

THE PRESIDENT'S EXPORT COUNCIL

WASHINGTON, D.C. 20230

December 9, 2010

President of the United States of America  
The White House  
Washington, DC 20500

Dear Mr. President,

As we seek to fulfill the objective you have outlined for the National Export Initiative to double U.S. exports over the next five years, we urge you and your Administration to conclude a strong, effective agreement for the United States on Russia's World Trade Organization (WTO) accession that, among other things, addresses longstanding issues of concern for a range of U.S. exporters. Once a commercially meaningful agreement is reached, we would encourage your Administration to move quickly to seek successful Congressional repeal of Jackson-Vanik and passage of Permanent Normal Trade Relations (PNTR) for Russia. Passage of PNTR is an imperative condition precedent for U.S. businesses and agricultural interests to take full advantage of Russia's WTO entry. As always, we stand ready to fully support this ultimate goal, including helping to inform Congress on the importance of having Russia in the WTO and being subject to binding international trade rules.

As you know, Russia is the world's 10th largest economy and it has been one of the fastest-growing economies over much of the past decade. Russia's economy is expected to enjoy 4% growth in 2010 and 2011. With its highly-educated population and growing middle class, Russia continues to be a promising market for many U.S. companies.

In recent years, U.S. exports to Russia experienced a rapid, upward trajectory (up 27% in 2008, after increasing 56% and 20% respectively in 2007 and 2006). In the aftermath of the global economic crisis, U.S. exports to Russia are growing once again, and, by some estimates, could double or triple from current levels once Russia becomes a WTO member. The potential of the Russian market for high value-added U.S. goods and services is strong.

Thus, the liberalization of Russia's economy that will occur with Russia's accession and the certainty that having Russia operating within the stricture of the global rules-making body of the WTO represent important opportunities for U.S. exports in a variety of sectors, including:

