Vanik, we must maintain our support for democracy and human rights through a modern, functional replacement that recognizes the current situation in Russia.

Turkey presents another opportunity for greater economic cooperation. Between 2005 and 2010, Turkey's GDP grew an average of 4 percent as the country's economy diversified. This progress continues. In just a few weeks, Turkey will receive final bids for a third bridge connecting Europe and Asia across the Bosporus. This project is emblematic of the tens of billions of dollars that Turkey is going to invest into highways and other infrastructure in the coming years as its economy continues to grow and diversify.

In addition to supporting further economic growth with Turkey, such developments will leave Turkey better prepared to serve as a gateway for Western companies who wish to do business in the Middle East and Central Asia. Unfortunately, we are often our own worst enemy when it comes to international trade.

The U.S. must be able to move swiftly and decisively in a fast-moving global market. We failed to do so recently. Trade deals with Colombia, South Korea and Panama lingered for several years. As Congress proved by changing the rules when President Bush sent to Congress the Colombia agreement, fast track authority is no longer viable. Currently the U.S. is only participating in one ongoing negotiation, the Trans-Pacific Partnership. The United States is not involved in any of the 26 regional trade agreements listed by the WTO as being under negotiation, and we hope that will change. The people of the United States deserve better.

This government, both the administration and Congress must get serious. We must improve this government's capability to help business and increase exports. If we can't outpace our competitors we cede to them the enormous advantage that comes with being the world's largest economic power, and this is just not acceptable.

And now I yield to Mr. Meeks, my ranking Democrat.

[The prepared statement of Mr. Burton follows:]

Remarks of the Honorable Dan Burton, Chairman
Subcommittee on Europe and Eurasia
Committee on Foreign Affairs
U.S. House of Representatives

Hearing on: "Creating Jobs: Economic Opportunities in Europe and Eurasia."

*****As prepared for delivery*****

March 27, 2012

The title of today's hearing is "Creating Jobs: Economic Opportunities in Europe and Eurasia." As I have made clear in past hearings and statements, I am concerned by the state of Europe's economy and financial markets. Given this concern, you may be surprised that I think there is opportunity in Europe. Despite the current financial crisis, the combined nations of the European Union remain the United States' largest trading partner. In addition, Turkey, Russia, Central Asia, and emerging Eastern European markets each present additional opportunities for American exporters.

The natural tendency during tough economic and financial times is to insulate oneself from fluctuating global markets. To some extent, this makes sense. Some European governments remain volatile and thus U.S. investors and exporters should remain cautious. However, there are European nations who are weathering the crisis and present opportunities for U.S. exporters and investors to capitalize upon.

We must not forget that growth is an important component of the solution to any economic crisis. The United States government can help its citizens create growth by making it easier to do business at home and abroad. For example, a zero-tariff agreement with the European Union would substantially increase in total trade and an enormous jump in our exports to Europe. It is true that tariffs between the U.S. and our European partners are low; however, transatlantic trade is so important to economies on both sides of the Atlantic that dropping tariffs by just a few percentage points, to zero, would allow U.S. exports to increase by tens of billions of dollars. Accordingly, some estimate that we could see upwards of 300,000 jobs created through just the goods portion of such an agreement.

Opportunities exist outside of the European Union as well. Russia presents one such opportunity. From 2005 – 2010, my fellow Hoosiers increased their exports of goods to Russia by more than 2.5 times. Russia will join the WTO this summer. The increased trade that Russia's WTO membership will allow could support upwards of 50,000 new jobs within five years. In the current economic climate, we cannot ignore such an opportunity to create jobs.

At the same time, we must preserve U.S. support for democracy and human rights. As I am sure everyone in this room knows, it is Congress' decision to graduate Russia from the Jackson-Vanik Amendment, and grant Russia Permanent Normal Trade Relations. Such action is required in order for U.S. companies to reap the benefits of Russia's WTO membership. There is great debate as to what action Congress should take. I am concerned about the timing of a repeal and what an alternative to Jackson-Vanik would entail. However, we must also recognize that Jackson-Vanik is now largely symbolic. For almost two decades, the President has waived Jackson-Vanik and granted Russia normal trade relations under the "full compliance" provision of the Amendment. Regardless, if Congress decides to graduate Russia from Jackson-Vanik, we must maintain our support for democracy and human rights through a modern, functional replacement that recognizes the current situation in Russia.

Turkey presents another opportunity for greater economic cooperation. Between 2005 and 2010, Turkey's GDP grew an average of 4 percent as the country's economy diversified. This progress continues. In a few weeks, Turkey will receive final bids for a third bridge connecting Europe and Asia across the Bosphorus straight. This project is emblematic of the tens of billions of dollars that Turkey will invest into highways and other infrastructure in the coming years as its economy continues to grow and diversify. In addition to supporting further economic growth with Turkey, such developments will leave Turkey better prepared to serve as the gateway for western companies who wish to do business in the Middle East and Central Asia.

Unfortunately, we are often our own worst enemy when it comes to international trade. The U.S. must be able to move swiftly and decisively in a fast moving global market. We have failed to do so recently. Trade deals with Colombia, South Korea, and Panama lingered for several years. As Congress proved by changing the rules when President Bush sent to Congress the Colombia agreement, fast-track authority is no longer viable. Currently, the U.S. is only participating in one ongoing negotiation, the Trans-Pacific Partnership. The United States is not involved in any of the 26 regional trade agreements listed by the World Trade Organization as being under negotiation.

The people of the United States deserve better. This government, both the Administration and Congress, must get serious. We must improve this government's capability to help business and increase exports. If we cannot outpace our competitors, we cede to them the enormous advantage that comes with being the world's largest economic power. This is not acceptable.

Mr. MEEKS. Thank you, Chairman Burton. And I think, and I am going to do this, I am sure again, but I think that since the last hearing that we have had, this is the first time we have been here after your announcement that you were not seeking reelection. And I just wanted to say for the record that I believe your district is going to miss you being here. They may see you more because you are there, but they are going to miss your representation here.

I want to go on record to say that you have been a very good friend. And it may be a little quieter around here without you here, but I am sure that you've contemplated and thought about it and you will have time to spend more time with your beautiful wife and family and maybe play a little golf or something of that nature. But you will be missed around here, that is for sure.

Mr. BURTON. Well, I am glad you said that last sentence, because you started off saying my constituents would miss me but you didn't say you would miss me.

Mr. MEEKS. Yes, I would miss you. But we have still got some work to do and some time to spend together, and I look forward to doing that.

And I should also say, Under Secretary, it is always good to see you. Always good to see you and I look forward to hearing your testimony.

The central question before us today is, how can we leverage our commercial relationship with Europe to create jobs in America? Trade and investments plays an important role in the U.S. job creation efforts, and our biggest and most successful commercial relationship is indeed with Europe. In fact, this is the largest and most integrated economic relationship between two areas in the world.

President Obama has committed his administration to doubling U.S. exports during his first term, and according to recent numbers we are within striking distance of that goal. Exports are currently growing at an annual pace of about 16 percent, and this increase has been one of the central drivers of the economic recovery, accounting for about half the nation's economic growth since the recession ended. The administration has bolstered both domestic and global demand and pushed through three long-stalled free trade agreements with Panama, Colombia and South Korea last year.

Commerce is a major instrument of foreign policy, and I applaud Secretary Clinton for laying out a bold vision for Economic Statecraft in her speech on that topic in October last year. Free trade and international investment are cornerstones of our nation's prosperity, significant generators of jobs in America and a great asset for both U.S. workers and companies. But trade also stimulates openness, transparency, efficiency and accountability. Trade strengthens innovation and drives reform on a global scale, and binds us together with other nations to ultimately reduce the potential for conflict.

However, according to a recent report on U.S. trade and investment policy by the Council on Foreign Relations, in recent years public opinion toward the benefits of international trade has declined significantly in the United States. And I hope that our panel and the Secretary might address ways for us to change this perception. Congress, of course, must do its part to address the low-hanging fruit that can facilitate trade, exports and investments, and create jobs and growth in the transatlantic space.

This agenda includes granting permanent normal trade relations to Russia and Moldova. As Chairman Burton here said, Russia will accede to the WTO this summer, while Moldova has been a member since 2001. Congress has simply been asleep at the switch when it comes to giving U.S. companies the same benefits available to other WTO members.

For more than a decade the United States has been non-compliant with WTO rules because we have failed to repeal the Jackon-Vanik amendment from Moldova, and I fear that we are about to commit the same mistake for Russia. If Congress is truly serious about creating jobs, growth and export opportunities, this is the obvious place to start.

Bringing Poland and other European countries into the Visa Waiver Program. Poland is one of our strongest allies, and has emerged as one of the most dynamic economies in Europe. We should take advantage of this dynamism by expanding the opportunities for U.S.-Polish business relations and tourism. U.S. citizens can easily travel to Poland for up to 90 days without obtaining a visa, but we have not extended the same privilege to Polish citizens. Bringing Poland into the Visa Waiver Program will strengthen both our economy and our national security, and Congress should act without delay to pass the necessary legislation.

We should update export control legislation. Congress must pass and update legislation in order to stay in our cutting edge techonology sectors and create new, high quality jobs. The current export control statute is anachronistic, a relic that fails to recognize the reality of high tech products and components that are freely traded on global markets. U.S. developers and manufacturers are being excluded from these markets for no apparent reason.

Congress should also fulfill its advisory role to the Transatlantic Economic Council. When the Transatlantic Economic Council, the TEC for short, was created in 2007, Congress was given an advisory role in the TEC's work. This role was assigned to the Transatlantic Legislators Dialogue, which brings Members of Congress and the European Parliament together to resolve regulatory issues at the legislative level. I think the TLD's work could provide valuable input to the High Level Working Group on jobs and growth, and I suggest we find a way to integrate Congress and the EU Parliament input into this process.

And let me just end on this because I think the executive branch also has the responsibility to facilitate the jobs and agenda growth. One, eliminate or reduce remaining tariffs on both sides of the Atlantic. Two, work together with our European partners to establish international regulatory rules and standards.

And I know that Chairman Burton would agree on the importance of expanding U.S. trade with Russia, and I want to conclude on that. On December 16th of last year, Russia received an invitation to join the WTO which would significantly enhance our opportunities to export goods and services to a booming Russian market. However, if U.S. businesses are to have the same benefits of Russia's WTO membership as all other WTO member countries, Congress must extend permanent normal trade relations to Russia and repeal the Cold War era legislation that has become redundant. Doing so will empower the reformers and innovators that represent the future of Russian society, and in fact the leading Russion opposition figures have recently called on Congress to do just that. Repeal the Jackson-Vanik amendment for precisely that reason.

So I will love and wait to hear the testimony of the Under Secretary and our other panelists, and again I thank my friend, the chairman of this subcommittee, Dan Burton, for this timely, timely hearing.

Mr. BURTON. Very good. Jean, I think you were here next. I will get to our vice chairman here in just a minute. But before we do, I want to say since they mentioned that I am going to be retiring, we are going to miss you too.

Ms. SCHMIDT. Well, thank you. And basically I am here to just listen and learn. It is very apparent that Eurasia is becoming an emerging market that the United States must pay attention to. Most importantly, the region of Turkey, because it truly is the place where East meets West. And really continue to look at Russia as a trading partner. I think that in the next 50 years, the ability for Russia to continue to try to be a player of both economically and militarily will continue to decrease, but the emerging area will be Eurasia, most importantly Turkey. So looking forward to your views on that. Thank you.

Mr. BURTON. Our vice chairman from the great State of Arkansas, Mr. Griffin.

Mr. GRIFFIN. Thank you, Mr. Chairman. Just quickly I would like to point out that I was a staffer for Chairman Burton on the Government Reform Committee in 1997, 1998 and 1999, and appreciate his service and appreciate your service as well.

I have a particular interest in our trading with Europe. In the 2nd congressional district of Arkansas, which is my district, Little Rock is the biggest population center, but it is broader than that. It is about eight counties. We have a number of European companies that do business and employ hundreds of Arkansans, and so I will be real interested to hear how we can do more business with Europe.

Some of the ones that spring to mind are Unilever, which is a British/Dutch company. We have, what I understand to be, the only Skippy peanut butter producer in the United States. Also, L'Oreal makeup, Maybelline, a French company. They have a plant east of Little Rock. Dassault Falcon Jets from France. They bring jets over from, I think, their headquarters in Bordeaux. They don't bring any Bordeaux wine with them as far as I know, but they do bring their jets from Bordeaux and they are fitted with the interior in Little Rock. And then we have LM Wind Power, which is a leader in alternative energy that make the big blades for windmills. I have toured that plant.

And so the European businesses have a large footprint in my district. And so when we talk about increased trade and we talk about getting more businesses to have a direct investment in the United States, for me it is not some academic exercise. I mean, we are talking about people who get up in the morning and drive to work or they don't. And when we can have more of these companies investing directly in the United States either because they find a skilled workforce, or the infrastructure or they believe in the stability of the United States, whatever the reason, we need to be pursuing policies that encourage that further.

And I look forward to hearing your testimony and anything that you can advise us on what we can do to increase that. The chairman already mentioned that it took us as a country a long time to get the three trade agreements that we recently passed. They had been languishing for a long time. We need to do better. And so I am here to hear your opinions on how we can do better. Thank you very much.

Mr. BURTON. Thank you, Mr. Griffin. Mr. Sires?

Mr. SIRES. Thank you. I apologize for being late. Typical Hispanic, I am always late. But thank you for being here, and I just want to hear what you have to say. I am very interested in this part of the law.

Mr. MEEKS. Mr. Chairman, before we go to questions, I just want to join you in saying that we are going to miss Jean Schmidt. I have had the opportunity to travel with her and she is very enlightened on world issues. And I have just got to tell you, in getting to know her is getting to like her and love her and her whole passion for the world and opening up to the world. And so I just wanted to join you. Jean, you will be missed here also.

Mr. BURTON. I would just like to say before I introduce our first guest that you should get out there and run a marathon with her.

Mr. MEEKS. Oh no, I can't compete.

Mr. BURTON. What do you run, about five miles every morning?

Ms. SCHMIDT. Yes.

Mr. BURTON. Yes, my goodness.

Mr. MEEKS. Even when we are abroad, every morning she still gets up, whatever country that we are in, and she will run in the morning. I mean it is a routine that she will follow even in the highest altitudes. I couldn't believe it.

Ms. SCHMIDT. We really need to listen to this testimony, but I have just got to say if you want to learn what the world is like, get up when the world gets up and see how they operate. You really get the best footprint of how a world operates.

Mr. BURTON. Mr. Meeks will never get up that early.

Testifying on the first panel is the Department of State's Under Secretary for Economic Growth, Energy and Environment, Robert Hormats. Secretary Hormats served in his current position since September 2009. Prior to that position at the State Department, the Under Secretary was vice chairman of Goldman Sachs. Earlier in his career, the Under Secretary served as the Assistant Secretary of State for the Economic and Business Affairs, as Deputy U.S. Trade Representative, and as a senior staff member for the National Security Council. Pretty impressive credentialing. And with that we will listen to what you have to say.

STATEMENT OF THE HONORABLE ROBERT D. HORMATS, UNDER SECRETARY, ECONOMIC GROWTH, ENERGY, AND THE ENVIRONMENT, U.S. DEPARTMENT OF STATE

Mr. HORMATS. Well, thank you very much, Mr. Chairman and Ranking Member Meeks and members of the committee. It is a great pleasure to be here today, and I just wanted to before I start, just identify a couple of issues that you have mentioned in your opening statements.

One, I totally agree that there is opportunity in Europe and in Russia, Turkey and Eurasia. I think that you, Mr. Chairman, pointed out that the worst thing we can do in the current environment is turn inward. The best thing we can do as all of you have indicated is turn outward and look for new opportunities all around the world.

And Turkey is certainly a growing market. It has certainly come on to its own from having a major crisis 10 years ago. It is now one of the preemiment emerging economies of the world. Russia is a country that now as a member of the WTO, affords us, if we take advantage of them, opportunities to sell in a growing market that is going to be diversifying. It is a big energy market, but it is going to be diversifying into other things. So there are really great opportunities here, and the question is, how do we take advantage of them? So I really appreciate the opportunity. It is very timely in this environment to discuss these kinds of issues.

Let me just discuss for a moment the importance of the U.S.-European economic relationship. U.S.-EU bilateral economic relations are really one of the central drivers of the global economy. Roughly 50 percent of global GDP is accounted for by the U.S. and Europe combined. Europe itself is about 18 percent of global GDP. Europe is also vital to American exporters. The value of American goods and services exports to the European Union is actually several times that of our exports to China. While China gets a lot of publicity and is a growing market, Europe is still a much bigger market for American exports.

The same is true with foreign investment. Foreign direct investment has created millions of jobs on both sides of the Atlantic. At last measure in 2010, U.S. foreign direct investment in the EU had reached nearly $2 trillion. EU investment in the United States is also enormous, $1.5 trillion in 2011, creating a lot of jobs in virtually every district, every state in this country. We look to Europe to attract more foreign investment in the United States over a period of time. And we are going to be energizing our Embassies and our ambassadors as part of Secretary Clinton's Economic Statecraft to be more proactive, working with governors and mayors who are already very proactive in attracting foreign investment.

We look to Europe also for new opportunities for exporters, for industrial products, for consumer goods, for agricultural goods as well. I mean the area around Little Rock is a big exporter of agricultural products, poultry and such things, and virtually every state exports agricultural goods, and saying it is also a place where a large number of American companies have been operating successfully for many decades and seek more opportunities there.

We are also working with Europe to improve the climate for trade and investment in third country markets. This is very important because there are a number of countries who don't share the same notion of rules and obligations under the WTO and elsewhere, so we are working with Europe on intellectual property and in other areas as well. And of course, Europe has been a strong ally as we see in Afghanistan and elsewhere.

Let me discuss the eurozone crisis briefly. We have continued to collaborate closely through the global financial crisis, and more recently the current eurozone crisis. We have seen a commitment by the EU to address current economic challenges not only through fiscal consolidation, which is a major priority for some countries to improve their debt sustainability, but also by facilitating job creation and structural improvements and putting in place measures to assist member states in finding a path back to economic growth. We know from our own expertise that moving from crisis to recovery depends on swift, aggressive action to restore market confidence.

I would also like to outline some of the things that we are actually doing in the State Department to promote the Secretary's Statecraft agenda. In the written testimony, I won't go through this now, I highlight ways in which our Embassies and our missions are very actively involved in promoting American exports, supporting American companies, and attracting investment.

One example is Boeing's sale of 50 aircraft to Russia's Aeroflot. We also worked in Germany with Volkswagen to encourage them to build a $1 billion manufacturing plant in Chattanooga. This helps U.S. exports, but as Mr. Griffin pointed out, there are a lot of opportunities for investment all over. And in Indiana, as you have said, Mr. Chairman, there is a lot of foreign investment and we are aiming to get a lot more. And yes, I think it is a big job creator and I think it is underestimated. But Indiana is so so central that, you know, it is a great place to invest. You can go anywhere from Indianapolis, and it is a relatively short distance. And of course Kennedy Airport is a big hub, and your district is really very important. It is really the air gateway to Europe, so it is an opportunity.

The volume of U.S. agricultural exports, let me just talk about that briefly. In our 2011 statistics, agricultural exports to the EU were valued at $9.5 billion, up 8.2 percent from the prior year. USDA estimates that for every billion in U.S. ag exports there are about 7,800 jobs supported in the United States.

We also have been very active, we have got for the first time, Secretary Clinton invited representatives from 200 institutions, like Chambers of Commerce, from around the world to our global business conference to find out how we could do a better job. So we are constantly learning and trying to be more proactive.

We also have the Transatlantic Economic Council, which was established in 2007, led by the White House and the European Commission. We are trying to use that to reduce regulations and improve cooperation in a variety of areas. One of the highlights of the TEC is the new work program that has been announced, which is designed to see if we can find ways of strengthening jobs and growth through a working group that has been created between the U.S. and the EU. Ron Kirk is our representative and Karel De Gucht, the European Commissioner for trade, is theirs.

Let me just mention a few things about trade with Turkey and Russia. I know I am out of time. I will just go very quickly. First with Russia, I think eliminating the Jackson-Vanik restrictions as they apply to Russia is critically important and providing them with PNTR is very, very important. Russia only takes about ½ of

1 percent of American exports today. It has the potential to enable American exports to grow, if we have the same opportunities as other countries in the WTO will have, once Russia accedes to membership in the WTO. If PNTR is not provided, if Jackson-Vanik is not lifted with respect to Russia, we will be at a disadvantage vis-à-vis our trading partners, and we will also not be able to enjoy the full benefits of the commitments that Russia has made when it joins the WTO. So it is a double negative for us.

It is also worth pointing out that in the WTO negotiations, the United States gave up nothing. All the concessions, all the commitments were made by Russia. We have made no concessions to them or to any other country. They made concessions in order to join the WTO. So this is an enormous opportunity for American exporters and American business to take advantage of one of the big markets of the world with energy and a lot of other things that can enable companies in the United States to do better.

The other point is Turkey. I totally agree that Turkey is a growing market, and a country that has undertaken a lot of very important reforms. And lastly, Eurasia, Central Asia, very important countries like Kazakhstan, Azerbaijan—we are working with these countries. They have a lot of raw materials and a lot of growth potential so we should be developing our relations with them, and we will be doing that. I have met with the President of Azerbaijan, which as you know has a lot of energy, and we are going to have a bilateral commission with them to try to reduce barriers and increase opportunities.

So there is a wonderful menu of opportunities here. It is up to us to work together, the executive branch, the Members of Congress together to find ways of taking advantage of these opportunities for American workers and the American people and American business.

So thank you very much, Mr. Chairman. Sorry I went over.

[The prepared statement of Mr. Hormats follows:]

TESTIMONY OF ROBERT D. HORMATS

UNDER SECRETARY OF STATE FOR ECONOMIC GROWTH, ENERGY AND THE ENVIRONMENT

DEPARTMENT OF STATE

BEFORE THE HOUSE FOREIGN AFFAIRS COMMITTEE SUBCOMMITTEE ON EUROPE AND EURASIA

MARCH 27, 2012

ON CREATING JOBS: ECONOMIC OPPORTUNITIES IN EUROPE AND EURASIA

Mr. Chairman, Ranking Member Meeks and Members of the House Foreign Affairs Subcommittee on Europe and Eurasia, thank you for inviting me to testify today.

In my remarks, I'd like to focus on the importance of our economic relationship with Europe and how the Obama Administration is working to maximize the potential of that relationship to boost America's international competitiveness and create jobs in the United States.

With news headlines focused on the Eurozone crisis and the dynamic growth of the emerging economies, we sometimes lose track of the breadth and depth of our trade and investment relationship with Europe. Europe is a priority.

We look to Europe to attract more foreign investment into the United States that can produce high-quality jobs and bring us new technologies. We look to Europe for new opportunities for our exporters of industrial and consumer goods, services and agriculture products -- and as a place where large numbers of American companies have been operating successfully for many decades and seek new market opportunities. We work closely with our European partners to ensure an open trade and investment climate in third markets. And, of course, we recognize Europe as a staunch ally – and it has been for decades.

I will give you concrete examples of economic progress, and ways we are working to achieve even better results.

We look forward to continued cooperation with the Congress and the private sector -- as well as our governors and mayors -- as we work to realize our shared objectives.

The example of your district around Indianapolis, Mr. Chairman, is quite instructive. I was struck by the fact that Indianapolis is located within one day's drive of 55% of all Americans – or 50 million households.

Your district's successful reorienting of its economic growth by taking advantage of its location and traditional manufacturing base, while developing its strengths in other competitive industries, such as higher education, health care/pharmaceuticals, transport/distribution services, is exemplary. Lessons learned from your District and your leadership are important to examine and emulate in other U.S. regions, as well as in Europe, as we seek to unlock new sources of jobs and economic growth so important for our recovery.

And the Ranking Member's district is in New York City, one of the world's truly international cities. The district is also the home of John F. Kennedy Airport, our nation's main aviation gateway to Europe. Ranking Member Meeks – a fellow New Yorker – has helped create many jobs in his district and throughout the country by his support of trade expansion in Europe and around the world.

The Importance of the United States – European Union Economic Relationship

I would like to begin with just a few words on the U.S.-EU bilateral economic relationship. It is one of the central drivers of the world economy and accounts for almost 50 percent of global GDP. To put this in perspective, the value of United States goods and services exports to the European Union is several times the value of our exports to China. Trade flows between the United States and the EU exceed $2.7 billion per day.

Foreign Direct Investment has created millions of jobs on both sides of the Atlantic. At last measure in 2010, U.S. Foreign Direct Investment into the EU -- $1.95 trillion -- was more than twice U.S. Foreign Direct Investment into any other region in the world. The EU's 2010 Foreign Direct Investment of almost $1.5 trillion in the United States is approximately four times the amount from any other region – and a huge job creator here.

Given the importance of transatlantic trade and investment in supporting high-quality jobs in the United States, I cannot emphasize enough the importance of making further efforts to remove barriers to commerce between the United States and the EU.

And this is not only in America's interest – it is in the EU's as well. Given the absolute size of our relationship, even small gains in any sector can mean significant economic benefits – more trade, more jobs, and more business opportunities for U.S. firms and U.S. workers and farmers.

The President has said, "Europe is the cornerstone of our engagement with the world." And this is true, not only in our shared foreign policy objectives, but in the economic sphere as well. We have similar values and embrace shared market economic principles that have stood the test of time.

Together, we also can spur multilateral liberalization in our globalized world, in such fora as the G8, G20, WTO and OECD -- promoting an open, transparent, and non-discriminatory trade and investment climate in third countries.

We work with the EU and other European partners in the G20 and the Financial Stability Board, strengthening existing global financial regulatory and supervisory structures. As the world's two largest donors, the United States and the EU promote effective and complementary development assistance. We also work together to improve supply chain security through the World Customs Organization and other fora.

Even as we focus on achieving positive multilateral results, the United States and the EU have every interest in promoting strong market-based, rules-based approaches to economic policies in third countries, including in particular Russia, China, Brazil and India.

The United States and the European Union can both benefit if we work together to promote the adoption of market principles worldwide. This creates a level playing field for our firms around the world. We have made joint efforts, for example, to help China improve the safety of the toys, pharmaceuticals, and other products it exports, which is essential to the health and well-being of our consumers.

In the U.S. – EU Intellectual Property Working Group we have worked to promote legitimate copyright content among Chinese Internet Service Providers, and trademark law reform in China, and to conduct joint IPR enforcement operations at U.S. and EU ports. In 2012, the group will focus on protecting trade secrets, particularly in China. Our newly created U.S. - EU Investment Dialogue is another example of our joint commitment to promote market-friendly, rules-based economic policies in third countries.

Effects of Eurozone Crisis

Our ties to Europe are deep and longstanding, and we have continued to collaborate closely through the global financial crisis and, more recently, the Eurozone crisis.

It has been U.S. policy for almost seven decades to support a Europe whole, free and at peace. We will continue to work with our European partners to promote financial stability and sustainable, balanced growth.

We have seen a commitment by the EU to address current economic challenges not only through fiscal consolidation aimed at improving debt sustainability, but also by facilitating job creation and structural improvements and putting in place measures to assist member states in finding a path back to economic growth.

European Union member states are developing strategies to safeguard the region's economic future, improve competitiveness, and achieve stability. There's a lot more hard work ahead and many difficult choices to make. But our European partners have laid a solid foundation on which to build.

The United States is encouraged by European leaders' efforts to address the region's crisis. We have a huge stake in the health and vitality of the EU. European growth and financial stability are important not only for Europe, but also for the global economy, and for creating and sustaining jobs in the United States.

We know from our own experience that moving from crisis to recovery depends on swift and aggressive action to restore market confidence. We have every reason to believe that with continued decisive action by European leaders, fiscal financial sector, and competitiveness challenges can be resolved.

There is no doubt that the debt crisis has put serious strains on the European Union and its members, both politically and economically. But the commitment to a united Europe remains strong and European integration remains attractive because it makes economic sense over the long-term.

Realizing that fiscal consolidation can be facilitated by complementary growth-enhancing reforms, we are seeing similar debates in Europe as in the U.S. on how to support jobs and growth.

It is clear that slower growth and tighter budgets in Europe may have an impact on some of our foreign policy objectives, so we are actively searching for opportunities to leverage our individual and collective resources in our efforts to advance shared transatlantic goals.

Europe is an indispensable partner in promoting peace and prosperity through development assistance. Together we can stretch the impact of our assistance through targeted cooperation efforts in developing countries and countries in transition across the globe. The EU and its Member States account for over 55 percent of net Official Development Assistance to developing countries, with aid from the fifteen wealthiest EU member states rising by 6.7percent in 2010 to just over $70 billion.

The EU and its member states have taken the lead on post-conflict aid operations in Liberia, Burundi, the Democratic Republic of the Congo, Sierra Leone, Darfur and Chad. The EU has also taken on lead roles in the democratic transitions occurring in Libya, Tunisia and in the Middle East and North African region.

We have been key partners in transforming Europe's frontier regions in the Balkans, South Caucasus, and Central Asia, in cementing ties to Euro-Atlantic institutions and in promoting reforms to support transition to market economies. Our collective assistance helps these countries become robust trade and investment partners; helping them make economic decisions based on market principles and embrace international norms; increasing the transparency of the governments' banking, financing and procurement operations; and reducing impediments such as corruption and over-regulation in order to level the playing field for U.S. firms. And I think you will agree, Mr. Chairman and Ranking Member Meeks, that when U.S. businesses and U.S. labor are able to compete on a level playing field, their products and services can win in markets the world over.

Defense spending faces continued pressure in Europe. The Secretary of Defense told the Allies last fall that "we are at a critical moment for our defense partnership." Overall, defense spending in Europe has decreased during the past decade and is less than half of U.S. military spending.

Whatever happens on the financial and economic front, our foreign policy message has been consistent: It is important that we continue to spend the money required to meet our key priorities, and maintain critical deployments, both military and civilian. Reduced outlays overall should not mean reduced engagement in critical parts of the world.

U.S. Efforts to Deepen Economic Ties with Europe

While we work through these issues, the effort to expand our economic ties has not taken a back seat.

The Obama Administration is committed to deepen and broaden our economic relationship with Europe. Secretary Clinton has said, "We need to forge an ambitious agenda for joint economic leadership with Europe that is every bit as compelling as our security cooperation around the world." I would like to outline for you how we at the State Department are actively expanding trade and investment opportunities for U.S. companies in Europe.

The State Department works closely in this effort with partners throughout the U.S. Government, including the Office of the U.S. Trade Representative, the Department of Commerce, the Department of Agriculture and the Department of the Treasury.

We also are working closely with other partners in regulatory and technical agencies, including the Environmental Protection Agency, the Department of Health and Human Services, the National Aeronautics and Space Administration, the National Science Foundation and the U.S. Patent & Trademark Office -- as well as research institutions, many of which have developed very inventive ideas for advancing collaboration and increased trade.

U.S.- EU scientific, research and development cooperation is increasingly key to many of the issues facing us today, including fostering economic growth and creating jobs in our countries in emerging sectors. Pursuing regulatory and standards-setting cooperation will benefit our economies.

Economic Statecraft

In October 2011, Secretary Clinton announced her vision of Economic Statecraft as a central pillar of U.S. foreign policy, that is, how we use the tools of diplomacy abroad to support trade and the rights of U.S. investors, leverage the strengths and expertise of the U.S. private sector in our economic engagement overseas and use diplomacy and our overseas presence to grow our economy at home by attracting foreign investment to the United States.

We have established an Economic Statecraft Task Force to elevate economic and commercial diplomacy goals and to ensure that we have the right people, support tools, and engagement platforms. The Task Force covers four principal areas of work: human capital; internal tools; external engagement; and policy opportunities.

We are doing much of this work already, especially at our overseas posts, to support such programs as the National Export Initiative and Select USA (which promotes job-creating foreign investment in the United States). The State Department puts special emphasis on support for entrepreneurship. Under the Secretary's Economic Statecraft Initiative, we will scale up our efforts.

Several examples of how our State Department colleagues in Embassies abroad are already supporting U.S. companies include:

Embassy Berlin advocated in favor of Volkswagen's decision to build a new $1 billion manufacturing plant in Chattanooga.

Embassy Bern's advocacy and assistance to Virginia-based Aurora Flight Sciences led to its successful bid under an open procurement competition for a contract worth $5 million with the Swiss government. This medium-sized, new-to-export firm had to navigate a complex path of export controls in order to receive permission for the lease of its product. Aurora is now well-positioned to bid on a much larger Swiss government tender worth as much as $250 million and that would create 300 well-paid, high-quality jobs in the United States.

Embassy Skopje advocated for the liberalization of our aviation relationship with Macedonia, resulting in the initialing of an Open Skies agreement that will benefit consumers and businesses in both countries. In addition, in 2012 Johnson Controls launched its second investment in Macedonia of approximately €20 million , complementing its parent activities in the United States while supporting Macedonia's efforts to establish a sustainable, market-based economy.

Embassy Kyiv worked with the Commerce Department's Commercial Law Development Program to combat counterfeit medicines. As a result, the Ukrainian parliament passed legislation providing for stiffer sentences for individuals convicted of trafficking in counterfeit medicines.

Embassy Sarajevo, working closely with several U.S. software firms, encouraged the government of Bosnia to purchase licensed American software. In December 2010, the Bosnian government made its first payment on a $7.5 million licensing agreement with Microsoft for government workstations. This represents a great step forward in the protection of Intellectual Property Rights in Bosnia.

Embassy Moscow had a number of dramatic successes befitting Russia's large, growing market. Over the course of 2011 the Embassy supported many major business deals – such as Boeing's sale of 50 aircraft to Aeroflot and 40 planes to Russian airline UTAir, a joint venture between Exxon-Mobil and Rosneft to explore for oil and gas in the Arctic, and GE's joint ventures with two Russian partners. I am confident that our advocacy both in Moscow and by officials here in Washington made a real difference.

High level U.S. advocacy with the **Turkish** government has been crucial in winning multi-million dollar bids for U.S. companies. In April 2011, helicopter producer Sikorsky was selected to negotiate a contract, with a potential value of $1.3 billion, to co-produce utility helicopters in Turkey. In January 2012, the Turkish National Police began final negotiations with Bell Helicopters for the sale of 15 Bell 429s with an option to purchase five additional aircraft.

Embassy Astana provides critical support to U.S. businesses seeking to benefit from Kazakhstan's growing commercial potential, its intensified efforts to complete accession to the WTO, and its central role as a transit hub for EU-China trade. As the New Silk Road develops, Kazakhstan is almost certain to emerge as one of the vital links -- and vital avenues for private U.S. engagement -- across the region. Over the course of fiscal year 2011, our mission had 57 concrete export successes valued at $7.8 million and two commercial diplomacy successes valued at $3.4 million. On February 5, 2012, Air Astana, the national flag carrier of Kazakhstan, announced that it has agreed to purchase seven Boeing aircraft worth US $1.3 billion.

Beyond advocacy for specific business deals, we are also working to level the playing field for U.S. workers and businesses in Europe and around the world. One example is the agriculture sector. The volume of U.S. agricultural exports to the EU is strong and growing. Our 2011 agricultural exports to the EU were valued at $9.5 billion, up 8.2 % from the prior year. The USDA estimates that every $1 billion in U.S. agricultural exports supports about 7,800 American jobs across a variety of sectors. We want to push those numbers even higher.

Business is telling us there is more we can do to help them grow in an increasingly challenging world – and we at State want not only to respond boldly, but also to exceed their expectations. On February 21-22, Secretary Clinton invited 200 representatives of U.S. business support organizations and the private sector to participate in the Department's first ever Global Business Conference. I was pleased to participate in several sessions. This is part of the Department's effort to increase engagement with the private sector and support U.S. business.

Transatlantic Economic Council and Regulatory Cooperation

The business community, consumer organizations and other stakeholders in the United States and in Europe have also been an active and vocal constituency in support of the Transatlantic Economic Council, or TEC. The TEC, established in 2007 and led by the White House and the European Commission, engages our most senior economic policymakers to promote economic growth and job creation on both sides of the Atlantic -- in particular by addressing regulatory barriers and fostering innovation.

As tariffs have fallen in recent decades, non-tariff measures or "behind the border" barriers to trade and investment have come to pose the most significant obstacles to our trade. Regulators in both the EU and the United States aim essentially for the same strong protections for the health and safety of our citizens, for our environment, and for our financial systems.

But differing approaches to regulation and to the development of standards can create barriers and slow the growth of trade and investment. Reducing unnecessary differences can create opportunities.

One way we are seeking to minimize the impact of unnecessary regulatory divergences on trade and investment is to examine closely our respective regulatory processes and to try to identify ways to make them more compatible and accessible. The TEC and the U.S. - EU High Level Regulatory Cooperation Forum, led by OMB, have spurred new discussion on our respective approaches to risk analysis, cost-benefit analysis, and the assessment of the impact of regulation on trade.

One of the highlights of the November 2011 TEC meeting was a comprehensive work plan on electric vehicles and associated infrastructure, in cooperation with the U.S.-EU Energy Council, business, standard-setting bodies, and scientists on both sides of the Atlantic.

A key component of this work plan is a decision to establish "interoperability centers" which will allow scientists from both sides of the Atlantic to share data, equipment, and testing methodologies. This in turn should set a foundation for compatible approaches and regulations in both markets and lead to interoperable e-cars and related infrastructure, such as charging stations and smart grids.

And while we have a common purpose on electric vehicles, the work that is done in the private sector to prioritize and develop the standards adopted for and applied to these new technologies is also critical. The standards-setting process is very complex with vital roles for government, business and standard-setters.

If the EU and the United States can together promote the creation of compatible, high quality, transatlantic standards in a variety of sectors or product areas in the short-to- medium term, our countries can encourage other nations to adhere to them and reduce the clutter of disjointed, unilateral standards that would impede trade and serve as protectionist devices.

Businesses then will be able to deploy technologies more effectively and more quickly across the globe, where demand for these products will only grow over time, supporting our shared desire for new sources of jobs and growth.

Additionally, common transatlantic approaches to regulation can serve as a model for other nations, in particular Russia, China, Brazil and India. Together we can provide incentives for others to embrace science-based strategies and approaches, working toward regulatory convergence and enabling mutual access to markets with fewer impediments and avoiding protectionist regulation.

This is an important point. Many countries don't share our regulatory principles. Many are inclined to devise approaches that make it more difficult for our companies to do business in their markets – which over time will Balkanize the trading system.

The United States and the EU can both benefit if we work together to promote the adoption in third countries of market principles and internationally-accepted rules governing trade, finance, intellectual property, and investment. Better economic policies in third countries will help ensure fair competition and market access, increasing opportunities to generate exports and jobs in the United States and Europe.

I would also like to highlight our work on investment. We are very close to finalizing a set of investment principles that we have developed with the EU as part of the TEC Investment Working Group. We are hopeful that these principles can be used in our joint efforts on investment in third countries, as well as with our multilateral efforts at the OECD, UNCTAD, and elsewhere. In the months ahead, we will keep you informed how we intend to operationalize this set of principles.

We reference in the principles support for the OECD work on a preliminary set of criteria on State-owned and State-supported enterprises. This new breed of SOE can crowd out more innovative, smaller competitors, hurting both the host economy and foreign competitors.

We are working with the EU and others to push further work by the OECD Trade and Investment Committees to examine the cross-border impact of these practices and build on the existing work of the Corporate Governance and Competition Committees. We believe the investment and trade dimensions are particularly important and they are substantially interrelated.

U.S.-EU High Level Working Group on Jobs and Growth

At the U.S.-EU Summit in November 2011, President Obama and EU leaders pledged to make the U.S.-EU trade and investment relationship even stronger. They called upon the TEC to create a High Level Working Group on Jobs and Growth, co-chaired by the U.S. Trade Representative Ron Kirk and EU Trade Commissioner Karel De Gucht.

The purpose of this group is to identify and assess options for strengthening the transatlantic economic relationship in areas including, but not limited to: conventional barriers to trade in goods; barriers to trade in services and in investment; opportunities to reduce or prevent unnecessary non-tariff barriers to trade; and enhanced cooperation on common concerns involving third countries.

All options are on the table. USTR has had initial consultations with EU counterparts and is seeking input from all stakeholders, including Congress, as it conducts its work. Several major private sector organizations have issued studies or reports that make compelling arguments for an ambitious agenda in this area.

Opportunities in Russia and Turkey

I would like to say a few words about emerging trade and investment opportunities in the regions bordering the EU, in particular Turkey and Russia.

Putting our relations with **Russia** on a more constructive course is one of the Adminstration's top priorities. We work together where we have common interests, while speaking frankly about areas of disagreement, holding firm to our values and principles.

This year we have set as a goal the broadening and strengthening of our cooperation, particularly economic and commercial ties. The unprecedented sales of aircraft by Boeing, the ExxonMobil Arctic deal and General Electric's new joint ventures are a few of our key economic and commercial successes reflecting that improved cooperation. This work is in America's economic interest and part of the Adminstration's efforts to create American jobs. In 2011, American exports to Russia rose 39 percent -- more than twice as fast as our goods exports to the world as a whole. But even this increase leaves our exports to Russia at $8.2 billion for 2011 – about one-half of one percent of our total exports.

We are working closely with Russia in a variety of fora, including the multilateral financial institutions, the G8 and the G20, and in APEC – the Asia-Pacific Economic Cooperation forum – which Russia hosts this year following the hosting of the 2011 forum in the U.S. – and increasingly in the OECD. Russia's ratification of the OECD Anti-Bribery Convention required the passage of new laws that criminalized foreign bribery, with penalties for those who bribe foreign public officials to gain business advantages. As a signatory, Russia will undergo detailed reviews of its anti-bribery laws to confirm these laws are effectively implemented.

The **U.S.-Russia Bilateral Presidential Commission**, launched by Presidents Obama and Medvedev in 2009, now includes 20 working groups on various fields of cooperation, including a group on business development and economic relations. That working group explores cooperative approaches to boost two-way trade and investment, increase energy efficiency, modernize industry, grow small and medium-sized businesses, and develop training programs for managers in innovative and high-technology sectors. We also have recently launched a Working Group on Innovation, of which I am the U.S. co-chair. Our aim is to have Russian and American innovators cooperate in our mutual interest to produce benefits for both societies, and the first meeting of the group will take place March 27, the date of this hearing, in Silicon Valley.

In December 2011, **Russia received an invitation to join the WTO**. The Duma must now ratify Russia's WTO accession package, which it is expected to do no later than July 2012. Thirty days later Russia will become a full-fledged member of the WTO. President Obama in his most recent State of the Union Address urged Congress to ensure "that no foreign company has an advantage over American manufacturing when it comes to accessing… new markets like Russia." If Congress does not enact the necessary legislation to terminate Jackson-Vanik with regard to Russia, when Russia becomes a member of the WTO U.S. exporters will not get the full benefits of Russia's WTO membership, but our competitors will. This puts many of our industries at a serious disadvantage. Unlike other WTO members, the United States will not be able to turn to the WTO mechanisms, including dispute settlement procedures to ensure compliance in areas such as application of sanitary and phyto-sanitary measures, intellectual property, services market access, or WTO rules on antidumping.

We should not underestimate the opportunity to expand U.S. exports further to the world's seventh largest economy. The trend is promising for American manufacturers, service industries, farmers, and U.S. job creation. And the Commerce Department's International Trade Administration estimates that every billion dollars of U.S. exports supports over 5,000 jobs.

The Jackson-Vanik Amendment – enacted vis-à-vis the former Soviet Union -- long ago fulfilled its purpose: to support free emigration, particularly Jewish emigration. No such barriers to emigration exist in Russia today.

As U.S. Trade Representative Ron Kirk has said, terminating Jackson-Vanik "is not a gift to Russia. It's a gift to America's exporting businesses." It means more jobs and economic growth here in the United States. Let me give you some concrete examples about how lifting Jackson-Vanik for Russia will help American business.

When Russia becomes a WTO Member, it will be required to comply with all provisions of the WTO's Agreement on Application of Sanitary and Phyto-sanitary Measures, including obligations related to the use of international standards and applying measures based on science. However, Russia would only be required to apply these rules to U.S. exports of meat, poultry, dairy, and other agricultural products if Congress terminates the application of Jackson-Vanik to Russia. It is similar for intellectual property rights. Russia would be required to meet stronger requirements for enforcement of IPR held by American authors and inventors only if Congress lifts Jackson-Vanik application to Russia.

Make no mistake, Russia will join the WTO, but action is required from Congress to ensure that American companies reap the benefits.

Turkey is another strategic priority in Europe. We have seen significant growth in our trade relationship. From 2010 to 2011, trade between our two countries increased by 35 percent – however, exports from the United States still account for only about seven percent of Turkey's total imports. Tremendous opportunities remain for enhanced two-way trade.

During their April 2009 meeting in Ankara, President Obama and Turkish President Gul pledged to strengthen the economic pillar of our relationship, leading to the creation of the cabinet-level Framework for Strategic Economic and Commercial Cooperation (FSECC). The FSECC and its various working level components advance discussions among experts from both governments on everything from protecting IPR to boosting energy trade, to positioning Istanbul as an international financial center.

These efforts have led, and will continue to lead, to new business opportunities – both trade and investment -- for U.S. companies. Moreover, they provide an opportunity to address barriers to trade that are affecting our exports, such as in agriculture biotechnology and pharmaceuticals in a constructive and meaningful manner.

Through the Economic Partnership Commission and the Trade and Investment Framework Agreement meetings, we are developing a more robust economic partnership with Turkey, and making progress towards resolving outstanding trade issues. I have had regular conversations with Deputy Prime Minister Babacan to explore what we both believe is the enormous potential for our countries to work more closely on a wide range of economic issues – both bilateral and multilateral. Turkey is one of the most dynamic economies in the world – and we value it as a strong current and future partner.

Turkey was designated one of six "Next Tier" markets with very high export potential for U.S. companies under the President's National Export Initiative. In just two years, we have already doubled exports to that important country. Export promotion activities have focused on opportunities in Turkey's aviation, defense, high-tech, and energy sectors, among others. Commerce Assistant Secretary Camunez in December 2011 led a trade mission to Turkey focused on renewable energy and energy efficiency, which is expected to generate significant business for U.S. companies.

Eurasia and Central Asia

I also want to comment on our work with the other countries in Eurasia and Central Asia. This region is rich in energy resources, growing at a fast pace economically, and strategically important.

Through U.S. assistance to improve the business-enabling environment, states such as Georgia have become leading reformers in the World Bank's "Doing Business" index. In Kazakhstan, technical assistance co-funded by the United States and the Government of Kazakhstan helped to regularize the use of international standards for financial reporting. This helped improve the climate for investment, including substantial investments by U.S. energy companies

This region is also a key part of Secretary Clinton's vision for the New Silk Road, which seeks to connect countries in the South and Central Asian region to each other through greater economic growth and trade.

Let me highlight **Azerbaijan** as one example. Since 2004, its economy has tripled in size. According to the World Bank, the poverty rate has dropped from 49 percent in 2003 to about 9 percent in 2009. Its imports from the United States, at $328 million in 2011, are about 30 percent greater than the 2010 total of $253 million. The Azerbaijan government has identified agriculture, information and communications technology, transportation, and tourism as priority economic sectors for development. U.S. firms can play a key role in this development. We are now re-launching the U.S.-Azerbaijan Economic Partnership Commission, which I plan to co-chair with Azerbaijan's Minister of Finance soon in Washington. And we support its efforts to become a member of the WTO.

Georgia is another example. Georgia has made remarkable progress since the Rose Revolution in carrying out reforms that have laid the foundation for future economic growth and development. To assist in these efforts, and following his meeting with President Saakashvili on January 30, President Obama announced the launch of a high-level bilateral dialogue to strengthen trade relations. We also continue to pursue avenues for deeper bilateral economic ties through the Economic Working Group of the Strategic Partnership Commission, which will next meet in Georgia later this year.

And finally, let me touch on **Kazakhstan**. We have established a number of bilateral dialogues, including the U.S. – Kazakhstan Energy Partnership, which is chaired by Deputy Secretary of Energy Poneman and Minister of Oil and Gas Mynbayev, an agreement on science and technology cooperation, and a memorandum of understanding on agricultural cooperation. U.S. exports are rising by 13 percent – from about $730 million in 2010 to more than $825 million in 2011. We are working with Kazakhstan to further integrate it into the world economy by supporting its negotiations to join the WTO, which should help to level the playing field and increase opportunities for U.S. firms in that market.

Conclusion

There is much work yet to be done, but our partnership with Europe -- and our partnerships with Eurasia and Central Asia -- have never been stronger or more important. I look forward to working closely with this subcommittee to further strengthen our relationship with this region and create more jobs and more opportunities for U.S. workers, farmers and businesses there and around the world.

I am pleased to answer any questions you may have.

Mr. BURTON. No, that is okay. Thank you very much. You mentioned a couple of things that concern me. This Trans-Pacific Partnership that is already in force has been, I think, pretty beneficial. But we haven't had any trade deals with many nations over there in recent times. Why is that?

Mr. HORMATS. In the Pacific, you mean in the——

Mr. BURTON. No, I am talking about that we are not seeking any trade deals with any other nation right now that I know of. You mentioned Colombia.

Mr. HORMATS. Yes.

Mr. BURTON. You mentioned Panama. You mentioned Korea, North Korea or South Korea?

Mr. HORMATS. South Korea.

Mr. BURTON. But there is 25 or 30 other opportunities out there and we are not taking advantage of them, and I just was wondering why.

Mr. HORMATS. Well, the current objective now and where we are really devoting most of our attention, Mr. Chairman, is on the Trans-Pacific Partnership. Actually I just got back a couple of days ago and I have got the voice to attest to this from a long trip to Vietnam and to Thailand. Vietnam is a partner in these TPP, Trans-Pacific Partnership negotiations. So our goal is to really move those along.

That is the fastest growing area of the world, so what we are trying to do is focus our negotiating energies on this as a top priority. But we also see the lifting of Jackson-Vanik restrictions to Russia as expanding trade opportunities as well. So if you combine what we hope will be a success in expanding trade opportunities in East Asia and the Pacific through TPP and then moving along on Russia as we have both, I think all of us have agreed this would be a good idea, that can actually boost trade quite substantially.

Mr. BURTON. During your comments, you mentioned the European Union and the fiscal problems that they are having. One of the concerns that I have had for a long time, and that is one of the reasons we were in Brussels and a number of those countries over there, is that we don't know exactly how involved the United States is financially. I know in the International Monetary Fund we have put up about 18 percent.

But I have been told by some people that the Fed has been printing money and they have been investing in bonds over there with the European Central Bank, and I don't think anybody really knows how deeply we are involved and what kind of risk there is in the event that a number of countries go belly up.

I think Greece is in real, real trouble. I don't see how they are going to survive. I know everybody is trying to keep them afloat, but it is going to be tough. And then you have got Italy, and you have got Spain and Portugal. And if we are deeply involved and some of those countries start going belly up, they can't make good on their bond payments or the interest even, how is that going to affect the United States and our investments over there?

Mr. HORMATS. Okay. Well, first the IMF, the first point you made. We are a major supporter of the IMF as you correctly point out, and the IMF has actually provided a substantial amount of money to Europe. But our obligations are really to the IMF, and the IMF balance sheet is still very strong. Whenever there is a repayment of a loan, the IMF gets first preference from whoever the borrower is. So the IMF has really never run into, or even come close to, running into any financial difficulties. So the contributions we have made or what we provide to the IMF——

Mr. BURTON. Let me interrupt because I am running out of time. The European Central Bank is doing the same thing that we did with QE1 and QE2. They are printing money. And that money is going into these countries to help bail them out at a very low interest rate, and then a lot of the financial institutions are trying to loan it out at a much higher rate so they can try to get well of those governments. My main concern is what impact, and if you can be concise about this, what impact is it going to be if these countries do start going south?

Mr. HORMATS. Well, it is hard to speculate on that because I think there is a very good chance that things will get better. But there are always risks in any financial environment as we have seen. But I think that from an American point of view, our money in the IMF is safe. The money that the Fed has provided is through swap agreements with central banks, which I think are very safe as well.

I think the big problem that we face for the moment is that a weaker Europe, economically, can have very negative implications for our trade, and that I think is what you are getting at, and I do think that is a concern. And one of the reasons we are trying to support Europe is to avoid a deterioration financially and from a trade perspective.

Mr. BURTON. No, I understand that and that is one of the reasons, I think, that Germany and Merkel over there is trying to keep some of these countries afloat, because they are such a big trading partner. But I understand the Gordian knot that we are in, but I wish somebody could tell me what our exposure really is.

And with that I will yield to Mr. Meeks.

Mr. MEEKS. Thank you, Mr. Chairman. Mr. Secretary, I was glad to hear you say, and I was going to include that even in my opening remarks, about the other opportunities that lie before us as far as the trade with Turkey and the Caucasus in Central Asia, because these are also emerging markets representing great opportunities for expanded U.S. exports and investments.

Now I also sit as the co-chair of the Services Committee and a co-founder of the Services Caucus, I should say, and I believe that there are immense possibilities for increased trade in the service sectors such as the airline industry and telecom and health care and capital markets that will provide a significant economic boost to the transatlantic economy.

And with the failure of Doha, et cetera, what do you think about a plurilateral agreement with a number of the participants on services where maybe we can agree on the services because where we can expand? Because as you know, Dr. Hamilton, for example, calls services the sleeping giant of the transatlantic economy in some of his previous publications.

So my first question is, what do you think about the services in that regard? I would like to hear your opinion in that regard.

Mr. HORMATS. Well, first of all, I agree with Dr. Hamilton that services represent an enormous opportunity. A large portion of our economy is services. I think manufacturing is very important, but services represent a potential opportunity that we ought to be developing.

The second point I would make is, one of the things we are doing under this working group on jobs and growth with Europe that has been set up with Ambassador Kirk being the American co-chair, is to try to find ways of expanding opportunities with Europe. And while they are looking at all options, one option that lends itself to real progress would be the services sector.

And the other thing is that we are looking, and as you pointed out, the WTO is sort of at the moment in a quiescent state, but there may be opportunties for groups of countries to move ahead on certain aspects of trade liberalization even without a complete new success of the Doha Round. So identifying opportunities for expanding trade and services either with the Europeans through this working group or through a group of countries within the WTO who see this as being in their common interest would be a very positive thing. And I think we ought to look for opportunities to do that because he is absolutely right. This is a sector where growth is possible and where job creation would be quite substantial of both.

Mr. MEEKS. I would love to continue to talk and work on that with the Caucus. I couldn't agree more with you in talking about, and what Jean has indicated also with Turkey, in opening up that market. I have been talking a lot about Russia and Turkey which are tremendously important, huge markets.

And as a result I have had though, a number of our U.S. pharmaceutical companies come to me asking about their access to the Turkish market and that issue. So I was wondering, do you know what the Government of Turkey is going to do or can do to ensure full market access for innovative U.S. medicines, because that is also important to get our products out like services and medicines.

Mr. HORMATS. Yes. Well, this is an issue with Turkey, there is no question about it. We have made a little bit of progress, but there are still major problems that need to be resolved with respect to Turkey's policies as they relate to the pharmaceutical industry that impede access of products into Turkey and the ability of some American companies that may want to invest in Turkey as well.

We have had conversations with the Turkish Government at very high levels. I, myself, have had several conversations with Turkish officials on this. This is something that we work with PhRMA on a very regular basis to look for opportunities. This is a very high priority for us, I think, and actually over a period of time will be for the Turks as well, because they need the very best, and they want the very best medicines for their people. American companies have, I think, the best medicines in the world, the best pharmaceuticals in the world, so there should be a match. We just have to keep working at it and we still have a way to go.

Mr. MEEKS. One more question, but I agree with you. And I should hope that Turkey does want the best, because part of our idea is to make sure that we get the products that we export, and the U.S. pharmaceutical companies are very important to helping with that export initiative and we want to make sure we can move it forward.

Mr. HORMATS. Absolutely.

Mr. MEEKS. But let me ask you, what is your position on bringing Poland, for example, into the Visa Waiver Program? And what explains, if you could, Poland's consistently high visa refusal rate despite the fact that it has this booming economy?

Mr. HORMATS. Well, I will have to check with the consular affairs people in the State Department on that. But in general, if countries meet our criteria for Visa Waiver, we are happy to do it. I will certainly check out Poland and get back to you on that. But in general, where we can do it and where the criteria are met we are happy to do it. We have a number of countries as you know that do have it. There are only four, I think, in Europe that don't, if I am not mistaken, but relatively few anyway. So I will check Poland out. And there are a couple of other countries that are in that category that I know you are also focused on. So we will get back to you on that right away.

Mr. MEEKS. Thank you.

Mr. HORMATS. Thank you.

Mr. BURTON. Ms. Schmidt?

Ms. SCHMIDT. Thank you. I have several questions. The first, Congress' role with the Transatlantic Economic Council. As you know it was created in 2007, and Congress was given an advisory role. That role is specifically assigned to the Transatlantic Legislators Dialogue.

Apart from granting fast track authority, in your opinion what role should Congress be playing, and is there legislation that we should consider to benefit trade especially in Europe and Eurasia?

Mr. HORMATS. Yes, thank you. I have been very actively involved in the TEC, and I regard it very important for a number of reasons. One of which is that it is focused, as you correctly pointed out, on creating new opportunities. A lot of those opportunities for the moment are focused on differences in regulations and standards, and it has mostly been in the realm of the standard setting bodies on both sides. And some of them have traditional ways of looking at these things, and the flexibility in some cases has not been as great as I personally would like it to be.

On the other hand, they are working at it and we have been taking a fresh look at various regulations and standards to see where there is an opportunity for some sort of commonality or mutual recognition or actually an agreement in terms of standards between the U.S. and Europe.

We have found a few areas where we think we can make real progress that probably won't require legislation, at least not at the moment. One is on electronic vehicles, e-cars, e-mobility. And that is, if we can get interoperability and interconnections and standards agreed to between the United States and Europe, and also standards for smart grids which are needed for these cars, then first of all, we can reduce barriers between the U.S. and Europe. And second, very important, that we can set standards that we and Europe agree to and then encourage other countries to apply those standards.

The role both the U.S. and Europe have now is that we will develop high standards, but then other countries like China will have more nationalistic or restrictive standards that keep American and European cars out of the market. Not just China, other countries as well. So these probably won't require legislation at the moment, but they will require a lot of work. And we have actually made some progress on electric cars. We are thinking of moving, do the same thing on electronic health records which as you know American doctors and hospitals are going to have to comply with. Nanotechnology, a number of things where we can actually develop some harmony among our regulatory proceedings and have as a result reduced barriers to trade across the Atlantic in these areas.

Ms. SCHMIDT. Thank you. Speaking of trade barriers, some have expressed the fact that our current tax structure can be a hindrance to companies trading on an equal and fair level with other countries. Regarding the EU and Eurasia and Russia, do you see that as part of a trade barrier problem?

Mr. HORMATS. Our companies do express exactly the sentiments that you have mentioned. I don't think they are a big part of the trade problem with those countries. I think the bigger part of the trade problem with Europe, the EU, is differences in regulations and standard setting procedures, and then differences in things like——

Ms. SCHMIDT. Let us go back with that, with standards and regulations, et cetera. Europe in some cases is more restrictive than the United States, and then there is the general fear in the United States that if we apply those standards in the United States it will impede our growth as well. How do we get around that?

Mr. HORMATS. That is a very good question. We each, in Europe and the U.S., want to have standards that are protecting the health and safety and well being of our people, but not standards that are restrictive and restrict opportunity and commerce. One area that I think is very useful to focus on and we are seeing it as a high priority is in the area of biotech as it relates to agricultural products. Europe has a very, I would say restrictive——

Ms. SCHMIDT. Restrictive, backward thinking.

Mr. HORMATS. Yes, restricted standards that are not based on, in our judgment, good science. And what we are trying to do is when there are regulations needed they should be based on scientific evidence of their necessity as opposed to political pressures.

Ms. SCHMIDT. Before I run out of time, do you see Eurasia as a little more lenient, the Eurasian countries than the European countries or is it a wash?

Mr. HORMATS. Well, Turkey has a number of provisions that, when we were talking a little on pharmaceuticals, that are again procedures or standards that we think impede, for instance, the pharmaceutical goods that we would like to sell, medicines that we would like to sell. So our goal again is to encourage them when they set standards or when they set procedures to do it on the basis of scientific evidence, not on the basis of either political pressures or more arbitrary kinds of judgements.

So we have no objection and other countries don't to, I think, good standards, but what we are concerned about with Europe and Turkey in some cases, is that some of those standards are not based on scientific evidence of the necessity of the standards, but are based on other criteria which are not in our judgment appropriate. So that is why most of these things are not necessarily tariff barriers, they are more regulatory barriers, standard setting barriers or other kinds of within-the-border impediments to trade.

And we think, over a period of time, through negotiations and through contact between our regulators things can be resolved or at least the barriers can be reduced. For instance, with Turkey we have actually had some very good meetings between Turkish pharmaceutical regulators and experts in various parts of biotechnology with American companies, and a lot of exchange of experts and scientists. So we think there are opportunities for constructive dialogue on all these areas. We are not making as much progress as quickly as we would like, but we think there are opportunities.

And countries want to do right by their people, they just in some cases have different philosophies, and we have got to continue to keep working on them to get it right as we see it. Thank you.

Mr. BURTON. Mr. Sires?

Mr. SIRES. Thank you, Mr. Chairman, for holding this meeting. Thank you for being here, Mr. Under Secretary. Over the years I read a lot about Russia and how the opportunities are in Russia, so a couple of years ago we took a trip and we met with, we went to Moscow. Chairman Berman put it together. And one of the things that struck me was a couple of things.

First of all, when we were there, IKEA had spent 3 years in Russia. They have made a significant investment. They couldn't open up the store because of the corruption. They were being shaken down by the local officials. So they had the store open for 3 years, they couldn't even open it. So I am thinking in terms of investment by us there.

Secondly, there was a poll by the BBC taken a couple of years ago where it said that two-thirds of the Russian people do not like or trust the Americans. I mean with things like this, how are we going to go over there and invest when all I hear is about corruption and about how they don't like Americans? Would you just——

Mr. HORMATS. Well, let me just——

Mr. SIRES. This was done by the BBC. It wasn't one of these pollings that we do here in America.

Mr. HORMATS. I take your point. First of all, on the second half, the popularity of the United States has actually increased substantially over the last year or so. But the point of corruption, I think the Russian officials also understand this is a big issue. One of the things that the Russians have done recently is accede to the OECD Anti-Bribery Convention, which is a real step forward, which first of all, commits them to very high standards on anti-bribery. And second, also requires that their laws and their practices be reviewed by a committee that includes the United States and other countries. So I think they, themselves, understand the point that the BBC was making and that you are making, and that this is, if they want to progress as a modern economy they have to deal with some of these issues that you've mentioned and the BBC mentions.

So these are certainly legitimate issues that we are discussing with them, and that I think they, themselves, need to get at. Because for the same reason that you mentioned, if they want more foreign investment they have to protect intellectual property, and they have to make sure that their standards, their legal standards and their protection against bribery and other things is dealt with in a way that other modern countries that want to attract investment are doing, otherwise they will lose out on the opportunity to get investment.

Mr. SIRES. That was my next issue, regarding intellectual properties. They have no regards for intellectual properties. That is how I see it. And secondly, this election that Putin just won, I mean we were made the bad boys throughout the election. His whole campaign was based basically on bashing America. So I don't understand why any American companies would want to go there knowing there is corruption. They don't like us. They bashed us. I mean what is the incentive for us to invest in Russia when we have other places?

Like I have said, I believe we should be investing more in South America. We are close. We basically ignore South America and Central America. I mean they are our closest neighbors.

Mr. HORMATS. Well, first of all, I agree. We should be investing more and trading more with Latin America too, I agree with that.

But with Russia, first of all, there were some remarks that Putin made about the United States, but also it is true that the Russians have worked with us on a new START agreement. They have been very helpful to us in allowing access across Russia to Afghanistan. They have agreed to make a number of changes to be able to be members of the WTO. They have done a number of other things where they have actually been quite cooperative with us. We have a bilateral presidential commission with 20 groups that are aimed at improving relations between us. And I think that that is a positive part of the relationship.

The other part of it is that I think it is useful to bear in mind that providing Russia with permanent normal trade relations or lifting the restrictions on Jackson-Vanik, which are part of the same, is really not done for the benefit of Russia. It is done for the benefit of American workers and American companies. The business community of the United States, which share some concerns that you have mentioned, is overwhelmingly in favor of eliminating these Jackson-Vanik restrictions as they relate to Russia, because they see two things.

One, they see it as a growth opportunity for them which means they will sell more, they will create more jobs in the United States and they will be able to produce more revenues which they will reinvest here. The second thing is that they also see Russia as changing. There is a lot going on in Russia that is aimed at improving the Russian economy and modernizing the Russian economy. They have been an economy very heavily dependent on oil and gas, and now they want to diversify. And they know if they want to diversify they have to get other companies in there in order to help them do it. And that means they have to protect intellectual property, they have to deal with issues of corruption, and they have to work within the WTO to help diversify.

So I think that while there are certain good things that we have seen going on with Russia, and there are certain negative things as you have pointed out, it is important to put those, for the moment when we deal with the Jackson-Vanik issue, to the side. Not ignore them, but recognizing what Jackson-Vanik is, is really if it is sustained and if we don't give them PNTR it is just hurting jobs in your district, your district, everyone's district, and it reduces an opportunity for us to sell. But it also gives other countries, it gives the EU, it gives China, it gives every other member of the WTO an advantage over our companies in selling to Russia.

Mr. SIRES. Thank you. My time is up. Thank you, Mr. Chairman.

Mr. BURTON. Before we go to the next panel I just have one question. This relates to what Mr. Sires just asked you. Obviously, Congressman Meeks and I and others want to see us expand trade and have better relations with Russia, but there are a lot of people who invested in Russia's Yukos oil, and a dozen Members of Congress, myself included, sent a letter. You probably got this letter.

Mr. HORMATS. Yes, I have.

Mr. BURTON. And Russia nationalized it, and as I understand it there is $12 billion in U.S. investment that is out the window, $12 billion. And people that invested in it just got killed. Is Russia willing to make restitution?

Mr. HORMATS. Well, I am glad you raised that because I did read the letter, and Secretary Clinton sent back, we have tried to respond to this.

But let me make a few key points. One, there is an effort underway now to adjudicate some of the claims. Some countries have bilateral investment treaties with Russia and there is an adjudication process for their claims. We are watching this very carefully, because once we see how those adjudication procedures work out, then we can decide how and whether to move into a formal process of defending interests——

Mr. BURTON. You don't need to give a real long answer to this. The bottom line is there is no indication whatsoever that they are going to make good that $12 billion that was invested by the U.S. And the thing that concerns me is that I want us to expand. Mr. Meeks and I are co-chairing the Russia-America business approach.

But I don't see how we can push forward in the Congress if they are going to nationalize companies and then not make good the investment that Americans have put into these companies. I mean let us say that Mr. Sires has a company that comes in, or people that invest from New Jersey who put in a couple billion dollars into a company and Russia decides, Putin decides that he wants to nationalize it because it is going to be beneficial for the government. There has got to be some kind of commitment by Russia that they are going to make good on those things. And as far as adjudicating is concerned, that is baloney. I mean if they owe the money they ought to pay the money.

Mr. HORMATS. We have not given up on this issue. We have not decided at this point what course to take.

Mr. BURTON. Let me just end by saying this. When you negotiate and talk to those people over there, they want to do business with us because we are a big market. I know they want to expand their trade with us. Please tell them that that is a thorn in the side of the Congress of the United States, and tell them the people who want to work with them are very upset that there is American investors that are getting taken to the cleaners by that.

Mr. HORMATS. Mr. Chairman, I agree with you. And I think that it is imperative for us as the government, the government officials that work with the Russians and are working trying to expand opportunities for the American business community and American workers to point out to the Russians where we think their conduct is inconsistent with the broader rules of the international system.

And these kinds of things do present a problem. Certainly they present a set of concerns to American businesses that are interested in investing or trading. But one of the reasons their joining the WTO is a positive thing is because it does suggest that they want to play by international rules.

Mr. BURTON. I understand that.

Mr. HORMATS. But we have got to make sure that they play by international rules across the board. So I have no problem at all with what you are saying.

Mr. BURTON. Just carry the message to them, would you? I mean and tell Secretary Clinton to do that too.

Mr. HORMATS. I will certainly, and your letter was very compelling and I do think there are a lot of important points to be made that you mentioned.

Mr. BURTON. And the next letter will be accompanied by the ball bat.

Mr. HORMATS. Okay.

Mr. BURTON. Thank you very much.

Mr. HORMATS. Thank you very much for having me, Mr. Chairman, members of the committee, and I just want to say it is a privilege testifying. Your message about our taking a very firm role where we think American interests are not being honored by the Russians, is very important.

I would make the point that passing PNTR gives us an opportunity in Russia and will help American business and help American companies, but we also have to be very firm on a number of other issues and investment would be one of them. Intellectual property is another, the kind of things that you have mentioned. We have to have a dialogue. We agree with them on some things, we disagree with them on others. But where American economic interests are at stake, then the Secretary's Statecraft initiative and agenda is going to mean that our ambassadors and our officials here are going to take very firm positions in favor of American workers and businesses and adherence to global rules.

Mr. BURTON. Thank you.

Mr. HORMATS. Thank you very much.

Mr. BURTON. We appreciate you being here today.

Our next panel, we have two distinguished guests. First we have Peter Rashish. He is the Vice President for Europe and Eurasia for the U.S. Chamber of Commerce, and maybe you can answer some of the questions that we raise as well. Prior to coming to the Chamber, he worked as a senior advisor for Europe at the McLarty Associates, and has consulted for organizations such as the World Bank, Atlantic Council and the German Marshall Fund.

We are also joined by Daniel Hamilton, director of the Center for Transatlantic Relations at The Paul H. Nitze School of Advanced

International Studies at Johns Hopkins University. He has also held a variety of senior positions in the U.S. Department of State, including Deputy Assistant Secretary for European Affairs and associate director for the policy planning staff for two Secretaries of State.

And we welcome you both, and we are sorry that this ran a little longer than we thought but we do appreciate very much you being so patient with us.

So we will start with you, Mr. Rashish.

STATEMENT OF MR. PETER RASHISH, VICE PRESIDENT FOR EUROPE AND EURASIA, U.S. CHAMBER OF COMMERCE

Mr. RASHISH. Thank you very much, Chairman Burton, and Ranking Member Meeks and members of the committee. I am pleased to have this chance to testify today on behalf of the U.S. Chamber of Commerce, on proposals to create American jobs through closer economic ties to Europe and Eurasia.

With more than 12 million Americans unemployed, no priority facing our nation is more important than putting our people back to work. While both fiscal and monetary policy can contribute to creating jobs and the conditions for economic growth, let us not forget the vital role that trade policy can also play in overcoming our jobs crisis. After all, we should remember that outside our borders we find the markets represent 80 percent of the world's purchasing power, 92 percent of its economic growth and 95 percent of its consumers. The resulting opportunities are immense.

The question is where shall we focus? The Chamber believes that exactly 50 years after the passage of the Trade Expansion Act under the administration of President Kennedy, which paved the way for free trade between the U.S. and the European Union's precursor, the Common Market, it is time again to make Europe a priority in U.S. trade policy. The U.S-EU economic relationship is the world's largest and most robust. Together we generate half of the global GDP, and according to a CRS study more than $1.5 trillion in goods, services and income receipts flowed between the U.S. and the EU in 2010 alone.

U.S. firms have direct investments of nearly $2 trillion in the EU, 20 times what they have invested in China. The Chamber welcomed the creation of the High-Level Working Group on Jobs and Growth which the leaders set up at the U.S.-EU summit in November, and we are pleased to see that the Working Group is considering ideas that closely reflect some proposals that the Chamber has made for transatlantic trade.

The Chamber believes we should seek a transatlantic economic and trade pact by means of negotiations in five areas. Tariffs, services, investment, regulation and public procurement. First, on tariffs, one study has shown that eliminating all of them would increase trade by more than $120 billion, and GDP by $180 billion over 5 years. And while it is true that the tariffs between U.S. and Europe are low, because of the sheer volume of the trade between the two sides, it is a fact that fully one-third of all tariffs that the U.S. pays are paid to the EU.

Second, on regulatory cooperation we think the U.S. and the EU should create a legal mechanism that would allow both of our regulators with appropriate legislative oversight to determine that the transatlantic counterpart on the other side has a compatible regulatory regime whose health and safety determinations they can generally accept. Doing so could help overcome the unnecessary regulatory barriers that we face, which are estimated to cost about $300 billion a year to our companies.

Third, a high standard investment agreement could capitalize on the unique $3.4 trillion relationship we have with the U.S.-EU in investment. Right now the investment is facilitated by a series of bilateral treaties, but we now have the chance to have a first class EU-wide agreement with commitments to allow capital to move freely and to avoid discriminating against transatlantic investors in establishing and operating investments.

Fourth, on services, despite the fact that the U.S. and the EU dominate the global services trade, unnecessary barriers still thwart our global competitiveness and are now fracturing the transatlantic capital market. We should place particular emphasis on creating a single digital services market across the Atlantic and on facilitating the free movement of workers through an approach to visa policy that responds to the needs of today's transatlantic businesses.

Finally, on procurement, we welcome the new U.S.-EU Government Procurement Forum and urge that it be leveraged to fully open markets at all levels of the government and public entities. Each of these steps would bring significant economic benefits, potentially dwarfing the value of all other U.S. bilateral free trade agreements that we have entered into, and with our shared values, similar legal systems and high standards of labor and environmental protection, an agreement with the EU should be easier than many people think. Also, a recent PEW poll found that Americans support trade with Europe by a very healthy 58 percent to 28 percent margin.

Now the idea of launching an ambitious transatlantic trade and economic initiative is gaining momentum partly, I think, owing to a number of efforts the Chamber has made advocating for it both here and in Europe.

Chancellor Merkel of Germany and British Prime Minister Cameron both called for a U.S.-EU trade initiative in their remarks at the World Economic Forum in January. President Sarkozy and Chancellor Merkel urged the EU heads of state in government that met at the end of January, to make transatlantic economic relations a key part of the EU's reform agenda. And then a letter signed by 12 of the EU heads of government, including the U.K. Prime Minister and Italian Prime Minister Monti ahead of the most recent summit the EU held on March 1st, also signaled their support for a transatlantic trade deal.

On the U.S. side, Secretary of State Clinton declared in early February that the new U.S.-EU High-Level Working Group on jobs and growth should be at the forefront of our efforts to put our people back to work and that America and Europe can and should be trading more with each other.

European business groups have also endorsed it including our partners at BUSINESSEUROPE, the umbrella federation of European business, and just last week, the Chamber and

BUSINESSEUROPE and ten other U.S. and European business federations issued a joint statement calling on President Obama and his European counterparts, when they next meet on the margins of the G8 summit at Camp David, to commit to launching ambitious transatlantic talks by the end of the year.

With both the U.S. and European Union facing fiscal and macroeconomic challenges at home and new economic powers around the globe, the declaration states that a transatlantic trade investment and regulatory initiative can provide an unparalleled opportunity to instill confidence in our economies, enhance the global competitiveness of our firms and in so doing, reinforce our joint capacity to maintain and modernize the rules based international trading system which has benefited the global economy for over 60 years.

Let me conclude by saying that at a time when jobs and growth are our top priorities, it is gratifying that a possible transatlantic economic trade pact is on the agenda, and the U.S. Chamber of Commerce looks forward to working with members of the committee on these issues as well as on issues of Russia and its membership in the WTO, which the Chamber strongly supports, as well as Turkey, where we believe that there are strong economic opportunities given the size of both of our economies. Thank you very much.

[The prepared statement of Mr. Rashish follows:]

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

Statement of the U.S. Chamber of Commerce

ON: **Creating Jobs: Economic Opportunities in Europe and Eurasia**

TO: **Committee on Foreign Affairs Subcommittee on Europe and Eurasia**

BY: **Mr. Peter Rashish, Vice President, Europe & Eurasia, U.S. Chamber of Commerce**

DATE: **Tuesday, March 27, 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.

Chairman Burton, Ranking Member Meeks, and distinguished members of the House Foreign Affairs Subcommittee on Europe and Eurasia, thank you for the honor of allowing me to testify in this hearing. My name is Peter Rashish, and I am Vice President for Europe & Eurasia at the U.S. Chamber of Commerce. The U.S. Chamber is the world's largest business federation, representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

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

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

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

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

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

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

The Case for the Atlantic Agenda

The question is: Where should we focus? The Chamber believes that now is the time to again make Europe a priority in U.S. trade policy.

The U.S.-EU economic relationship is the world's largest and most robust. Together, we generate half of global GDP. According to the Congressional Research Service, more than $1.5 trillion in goods, services, and income receipts flowed between the United States and the EU in

2010 alone. U.S. firms have direct investments of nearly $2 trillion in the EU — 20 times what they have invested in China. These European investments generate some $3 trillion in annual revenues for American companies that have invested in the European Union to sell their wares to its more than 500 million citizens. The numbers are similar for European firms' investments in the United States. Our economies are so closely integrated that about 40% of U.S.-EU trade is intra-firm.

Recently, this immense transatlantic relationship has been attracting new attention. On November 28, 2011, President Obama, European Council President Van Rompuy and European Commission President Barroso gathered in Washington for a U.S.-EU summit. As perhaps its most important outcome, they called for the establishment of a High-Level Working Group on Jobs and Growth, to be led by U.S. Trade Representative Ron Kirk and EU Trade Commissioner Karel De Gucht, to determine how we can use the transatlantic relationship to help our economies grow. The options it presents may range "from enhanced regulatory cooperation to negotiation of one or more bilateral trade agreements," according to the White House.

The U.S. Chamber warmly welcomes this renewed effort to tap the full promise of the transatlantic economic relationship. We are delighted that the Working Group is considering proposals to create jobs and growth in the United States and the EU that closely reflect the Chamber's proposal for a "Transatlantic Economic and Trade Pact" (ETP). The Chamber believes we must commit ourselves to a bold initiative that will reap the full potential benefits the world's largest economic relationship.

A Transatlantic Economic and Trade Pact

The Chamber believes the United States and the EU should pursue this Transatlantic Economic and Trade Pact in five areas: tariffs, regulations, investment, services, and government procurement.

- **Elimination of tariffs**, which would increase U.S.-EU trade by more than $120 billion and boost U.S.-EU GDP by $180 billion within five years, according to a macroeconomic analysis by the European Center for International Political Economy (ECIPE). While European and U.S. tariffs are often low, the sheer volume of transatlantic commerce is so large that one-third of all tariffs on U.S. exports to the world are paid to the EU. Tariff elimination would also enhance the global competitiveness of U.S. and European companies on the world stage.

- **Promotion of regulatory cooperation**. As democracies with mature regulatory systems, the United States and the EU seek similarly high standards of protection for our consumers, investors, and environment. With a growing diversity of goods produced by supply chains of global reach, U.S. and EU authorities find it increasingly difficult to enforce their regulations. As outlined in a recent Chamber study prepared by respected regulatory authority John Morrall, a Transatlantic Economic and Trade Pact could help our regulators improve their efficiency and effectiveness by using their trusted transatlantic counterparts as part of a "second line of defense" against higher-risk suppliers. Specifically, the ETP could create a legal mechanism that would allow U.S.

and EU regulators, over time and with appropriate legislative oversight, to determine that their transatlantic counterpart has a compatible regulatory regime whose health and safety determinations they will generally accept. This process will take time. We believe it can advance most quickly in such areas as product safety determinations in pharmaceuticals and automotive safety, where it could both help overcome unnecessary regulatory divergences, which are estimated to cost some $300 billion a year.

- **A high-standard investment agreement** capitalizing on the unique $4.4 trillion transatlantic investment relationship. At present, transatlantic investment is facilitated by an incomplete network of bilateral treaties between the United States and EU member states. We should upgrade this to a first class bilateral agreement, based on the principles which the Chamber and nine other U.S. and European business associations outlined in a November 16, 2011, letter to the co-chairs of the Transatlantic Economic Council. Those principles include commitments to allow capital to move freely, to provide full protections against expropriation, and not to discriminate against transatlantic investors in establishing and operating investments.

- **An agreement on services trade**, including liberalizing visa policy and establishing a Transatlantic Digital Market. The United States and the EU are the world's largest exporters and importers of services, but unnecessary regulatory differences still thwart our global competitiveness and are now fracturing the transatlantic capital market. Over half our services trade depends on the internet, and we must at all costs avoid undermining this by adopting unnecessarily strict and diverging approaches to data retention, protection, and localization. Services trade also depends on the movement of qualified people, so we should extend the U.S. Visa Waiver Program to cover EU member states not already participating, make "treaty trader and investor" visas fully available to European business people, and take major steps to facilitate intra-corporate transfers.

- **A broad bilateral government procurement agreement**. We welcome the new U.S.-EU Government Procurement Forum and urge that it be leveraged to identify as many opportunities as possible to fully open markets at all levels of government and public entities. This will expand competition among U.S. and EU bidders that play by the same fair rules, and stretch taxpayers' money in today's constrained budgets.

Each of these steps would bring significant economic benefits, potentially dwarfing the value of other U.S. bilateral trade agreements. With our common values, similar legal systems and high standards of labor and environmental protection, agreement in each area should be technically and legally easier to reach than with other partners.

Concerns in these areas have made some recent trade agreements controversial but should not stand in the way of a U.S.-EU trade accord. Indeed, such an agreement could be politically popular. A recent Pew poll found that Americans support increased trade with Europe by a healthy 58% to 28% margin.

Support and Momentum

The idea of a transatlantic trade accord is gaining momentum. The Chamber has actively engaged officials in Berlin, London, Paris, and elsewhere to support the goal of a transatlantic trade pact. We're gratified with the results so far.

German Chancellor Angela Merkel and French President Nicolas Sarkozy in January wrote to the leaders of the 27 EU member states that the "European Council should express its political will to strive for intensified transatlantic trade relations through an EU-US free trade agreement." Chancellor Merkel and British Prime Minister David Cameron followed up by calling for a transatlantic trade deal in their recent Davos remarks. Just a few days earlier, Dutch Prime Minister Mark Rutte called for a "comprehensive free trade zone uniting the U.S. and the European Union" in a speech to AmCham Netherlands celebrating the organization's 50th anniversary.

On January 30, the European Council called on the High-Level Working Group to "consider all options for boosting EU/U.S. trade and investment." This slightly more cautious statement appears to reflect a desire to avoid prejudging the group's recommendations. Elsewhere, senior officials from the Czech Republic, Denmark, Ireland, Italy, Poland, Spain and Sweden have all told us of their governments' strong support.

European business groups have expressed enthusiastic support. The Council of Presidents of BUSINESSEUROPE, the confederation of 41 leading national business organizations in 35 European countries, endorsed the initiative in early December. In response to a Federal Register notice, BUSINESSEUROPE and the U.S. Chamber submitted joint comments to the Obama administration on the scope and shape of the pact (much of which is replicated in this testimony).

On March 19, the U.S. Chamber and BUSINESSEUROPE, along with 10 other U.S. and European business associations, issued a joint statement on the U.S.-EU High-Level Working Group on Jobs and Growth calling on the U.S. and European leaders gathered at the G8 summit at Camp David to commit to launching an ambitious transatlantic trade, investment, and regulatory policy initiative by the end of the year.

There is a global context to this proposal as well. According to the WTO, there are 313 regional trade agreements in force around the globe today, but the United States has just 14 FTAs with just 20 countries. There are more than 100 bilateral and regional trade agreements currently under negotiation among our trading partners. The Trans-Pacific Partnership is the one ongoing trade negotiation in which the United States is taking part today.

By contrast, the EU is very actively negotiating bilateral and regional trade agreements. Nearly 100 nations enjoy preferential trade relationships with the EU thanks to association agreements and free trade agreements of various kinds. Our North American neighbors have already left us behind: Mexico has a free trade agreement with the EU and Canada's negotiations with Brussels are well advanced. Why should U.S. workers, farmers, and ranchers be the only North Americans not to enjoy such advantages in the European market?

Russia, the WTO, and PNTR

While discussions about the scope and reach of a Transatlantic Economic and Trade Pact are at an early stage, Russia's imminent accession to the World Trade Organization (WTO) is in its final lap. The Chamber congratulates the U.S. negotiating team led by the Office of the U.S. Trade Representative for securing the commercially strong agreement under which Russia is finally joining the WTO. Approval of PNTR and repeal of the Jackson-Vanik amendment with respect to Russia is one of the Chamber's top trade priorities before the Congress this year (the other such priority is reauthorization of the Export-Import Bank of the United States).

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

That Russia will join the WTO is no longer in doubt. In fact, at this juncture, the United States can neither help nor hinder Russia in doing so. However, the U.S. Congress must act to ensure that the United States benefits from the reforms Russia is undertaking as it joins the WTO. Specifically, Congress must pass a short and simple bill that grants Russia Permanent Normal Trade Relations and repeals the Jackson-Vanik amendment with respect to Russia (see details below). 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.

The far-reaching multilateral trade agreement governing Russia's accession requires Moscow to implement a host of economic reforms that will open the Russian market to U.S. goods, services, and investment; ensure greater respect for the rule of law; and protect intellectual property. Among the commitments made by Russia as a condition of its accession to the WTO are the following:

- Russia will cut tariffs on manufactured goods from an average of 10% to 7%, with steeper cuts on priority goods, including:
    - Eliminating duties on information technology products;
    - Cutting duties on wide body aircraft from as high as 20% to 7.5%;
    - Slashing the average tariff on chemicals to 5.3% from as high as 20%; and
    - Cutting tariffs on combine harvesters from 15% to 5%.
- Russia will reduce duties on farm products to 10.8% from 13%, with notable gains for key U.S. products, including:
    - Expanding market access for beef, poultry, and other products on a duty-free or reduced-duty basis;
    - Requiring use of international standards and enforceable disciplines against trade restrictions that are not science-based; and
    - Capping farm subsidies at $9 billion in 2012 and cutting them in half by 2018.

- Russia will open its services markets to U.S. firms. Among other measures, Moscow will allow 100% U.S. ownership of companies in banking, securities, nonlife insurance, telecommunications, audiovisual, wholesale, distribution, retail, and franchises.
- Russia will for the first time be bound by the intellectual property commitments of the WTO TRIPS Agreement. Russia's accession package includes strong commitments relating to enforcement on the Internet and new copyright and patent protections.
- Russia will cut its maximum customs clearance fee by two-thirds to about $1000.
- Russia's accession will allow recourse to the WTO dispute settlement system for trade disputes.

PNTR's Benefits Go to the U.S.

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

Under WTO rules, every WTO member must grant all other members unconditional Permanent Normal Trade Relations (also known as "most-favored nation" status). This obligation originated in the WTO's predecessor, the 1947 General Agreement on Tariffs and Trade, and it mandates that any advantage granted to one WTO member by another member must be accorded unconditionally to all other members. The United States will be in clear violation of this rule if it fails to repeal Jackson-Vanik with regard to Russia. Russia would thus be fully within its rights to withhold the benefits of its accession-related reforms from U.S. companies.

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

Because no other WTO member has a law similar to Jackson-Vanik, all of Russia's trading partners except the United States will immediately benefit when Russia joins the WTO in July. If Jackson-Vanik remains applicable to Russia, the United States will be in violation of WTO rules. Failure to approve PNTR and repeal Jackson-Vanik with regard to Russia would allow Moscow the right to discriminate against U.S. companies and the workers they employ and deny them the full benefits of Russia's market-opening reforms. Meanwhile, European and Asian companies will be able to build on their already significant head start in tapping the growing Russian market.

Significant Opportunities

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

Business opportunities in Russia are significant and are expected to grow substantially after Russia finalizes its accession to the WTO. For instance, the total cost of needed infrastructure spending over the next five years is conservatively estimated at $500 billion, according to AmCham Russia. Private sector participation in this building boom could offer very 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. "Competitive pressures on local producers will encourage them to become more efficient and innovative," writes Art Franczek, president of the Moscow-based American Institute of Business and Economics and co-chair of the AmCham Russia Customs and Transportation Committee.

According to WTO Director-General Pascal Lamy, "The accession of Russia to the WTO is a win-win deal. It will cement the integration of the Russian Federation into the global economy. It will bring greater certainty and stability to business operators and trading partners. It is a contribution to the rule of trade law. It strengthens and opens new trade opportunities."

Indeed, Russia's accession to the WTO is expected to strengthen the hand of reformers and provide tools to enhance the rule of law. In a sign that the reform process continues, the Russian Duma in January ratified the OECD Anti-Bribery Convention. To come into compliance with the convention, Russian authorities had to make amendments to the country's criminal and administrative code to bring it into line with international anti-corruption standards.

The road ahead is a long one, but joining the WTO represents a major step forward. According to David Tarr and Natalya Volchkova of Moscow's New Economic School, "it is difficult to argue that Russia would have made reforms as widespread and as deep as it has without the external pressure of WTO accession. Reforms are accomplished in the context of WTO accession that would not normally be achieved so quickly."

One often-posed question is: What happens if Russia fails to meet its commitments? In the area of intellectual property protection, for example, Russia continues to present significant challenges to U.S. innovators and creative artists. The Chamber will continue to urge the U.S.

government to remain vigilant in ensuring that Russia implements its intellectual property commitments in full and makes greater progress with respect to combating online piracy.

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

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

The longstanding bipartisan foreign policy 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, farmers, and ranchers 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.

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At a time when jobs and growth are the top priorities for both the United States and the European Union, it is gratifying that a possible Transatlantic Economic and Trade Pact is on the agenda. Similarly, approval of PNTR and repeal of the Jackson-Vanik amendment with respect to Russia will stimulate exports of made-in-America goods and services, spur U.S. economic growth, and generate American jobs without costing the taxpayer a dime. The U.S. Chamber of Commerce looks forward to working with the members of the Committee on these issues.

Mr. BURTON. Thank you.
Mr. Hamilton?

STATEMENT OF DAN HAMILTON, PH.D., DIRECTOR, CENTER FOR TRANSATLANTIC RELATIONS, THE PAUL H. NITZE SCHOOL OF ADVANCED INTERNATIONAL STUDIES, THE JOHN HOPKINS UNIVERSITY

Mr. HAMILTON. Thank you, Mr. Chairman. It is a pleasure to be here before the committee. I have submitted a testimony for the record, and I have also provided a one-page handout of some facts about the transatlantic economy you might have as an addendum there. It is based on a survey we just released this week called The Tranatlantic Economy 2012, so I do believe it is the latest data that you might have about the state of the relationship.

I believe the opportunity for a U.S.-European transatlantic partnership for jobs and growth is actually quite considerable. It also gives us both, the U.S. and Europe, an opportunity to leverage growth markets elsewhere. And I believe that if one thinks about this initiative not only in a transatlantic context but how both economies can reposition themselves vis-à-vis other growth markets that is what really opens up a lot of potential.

We have had a lot of the data here for you so I won't repeat it all, but simply to say we are still each other's most important markets. We are each other's most profitable markets for our companies as well, and the largest source of onshored jobs for each other in the world. A $5 trillion transatlantic economy, employing up to 15 million workers on both sides of the Atlantic, truly dwarfing most other real relationships. And that investment is what drives the transatlantic economy.

Whereas our relations with Asia and Europe's relation with Asia are trade driven, our relations across the Atlantic are investment driven. It is a simple but really profound difference to understand. Much of the media equate just trade with commerce, but trade is a very misleading benchmark of commerce. You have to include the investment flows to get a full picture. And if you do that you see where the jobs are and where the growth can be.

There is more European investment, for instance, in the State of Indiana than all of U.S. investment in China and Japan and India put together, just Indiana. And the same is true for Ohio and the same is true for New Jersey and New York. These investments really create jobs. Our estimate is, direct investment of European companies in the State of Indiana provide about 70,000 jobs just directly. If you include trade and you include the indirect effects of such trade and investment, I would estimate about 200,000 Indiana jobs are related to commerce with Europe. And if you take Ohio, we estimate 106,000 jobs directly from European FDI into Ohio, and if you do all of the numbers again and extrapolate, I estimate 300,000 Ohio jobs related to commerce with Europe. If you take New Jersey, 136,000 jobs directly supported by European FDI in New Jersey, and if you do the trade numbers and then the indirect, my estimate would be 350,000 jobs in New Jersey directly tied to commerce with Europe. These are where the jobs are, and if one can expand the opportunities in that way, it is really a direct impact on our jobs.

So we are the most deeply integrated economies in the world. We have probably the freest economic relationship in the world, but our economic relationship is not free. There are still many barriers. So it seems to me that we have an opportunity to advance a three-point agenda. One point is what we have focused on, which is to open up the transatlantic markets. I agree with Peter's points and Secretary Hormat's points about the basic issues. Zero tariff on goods. Services, major services, are the sleeping giant of the economy. Regulatory cooperation, because most barriers are not trade barriers, they are non-tariff barriers. A transatlantic investment pact, because investment drives the economy. And the Smart Visa element, which is quite critical.

But the point I am trying to make is that if we only think about it in the narrow transatlantic context, we are missing actually the real potential of this initiative, which is to reposition the United States and Europe vis-à-vis other growth markets. So it seems to be a second point of our agenda must not just be a standard, normal economic negotiation. It must be that the U.S. and EU say together that we believe in and will act on certain core principles of the international economic order that we believe in.

These principles are under some attack today. There are many rising powers that have been chosen whether they agree to them or not, and we have issues with some rising powers that haven't agreed to them. If the U.S. and the EU as the major force in the global economy can say we are acting together and reinforce our belief in these principles, that will send a very strong message to third countries. And these are not necessarily contentious principles across the Atlantic.

My last point is that we should also use the transatlantic relationship to strengthen the multilateral system. Many critics would argue that a large transatlantic initiative would subvert the multilateral system because we are so big. I think one has to address that by saying, Mr. Meeks mentioned that before, take areas where we basically agree across the Atlantic, but because we can't get everybody in the world to agree, we don't agree, and let us just move forward with those. Let us open those markets.

Trade faciliation is a good example. In the Doha Round we had basically agreed, but because everybody didn't agree there is no agreement. But why don't we just move forward, say others can join us but we are moving ahead. We could be pioneers in free markets and open trade just as we always have been.

And so it seems to me, to conclude, that the real opportunity here is to open transatlantic markets, to act on the defined, the ground rules of international economic order, and to take the multilateral system into new areas where it hasn't gone before. Thank you.

[The prepared statement of Mr. Hamilton follows:]

CENTER FOR TRANSATLANTIC RELATIONS

A Transatlantic Agenda for Jobs and Growth

Testimony to the House Committee on International Relations
Subcommittee on Europe and Eurasia
March 27, 2012

Dr. Daniel S. Hamilton
Executive Director, Center for Transatlantic Relations
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Mr. Chairman, it is a pleasure to appear before this Committee to discuss the potential for greater transatlantic cooperation to create jobs and boost growth on both sides of the Atlantic. I will do this first by underscoring the distinctive nature of the transatlantic economy. I will then outline what I believe would be the most significant and necessary elements of a New Transatlantic Partnership for Jobs and Growth.

The views I express here are my own. In the interests of full disclosure, however, I want to mention that I have been serving as an advisor to the Transatlantic Business Dialogue, the Business Roundtable, the American Chamber of Commerce to the EU and the European-American Business Council.

In this regard I welcome the new U.S.-EU High Level Working Group on Jobs and Growth, which was tasked at the November 2011 U.S.-EU Summit to consider the full range of economic measures that could be taken to deepen and expand the transatlantic commercial relationship. The benefits could be substantial in terms of creating jobs, boosting innovation, improving our competitiveness, and ensuring long-term growth and prosperity. I am concerned, however, that absent a clear and compelling vision of a more strategic and forward-looking partnership, the effort will not fulfill its promise.

The key to such a new partnership is an agenda for jobs and growth that not only opens transatlantic markets, but simultaneously repositions the U.S.-EU relationship so that both partners can better compete with and engage third countries on the fundamental rules underpinning 21st century trade and investment. The renewal and further opening of the transatlantic market promises to generate millions of new jobs on both sides of the Atlantic. But such an exercise, in and of itself, is insufficient to meet broader challenges and opportunities in today's global economy of rising powers and other fast-growing markets. U.S.-EU efforts to open transatlantic markets must be tied to joint efforts to strengthen the ground rules of the international economic system and to engage the emerging growth markets in a common effort to extend the benefits of open markets to their citizens and companies.

Why a Transatlantic Partnership for Jobs and Growth, and Why Now?

The past year has been difficult for the transatlantic economy. The eurozone's sovereign debt crisis and sluggish U.S. economic conditions weakened transatlantic cross-border trade and investment flows, and both variables are likely to remain soft over the near term. That said, the current downturn is cyclical in nature. On a day-to-day basis, transatlantic trade remains significant, and European investment is deeply embedded in many U.S. regions and states, continues to play a key role in sustaining American jobs and contributing to U.S. growth, and will continue to fortify the links that bind the U.S. and Europe together.

In fact, it is important to keep in mind that despite the rise of other powers, including the emerging growth markets, the U.S. and Europe remain the fulcrum of the world economy, each other's most important and profitable market and source of onshored jobs, each other's most important strategic partner, and still a potent force in the multilateral system—when we work in concert.

The transatlantic economy generates $5 trillion in total commercial sales a year and employs up to 15 million workers. It is the largest and wealthiest market in the world, accounting for three-quarters of global financial markets and over half of world trade and world GDP. No other commercial artery is as integrated. Every day roughly $1.7 billion in goods and services crosses the Atlantic, representing about one-third of total global trade in goods and more than 40 percent of world trade in services. Americans sell three times as many merchandise exports to Europe as they do to China and 15 times more than to India. The European Union sells the United States nearly twice the goods it sells China and nearly 7 times what it sells to India.

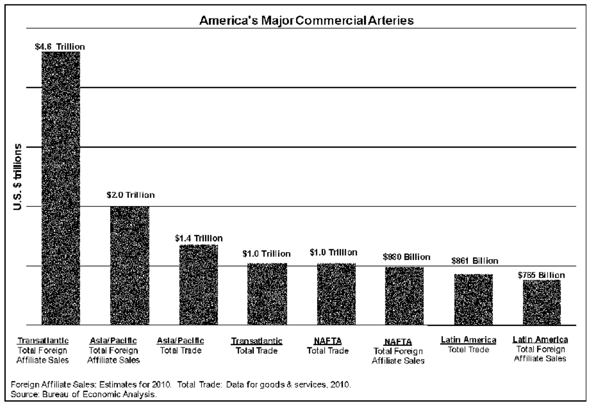
When one considers possibilities to create jobs and boost growth through greater transatlantic cooperation, it is important to keep in mind that whereas U.S. commercial ties with Asia and the Pacific are driven by trade, U.S. commercial ties with Europe are driven by investment. Foreign investment—the deepest form of global integration—binds the transatlantic economy together far more than trade. The latter, the cross-border movement of goods and services, is a shallow form of integration and often associated with the early phases or stages of bilateral commerce. In contrast, a relationship that rests on the foundation of foreign investment is one in which both parties are extensively embedded and entrenched in each other's economies. Such a relationship is more job-creating, income-producing, and wealth-generating for both parties than one based solely on trade. The transatlantic economy epitomizes this type of economic integration.

The United States and the European Union are each other's most important investment partners. Transatlantic investments have combined annual sales exceeding $4 trillion, which dwarfs any other bilateral trade or trade/investment relationship in the world. Investment from Europe accounts for 74% of total foreign direct investment in the United States. EU investment in the U.S. is 27 times the level of EU investment in China and more than 55 times the level of EU investment in India. There is more European investment in a single U.S. state such as Indiana or Georgia than all U.S. investment in China, Japan and India combined.

Investment flows are also strong from the U.S. to Europe. Despite the rise of other markets, Europe continues to account for 60 percent of U.S. foreign direct investment. U.S. investment in Brazil, Russia, India and China (BRIC) combined over the past decade amounted to only 7% of total U.S. investment in the EU. U.S. investment in Europe is nearly four times larger than U.S. investment in all of Asia and 13 times more than U.S. investment in the BRICs.

I do not mean to downplay the importance of transatlantic trade, which remains considerable. Indeed, transatlantic trade (defined here as U.S. exports plus imports of goods from the European Union) totaled an estimated $632 billion in 2011, up from $387 billion at the start of the new century. In 2011 U.S. exports of goods to the European Union clawed back more gains after plunging in recession year 2009. Last year U.S. exports to the European Union totaled an estimated $270 billion, up roughly 11% from the prior year and off only slightly from the peak of $277 billion in 2008. Nonetheless, any analysis that focuses on trade alone as a benchmark for commerce is very misleading. Only if one adds trade and investment together does one understand the true size and dynamism of the transatlantic economy, particularly compared to any other bilateral economic relationship either partner has in the world.

Moreover, these companies and affiliates invest in local communities. European affiliates in the United States employ millions of American workers, employ more Americans than any other foreign nationality, and are the largest source of onshored jobs in America. Similarly, U.S. corporate affiliates in Europe employ millions of European workers and are the largest source of onshored jobs in Britain, Ireland and across the continent. In



addition, U.S. and European companies account for 60 percent of the top R&D companies and 69 percent of private R&D spending in the world.

Mr. Chairman, in your own home state of Indiana, European investment directly accounts for close to 70,000 jobs. If one adds Indiana jobs reliant on trade with Europe, which bought $8 billion worth of Indiana goods in 2010, as well as the many thousands of jobs generated indirectly through distributors and suppliers of Indiana exporters and European firms based in Indiana, I estimate that roughly 200,000 Indiana jobs are related to the Hoosier State's commercial ties to Europe. Efforts to further open transatlantic markets promise to generate significant opportunities for jobs, trade and investment in Indiana.

Similarly, in Congressman Meeks' home state of New York, European investment directly accounts for about 230,000 jobs. If one adds New York jobs generated by trade – New York exported $22.7 billion in goods alone to Europe in 2010 -- and indirectly through suppliers and others, I estimate that close to 700,000 New York jobs are dependent on healthy commercial links with Europe.

Similar stories are playing out in other U.S. states. For instance, I estimate that roughly 900,000 California jobs are related to strong commercial ties between the Golden State and Europe. Both North and South Carolina were hamstrung with 10% unemployment rates as 2011 came to a close, rates above the national average, but the figures were nevertheless "less bad" thanks to the presence of European and other foreign affiliates operating locally. And European investment in Massachusetts actually rose during the recession -- a key buffer for the Massachusetts economy in hard times.

The more European affiliates become embedded in local communities around the U.S., the more they generate jobs and incomes for U.S. workers, greater sales for local suppliers and small businesses, extra tax revenue for local communities, more capital investment and research and development for the United States. Moreover, deep investment ties with Europe generate additional American exports.

A Three-Point Agenda

In short, Americans and Europeans have never had a greater stake in each other's economic success. Recent economic troubles have only underscored the deep integration of the transatlantic economy and the importance of healthy transatlantic economic ties for millions of U.S. and European workers, consumers and companies. Our companies are deeply engaged on both sides of the Atlantic. We are literally in each other's business. The notion that we can "decouple" from each other's economic fortunes is mistaken and can lead to serious policy errors. Substantial gains in terms of jobs and growth would result from initiatives designed to boost flows of goods, services, capital and knowledge between the U.S. and the EU.

I have focused until now on the direct benefits each side of the Atlantic could reap from job-generating initiatives. Yet in a world of rising powers and other high-growth markets, strengthening transatlantic bonds is important not only in terms of how Europeans and Americans relate to each other, but how we can harness the potential of the transatlantic partnership to open markets and strengthen the international economic order.

A central question is how the U.S. and Europe together might best relate to rising powers, especially the emerging growth markets. Whether those rising powers choose to challenge the current international economic order and its rules or promote themselves within it depends significantly on how the U.S. and Europe engage, not only with them but also with each other.

The stronger the bonds among core democratic market economies, the better our chances of being able to include rising partners as responsible stakeholders in the international trading system. The more united, integrated, interconnected and dynamic the international liberal economic order is -- shaped in large part by the U.S. and Europe -- the greater the likelihood that emerging powers will rise within this order and adhere to its rules. The looser or weaker those bonds are, the greater the likelihood that rising powers will challenge this order. So a key element of strategy in a G20/WTO world must be to protect and reinforce the institutional foundations of the liberal international economic order, beginning with the partnership between the U.S. and Europe.

The notion is mistaken that we can 'go it alone' in trying to convince other countries to reject protectionist trade policies, forego discriminatory industrial and regulatory policies, and provide adequate and effective intellectual property protection. This can also lead to serious missed policy opportunities for the U.S. and Europe to raise the bar in terms of setting international norms and standards that can lift the lives of our people and create economic opportunity for billions of others around the globe.

With this background in mind, in my view a New Transatlantic Partnership for Jobs and Growth must encompass a three-fold agenda.

First, we must renew and open the Transatlantic Market.

Second, we must reposition transatlantic partnership so we can better engage with third countries on the economic ground rules underpinning the multilateral system.

Third, we must strengthen and extend the rules-based multilateral system to include new members and new areas of commercial opportunity.

I.
Millions of New Jobs in an Open Transatlantic Market

The first goal of a new Transatlantic Partnership must be the creation of an open Transatlantic Market. The goal should not, however, be limited to yet another preferential "free trade agreement;" it must be a more ambitious and relevant new-generation agreement, rooted in the distinctive nature and potential of the Transatlantic Partnership. It should be grounded in essential principles of WTO-consistency, transparency, nondiscrimination and essential equivalence. It should advance synergistic strategies across a range of areas, from reducing barriers to transatlantic goods and services; removing restrictions on job-creating investments; overcoming regulatory obstacles; boosting innovation; leading the energy revolution; liberalizing services; and encouraging the flow of people and talent across the transatlantic space, to facilitating cross-border data flows, which have become essential to global manufacturing and service operations.

An ambitious transatlantic effort of this type should also not be conducted as a 'single undertaking' or traditional trade negotiation, whereby nothing is really agreed until all issues are agreed. The U.S. and EU should instead forge and implement agreements wherever possible, without allowing contentious issues to block areas of agreement. Too many past attempts to open the transatlantic market have failed because of these issues. At the same time, the framework needs to recognize that the U.S. and EU economies are so integrated that many of the remaining barriers and distortions are deeply embedded in our respective legal, policy and political structures and their resolution may not necessarily fit effectively into the negotiating structure of a transatlantic agreement. Such issues should not be allowed to deadlock agreement where agreement is possible. Instead, mechanisms such as the Transatlantic Economic Council should be used to engage regulators, legislators and other stakeholders in areas that will require more extensive work.

This first track of an ambitious Transatlantic Partnership should move forward in multiple areas:

1. Open Transatlantic Trade.

- ***Commit to work jointly towards a tariff-only Free Trade Agreement, eliminating all duties on traded industrial and agricultural products.*** Given that most transatlantic tariffs are low (around 1-4 per cent), a focused tariff-only free trade agreement could be achieved relatively quickly and would have immediately beneficial effects on investment, profits and jobs, since two-third of U.S.-EU trade is intra-firm, i.e. companies trading intermediate parts and components among their subsidiaries on both sides of the Atlantic. Tariffs on agriculture have always been the major problem, but with agricultural trade growing across the Atlantic, now may be the time to take a bold step forward. Where agricultural tariffs are high, phase-out periods could be longer. Moreover, European and American agricultural sectors would still remain implicitly protected by a range of non-tariff barriers that are far more important, lessening the political concerns that might accompany a complete liberalization. Finally, such an initiative could spur the stalled Doha Round trade talks by demonstrating that the U.S. and EU are willing to move ahead with serious trade liberalization.

  Once such a deal is negotiated, the U.S. and EU should invite others to join in certain sectors or in the overall arrangement. If a critical mass of participants develops, benefits should be extended to all WTO members on a most-favored-nation basis. This plurilateral approach was successful in negotiations leading to the 1997 International Telecommunications Agreement.

- ***Agree on a Transatlantic Trade Facilitation Agreement.*** The ability of companies to deliver goods and services on time and at low cost is an essential element of their competitiveness. Trade-related transaction costs impair such efforts, however, and have spurred multilateral efforts to build down such barriers and to facilitate trade. Multilateral negotiations on trade facilitation are bogged down, however, even though the U.S. and the EU essentially agree on the basic elements and principles behind good trade facilitation practice. The transatlantic partners should lead in this area by implementing a transatlantic trade facilitation agreement and opening it to others within the context of the WTO. A transatlantic agreement could save both economies considerably in terms of costs of time and transportation. As important, such an agreement could offer the basis for plurilateral and ultimately multilateral standards, norms and procedures.

2. Open the Transatlantic Services Market.

Services represent the sleeping giant of the transatlantic economy. Most American and European jobs are in the services economy, which accounts for over 70 percent of U.S. and EU GDP. The U.S. and EU are each other's most important commercial partners and major growth markets when it comes to services trade and investment. The services economies of the United States and Europe have never been as intertwined as they are today in financial services, telecommunications, utilities, insurance, advertising, computer services, and other related activities. U.S. service exports to the European Union nearly doubled between 2000 and 2010, rising from around \$106 billion to \$200.6 billion. The U.S. enjoyed a \$48.3 billion trade surplus in services with Europe in 2010, compared with its \$80 billion trade deficit in goods with Europe. Beyond trade, there are the foreign affiliate sales of services, or the delivery of transatlantic services by U.S. and European foreign affiliates. Sales of affiliates have exploded on both sides of the Atlantic over the past decade; indeed, affiliate sales of services have not only supplemented trade in services but also become the overwhelming mode of delivery in a rather short period of time: affiliate sales of U.S. services rose more than 10-fold between 1990 and 2010, topping $1 trillion for the first time in 2007. In the same year, U.S. services exports were roughly half the level of affiliate sales of services.

Deep transatlantic connections in services industries, provided by mutual investment flows, are not only important in their own right; they are also the foundation for the global competitiveness of U.S. and European services companies. A good share of U.S. services exports to the world are generated by European companies based in the U.S., just as a good share of EU services exports to the world are generated by U.S. companies based in Europe.

Yet protected services sectors on both sides of the Atlantic account for about 20 percent of combined U.S.-EU GDP -- more than the protected agricultural and manufacturing sectors combined. Major services sectors such as electricity, transport, distribution and business services suffer from particularly high levels of protection. A targeted opening of services could present vast opportunities to firms and huge gains to consumers in both the EU and the United States. Removing barriers in these sectors would be equivalent to 50 years' worth of GATT and WTO liberalization of trade in goods. An initial transatlantic initiative can be a building block for more global arrangements. Such negotiations are likely to trigger plurilateral negotiations to include other partners.

Initiate a Transatlantic Smart Visa Program. A services agreement should also include a Transatlantic Smart Visa Program. U.S.-EU economic growth depends on the safe yet open movement of goods and services. In this regard the November 2011 U.S.-EU agreement on secure trade represents progress. But transatlantic commerce also depends on the fastest and freest movement of people possible, with due respect to the security arrangements that we need to keep us safe. As intertwined as our economies are now, we cannot achieve a transatlantic market without expanding and improving the transatlantic mobility of our people.

Create a more efficient transatlantic financial market. The U.S. and EU must ensure that their capital markets are transmission belts for growth, not contagion, and that the practices that led to recent economic turmoil do not recur. Failure to ensure financial transparency, accountability and ease of capital mobility will undermine prospects for jobs and growth.

- *Develop financial sector rules with similar "essentially equivalent" approaches to risk assessment and regulation.* Encourage greater U.S.-EU alignment in financial regulation, with a near-term focus on financial market regulation.
- *Prepare a detailed work program on transatlantic financial market integration,* beginning with a joint comprehensive screening of regulations, identification of priorities, development of a roadmap and a detailed work plan. There is a need for effective new regulation to avoid excessive risk taking with financial instruments, but without a clear commitment to seek transatlantic alignment, the net effect of these efforts may be to create fragmentation and reduce liquidity that is needed to fund investment in innovation. The U.S.-EU Financial Markets Regulatory Dialogue can ensure that the implementation of U.S. and EU roadmaps for regulatory reform and G20 commitments at the domestic level are compatible and as convergent as possible and anchored in the global financial system.

3. Vigorously Promote Transatlantic Investment.

The dynamic interaction between investment and trade distinguishes the transatlantic economy from all others. Foreign investment and affiliate sales power transatlantic commerce and provide millions of jobs on both sides of the Atlantic. Affiliate sales on either side of the Atlantic are double comparable sales in the entire Asia/Pacific. Tackling investment barriers can spur greater transatlantic investment, thus creating jobs and spurring growth. An agreement on investment should be structured around the elimination of bilateral investment barriers, alignment of bilateral investment competences, and common approaches to restrictions on investment in third countries. Ownership restrictions in a range of economic sectors, from marine shipping to infrastructure, should be removed. In situations where national security considerations might apply, there should be an appropriate review process. The benefits could be substantial. For instance, estimates of the potential benefits from removing regulatory obstacles to the U.S.-EU aviation market include up to 80,000 new jobs.

4. Boost Bilateral Regulatory Cooperation.

Adopt a goal to eliminate unnecessary regulatory differences by 2020. Regulatory coherence is central to the goal of achieving a more open Transatlantic Market. Given the relatively open U.S.-EU trading relationship and the importance of mutual investment, the most important hurdles to greater transatlantic commerce are "behind the border" regulatory differences rather than "at the border" trade barriers. U.S. and EU regulators generally have the same high standards for protecting the welfare of our consumers, our environment and the health of our citizens. A detailed study of 3,000 risk-reducing regulatory decisions in the U.S. and EU shows that overall risk stringency is about the same; divergences stem largely from protectionism. The transatlantic partners should seek to address these differences with far greater urgency and attention.

- ***Identify "essentially equivalent" regulations for mutual recognition.*** If agreement can be reached that both sides are seeking "essentially equivalent" outcomes in terms of health, safety, and consumer welfare in individual regulated sectors (toys, engines, automobiles, electrical products, etc.), then the legislative process on both sides should accept the regulatory decisions and standards of the other side. The process for reaching this decision should be in the hands of U.S. and EU regulators, who would always have the right to withdraw the automatic approval for products approved by the other.
- ***Ensure that regulatory agencies have the resources and incentives to cooperate internationally.*** Financial resources must be available that allow regulators to engage in sustained, face-to-face dialogue with international partners. Such resources should be earmarked for international regulatory cooperation, and not compete with the regulating agencies' core mandates for budget and staff resources. Such financial resources will have a direct impact on the ability of U.S. and European agencies to better learn from each other.
- ***Undertake Transatlantic Regulatory Impact Assessments*** by corresponding regulatory agencies on significant and pending product safety regulations in sectors with major impact on the U.S.-EU economic relationship.
- ***Promote "upstream" regulatory cooperation for new technologies.*** When considering new types of legislation or regulation, regulators and legislators on both sides of the Atlantic should be consulting in advance. RFID, nanotechnology, internet/broadband, and "green" technologies are four priority areas for attention.

5. Boost the Transatlantic Innovation Economy. Bilateral U.S.-EU flows in research, development and innovation are the most intense between any two international partners, and essential to such leading-edge sectors as semiconductors, biotechnology and nanotechnology, which in turn have the potential to deliver hugely significant economic benefits across the entire economy, just as electricity, computers and mobile phones have done in the past. In today's highly competitive and connected global economy, the prosperity of Americans and Europeans alike depends on continued high levels of innovation in our respective societies as well as on the strength of our knowledge links to each other and to other global hubs of innovation and ideas. To remain competitive, the U.S. and EU must work, in concert and in parallel, to support and accelerate innovation, setting examples for others to follow.

- ***Issue a Joint Statement of Innovation Principles*** to guide the transatlantic innovation economy and serve as the basis for globally focused cooperation. Such a statement should result from close consultation with business and other stakeholders.
- ***Use the U.S.-EU Innovation Dialogue*** to accelerate efforts to spur growth, productivity and entrepreneurial activity, including by sharing best policy practices and ways of improving the policy environment for innovative activities in both markets.
- ***Advance a Transatlantic Digital Agenda.*** The transatlantic partners are each advancing policy agendas intended to exploit the transformational power of digital tools and technologies. The EU, for instance, is focused on the creation of a "digital single market." Wherever possible, these efforts should be aligned with a full focus on digital market access and participation across the Atlantic (and beyond), notably in the areas of intellectual property, consumer protection, data privacy, network access, network security and internet governance, and standards (for e-health, for example).

6. Lead the Energy Revolution. Europe and North America can -- and must -- play a key role in breaking the link between the generation of wealth and the consumption of resources. Rapidly rising economies have based their future growth on extensive use of oil and gas, as well as other resources. This is untenable for a global economy of more than 7 billion people. Breaking this link is an historic challenge -- but also an opportunity to move toward entirely different patterns of consumption and competitiveness that can sustain our prosperity and create high-skilled jobs. Technological innovation, the robust use of cleaner energy sources, more energy-efficient production processes, and the broad deployment of a range of other innovative clean technologies are critical. Transatlantic cooperation and innovation can lead the way.

- ***Encourage enhanced energy efficiency, including the joint development of smart grid and carbon capture and storage technologies.*** The U.S. and EU must harmonize emerging regulatory frameworks on these two technologies to ensure that standards reinforce interoperability and compatibility.
  - *Collaborate on establishing energy efficiency standards.*
    - Set higher standards for appliances and develop new energy efficiency labels.
    - Set consistent standards associated with building product specifications and labeling, facilitating transatlantic trade, investment, and economies of scale.
    - Agree that only highest efficiency products are eligible for public procurement.
- ***Eliminate tariffs and other barriers to transatlantic trade and investment in environmental goods and services.*** Studies by the World Bank and others confirm that the nondiscriminatory elimination of tariffs and non-tariff trade barriers on significantly cleaner and more energy efficient technologies and services could play a key role in achieving both environmental goals and further economic growth. The transatlantic partners should initiate immediately negotiations to liberalize and, if possible, eliminate fully tariffs and other barriers to trade in environmental goods and services, based on an agreed non-discriminatory list of products that contribute to energy efficiency or provide direct benefit to the environment and do not require end-use certification. U.S.-EU negotiations should be conducted in the context of a WTO sectoral agreement on a plurilateral basis, and open to others who express interest in achieving these goals. Once such a deal is negotiated, the parties should invite other WTO members to join on a most-favored-nation basis. This effort could be modeled on the 1997 Information Technology Agreement, which eliminated all tariffs on electronics products, once an accord was reached among the countries that accounted for substantially all world trade in that sector.

II.
Strengthen the Ground Rules of the International Economic Order

The renewal and further opening of the Transatlantic Market goes hand in hand with a second goal – strengthening the ground rules of the international economic order by repositioning the Transatlantic Partnership with regard to third countries. Efforts to open transatlantic markets and lift and align transatlantic standards can – and must -- drive broader international cooperation.

This is an opportune moment for such an agenda. The multilateral system administered by the WTO is under challenge, especially by emerging growth markets that have benefited substantially from the system. A number of rapidly emerging countries do not share the core principles or basic structures that underpin open rules-based commerce, and are now showing no real interest in new market opening initiatives. As a result, the global economy is drifting dangerously towards the use of national discriminatory trade, regulatory and investment practices.

In this regard, the U.S. and the EU must invest in new forms of transatlantic collaboration that strengthen multilateral rules and lift international standards. Given the size and scope of the transatlantic economy, standards negotiated by the U.S. and EU can quickly become the benchmark for global models, reducing the likelihood that others will impose more stringent, protectionist requirements for either products or services. Mutual recognition of essentially equivalent norms and regulatory coherence across the transatlantic space, in areas ranging from consumer safety and intellectual property to investment policy and labor mobility, not only promise to lift the lives of our people but form the core of broader international norms and standards.

The goal is not to build an Atlantic Fortress, but instead to pave the way for sustainable economic growth in the global marketplace. Europeans and Americans certainly share an interest in extending prosperity through multilateral trade liberalization. But even a successful Doha agreement will not address cutting-edge issues raised by European and American scientists and entrepreneurs who are pushing the frontiers of human discovery. Because of this, Europeans and Americans should forge ahead, identifying points of agreement on norms and standards where they can, and using such agreement to engage third countries. Our chief goal should in fact be to make broader institutions work much more effectively, by seeking general agreement on goals and purpose before engaging in larger fora, thus supplementing rather than supplanting such bodies.

In this sense, transatlantic markets have become the laboratory for the international trading system; many transatlantic issues cannot be addressed by multilateral efforts alone. That is why the "multilateral versus transatlantic" dichotomy is a false choice. The U.S. and EU should advance on both fronts simultaneously: push multilateral liberalization and press transatlantic market-opening initiatives in services, financial markets, aviation, energy, innovation policies and other areas not yet covered by multilateral agreements. The alternative to this WTO+ agenda is not drift; it is growing protectionism, U.S.-EU rivalry in third markets, and the triumph of lowest-common-denominator standards for the health and safety of our people. The absence of common rules and procedures weakens the leverage of our two regions to ensure that high standards prevail.

With this in mind, the U.S. and EU should:

1. Promote Basic Standards Regarding Investment.

- ***Agree on a U.S.-EU Investment Treaty.*** The United States has investment treaties with most of the EU's 27 member states, but has no agreement with the EU itself. Yet in the 2009 Treaty of Lisbon EU member states relinquished to the European Commission their authority to negotiate investment treaties, rendering legally questionable all bilateral agreements concluded by member states. A U.S.-EU Investment Treaty could ensure mutual openness to foreign investment, open new areas to mutually beneficial investment, strengthen international investment law, and serve as a model for investment agreements worldwide.

- ***Reinvigorate the Transatlantic Investment Dialogue*** and charge it with coordinating U.S. and EU positions regarding sovereign wealth funds in light of OECD and IMF principles; investment policies vis-à-vis third countries; and implementation of OECD guidelines on freedom of investment.

2. Stand Together for Intellectual Property Rights (IPR). The U.S. and the EU face a major challenge in addressing calls from those who do not have a shared understanding of the concept of intellectual property – a fundamental pillar of the transatlantic economy. The U.S. and the EU have agreed to cooperate in strengthening global protection of intellectual property rights, including through the provision of training and technical assistance to other countries, and to support an expanded mandate for the existing U.S.-EU IPR Joint Strategy Committee. According to Business Europe, a convergence of IPR regulations between the EU and the US is estimated to generate an increase in national incomes by € 0.8 billion ($1.1billion) in the EU and $4.8 billion (€3.7 billion) in the U.S.

Given the stakes involved in anti-counterfeiting and piracy, the U.S. and EU, along with the private sector, should continue to press for full respect for IPR in third countries. Through international organizations and directly, the U.S. and EU should

- Engage developing countries in formulating intellectual property policies and enforcement strategies that ensure "win-win" outcomes both for IPR holders and national interests.
- Develop a joint agenda for dealing with counterfeiting and piracy around the world and bring joint legal action against such abuses at the World Trade Organization.
- Adopt a common stance on issues of 'indigenous innovation.'
- Intensify collaboration on critical market access issues to apply to all emerging economies.

3. Jointly Develop an ICT Roadmap.

The U.S. and EU should set forth out how jointly agreed ICT principles will be implemented and drive the development and adoption of transparent and high-quality international rules, norms and best practices on cross-border flows of digital data and technologies.

<u>4. Issue a Joint Statement of Innovation Principles</u> to guide the transatlantic innovation economy and serve as the basis for globally focused cooperation on investment, IPR, indigenous innovation policy, state owned enterprise behavior, ICT, raw materials and the adoption by key emerging economies of policies that are supportive of balanced and sustainable global economic growth. Such a statement should result from close consultation with business and other stakeholders.

III.
Extend the Rules-Based Multilateral System to New Areas

Commercial barriers must come down not only across the Atlantic. The U.S. and EU should remain committed to the multilateral trade liberalization agenda under the auspices of the WTO. Yet we should also explore opportunities that give us more viable options than moving the global economy ahead in lockstep or not at all. I have proposed transatlantic market-opening initiatives in trade, green technologies and services that could be extended to WTO members who are willing to take up the same responsibilities and obligations covered by such agreements. In addition, the U.S. and the EU should work together and with other like-minded partners to extend the rules-based multilateral system to new areas of endeavor.

Most new cooperative economic arrangements today address issues beyond traditional 'at the border' barriers to trade in goods and services as originally formulated by the GATT. New guidelines are needed to apply such fundamental WTO principles as transparency, non-discrimination and national treatment to international economic transactions ranging far beyond the traditional trade agenda.

Those who worry that an ambitious Transatlantic Partnership could threaten the multilateral economic system should consider that the opposite may in fact be true. How the U.S. and Europe deal with the interrelated challenges and opportunities posed by bilateral issues, rising powers, and overlapping networks of free-trade-agreements could go far to shape the multilateral agenda for a new age and ultimately strengthen the multilateral system, especially the WTO.

In this sense, transatlantic markets have become the laboratory for the international economic order; many transatlantic issues cannot be addressed by multilateral efforts alone. That is why the 'multilateral vs. transatlantic' dichotomy is a false choice. The U.S. and EU should advance on both fronts simultaneously; push multilateral liberalization and press transatlantic market-opening initiatives in areas not yet covered by multilateral agreements. The alternative to this WTO+ agenda is not drift; it is growing protectionism, U.S.-EU rivalry in third markets, and the triumph of lowest-common-denominator standards for the health and safety of our people. The absence of common rules and procedures weakens the leverage of our two regions to ensure that high standards prevail.

With this in mind, the U.S. and EU should:

<u>1. Codify and Align Existing U.S. and EU Free Trade Agreements to Boost the Multilateral System.</u>
The U.S. is pursuing the Trans Pacific Partnership, while the EU is concluding a Comprehensive Economic and Trade Agreement with Canada, and may start negotiating a deal with Japan. The EU already has free trade agreements with Mexico and South Korea, and may start negotiating a deal with Japan. The United States already has free trade accords with Canada, Mexico and South Korea. In this growing web of economic integration, the glaring hole is a similar agreement between the U.S. and the EU. Such a comprehensive agreement would not only offer substantial benefits to workers, consumers and companies on both sides of the Atlantic. Such an agreement would also enable the U.S. and EU to codify their respective FTAs, which overlap considerably. An alignment and extension of free-trade arrangements among the U.S., EU and all partners with whom they have such free-trade agreements would be a major boost to the global trading order.

2. Facilitate Closer Economic Integration among Regional Initiatives.
In addition to bilateral FTAs and related market-opening initiatives, regional groupings are also exploring ways to align more closely with each other, for instance APEC, the EU and NAFTA. The U.S. and EU should use their respective memberships in such arrangements to promote open regionalism by providing for mutual recognition of standards, sharing information and expertise to facilitate adoption of such standards based on principles of transparency and non-discrimination, and opening such regional markets to each other. Cooperative arrangements that meet these criteria would be fully consistent with the principle of open regionalism as well as with deepening, broadening and widening the scope of the WTO-based system of rules and disciplines for all international economic transactions.

3. Establish a Green Code of Multilateral Trade Disciplines. A collision is looming between trade and climate policy. Failure to coordinate these two key components of the broader system could both imperil climate change negotiations and provoke major new trade conflicts. The U.S. and EU should demonstrate leadership by working with G20 partners to develop a 'Green Code' of multilateral trade disciplines along the lines of the proposed Code of Good WTO Practice on Greenhouse Gas Emissions Control, and consider new trade negotiations to address these potential commercial and climate trade-offs.

4. Lead on Global Competition Policy.
For free trade and global economic integration to have any meaning in terms of raising welfare, markets have to be relatively open and competitive. Only the United States and the EU have any meaningful competition policies. The United States and the EU should consider joining together to lead creation of such a mechanism in the WTO. To prepare for this, the U.S. and the EU might consider creation now of a joint study group to develop the principles and concepts that would lead to a formal WTO proposal and eventually to the creation of a global competition policy body. Only the U.S. and the EU can do this, and it is in both their interests to do so as fast as possible.

Conclusion: Using the Transatlantic Partnership to Create Jobs and Fuel Growth

The future health of the transatlantic economy is not only dependent on the cyclical economic rebound. It also rests on more proactive, coordinated and forward-looking policy initiatives from policymakers on both sides of the Atlantic. Our current economic challenges are urgent. But history will judge not only how leaders deal with short-term crises, but how they position their countries for the future.

We should have no illusions about the difficulties involved. The remaining tariff barriers, especially in agriculture, often reflect the most politically difficult cases. Some of the most intense transatlantic disagreements have arisen over differences in regulatory policy. Issues such as food safety or environmental standards have strong public constituencies and are often extremely sensitive in the domestic political arena. To complicate matters further, responsibility for regulation is split in the EU between European and national levels, and in the U.S. between the federal and state governments, so simply getting the right people into the room can be a real challenge. Investment barriers, especially in terms of infrastructure and transport sector ownership, will be very difficult to change. But the potential payoff is high, and will translate into jobs and economic opportunity not only for our citizens but for billions around the world.

Such a comprehensive effort would create millions of jobs and boost economic growth. A 2005 OECD study estimated that a comprehensive transatlantic economic initiative -- eliminating tariffs on goods, and reducing regulations and barriers to mutual investment -- would permanently boost GDP per person by up to 3.5% on both sides of the Atlantic. This is the equivalent of giving every American and every European a year's extra salary over their working lifetimes. It could create 7 million jobs in the transatlantic economy.[1]

[1] Conservative rule of thumb that a 1 percent increase in GDP corresponds to an increase in employment of approximately 1 million jobs, or about three-quarters of a percent. See OECD, *The Benefits of Liberalising Product Markets and Reducing Barriers to International Trade and Investment: The Case of The United States and European Union*, Economics Department Working Paper 432, Paris, June 2005.

Even partial successes could have significant positive benefits for jobs, trade and investment. Given the deep integration of the U.S. and European economies, greater gains would achieved by reducing or aligning regulatory barriers, rather than eliminating trade barriers. A 2009 study for the European Commission, for instance, estimates that aligning half of relevant non-tariff barriers and regulatory differences between the EU and U.S. would push EU GDP .7% higher in 2018, an annual potential gain of €122 billion; and boost U.S. GDP .3% a year in 2018, an annual potential gain of €41 billion. An average EU household would receive an additional €12,500 over a working lifetime, and an average U.S. household would receive an additional $8,300 over a working lifetime. U.S. exports would increase by 6.1% and EU exports by 2.1%. Such an effort would be 3 times more beneficial to the U.S. and EU economies than current offers on the negotiating table in the Doha Round regarding manufacturing, services and sectoral agreements.[2] Even a 25% reduction in non-tariff barriers could lead to a $106 billion increase in combined EU and U.S. GDP.

A U.S.-EU zero-tariff agreement on trade in goods alone could boost annual EU GDP by up to .48% and push EU exports to the U.S. up by 18% ($69 billion); and boost annual U.S. GDP by up to 1.48% for the U.S. and push U.S. exports to the EU up by 17% ($53 billion).[3] According to the study which the U.S. Chamber of Commerce commissioned from the European Center for International Political Economy, Transatlantic Zero would lead to $120 billion in added growth in the U.S. and the EU within five years of signing the agreement. Under the U.S.-Korea FTA, U.S. exports to Korea would likely increase by $9.7-$10.9 billion. But under a Transatlantic Zero Tariff Agreement, U.S. exports to the EU would increase by $53 billion – five times as much. The numbers speak for themselves. According to a study conducted by the Dutch firm Ecorys, a 75% reduction of services tariffs would yield almost $13.9 billion annually for the EU and $5.6 billion for the U.S.[4]

Mr. Chairman, the U.S.-EU relationship remains the foundation of the global economy and the essential underpinning of a strong rules-based international economic order. We literally cannot afford to neglect it. Instead, we need to put our partnership to work -- to open our markets; strengthen global rules; leverage global growth, human talent and innovation; and expand economic opportunity to billions of people around the world. A 21st Century Transatlantic Partnership is within our grasp, but it is not the relationship we have today. Given the challenges we face, such a partnership is urgent. Our central challenge is to mobilize political and economic leadership behind ambitious goals, tied to pragmatic steps forward.

Creating jobs and fueling growth are highest priority items for American and European leaders. This is not the time for piecemeal efforts; it is time for transformative action.

The High-Level Working Group on Jobs and Growth, led by U.S. Trade Representative Ron Kirk and EU Trade Commissioner Karel De Gucht, is supposed to provide an interim update to Leaders on the status of its work in June 2012 and produce a final report with findings, conclusions, and recommendations by the end of 2012 at the occasion of the next EU-US Summit.

With all due respect, this is too slow. U.S. and EU leaders will meet on the margins of the May 2012 Chicago Summits of NATO and the G8. They should seize the opportunity to launch a bold New Transatlantic Partnership for Jobs and Growth, based on the elements outlined above. The time to act is now.

Thank you.

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[2] Koen Berden, et. al, *Non- Tariff Measures in EU- US Trade and Investment: An Economic Analysis* (Rotterdam: Ecorys, 2009).
[3] Fredrik Erixon and Matthias Bauer, "A Transatlantic Zero Agreement: Estimating the Gains from Transatlantic Free Trade in Goods," ECIPE occasional Paper No. 4/2010 (Brussels: ECIPE, 2010).
[4] Koen Berden, et. al, *The Impact of Free Trade Agreements in the OECD: The Impact of an EU-US FTA, EU-Japan FTA and EU-Australia/New Zealand FTA* (Rotterdam: Ecorys, 2009); Daniel S. Hamilton and Joseph P. Quinlan, *Sleeping Giant: Awakening the Transatlantic Services Economy* (Washington, DC: Center for Transatlantic Relations, 2008).

Mr. BURTON. Thank you. You didn't mention, since Mr. Meeks wasn't here you didn't mention how many jobs would be impacted by trade. Yes, sure, go ahead real quick. I think he needs to know that.

Mr. HAMILTON. We do a survey of the transatlantic economy by jobs trade investment for each U.S. State. My estimate at the moment for New York, European FDI, that is direct investment in the State of New York provides about 230,000 jobs. And if you take trade and you take the indirect effects of that with distributors, suppliers, all of that, my estimate would be 700,000 jobs in New York State are directly related to commerce with Europe.

Mr. BURTON. Let me start the questioning by asking about the economic problems in Europe. I think you have made, both of you have made a very, very strong point that we are locked together with Europe whether we would like it or not. And if many of the countries in Europe go south, belly up, it is going to have a devastating impact not only on them but on us as well.

And I would like to know from your perspective, since you are with the Chamber, and you have expertise, Dr. Hamilton, what is the situation right now? Prime Minister Merkel can't keep all those countries afloat, and almost all those countries are in debt. Even France, I think they are about 100 percent of GDP as far as their debt is concerned. Greece is way, way up there. Italy is up there. Portugal, Spain, Ireland has still got problems although they are working pretty hard on that.

So what is the answer and should we be doing what we are doing? I mean we are increasing our investment in Europe by leaps and bounds, not just the International Monetary Fund, but by currency swaps. So I know this is a tough question for you, but I would like to know where we are and what we are going to be able to do about that because it has a direct bearing on investment in Europe and trade.

Mr. RASHISH. Thank you, Mr. Chairman, for that question. First, let me say I think you are right that we do find ourselves in this relationship of interconnectiveness with Europe, and so in many ways their fate is our fate. And so given the existing stock of investment that we have put into Europe up until now, you know, putting aside anything we might put in there in the future, we certainly want to make good on what we have as best we can. And I think so it is in our interest that the Europeans manage their debt crisis in the right way. And I think it is also at the same time, important that we think of initiatives like a trade and economic policy liberalization which can help make the most of what we have got in Europe up until now and would also make Europe a much more attractive place to invest in the future.

And I think there are some reasons to be optimistic that Europe will continue to be a good trade and investment partner for the United States, even just looking at it through the lens of the current debt crisis. First, they have had this crisis and they have had to create a lot of institutions on the fly that have not done a bad job of coming up with some financial packages to not only assist indebted countries, but also to help ward off future crises.

But perhaps even more important, I think, is what a number of the individual countries have done themselves. If you look at some of the policies undertaken in Ireland, okay, that is a small country, but if you look at Italy. Italy was talked about even less than 1 year ago as a possible risk to the whole system. You are hearing a lot less about that now because Prime Minister Monti has really had the courage to engage in a lot of not just fiscal consolidation, but also he is trying to get to do some things which are going to lead to economic growth. And you see that is common in the bond markets now significantly. There are still challenges, but he is already feeling, and I think somewhat deservedly, so confident that he just recently gave a little talking-to to the Spanish Prime Minister saying, you know, why aren't you guys keeping your deficit under control?

So I think that if you combine some things admitted on the EU level with some of the things that are being done in some of the important member states, and I don't mean to say that the Spanish Government, the new Spanish Government, I think, does have a strong reform package and I think has a good chance of success. I think that there is reason to be optimistic. I think the Greeks, they have recently had a renegotiation of the Greek debt. Certainly Greece is perhaps more challenging from a growth perspective than some of the other markets, but it is also a small country.

So I think that given all we have got invested in Europe and given the fact that you also have a lot of very strongly performing countries in Europe and in the eurozone, certainly there are some that are in crisis, but if you look at Germany, The Netherlands, Austria, Sweden, Finland, there are a number of very strong economies that are good partners for us, and I think over time the eurozone will work out its problems. I think growth may not be as high as they want, but I think the more we trade with them the more the chance is that that growth will be at the level we want.

Mr. BURTON. Mr. Hamilton, do you want to make a quick comment? Let me just say that I will submit, if you don't mind, some questions for the record because I don't want to take the time of my colleagues. Mr. Hamilton?

Mr. HAMILTON. Thank you so much. Yes, I believe that while Greece is still in trouble and basically has defaulted, they have done what they can to construct a firewall so that whatever happens to Greece should not ripple back through the rest of the other European economies. And I think the efforts they have put together in terms of a very, very big facility to make sure these other economies don't go anywhere, coupled with reforms that Peter mentioned, and the Chancellor's decision that they really do have to support this no matter what it takes, will move forward.

I think the point for the United States though is that because of this deep integration I have talked about, we have never had a greater stake in each other's economic success than we do today because of these transmission belts that I mentioned. One consequence right now of the problems that Europe has is that this flow of FDI, of investment from Europe into the United States, to American States and cities, has slowed down. So that of course accentuates our own problems, because this source of onshore jobs is not as strong as it has been. That has some problems for us.

I think in Europe, the problem is that the competitive ability of many of these countries is starting to break apart. Some countries in Europe are world-class innovators and competitors, and others are having significant challenges, and that is going to be their challenge.

But for American companies, a single pan-continental market of 500 million people is a big, big boon for American companies who know how to work in the big continental market. And you see that American companies are not withdrawing from Europe, in fact, they are investing more. Even in Ireland, which you would think given its troubles people would have left, they have not. American companies have sort of doubled down on Ireland and invested even more, and is a primary source of the Irish economy these days.

And even 2 percent growth, even small growth in a market of 500 million people could be much more important to American companies than 10 percent growth in a very tiny market. Just 2 percent growth in Europe would create a market every year the size of the country of Argentina. It is not 10 percent growth in Argentina, it is Argentina. And that is what we are talking about. So even small growth in a very big market could be more important to American companies than big growth in a very tiny market.

Mr. BURTON. Thank you very much. Mr. Meeks?

Mr. MEEKS. Thank you, Mr. Chairman. Let me ask just a couple of general questions which I am concerned about. I have voted for just about every trade agreement that we have come up with, but it seems as though from 1999 to 2010, positive sentiments in regards to free trade agreements, and this is according to a Wall Street Journal/NBC News survey, declined from 39 percent to 17 percent, while negative sentiments grew from 30 percent to 53 percent of those respondents. And I have difficulty sometimes, but I am just wondering by asking you, how do you think we should explain this shift in Americans and their thought with reference to international trade agreements?

Mr. RASHISH. Thank you, Congressman. I think that when we look at trade, Europe is a great asset in that sense. I think trade with Europe is a very good place let us say to start if you want to try to get those numbers up a little bit. Europe is a large regional economy like ours, a population even bigger than ours, of GDP roughly the same size of ours, has a very similar standard of living on average. It has very similar approaches to regulation and to policy making. And so I think that if we want to try to convince Americans about the benefits of trade that Europe is an attractive place to start. It doesn't present the kind of challenges that a number of other of our free trade agreements have posed because of the differing levels of development, for example, between us and our trading partners.

Now it is also true though that because Europe is large and advanced and is mature also politically in many senses, it is going to be much more even handed kind of negotiation. We are not going to be able to tell the Europeans what to do and they aren't going to be able to tell us what to do. But I do think that it is a good place to start if we want to have a campaign to say why trade can be beneficial to Americans and can create jobs.

Mr. HAMILTON. I have been struck by the submissions that have been presented to the government in the consultation process for the High-Level Working Group on this initiative. If you look at it, across the board there is support for this, across what have been in other trade negotiations maybe some problem. The AFL–CIO, for instance, has submitted a very positive statement about the potential of a transatlantic agreement, as has the Chamber. So from business across the board, different political actors, you see some agreement here.

I think the other thing to think about is that, you know, many of our other trade agreements are trying to essentially bring our relations with other countries up to the standard we already have with Europe. We don't have really many trade barriers with Europe. And so if we limit this initiative to a standard free trade agreement, with all the caveats I mentioned that trade really isn't the problem, we are not really moving things very much forward. We should think of a 21st century type of new initiative that takes the entire system forward. And because we are half the global economy that is what we can do. And that is rooted in areas where it is distinctively transatlantic, like services, where we really have an opportunity here to change the whole playing field for the globe if we can move ahead with the Europeans.

Mr. MEEKS. I agree. But I tell you what my further concern is. For example, are we trailing the European nations? Even with some of the lesser developed nations, Europe has now done some 36 free trade agreements in comparison to our what, 14? So it seems as though whether it is less developed countries, et cetera, it seems as though it is a difference of opinion over there. They are moving forward on free trade and we are half stepping in one sense. What is your thoughts on that?

Mr. RASHISH. Thank you, Congressman. It is very true that I think the EU has what you could call the more activist trade agenda than we do right now. First, you have to remember that trade is, it has grown, but trade is a smaller percentage of our economy than it is in the EU where the Europeans are used to trading with each other for hundreds of years. So I think in most European countries at least, particularly in the smaller ones which are more exposed, but in most European, the idea of trade is something very natural. So they have that starting point that I think we don't have as a big continental country with only two neighbors.

And the other thing I think to remember is that trade is a very powerful policy tool, almost foreign policy tool for the European Union. Trade is where the EU really has the most confidence of all areas to pursue policies, you know, where the European Commission has the confidence to pursue policies on behalf of all of the 27 member states. And so I think a lot of energy is put into trade policy, whereas the United States, we are a mature nation with full institutions, full Federal institutions and we have a lot of ways to pursue our interests, economic or foreign.

But in Europe, a lot of that is put into trade policy and I think that partly also accounts for why they have many more FTAs they are negotiating compared to the United States.

Mr. HAMILTON. One example of that is the EU and Canada are close to concluding a comprehensive agreement. It is not getting much attention in the United States, but when it happens some people are going to start to look. And if you look at some of the provisions of that agreement, it goes much further than normal free trade agreements because it is with another major industrialized country. And that is going to happen soon. And it reinforces your point, the EU is going around doing all of these sorts of trade deals. They are probably going to do some more with Japan also. We have done some, and much of it overlaps actually when you come down to it.

So one of the proposals I would make for a transatlantic partnership is that we align and codify all of those bilateral free trade agreements we have with all those other countries and simply put them together. That itself would open up huge amounts of new opportunities with us being the drivers again, and that is my point. We can take the initiative here, we just need some political will on both sides to do that.

Mr. MEEKS. Thank you.

Mr. BURTON. Ms. Schmidt?

Ms. SCHMIDT. Thank you. Mr. Rashish, in your testimony you highlighted the fact that small and medium size businesses are often overlooked in trade debates despite the fact that such businesses are increasinly engaged in the export market.

Can you discuss the impact that elimination of tariffs and greater regulatory cooperation will have on small businesses? I know we look at the large conglomerates, but what about the small businesses?

Mr. RASHISH. Thank you, Congresswoman. Well, I would say that in general, smaller companies have more of a challenging time reaching foreign markets than the larger companies and that particularly, smaller companies have a harder time dealing with regulatory barriers. It is very expensive for a small company to have to comply with two or more series of regulatory regimes to get their products certified and tested and certified.

So I think the more we can make progress particularly on the regulatory side to be able to deem the U.S. and European approaches to regulation as equivalent so that small companies would only have to get their products tested and approved in one market that would particularly be a boon to smaller companies.

Ms. SCHMIDT. Thank you. Mr. Hamilton, the U.S. as we know is pursuing trade agreements at a slow or snail's pace, and my concern is that it can cost us market share in the global community. I understand that the transatlantic relationship in trade and investment eclipses any other relationship, but the loss of market share can be such a slow leak that it only is noticed over time.

You just mentioned the issue with the EU and Canada. Can you elaborate a little bit more on that and as well as our lack of moving forward, not maybe as quickly as the EU is with trade, but a little more quicker paced than we are right now?

Mr. HAMILTON. Yes. The EU-Canada comprehensive agreement will start to address a number of the issues that we have been mentioning. It goes into investment, for instance, which is a significant element also in the Canadian-EU relationship, and it starts to establish certain principles by which they will act. And I think it is interesting that they might be ahead of the U.S.-EU relationship in some of these areas even though our economic relationship is so much bigger. And it has some implications probably for NAFTA that have not been addressed very much, because obviously Canada is a key part of NAFTA. The EU has already a economic agreement with Mexico, they just don't have one with us.

And if you go back to the point that was being made, all around the world both the U.S. and the EU have been trying all of these bilateral agreements or regional types of efforts, but we haven't done it with each other. This is the big hole in the trade picture. But it is also the big hole in these 21st century issues where in services, in investment, in regulatory cooperation, we have the opportunity to set the standards in ways that could be the core of much higher and better global standards across the board and could open up third markets.

We are the biggest service economies in the world. We are each other's most important services markets, and most people in the U.S. and Europe work in the services economy. So if we could open up the next 20 percent of that market, it would also have a significant impact not only for us but on other protected markets. Brazil, for instance, is a big services economy but it is very protected. And if we are going to go forward and open up that will exert a bit of pressure on third countries.

Ms. SCHMIDT. And my last question is regarding Russia. Trade with Russia has been mentioned. There is some concern about nationalization with foreign investment. How concerned is the Chamber and its members with those issues?

Mr. RASHISH. Thank you. I think the Chamber is concerned about those developments, but I think that we do believe that granting permanent normal trade relations to Russia and allowing our companies to fully benefit from Russia's membership in the World Trade Organization is one way to help with those and other challenges of operating in the Russian market. WTO membership including the participation by our companies in the Russian economy will create more competition in the Russian economy. It will bring new ways of doing business to the Russian economy. It creates new interdependence between the Russian economy and the U.S. and other economies around the globe. And I think the more that that happens the more we can be optimistic that these kinds of issues that you mentioned will present a decreasing challenge in the years to come.

Ms. SCHMIDT. Thank you.

Mr. BURTON. Mr. Sires?

Mr. SIRES. Thank you, Mr. Chairman. As I look at this whole picture I have to somehow partition the EU and then Russia and then Turkey, because I guess when you talk about the EU the risk is less when you make a deal. We have a lot more things in common obviously. But when we talk about Russia and Turkey, I mean the risk/reward there, the risk is just much, much higher to cut some of these deals.

So my concern is, we talk about Turkey and we keep pushing Russia and everything else, but to me the risk is just an awful lot for us when we can actually do a deal with people that we have certainly, I don't want to say more in common, but just a more common way of thinking. To me, Russia joining the WTO, I just wonder how much they are going to abide by the changes that they had to make. Because I mean China does whatever it wants basically. There is very little intelluctual properties concern and so forth.

So I guess what I am saying is, do we partition it? I mean there seems to be a whole menu here, and even within the European Union there is a whole menu. Italy certainly can withstand a lot more changes than some of these other countries because I think they have more liquidity, is that the right word I am using, than Portugal or Spain. So I mean how do you pursue when you have such a menu, a trade agreement?

Mr. RASHISH. Congressman, thank you for the question. I mean I do share your inclination to want to have an agreement between the United States and the EU because I think it is something we could actually do pretty quickly for the reasons you state, because we are so similar. And I think even though we are already very integrated as to economies, because the relationship is so big there are definitely still huge gains we can tap and should tap.

At the same time, let me talk about Turkey, because I think we can and should do both. Turkey is an incredibly important country from the strategic point of view for the United States, and I think it is more broadly given its location. It has also been experiencing very dynamic growth and a very active international economic diplomacy. It is reaching out into new markets.

But given the importance of our bilateral political relationship and given the size of our two economies, the trade investment relationship between the United States and Turkey is seriously underdeveloped. And I think that that means there are important opportunities for our firms. I think it means that if we were to increase our trading investment relationship with Turkey that we would even have a more robust relationship with them and they with us. And I think that given where the kinds of both economic and political challenges are and are likely to be, a strong commercial relationship with Turkey could really yield many benefits for us.

Now it is true that there a number of challenges that we face. The U.S. faces a number of policy and regulatory challenges in terms of market access, and on the Turkish side they face a number of more market based challenges because it is not a good match up between their companies and the U.S. market. But the U.S. Chamber has recently issued a report which I am happy to send you, to the member and you and your colleagues separately, which takes stock of where this relationship is and points to a number of both policy and business community actions we can take to increase the size of this relationship.

Turkey wants to be one of the ten largest economies by the year 2023, which is the 100th anniversary of their founding as a republic. It is challenging, but given that they have tripled their economy over the last 10 years it is not impossible. To get there they are going to need to make a lot of policy and regulatory reform,s and so I think that gives us an opportunity to say to them, we want to be part of that but we also want to make sure that our companies have the access we need to help you achieve what is your goal.

Mr. HAMILTON. I agree with that on Turkey, and so let me leave that. But the point of your question leads me to sort of make this statement. I think the international economic order as we have built it over the last six decades is in danger of being eroded because a lot of rising powers don't necessarily agree with some of the basic principles that we have put in place.

And it seems to me that over time, the West if you will, U.S. and Europe, we have become hesitant, a bit divided and really less assertive about the need for those types of principles. And we tend to go to these countries, each of us, through one door or the other trying to get them to buy into our or their principles, U.S. or European. In the end we say, take this standard, take that standard. We end up with the Chinese standard that way. And I think we need to be aware of that. That is why I say we are competitors, but if we could agree across the Atlantic that there are still basic principles of the international economic order that we will both act on also vis-à-vis third countries, I think it is a much more assertive statement that will sort of deal with this. It is like termites in the woodwork, you know, it is like an erosion constantly whether it is corruption or some of these other issues. And so having a robust new transatlantic partnership, I think, helps us deal with third country problems in Russia or in China.

When the U.S. and the EU do get together, for instance, we had on consumer safety, many problems a few years ago, if you remember. The U.S. and the EU finally decided, let's go to Beijing together about consumer safety issues. And actually they did produce more progress with the Chinese on that issue than we have on a lot of other issues. But if we don't sort of stand up for that as I say we will have the Chinese standard. We will have the lowest common denominator type of world, and I don't think that is in either the U.S. or the European interest.

Mr. SIRES. I haven't raised the issue of security yet. Because I had people from the EU come see because I represent the Port of Newark and the Port of Elizabeth, which entries, you know, to a great deal of commerce. And we are talking about who should secure the containers that are coming in from Europe, whether it should be in Europe or it should be us. And I think that is something that has to be addressed eventually if we are going to have any kind of a deal.

Right now I visit the ports, and I think we do a fairly good job of trying to see what is in these containers, and I often ask this question to the port people who handle it. But I think eventually that is going to be a big issue, whether they do it at port of departure or we do it at port of entry. And that will cost us money, but I think it is going to have to be done with just about every country that we deal with, especially if it is not the European Union but some of these other countries where there are still active people who want to do harm to our country. So I was just wondering how you feel about that.

Mr. RASHISH. Well, Congressman, thank you. The U.S. and the EU have recently arrived at an agreement on certain aspects of this issue to recognize the way each does look at cargo coming into our ports. And I think that is a great example of the kind of progress on an important regulatory issue, and I think we can certainly make further progress within the context of a trade negotiation and on this issue and others. But I fully agree that that should remain at the top of the agenda of our bilateral cooperation.

Mr. HAMILTON. There is disagreement on secure trade these days. I think the premise of your question is, on what basis will we come to these agreements? Will we come together again, lowest common denominator or high standards? If we can't agree on some basic principles governing secure trade with those countries most like ourselves, how would we possibly think we are going to have arrangements with many, many others who don't share some of the basic premises?

So an agreement across the Atlantic in these areas can serve as the core for a much broader global effort. If we don't get that we get nothing. And so I think that is maybe one way to think about it. I would just take this to say it is not only about secure trade. It is really about all the flows that connect us, it is goods, it is services, it is ideas, it is people, again, and we need to have more resilient free societies today.

Cyber tends to be kind of the issue everyone focuses on but, you know, if the electrical industry is attacked it doesn't matter how many cyber programs you have in place because they are all related. And again, if we and the Europeans can't come to some basic terms about how we will build resilient societies together to keep everything flowing so free societies work but that people feel safe, I don't believe we are going to have any global agreements, because they have to be built on certain principles. And we should establish those principles with our closest partners, most of whom are our core allies as well.

So I would begin with the transatlantic, what I would call the resilience initiative as well, it is a little different now than what we have been talking about, but I think it is equally important because it actually is what people worry about. All of those flows that keep our societies moving are susceptible to disruption, either manmade or from Mother Nature. And if there was a massive disaster in Europe or here that taxed our societies, we should say to each other, let's come to each other's assistance and let's put in place the modalities to do that. We haven't thought that in the United States that we might have to need that help, but we had Hurricane Katrina. We have had other kinds of disasters where we have needed that help, also in New York.

Mr. SIRES. Sounds to me like John Lennon in his song. Thank you very much.

Mr. BURTON. He has ports in his district. I think you might have gathered that.

Ms. Schmidt, did you have any other questions?

Ms. SCHMIDT. Yes, I have a follow-up for you gentlemen. One of the concerns that has been raised are some of the barriers that our foreign allies have with our own products, basically Turkey and the whole pharmaceutical industry. And my question is, are the barriers there because of the fear of our products or because of a fear of the economic impact to Turkey?

And I look at the agroscience that we do in the United States and the reluctance of the EU for our products, not built out of fear of the kind of agriculture that we are growing here, the products that we are growing here, but basically that if they allow our products over there it will create an economic, they will lose market share because we grow more quantity at a cheaper price over here.

So looking at that model in Europe's reluctance with our agricultural products, is that the same kind of issue with Turkey? Is it a fear that they are going to lose their market share of their own drugs, or is it truly a fear of our product quality?

Mr. RASHISH. Thank you. I think when you look at the issues that the U.S. pharmaceutical and other foreign research based pharmaceutical sectors face in Turkey, there are two sorts of challenges they find. One is a challenge that is not particular to Turkey, but what I think the pharmaceutical companies in the U.S. would say is particularly challenging, and that is Turkey's pricing policies there which they are the government pricing policy, how much they will pay and reimburse for medicines which makes it challenging for them to operate there. But again it is not——

Ms. SCHMIDT. I take it then, more than what the actual product is.

Mr. RASHISH. Yes, that they are concerned about. Yes, about the level. And again, it is not an issue that you only have in Turkey. You have this issue in a number of EU countries where these policies are still national and not at an EU level.

You also have an issue in Turkey about the way the Turkish Government wants to certify the safety of pharmaceutical products. That I do not think is really because of a concern about the quality of our products, but I think our companies' products are getting caught up in that net. So it may be inadvertent but it is still a very strong concern.

Mr. BURTON. And now for our last questioner of the day, my good buddy.

Mr. MEEKS. My quick question is this because I am, along with Mr. Burton have been a strong advocate for removing Jackson-Vanik, and we have been talking regularly about Russia. But what about Moldova? They have been a part of the WTO for awhile, do you see any reason why we shouldn't lift, and grant PNTR standards to Moldova?

Mr. RASHISH. Congressman, I am sorry to have to say this in what is your last question, but I would like to check with colleagues and get back to you on that if I could.

Mr. MEEKS. Okay.

Mr. HAMILTON. If I could just briefly, I believe there have been some recent changes in Moldova which are encouraging in terms of the political process there. And it is probably in the United States interest to look hard at those changes and try to support them, because Moldova, the poorest country in Europe, is also part of what I would call a festering conflict. People call them frozen conflicts in Europe, I call them festering, because they are not frozen. They are bringing these people down because you can't resolve them. The Transnistria conflict, there is the conflicts with Georgia, South Ossetia and so on, Nagorno-Karabakh. These are still turbulent areas of Europe and Moldova is right there.

So anything that can be done to either commercially or otherwise to try to alleviate some of that problem would be in U.S. interest, European interest, far beyond just trade. And so I think because of these political developments recently with the President and so on, one should take a closer look at that and see how one could encourage this development.

Mr. BURTON. Well, as I thank you very much for your patience and for being here today, I would like to make just one comment about Jackson-Vanik. There are some people who are leaders in the Congress who still don't want to remove Jackson-Vanik from Russia. And if you have any ideas on what we could replace that with that would not be as onerous that you could recommend to us, we will present that to some of those folks so that maybe we can move in the direction of removing Jackson-Vanik and yet still deal with the problem.

With that thank you very much. I really appreciate you being here today. You guys did a great job. Thanks a lot.

[Whereupon, at 4:18 p.m. the subcommittee was adjourned.]

A P P E N D I X

MATERIAL SUBMITTED FOR THE HEARING RECORD

SUBCOMMITTEE HEARING NOTICE
COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515-0128

Subcommittee on Europe and Eurasia
Dan Burton (R-IN), Chairman

March 27, 2012

You are respectfully requested to attend an OPEN hearing of the Committee on Foreign Affairs' Subcommittee on Europe and Eurasia, to be held in **Room 2172 Rayburn House Office Building (and available live, via the WEBCAST link on the Committee website at http://www.hcfa.house.gov):**

DATE: Tuesday, March 27, 2012

TIME: 2:00 p.m.

SUBJECT: Creating Jobs: Economic Opportunities in Europe and Eurasia

WITNESSES: Panel I

The Honorable Robert D. Hormats
Under Secretary
Economic Growth, Energy, and the Environment
U.S. Department of State

Panel II

Mr. Peter Rashish
Vice President for Europe and Eurasia
U.S. Chamber of Commerce

Dan Hamilton, Ph.D.
Director
Center for Transatlantic Relations
The Paul H. Nitze School of Advanced International Studies
The John Hopkins University

By Direction of the Chairman

The Committee on Foreign Affairs seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202/225-5021 at least four business days in advance of the event, whenever practicable. Questions with regard to special accommodations in general (including availability of Committee materials in alternative formats and assistive listening devices) may be directed to the Committee.

COMMITTEE ON FOREIGN AFFAIRS

MINUTES OF SUBCOMMITTEE ON *Europe and Eurasia* HEARING

Day *Tuesday* **Date** *March 27* **Room** *2172*

Starting Time *2:00 pm* **Ending Time** *4:18 pm*

Recesses ☐ (__ to __) (__ to __) (__ to __) (__ to __) (__ to __) (__ to __)

Presiding Member(s)

Dan Burton

Check all of the following that apply:

Open Session ☑
Executive (closed) Session ☐
Televised ☑

Electronically Recorded (taped) ☑
Stenographic Record ☑

TITLE OF HEARING:

"Creating Jobs: Economic Opportunities in Europe and Eurasia"

SUBCOMMITTEE MEMBERS PRESENT:

Tim Griffin, Jean Schmidt, Gregory Meeks, Albio Sires.

NON-SUBCOMMITTEE MEMBERS PRESENT: *(Mark with an * if they are not members of full committee.)*

None

HEARING WITNESSES: Same as meeting notice attached? Yes ☑ **No** ☐
(If "no", please list below and include title, agency, department, or organization.)

STATEMENTS FOR THE RECORD: *(List any statements submitted for the record.)*

1. Chairman Burton, Prepared Testimony
2. Under Secretary Hormats, Prepared Testimony
3. Mr. Rashish, Prepared Testimony
4. Dr. Hamilton, Prepared Testimony
5. Under Secretary Hormats, Written Response to Rep. Meeks
6. Rep. Bilirakis, Questions for the Record
7. Under Secretary Hormats, Written Response to Question for the Record by Rep. Bilirakis
8. Rep. Poe, Statement for the Record
9. Chairman Burton and additional Members, Letter to Secretary Clinton Re: Yukos
10. US Department of State, Response Letter Re: Yukos
11. US - Russia Business Council, Written Testimony
12. Coalition for US – Russia Trade, Written Testimony
13. Coalition for US – Russia Trade, Letter to Congress
14. Peterson Institute, "The United States Should Establish Permanent Normal Trade Relations with Russia
15. GMF/ECIPE, " A New Era for Transatlantic Trade Leadership"
16. Bipartisan Policy Center, "A Bull in Bear's Clothing: Russia, WTO and Jackson-Vanik"

TIME SCHEDULED TO RECONVENE ______
or
TIME ADJOURNED *4:18 pm*

~~Subcommittee Staff Director~~
Subcommitte Professional Staff Member

March 27, 2012
Robert Hormats

Representative Meeks. But let me ask you, what is your position on bringing Poland, for example, into the Visa Waiver Program? And what explains, if you could, Poland's consistently high visa refusal rate despite the fact that it has this booming economy?

Mr. Hormats. The President has stated that he favors Poland's accession to the Visa Waiver Program. The Administration supports current proposed legislative vehicles which, if adopted, would raise the visa refusal rate requirement to join the Visa Waiver Program (VWP) from three percent to ten percent. If these Senate and House bills were to become law, then the Department, together with our DHS colleagues, would begin the process of assessing Poland's viability as a VWP candidate, if it also meets the other requirements of the VWP law.

Currently, over 90 percent of Polish citizens who apply for a nonimmigrant visa receive one. This is because Poland's economy – even during the financial crisis that has impacted Europe severely in the last five years – has been growing steadily.

March 27, 2012
Under Secretary Robert Hormats

Representative Bilirakis: Greece, Cyprus, and Israel, have promised to increase cooperation to exploit natural gas deposits in the Mediterranean. This is due to change the entire region drastically. This causes me pause because Turkish Petroleum Corporation chief executive said, "We're starting drilling in [occupied] northern Cyprus in the coming days... We have started shipping our equipment there," and added that drilling would start by the end of March.

Let me remind the committee that the end of March is just four days from today.

It is apparent that Turkey is prepared to yet again violate another international and legal agreement, violate the EEZ, and violate the Republic of Cyprus's sovereignty.

With that said, I would like to ask the State Department what steps they have taken, if any, to avoid an international crisis in the eastern Mediterranean?

Has State warned Turkey that this is not prudent and would be in violation of international law?

In addition, what is the State Department prepared to do if Turkey ignores this advice and violates the Republic of Cyprus's sovereignty and puts the entire region in grave danger?

Under Secretary Robert Hormats: We have been engaged on the issue of natural gas exploration with both the Turkish and Cypriot governments. The United States supports Cyprus' right to explore for energy in its offshore areas. Securing energy supplies through better energy diversity is something that the United States strongly supports. We believe that Cyprus' oil and gas resources, like all of its resources, should be equitably shared between both communities in the context of an overall settlement.

Statement for the Record of the Honorable Ted Poe
Subcommittee on Europe and Eurasia, U.S. House of Representatives
Hearing: "Economic Opportunities in Europe and Eurasia"
Thursday, March 27, 2012

The United States invests more money in Europe than anywhere else in the world. The opposite is also true. Europe invests more money here than any other region in the world. Our economic fates are intertwined. But all is not well. We are still seeing unfair tariffs on our goods. In Houston, we have the only decaffeination plant in the country: Maximus Coffee. When it exports its coffee products to Europe, it faces a 9% tariff. But we don't impose any duties on processed coffee products imported to the U.S. market. So our businesses are at a disadvantage. The tariff imbalance is costing the U.S. jobs. Existing coffee processors are finding it more difficult to continue their operations in the U.S. Existing trade barriers are also making it unnecessarily difficult for innovative and successful U.S. coffee producers to expand their operations and create more quality jobs. I'm all for free trade, but it has to be on a level playing field. The right reaction is not closing markets. In Europe, and especially France, there has been a lot of campaign talk about closing government procurement markets. This is a big deal. These markets are estimated to be as high as 15-20% of GDP in the EU. These efforts are really just smoke and mirrors to promote protectionism. No one wins when this happens. The right answer is to reduce tariffs and open up all markets to fair competition. American products should be allowed to be sold anywhere in the world. American companies should be able to compete anywhere in the world. Let the best man win. And that's just the way it is.

MATERIAL SUBMITTED FOR THE RECORD BY THE HONORABLE DAN BURTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA, AND CHAIRMAN, SUBCOMMITTEE ON EUROPE AND EURASIA

Congress of the United States
Washington, DC 20515

July 18, 2011

The Honorable Hillary Rodham Clinton
Secretary
U.S. Department of State
2201 C Street NW
Washington, DC 20520

Dear Madam Secretary:

We are writing to respectfully ask the Administration to encourage the Government of Russia to resolve the outstanding claims for compensation stemming from Russia's expropriation of the Yukos Oil Company. As you are aware, U.S. investors have approximately $12 Billion in pending claims against the Russian Government over this matter. These investors have valid claims against Russia under international law, but they have no mechanism to assert these claims because there is no bilateral investment treaty (BIT) in force between the United States and Russia. With all other avenues exhausted for American investors, only espousal by the United States can help to bring this matter to an appropriate resolution.

The expropriation of the assets and property of United States citizens by any government is a matter that we take extremely seriously; and based on the information that we have seen, this situation is an extraordinary case that warrants significant attention by the Administration. As we understand the situation, United States investors—including public pension funds, mutual funds, more than 70 institutional investors, and more than 20,000 individual American investors who owned Yukos shares directly—collectively owned approximately 15 percent of Yukos at the time the Russian authorities began dismantling the company.

While virtually all other owners of Yukos have the right under a BIT or similar treaty to take their claims against Russia to binding arbitration, United States investors do not. Based on the results of arbitration cases to date, we believe that U.S. investors would have a substantial chance of prevailing. For example, a UK investor recently won such a case, brought under the UK-Russia BIT. In a unanimous decision, the arbitrators in the UK case concluded that Russia had expropriated Yukos and that compensation was due. Spanish investors in Yukos have brought a similar claim under the Spain-Russia BIT, as have the founders, and majority shareholders, of Yukos, who have been able to bring a claim through their Cypriot holding companies under the Energy Charter Treaty (to which Cyprus and Russia, but not the United States, are parties). Lacking an available avenue for legal action on their lawful claims, direct intervention by the United States government is the only remedy available. In fact, we understand that in June 2008, American investors formally petitioned the State Department to undertake government-to-government negotiations with Russia aimed at settling their claims. Since 1970, the United States has successfully espoused the claims of Americans against foreign governments on no fewer than 11 occasions. Many of these espousals involved large numbers of claims, as is the case here.

Madam Secretary, we, like you, believe that Americans investors expect and deserve fair treatment from our trading partners. A measure of our government's commitment to that goal is our willingness to protect their investments abroad; and to respond to the legitimate claims of investors when their rights have been violated. We have a responsibility to aggressively work to resolve not only the Yukos case, but all valid expropriation claims by U.S. citizens against any government. We respectfully

The Honorable Hillary Rodham Clinton
July 18, 2011
Page 2

ask you to investigate this case and if you find the complaints have merit, take all appropriate action to espouse the claims of the Americans who invested in Yukos and seek payment from the Government of Russia as soon as possible.

Thank you for your consideration of our concerns. We look forward to hearing from you.

Sincerely,

Dan Burton
Member of Congress

Madeleine Bordallo
Member of Congress

Tim Griffin
Member of Congress

Elton Gallegly
Member of Congress

Sue Myrick
Member of Congress

Robert Aderholt
Member of congress

Thaddeus McCotter
Member of Congress

Ed Perlmutter
Member of Congress

Tom McClintock
Member of Congress

Randy Hultgren
Member of Congress

Tom Marino
Member of Congress

Allen West
Member of Congress

United States Department of State

Washington, D.C. 20520

AUG 23 2011

Dear Mr. Burton:

Thank you for your letter of July 18 expressing concern about the claims of Americans who invested in the Yukos Oil Company and inquiring about the Department's consideration of the request for espousal of those claims.

Protecting U.S. business interests and ensuring that American investors, including the investors in Yukos, are treated equitably in Russia are important priorities for the Department. Department officials here in Washington and at our Embassy in Moscow, including the Ambassador, have met with representatives of some of the American investors on several occasions to discuss their claims against the Government of Russia and the range of options available to address them.

As we have explained in these meetings, we believe it is premature at this point to consider formal espousal of the American investors' claims. As you state in your letter, there are several ongoing international arbitration and court proceedings that are examining issues of law and fact substantially similar to those presented in the American claims. Several of these cases are being conducted before panels of international law experts who have the benefit of substantial briefing from both claimants and the Russian government, expert opinions on issues of law and fact submitted by the parties, and formal hearings in which the parties actively participate.

The September 2010 decision of an arbitration panel sitting in Stockholm was the first decision on the merits reached in one of these international proceedings. The panel's holding, that Russia had expropriated Yukos and owed damages to British minority investors under Russia's bilateral investment treaty with the United Kingdom, provided valuable insight into many of the legal issues presented to us by the American Shareholders. We understand that this award has been challenged in a set-aside proceeding in the Swedish courts, as the arbitration took place in Stockholm. We expect that forthcoming decisions in this and

The Honorable
Dan Burton,
House of Representatives.

other cases will also be instructive and further inform the position of the United States Government on Yukos-related claims. The Department will continue to follow the pending proceedings closely.

In the meantime, we have taken steps to assist the American investors in seeking resolution of their claims, including raising the American investors' claims with Russian officials at both the Ministry of Foreign Affairs and the Ministry of Economic Development in May and July 2010, respectively, and expressing our expectation that the American investors will be included in any future general resolution of the Yukos claims. Our Embassy in Moscow reiterated our interest in seeing these claims addressed in a meeting with Ministry of Economic Development officials in January of this year. Then-Under Secretary Burns emphasized the importance of addressing the American claims related to Yukos in an interview with the Russian press in February. Ambassador Beyrle also spoke publicly about U.S. shareholder interests in a live interview in May on a major Russian talk radio station. We plan to continue our engagement with the Russian government and to encourage them to resolve these claims in an equitable and expeditious manner.

We hope this response is useful. Please do not hesitate to contact us if we can be of further assistance on this or any other matter of concern to you.

Sincerely,

David S. Adams
Assistant Secretary
Legislative Affairs

U.S.-Russia Business Council Written Testimony for the House Subcommittee on Europe and Eurasia

"Creating Jobs: Economic Opportunities in Europe and Eurasia"

Tuesday, March 27, 2012, 2:00 PM, Room 2172 of the Rayburn House Office Building

The U.S.-Russia Business Council (USRBC) is pleased to have the opportunity to offer written testimony to the House Subcommittee on Europe and Eurasia of the U.S. House Foreign Affairs Committee. USRBC is the U.S.-based trade association leading the organized U.S. business community campaign to ensure that U.S. commercial interests are fully protected once Russia enters the World Trade Organization (WTO) this summer.

On behalf of its broad contingent of U.S. members, the U.S.-Russia Business Council (USRBC) provides business development and government relations support in both Moscow and Washington and contributes to the stability and development of a free market in Russia. We also support Russia's integration into the global economy and have taken a leadership role to serve as the Secretariat for the Coalition for U.S.-Russia Trade (www.usrussiatrade.org). For more information, visit the USRBC online at: www.usrbc.org.

Russia's $1.9 trillion economy is a promising market, and U.S. business should have the full benefits that come with Russia's WTO accession – just like our foreign competitors. We respectfully request, therefore, that Congress work swiftly to graduate Russia from the Jackson-Vanik amendment and enact Permanent Normal Trade Relations (PNTR) with Russia to ensure that U.S. firms can stay competitive in the Russian market.

Russia has long fulfilled the requirements of the 1970s–era Jackson-Vanik amendment, which conditions Russia's trade status with the United States on Russia's emigration policies. Each U.S. President since 1994 has determined annually that Russia is in compliance with the Jackson-Vanik amendment and has extended normal trade relations (NTR) to Russia. Nevertheless, in order for U.S. business to fully access Russia's WTO commitments, Congress must graduate Russia from Jackson-Vanik and make Russia's NTR status permanent.

Russia prefers high-quality goods, and we also anticipate a significant increase in its demand for services as it implements WTO commitments and its economy becomes more competitive. But Russia has a choice: it can either turn to U.S. manufacturers and service providers to diversify its economy - or it can sign contracts with our competitors in Europe, Asia and elsewhere.

With considerable stakes related to U.S. global competitiveness and jobs at home as Russia enters the WTO in the coming months, it is now time for the U.S. Congress to definitively recognize that Russia is in compliance with Jackson-Vanik amendment and pass PNTR. Without this action by the U.S. Congress, U.S. firms will not be able to access the WTO market liberalizations Russia agreed to or the WTO's transparency and commercial accountability provisions. U.S. firms also need PNTR to access Russia's WTO commitments in services, intellectual property, animal and plant health – and the WTO dispute settlement mechanism.

The members of the U.S.-Russia Business Council see great long-term potential in Russia, but the challenges of doing business there require that U.S. firms avail themselves of all possible tools to address issues that may arise. Congress's timely action on Jackson-Vanik and PNTR with Russia will offer additional opportunities for U.S. business and the U.S. economy to prosper, as we create and maintain jobs based on increased trade with Russia.

Coalition for U.S.-Russia Trade

1110 Vermont Avenue NW, Suite 350 • Washington, DC 20005 • Tel: 202-222-0670 • Fax: 202-659-5920 • www.usrussiatrade.org

Coalition for U.S.-Russia Trade Written Testimony for the House Subcommittee on Europe and Eurasia

"Creating Jobs: Economic Opportunities in Europe and Eurasia"

Tuesday, March 27, 2012
2:00 PM
Room 2172 of the Rayburn House Office Building

The Coalition for U.S.-Russia Trade (www.usrussiatrade.org) is pleased to submit this testimony for the record regarding the U.S. business community's top legislative trade priority: Russia's graduation from the Jackson-Vanik amendment and Permanent Normal Trade Relations (PNTR) with Russia.

The Coalition for U.S.-Russia Trade is housed at the U.S.-Russia Business Council (www.usrbc.org), and it is comprised of leading U.S. business associations and companies that want to ensure that U.S. commercial interests can continue to expand export opportunities to Russia once it enters the World Trade Organization (WTO) later this year. Our members are businesses from across the goods, services and agricultural sectors of the U.S. economy and include such leading private sector organizations as the U.S. Chamber of Commerce, the Business Roundtable, the National Association of Manufacturers, the Coalition of Service Industries, the American Farm Bureau Federation, the Pharmaceutical Research and Manufacturers of America, the National Foreign Trade Council and the Emergency Committee for American Trade.

We appreciate the opportunity to share our views on the importance of Russia's graduation from Jackson-Vanik and enactment of Permanent Normal Trade Relations (PNTR) with Russia.

This summer, Russia will join the World Trade Organization – irrespective of any action by the U.S. Congress.

After nearly two decades of hard work and dedication by both Republican and Democratic Administrations, U.S. negotiators ensured a strong deal for the United States on Russia's accession. U.S. business wants to be able to make sure we can take advantage of Russia's market-opening measures, transparency commitments, and the powerful tool of internationally- binding dispute settlement that our competitors in Europe, Asia and Latin America will automatically have access to when Russia enters the WTO.

The rub is that, in order for U.S. firms and farmers to access those commitments and benefit fully from Russia's WTO commitments, Congress first must enact legislation to graduate Russia from the Jackson-Vanik amendment and establish PNTR with Russia.

Graduating Russia from Jackson-Vanik only benefits us. Congress' failure to graduate Russia from Jackson-Vanik in a timely manner will undermine U.S. companies that are trying to stay competitive in a promising global market.

U.S. firms and farmers should have the same right as our foreign competitors to Russia's concessions that finally subject it to the rules of the international trading system and improve its business climate, including with respect to intellectual property rights, science- and risk-based regulation for animal and plant health, and liberalizations in key sectors such as services.

With a GDP of $1.9 trillion, Russia is the world's 11th largest economy and is Europe's largest consumer market. The members of the Coalition for U.S.-Russia Trade have seen first-hand Russia's growing demand for high quality goods and services. While Russia imported $310 billion in goods in 2011, the United States accounted for only 4 percent of those imports. Clearly there is room for growth.

Coalition for U.S.-Russia Trade

1110 Vermont Avenue NW, Suite 350 • Washington, DC 20005 • Tel: 202-222-0670 • Fax: 202-659-5920 • www.usrussiatrade.org

Consider the following:

- Russia's market for passenger and freighter aircraft is strong, and this impacts not only the suppliers of the final product, but an extensive supplier network for parts – and jobs. Over the next 20 years, Russian carriers will need more than 1,000 passenger aircraft valued at approximately $95 billion to meet fleet growth expectations as well as aircraft replacement.[1]
- U.S. services exports to Russia grew 70 percent between 2006 and 2010,[2] and Russia's accession brings new opportunities and rules in eleven services sectors (and 116 subsectors) – but only with PNTR. Of key importance to the US economy are telecommunications, financial, energy, audio visual, express delivery, distribution, ICT and e-Commerce.
- Approximately 70 million Russians use the internet, and broadband access is growing 10-15 percent a year.[3] Between now and 2015, Russia's computer hardware market is expected to grow 15 percent per year and its $3.5 billion software market is expected to double in size.[4] Considering that 80 percent of the U.S. technology industry's jobs are high-paying R&D jobs – and those jobs are here in the United States – the opportunities are attractive.
- Russia's agricultural market has a strong capacity for growth, and that is important to U.S. exporters of commodities and equipment. In Russia, retail food and beverage sales are forecast to increase in real terms from just over $200 billion in 2010 to more than $240 billion by 2014.[5] Georgian nut exporters and Nebraskan popcorn exporters have Russian customers, but Russia's significant expanses of arable land needs modern agricultural equipment – the kind we produce and can supply from the United States.
- Russia's chemical market will reach $153.2 billion by 2015, and Russia meets 50 percent of its demand with imports. Experts see increased opportunities for U.S. exporters of high-technology products such as PVC, polystyrene, paints, coatings, and chemical fibers.[6]
- Imports accounted for 73 percent of Russia's $6 billion medical equipment and supplies market in 2011.[7]
- Finally, we all know that energy is a driver in Russia's economy, but it's not just the oil and gas majors that see opportunities in Russia -- small companies from Utah to Wisconsin to West Virginia are already supplying the oil and gas equipment market in Russia. Opportunities for U.S. firms can only grow as Russia seeks modern technologies and introduces greater efficiencies in its extraction techniques – if we have PNTR.

In conclusion, the U.S. business community strongly urges the U.S. Congress to pass the legislation that will enable the U.S. economy to take advantage of Russia's accession to the WTO: Support Russia's graduation from Jackson-Vanik and enact PNTR with Russia when it comes up for a vote.

We refer you to the following statements from select Coalition for U.S.-Russia Trade members:

American Council of Life Insurers	*Coalition of Service Industries*	*National Foreign Trade Council*
American Farm Bureau Federation	*Emergency Committee for American Trade*	*U.S. Chamber of Commerce*
Business Roundtable	*National Association of Manufacturers*	*U.S.-Russia Business Council*

[1] *Doing Business in Russia: 2012 Country Commercial Guide for U.S. Companies*; U.S. & Foreign Commercial Service and U.S. Department of State, 2012, p. 40.
[2] "U.S. Chamber Primer Urges Passage of Bill Normalizing Trade with Russia," U.S. Chamber of Commerce, March 14, 2012, http://usrussiatrade.org/documents/2012-03-14%20Press%20Release%20-%20U.S.%20Chamber%20of%20Commerce.pdf?=2012-03-14_Press_Release_-_U.S._Chamber_of_Commerce.pdfThe Coalition of Service Industries, (accessed march 26, 2012).
[3] "Russia Has Most Web Users in Europe," *The Moscow Times*, November 17, 2011.
[4] "Russia Information Technology Report Q3 2010," *Business Monitor International*, June 30, 2010, http://www.companiesandmarkets.com/Summary-Market-Report/russia-information-technology-report-q3-2010-318717.asp, (accessed March 26, 2012).
[5] "Trade Relations with Russia Will be a Boost to the U.S.," Op-Ed by Mike Brown, President, National Chicken Council in *The Hill's Congress Blog*, March 21, 2012.
[6] *Doing Business in Russia: 2012 Country Commercial Guide for U.S. Companies*; U.S. & Foreign Commercial Service and U.S. Department of State, 2012, p. 48.
[7] "The Medical Device Market: Russia," Espicom, February 14, 2012, http://www.espicom.com/prodcat2.nsf/Product_ID_Lookup/00000577?OpenDocument, (accessed March 26, 2012).

Coalition for U.S.-Russia Trade

March 14, 2012

TO THE MEMBERS OF THE UNITED STATES CONGRESS:

The undersigned members of the Coalition for U.S.-Russia Trade strongly urge you to support legislation that will graduate Russia from the Jackson-Vanik amendment and establish Permanent Normal Trade Relations (PNTR) with Russia. The Coalition comprises businesses from across the goods, services and agricultural sectors of the economy. Russia's graduation from Jackson-Vanik and PNTR is the top trade priority on the U.S. business community's legislative agenda this year.

This legislation is crucial in order for U.S. manufacturers, service providers, agricultural producers and their employees to take advantage of the many market opening and transparency commitments that form Russia's accession package to the World Trade Organization (WTO). PNTR also gives the United States a powerful tool by enabling the United States to ensure that Russia abides by those commitments through internationally binding WTO dispute settlement.

The Jackson-Vanik amendment to the Trade Act of 1974 was enacted with the chief purpose of ending the policy that prevented emigration of Jews from the then-Soviet Union. With respect to Russia, the Jackson-Vanik amendment has successfully accomplished its objective. Russia terminated its exit fees on Jewish emigrants in 1991, and today Russian Jews can freely emigrate. Since 1992, U.S. Presidents of both parties have certified annually that Russia complies with the Jackson-Vanik amendment's provisions, and this has allowed the United States to maintain Normal Trade Relations (NTR) status with Russia. Now is the time for Congress to end this certification process and make this normal trading status permanent.

Since 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, which is expected to happen by mid-summer. If Congress fails to enact PNTR with Russia before then, U.S. industry will be on the sidelines of Russia's market, at a disadvantage for lucrative contracts, and without the full tools provided by a WTO relationship.

Russia is the world's 11th largest economy and is already Europe's largest consumer market. We have seen Russia's growing demand for high quality goods and services. Yet many of Russia's WTO commitments that will greatly improve its business climate, such as its adherence to the rules of the international trading system with respect to intellectual property rights, science- and risk-based regulation for animal and plant health, and liberalizations in key sectors such as services will be out of the United States' reach -- unless Congress passes Russia PNTR legislation.

Russia is an important part of U.S. business' global strategy to create and sustain jobs at home by enhancing our long-term competitiveness abroad. Many U.S. companies have developed vibrant, profitable and rapidly-growing business and trade with Russia, with clear strategic benefits to parent companies, exports from, and employment in, the United States. Without PNTR, U.S. companies and their employees will be left behind our competitors in this growing and profitable market.

We strongly urge you to pass the legislation that will enable the U.S. economy to take advantage of Russia's accession to the WTO by supporting legislation to graduate Russia from Jackson-Vanik and enacting PNTR with Russia when it comes up for a vote.

Respectfully,

3M

ACE Group

AGCO Corporation

Abbott Laboratories

Adams and Reese LLP

Aerolase Corporation

Aerospace Industries Association

Akin Gump Strauss Hauer & Feld LLP

Alcoa, Inc.

Almaz Capital Partners

Altrius Group, LLC

Amway

American Automotive Policy Council (AAPC)

American Chamber of Commerce in Russia

American Chemistry Council (ACC)

American Council of Life Insurers

American Councils for International Education: ACTR/ACCELS

American Farm Bureau Federation

American Feed Industry Association (AFIA)

American Forest & Paper Association

American Foundry Society

American Institute for International Steel

American Natural Soda Ash Corporation (ANSAC)

American-Russian Business Council

American Russian Cultural Cooperation Foundation

American Soybean Association

Amgen

Argus Limited

Association and Society Management International, Inc.

Association of Equipment Manufacturers (AEM)

Automotive Aftermarket Industry Association

BP America, Inc.

Baker & McKenzie

Bank of America

Baring Vostok Capital Partners

Berry Moorman PC

The Boeing Company

Brown-Forman Corporation

Burlington International Group

Business Roundtable

Business Software Alliance (BSA)

CRDF Global

California Chamber of Commerce

California Poultry Federation

Cargill, Inc.

Case New Holland Inc.

Caterpillar, Inc.

Celgene

ChemDiv, Inc.

Chevron Corporation

Cisco Systems, Inc.

Citi

Coalition of Service Industries

Coalition for Intellectual Property Rights (CIPR)

The Coca-Cola Company

Colliers International

ConocoPhillips Company

Corn Refiners Association

Corning Incorporated

Covidien

Council for U.S.-Russia Relations

Cummins, Inc.

Deere & Company

Delmarva Poultry Industry, Inc.

The Walt Disney Company

Distilled Spirits Council of the United States, Inc.

The Dow Chemical Company

DuPont

EcoLab

Economic Alliance Snohomish County

Eli Lilly and Company

Emergency Committee for American Trade (ECAT)

Emerging Markets Communications LLC

Ernst & Young

Eurasia Partners, LP

Exxon Mobil Corporation

Fluor Corporation

Ford Motor Company

GBCHealth

General Electric Company

General Motors Company

Goldman Sachs & Co.

Greater Houston Partnership

Grocery Manufacturers Association

Guardian Industries Corporation

Herbalife International of America, Inc.

Hermitage Museum Foundation (USA), Inc.

Hormel Foods Corporation

IBM

INDA, Association of the Nonwoven Fabrics Industry

Indiana State Poultry Association

Information Technology Industry Council (ITI)

International Business-Government Counsellors, Inc. (IBC)

International Paper Company

Iowa Turkey Federation

JPMorgan Chase & Co.

Johnson & Johnson

Kalorama Partners, LLC

Kraft Foods

Lawson International, Inc.

Lazare Kaplan International Inc.

Limco Logistics, Inc.

Lindsay Corporation

LORD Corporation

Los Alamos Technical Associates

MARS, Incorporated

Mattel, Inc.

Medtronic, Inc.

MetLife

Microsoft Corporation

Mid-Atlantic - Russia Business Council

Minnesota Turkey Growers Association

Mississippi Economic Council – The State Chamber of Commerce

Monitor Group

Morgan Stanley

National Association of Manufacturers

The National Barley Growers Association

National Chicken Council

National Corn Growers Association

National Foreign Trade Council

National Oilseed Processors Association

National Turkey Federation

North Carolina Poultry Federation

Ohio Poultry Association

Oracle Corporation

PBN H&K Strategies

PepsiCo, Inc.

Pfizer, Inc.

Pharmaceutical Research and Manufacturers of America (PhRMA)

The Poultry Federation

Praxair, Inc.

Priestley International Consulting

Procter & Gamble Company

PwC

QUALCOMM

RDO Equipment Co.

RSR Russia LLC

Russia Innovation Collaborative, LLC

Russian American Foundation, Inc.

Russin & Vecchi LLP

SPI: The Plastics Industry Trade Association

Salans

Securities Industry and Financial Markets Association (SIFMA)

Siguler Guff & Co.

Sporting Goods Manufacturers Association

Stephen Bearden H.B. International Marketing Services, Inc.

Sweet Analysis Services, Inc.

TechAmerica

TechNet

Texas Instruments

Texas Turkey Federation

Torrey Pines Investment, LLC

Toy Industry Association

United States Council for International Business (USCIB)

United Technologies Corporation

U.S. Chamber of Commerce

U.S. Council for International Business (USCIB)

U.S. Poultry and Egg Association

U.S.-Russia Business Council

U.S.-Russia Chamber of Commerce

U.S.-Russia Chamber of Commerce of New England

The U.S.A. Dry Peas & Lentil Council

USA Poultry & Egg Export Council (USAPEEC)

Valmont Industries, Inc.

Virginia Poultry Federation

Visa, Inc.

Wal-Mart Stores, Inc.

Washington Council on International Trade

Westney Consulting Group

William T. Robinson, PLLC

Wisconsin Poultry & Egg Industries Association

WorldBusiness Capital, Inc.

Xerox Corporation

Peterson Institute for International Economics

Policy Brief

NUMBER PB11-20

NOVEMBER 2011

The United States Should Establish Permanent Normal Trade Relations with Russia

Anders Åslund and Gary Clyde Hufbauer

Anders Åslund *is a leading specialist on postcommunist economic transformation with more than 30 years of experience in the field. Among his recent books are* Russia after the Global Economic Crisis *(2010),* The Russia Balance Sheet *(2009),* Russia's Capitalist Revolution: Why Market Reform Succeeded and Democracy Failed *(2007), and* How Capitalism Was Built *(2007). Åslund joined the Peterson Institute for International Economics as senior fellow in 2006. He has worked as an economic adviser to the Russian government (1991–94), to the Ukrainian government (1994–97), and to the president of the Kyrgyz Republic. Before joining the Peterson Institute he was the director of the Russian and Eurasian Program at the Carnegie Endowment for International Peace, and he codirected the Carnegie Moscow Center's project on Post-Soviet Economies. Previously, he served as a Swedish diplomat in Kuwait, Geneva, Poland, Moscow, and Stockholm. From 1989 until 1994, he was professor and founding director of the Stockholm Institute of Transition Economics at the Stockholm School of Economics. He earned his doctorate from the University of Oxford.* **Gary Clyde Hufbauer**, *Reginald Jones Senior Fellow since 1992, was the Maurice Greenberg Chair and Director of Studies at the Council on Foreign Relations (1996–98), the Marcus Wallenberg Professor of International Finance Diplomacy at Georgetown University (1985–92), senior fellow at the Institute (1981–85), deputy director of the International Law Institute at Georgetown University (1979–81), deputy assistant secretary for international trade and investment policy of the US Treasury (1977–79), and director of the international tax staff at the Treasury (1974–76). He has written extensively on international trade, investment, and tax issues. Among his numerous books are* Figuring Out the Doha Round *(2010),* Economic Sanctions Reconsidered, *3d ed. (2007),* Toward a US-Indonesia Free Trade Agreement *(2007), and* US-China Trade Disputes: Rising Tide, Rising Stakes *(2006).*

Note: The authors want to thank Fred Bergsten, Steve Weisman, Jeffrey Schott, and Randi Levinas for many useful comments, Julia Muir for excellent research assistance and Madona Devasahayam for eminent editing.

After 18 years, Russia is finally on the verge of acceding to the World Trade Organization (WTO). No country has struggled for so long to become a member of this important organization. The last impediment was removed on November 9, when Russia and Georgia concluded an agreement on monitoring trade flows across their disputed border. The WTO Working Party, which oversaw the negotiations, then approved Russian accession on November 10, clearing the way for formal membership to be adopted at the WTO ministerial conference to be held December 15–17, 2011 (WTO 2011).

Russia is the last of the Group of Twenty (G-20) countries to join the WTO. Its entry will strengthen the global trading system and yield potentially large benefits to the United States. A major question remains for Washington, however. Will the United States act to take full advantage—or will it allow other countries to seize opportunities that slip from American hands?

Russia's joining the WTO does not require any US legislative action. All conditions for Russia's accession have been settled. The Russian State Duma has until June 15, 2012 to ratify its accession. Thirty days after Russia's notification to the WTO of its ratification, Russia will become the 154th member of the WTO.

However, US benefits of Russia's accession to the WTO are not automatic. They will materialize only if the United States Congress grants permanent normal trade relations (PNTR) status to Russia—by repealing application to Russia of the 37-year-old Jackson-Vanik Amendment, which bars favorable trade relations with countries that restrict emigration. President Barack Obama, in a statement issued November 10 after the Working Party's preliminary approval of Russian accession, said he looked forward to working with Congress "to end the application of the Jackson-Vanik Amendment to Russia in order to ensure that American firms and American exporters will enjoy the same benefits of Russian WTO membership as their international competitors."

It is imperative that Congress respond constructively in the same spirit of bipartisanship that led to the successful approval earlier this year of the Colombia, Korea, and Panama trade accords. Political wrangling, misjudgment, and miscalculations must not be allowed to cost the United States a significant new source of economic growth and cooperation in the future.

WHAT THE UNITED STATES WILL GAIN FROM GRANTING RUSSIA PNTR

The potential benefits to the US economy from Russia's WTO accession are substantial but the United States can enjoy them only if it grants Russia PNTR. US exports to Russia could double over the next five years—from $9 billion in 2010 to $19 billion—adding jobs in the services, agriculture, manufacturing, and high-tech sectors. More generally, with Russia's accession to the WTO and the United States granting PNTR to Russia, US-Russia commercial relations will be set on a sounder and friendlier footing, facilitating cooperation on national security and political issues. By strengthening the rules-based global trading system, WTO accession and PNTR will discourage Russia from undertaking protectionist measures.

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The US gains arise from solid growth in the Russian economy. From 1999 until 2008, Russia's gross domestic product grew by an average of 7 percent a year, establishing Russia as one of the world's top ten economies. After contraction during the financial crisis in 2009, Russia's growth rate seems to have stabilized at a still respectable 3 to 4 percent a year. This growth is creating substantial opportunities for foreign producers, both in trade and investment, and global firms are responding accordingly. Russian imports, exports, and inward foreign investment all quadrupled between 2002 and 2008. Still, Russia ranks only 37th among US export markets, suggesting great potential for improvement.

At present, the governing agreement for trade between the United States and Russia is the Bilateral Trade Relations Agreement reached in 1991 between the United States and what was then the Soviet Union. That agreement provides for mutual extension of most favored nation benefits. It was adjusted to apply to Russia in 1992 after the Russian Federation was established. The bilateral agreement was authorized by Section 405 of Title IV of the Trade Act of 1974. However, this old bilateral agreement covers only part of the trade and none of the investment.

On November 19, 2006, Russia reached a much more extensive bilateral agreement with the United States on market access conditions for its accession to the WTO. This accord of 800 pages and various follow-up agreements were a prelude to Russia's accession to the WTO. They contain significant concessions of great value to the United States in intellectual property and market access conditions for several important products: meats, agriculture, biotechnology, harvesters, leased aircraft, and goods with encryption technology. Once Russia accedes to the WTO, these agreed advantages for US firms and farmers will depend on a US congressional vote in favor of PNTR.

From the US point of view, granting Russia PNTR is a winning option for both sides. A vote for PNTR will offer to Russia, on a permanent and unconditional basis, the same trade conditions that the United States grants to other signatories of the WTO. Extending PNTR to Russia entails no special favors or privileges; rather PNTR will accord to Russia the basic treatment enjoyed by nearly all other US trading partners on a permanent and unconditional basis. In turn, the United States will gain three major economic advantages:

- First, PNTR will ensure that the best available trade and investment conditions of access to the Russian market offered to foreign firms are also offered to US firms.
- Second, estimates in our related forthcoming Policy Analysis (Åslund and Hufbauer forthcoming) show that US exports to Russia could double from $9 billion (in 2010) to $19 billion. These gains will be realized as the obligations of the agreement are phased in; the gains will be distributed across the board, from agriculture to manufactures to services. In addition, econometric models indicate that new US export opportunities will also flow from an expansion of US foreign direct investment in the Russian economy, highlighting the importance of the PNTR vote.
- Third, WTO accession will require Russia to enact new rules on issues ranging from services regulations to inward foreign investment to agricultural standards to intellectual property. These rules will bring greater certainty for US firms doing business in Russia. Moreover, membership in the WTO requires a country to observe a vast fabric of commercial law.

But what will happen to US imports from Russia? Commodities account for 90 percent of Russia's overall exports and this share is even greater in its exports to the United States, with refined petroleum products comprising 65 percent and various metals most of the rest. These imports into the United States are subject to zero or minimal tariffs, and no further reduction is foreseen through Russia's entry into the WTO. Therefore, no large rise in US imports from Russia is to be expected. Since US imports of oil and petroleum products have fallen in recent years because of sharply rising domestic production and flat consumption, Russia's exports of petroleum products to the United States may actually decline over the next few years.

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Finally, with PNTR, the United States can invoke the WTO dispute settlement provisions in the event Russia fails to observe these obligations in its dealings with US firms. China is often accused of failing to comply fully with WTO norms, but the WTO has a solid record of winning compliance with its standards from many countries, ranging from the European Union, Canada, Japan, Brazil, Indonesia, and of course the United States itself. In fact, when it loses in the WTO, China like other countries typically changes its laws and procedures to conform to the WTO ruling (Hufbauer and Woollacott 2010).

Russia's WTO accession contains many valuable Russian commitments. In comparison with other emerging-market economies, Russia's import tariffs were not very high to begin with, but they are declining significantly. On average, the final legally binding tariff ceiling for the Russian Federation will be 7.8 percent compared with a 2011 average of 10 percent for all products. The average tariff ceiling for agricultural products will be 10.8 percent, lower than the current average of 13.2 percent. The ceiling average for manufactured goods will be 7.3 percent versus the 9.5 percent average today on manufactured imports. Some commitments are immediate but others are phased in. The longest implementation period is eight years for poultry followed by seven years for motor cars, helicopters, and civilian aircraft (WTO 2011).

Possible US gains from Russia's WTO accession and PNTR on a sector-by-sector and state-by-state basis are summarized below. More detail is provided in box 1.

Agriculture

Russia is one of the world's top meat importers and has historically been the largest importer of US poultry. Russia offers a meaningful market for states with a strong agricultural base, such as Arkansas (poultry), Iowa (beef and pork), and California (wine, fruits, and nuts). Russia's accession to the WTO will help ensure that Russia's markets remain open and will curtail the hassles that US firms confront when they ship beef, pork, or poultry to Russia, particularly with regard to sanitary and phytosanitary (SPS) measures. Accession will also constrain the room for maneuver by the Russian Ministry of Agriculture to invoke trade restrictions based on SPS considerations that are not anchored on science-based criteria. The limit on Russia's total trade-distorting agricultural support will be capped at $9 billion in 2012 and then gradually reduced to $4.4 billion by 2018. Meanwhile no agricultural export subsidies will be permitted.

Manufacturing

Russia's WTO accession and PNTR will open doors for US manufacturing firms, particularly in high-technology products such as pharmaceuticals and aircraft. Russia relies on foreign manufactures for the majority of its domestic supply of drugs (77 percent) and medical devices (60 percent) (Coalition for US-Russia Trade 2011). US manufacturers already have a strong position in the Russian market (supplying 25 percent of Russian medical devices and 5 percent of pharmaceuticals), with Pfizer alone exporting $164 million worth in 2008. Immediately following WTO accession, Russian tariffs on imported pharmaceuticals will fall from 15 percent to around 6 percent, creating much greater market access for US firms. Robust growth in the Russian economy will benefit US exports of industrial machinery equipment such as tractors, oil and gas field equipment, hydraulic hand tools, and transportation vehicles. Texas, Iowa, and Illinois have already realized gains in exports of specialized machinery to Russia. Russia's development of its natural resources (forestry, agriculture, mining, and energy) will provide additional opportunities for US producers of capital goods.

Since 2001, new export opportunities in "transportation equipment"—a category that includes automobiles, trucks, and spacecraft—have boosted exports not only for such obvious industrial states as Michigan, Ohio, and Wisconsin but also for Washington, Arizona, and Tennessee. Russia's WTO accession and PNTR will improve conditions for direct investment by US auto firms in Russia. This will enable US firms to export a wide range of parts and components and to earn investment income on operations in Russia.

Box 1 Impact on the US economy

- Qualitative gains
  - Accession will prevent Russia from arbitrarily raising tariffs and invoking nontariff barrier (NTB) protectionist measures in the future. During the Great Recession of 2008–09, Russia hiked tariffs on numerous manufactured imports (Hufbauer, Kirkegaard, and Wong 2010). Once Russia's tariff schedule is "bound" in the WTO, this sort of arbitrary action will no longer be possible.
  - In future trade remedy cases, Russia will have to follow WTO safeguard, countervailing duty, and antidumping duty procedures, observing established procedures with open hearings.
- Quantitative gains
  - In 2010, the United States was the destination of only 3 percent of Russian exports and the source of just 4 percent of Russian imports.
  - Between 2005 and 2010 total bilateral trade between the United States and Russia doubled.[1] The next five years should see a similar increase; our estimates indicate a doubling or more of Russia's external trade following WTO accession, assuming strong Russian economic performance.
  - The associated increase in Russia's inward foreign direct investment (FDI) stock (estimated to be 50 percent) would trigger a further increase in total Russian two-way trade in manufactures. Good Russian economic performance will further enlarge two-way commerce.
- Russia has committed to binding its applied tariffs on detailed tariff lines. The average weighted applied tariffs will thereby be cut (phased in over three to six years) to the following levels (WTO 2011):

Sector	Current average weighted applied tariffs (percent)	Post-WTO accession rates (percent)
Dairy products	19.8	14.9
Cereals	15.1	10.0
Oilseeds and oils	9.0	7.1
Automobiles	15.5	12.0
Electrical machinery	8.4	6.2
Wood and paper	13.4	8.0
Chemicals	6.5	5.2

- Increased market access for US agricultural exports
  - Russia is the world's second largest import market for beef and pork and has historically been the largest importer of US poultry. Consumer spending on food grew by 70 percent between 2002 and 2008 and is predicted to keep growing rapidly.
  - WTO accession will ensure that the United States enjoys the same access to Russian agricultural markets as its leading competitors such as Brazil and the European Union. In the absence of WTO accession, Russia will be free to discriminate against US exports.

(continued on next page)

1. Even when oil is excluded from trade, total bilateral trade between the United States and Russia still doubled.

Box 1 Impact on the US economy *(continued)*

- Revised Russian sanitary and phytosanitary (SPS) regulations will help ensure that any trade restrictions are based on scientific criteria.
- Under these liberalized conditions, US agricultural exports to Russia are expected to double or triple within a few years of WTO accession.

■ Increased opportunities for US industrial exports

- Industrial goods already account for 86 percent of US merchandise exports to Russia; however, the US export structure has become more diversified in recent years, with significant increases in exports of aircraft, motor vehicles, and sundry equipment.
- Tariffs on the sale of civil aircraft will be reduced from 20 percent to single digits; tariffs on civil aircraft parts will drop to an average of 5 percent.
- Russia is the largest importer of pharmaceuticals among the BRICs (Brazil, Russia, India, and China). Currently, US exports to Russia are only $70 million, a fraction of its pharmaceutical exports to the other BRICs.
- Russia has agreed to reduce its export duties on steel scrap (an important input for US steel mills) to one-third of their current levels.

■ Significant liberalization of banking, finance, and other services

- Under WTO accession, Russia will allow 100 percent foreign ownership of banks, securities firms, and nonlife insurance firms.
- Russia agreed to open its telecommunication services market to all foreign suppliers and allow companies to operate as 100 percent foreign-owned enterprises.
- These commitments on liberalization will become effective immediately upon accession.

High Technology

Russia has committed itself to joining the Information Technology Agreement (ITA) upon accession to the WTO, and it will allow information technology (IT) imports to enter Russia duty free. No licenses will be required for imports of more than a dozen encryption technology products. California and Massachusetts have tapped Russian markets in software, computers, and electronic equipment, while Washington state and others have taken advantage of better access for aircraft exports and Microsoft products. Some of the concessions the United States has secured from Russia in its 2006 Bilateral Market Access Agreement with respect to such matters as aircraft tariffs will be enjoyed by US firms only if Congress passes PNTR. However, membership in the WTO on equal terms with Russia will enhance the position of US high-tech exporters and improve conditions for additional investment in Russia.

Services

The United States is very competitive in a wide range of services industries, from finance to education to retailing, as noted by J. Bradford Jensen (2011) in his recent book. Russia's WTO accession will enable qualified firms to establish a commercial presence through their investment stakes. A large number of specific commitments have been made in this sector.

For telecommunications the foreign equity limitation of 49 percent will be eliminated four years after accession. Foreign insurance companies will be allowed to establish branches nine years after Russia accedes. Foreign banks will be allowed to establish subsidiaries, and there will be no cap on foreign equity in individual banking institutions, though the overall foreign capital participation in the Russian banking system will be limited to 50 percent. Russia will allow 100 percent foreign-owned companies to engage in wholesale, retail, and franchise sectors upon accession to the WTO.

But PNTR holds the key to enabling US firms to enjoy Russia's market-opening commitments and greater regulatory transparency in these sectors. Services exports are likely to increase at least as fast as merchandise trade, and with time, Russia's accession will likely present new opportunities in other services sectors, such as energy and professional services.

WHY A US CONGRESSIONAL VOTE IS CRITICAL FOR THE UNITED STATES TO REAP THESE BENEFITS

Russia is not only the largest economy outside the WTO but also the only one with which the United States does not have PNTR (often called "most favored nation") status. While congressional approval is not necessary for completion of Russian accession to the WTO, Congress needs to grant Russia PNTR by repealing the Jackson-Vanik Amendment so that US companies can take full advantage of the best available conditions of access to the Russian market for both trade and investment.

The Jackson-Vanik Amendment to the US Trade Act of 1974 was approved at the height of the Cold War, when Russia generated outrage by barring Jews from emigrating. It was sponsored by Senator Henry M. ("Scoop") Jackson of Washington and Representative Charles Vanik of Ohio. Free emigration for Russian Jews, however, has not been in question since Russia became independent in 1991. The amendment is an outdated remnant of the politics of a distant era, though it remains a major irritant in relations between Washington and Moscow and a political issue in Congress. Many lawmakers, citing a range of disagreements with Russia over human and legal rights in Russia and various foreign policy issues, say that refusal to lift Jackson-Vanik would send a signal of displeasure over these matters. But other tools exist for exerting pressure on Russia that would be more effective and far less destructive to US economic interests. The US government has alternative bilateral and multilateral mechanisms that can be used to engage Russia on human rights questions and political and religious freedoms, such as the US-Russia Bilateral Presidential Commission and the Organization for Security and Cooperation in Europe. If necessary, economic sanctions and tailored penalties, including draconian measures, are readily available under other US statutes, such as the International Emergency Economic Powers Act (IEEPA).

Originally, Jackson-Vanik applied to almost all communist countries. Over time, nearly all of them were "graduated" when they joined the WTO. Most entered the WTO without having previously secured PNTR from the United States. Only Ukraine, which became a WTO member in 2008, was graduated by Congress in March 2006 in advance of its WTO accession. All but Moldova have eventually been granted PNTR (Pregelj 2005).

The irony is that annual waivers of Russia and others from the trade penalties imposed by the Jackson-Vanik Amendment have been a fact of life for more than 20 years. Russia was originally granted most favored nation status in 1992 under the US-Soviet Bilateral Trade Relations Agreement of 1991. Even so, for Russian exports to continue entering the US market at normal tariff rates, the US president must either grant an annual waiver or issue a semiannual report certifying that Russia is in compliance with the freedom of emigration provisions in Section 402 of Title IV of the Trade Act of 1974 (the formal name of Jackson-Vanik). The US president or the Secretary of State has issued such a waiver or report finding Russia to be in compliance with the freedom of emigration requirements every year since 1994. There has been no recorded vote in Congress challenging these decisions (US-Russia Business Council and AmCham Russia 2005).

Some Americans object to granting PNTR to Russia, citing foreign policy grounds. They may disapprove of Prime Minister Vladimir Putin, who has signaled his intention to return to the presidency next year. But trade penalties in the Jackson-Vanik Amendment are too blunt an instrument for normal diplomatic use. If they were to be used, the United States might impose Depression-era Smoot-Hawley import tariffs of up to 50 percent on Russian goods, which would stop all such imports.

Can the United States simply continue to operate under the biannual waiver and report process? It cannot. Under WTO rules, that is not allowed. Congress must establish "permanent" normal trade relations, not just normal trade relations to be renewed regularly. Moreover, for Russia, this is an issue of principle: whether to live under the burden of continuous review by Congress or to be taken out of the shadow of an obsolete stigma. Regardless of whether the issue is one of principle or international trade rules, the bottom line is that rejection of PNTR would backfire and US trade with Russia would immediately become potentially worse than the status quo. Russia, for example, would be likely to retaliate by adopting very narrow and stringent interpretations of its obligations under the two existing bilateral agreements on trade with the United States—the US-Russia Bilateral Trade Relations Agreement and the 2006 Bilateral Market Access Agreement.

A vote against PNTR would require the United States to invoke the "nonapplication" provision of the Marrakesh Agreement, which created the WTO. "Nonapplication" means that the WTO rulebook does not apply to trade between the

United States and Russia. In response, Russia might withhold most favored nation treatment for US exports of goods and services not covered by the bilateral agreements. Russia would thereby deny US firms the full benefits negotiated by the United States and other governments in the WTO accession process over the past 18 years. US firms and workers would be placed at a disadvantage, possibly for years to come.

In addition, by voting "no" on PNTR, the US Congress would be missing an opportunity to support liberal voices within the Russian government who advocate political and economic engagement with the West. Over the last three years, the US "reset" policy toward Russia has revived US-Russia relations and has already resulted in the ratification of a new bilateral Strategic Arms Reduction Treaty and the Civilian Nuclear Agreement, both in December 2010. Russia has opened the Northern Delivery Network to Afghanistan and joined in supporting some UN Security Council Resolutions that put economic pressure on Iran to desist from its effort to acquire nuclear weapons.

It is time to move beyond the discord of the past and into a new regime that would function not only on trust but on economic interdependence and benefits as well.

Another danger is that a "no" vote on PNTR would provide fresh arguments to a large group of Russians who believe that the West (and the United States in particular) disdains a "relationship of equals" with Russia and simply cannot be trusted. As President Obama said, "Russia's WTO accession would be yet another important step forward in our reset of relations with Russia, which has been based upon the belief that the United States and Russia share many common interests, even as we disagree on some issues." It is time to move beyond the discord of the past and into a new regime that would function not only on trust but on economic interdependence and benefits as well.

HOW RUSSIA DIFFERS FROM CHINA

One objection to PNTR for Russia is the parallel that some draw with PNTR for China. President Bill Clinton signed the law granting PNTR to China in 2000 after debate over China's human rights and economic practices. But whatever the arguments about China, before or after PNTR, few apply to Russia. Economically, the two countries are vastly different, and US and Russian interests in the WTO are surprisingly complementary, sharply contrasting with current US concerns about China.

Among the big emerging markets—Brazil, Russia, India, China, and Mexico—Russia has the highest GDP per capita both in dollar and purchasing power parity terms. Its GDP per capita in current US dollars in 2010 was more than three times higher than China's (see table 1). Goldman Sachs forecasts that Russia will be the only one of the big emerging markets to approach the per capita income levels of developed European countries by 2050. This status has many important consequences for trade with the United States.

Far from fearing foreign goods, Russia looks on WTO accession as a way to expose its industries to more import competition, which Russian economists hope will enhance efficiency and mitigate inflation, currently at 6 percent. Given that Russia has a larger current account surplus than it desires, the government is interested in raising imports.

World Bank economists Thomas Rutherford and David Tarr (2010) have estimated that the Russian economy would gain 3.7 percent of GDP from WTO accession in the medium term (five years) and 11 percent of GDP in the long term. These gains are likely to derive predominantly from liberalization, resulting in increased competition in business services and foreign direct investment.

Moreover, since 90 percent of Russia's exports consist of commodities, mainly oil and natural gas, which encounter no trade barriers, Russia has few problems with market access. Russian exports are thus not expected to increase much with WTO entry.

In addition, Russia also hopes to attract more foreign direct investment. For many US companies active in Russia, notably in the automotive industry, food industry, and forestry, large-scale exports from the United States to Russia are not a realistic option because of expensive land transportation. Therefore, they can operate only through direct investments in Russia, and they need deliveries of components and critical machinery from the United States.

Another contrast to China is that Russia is not likely to become a significant exporter of manufactures for the foreseeable future, because the country has an exceptionally strong comparative advantage in exporting commodities and because of high costs Russia's exports of manufactured goods are not competitive in world markets.

On the other side of the trade balance sheet, the sophistication, income levels, and tastes of Russian consumers make the country attractive to US exporters of merchandise and services. Russia's middle class accounts for 30 percent of the population, and foreign brands are their top choices. In terms of social indicators like health and education, Russia is slightly ahead of Brazil

Table 1 Russia compared with other emerging-market countries, selected indicators, 2010

Indicator	Russia	Brazil	China	India	Mexico
GDP (market exchange rate, billions of dollars)	1,667	1,636	4,520	1,261	1,090
GDP per capita (market exchange rate, dollars)	11,739	8,626	3,404	1,066	10,216
GDP per capita (purchasing power parity, current international dollars)	16,034	10,526	6,189	2,868	14,546
Population (millions)	142	190	1,328	1,182	107
Two-way trade with the United States (billions of dollars)	28	54	335	45	386
FDI stock per capita (dollars)	1,512	1,499	288	104	2,736
Secondary education (percent)[a]	85	101	76	55[b]	90
Tertiary education (percent)[a]	77	34	23	14	27
Mobile phone subscription (per 1,000 people)[b]	1,322	785	478	304	708

FDI = foreign direct investment

a. 2008 data. This figure represents gross enrollment: a ratio of total enrollment, regardless of age, to the population of the age group that officially corresponds to the level of education shown. A gross enrollment ratio of 100 percent indicates that a country is, in principle, able to accommodate all of its school-age population, but it does not indicate the proportion already enrolled in the age group.
b. 2007 data.

Sources: IMF, *World Economic Outlook*, 2011; UNComtrade Database; UNCTAD Foreign Direct Investment Database; World Bank, *World Development Indicators*.

and Mexico in most—but head and shoulders above China and India. Most impressively, in 2008, no fewer than 77 percent of college-age Russians received some college education, compared with 23 percent of Chinese (according to the World Bank). Moreover, 51 percent of young Russians actually completed a first college degree, compared with only 11 percent of Chinese.

Another difference between China and Russia is their attitude to the protection of intellectual property rights. Unlike China, Russia is a significant high-end producer of software with a strong interest and track record in protecting software patents and copyrights. According to Keith Crane and Artur Usanov (2010), "intellectual property rights are not a major impediment […] countries have been able to prevent product theft successfully." Russia has several outstanding internet companies, and 40 percent of the population has access to the internet.

Finally, currency issues are not likely to cause the problems that plague US relations with China, which intervenes in currency markets to keep the yuan undervalued, making its exports artificially cheap and imports expensive. In the past Russia has pegged its exchange rate, but since 2009 the Russian ruble has floated relatively freely against other currencies. Today Russia has larger international reserves than it desires because of the unexpectedly elevated oil price and intends to let its current account surplus shrink toward balance, boosting its import demand.

The United States has so far not taken advantage of its opportunities to develop the US-Russian bilateral trade relationship, particularly with regard to US exports. US two-way trade with China in 2010 was almost 12 times larger than with Russia and the comparative ratio reaches 22 times when energy trade is excluded. While US imports from Russia are rapidly catching up with US imports from India and Brazil, US exports to Russia (in 2008) were still only one-half of US exports to India and less than one-third of US exports to Brazil.

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[NOTE: "A New Era for Transatlantic Trade Leadership," a Report from the Transatlantic Task Force on Trade and Investment dated February 2012, and a "A Bull in Bear's Clothing: Russia, WTO and Jackson-Vanik," a Task Force Paper dated January 2012 by the Bipartisan Policy Center, are not reprinted here but are available in committee records.]

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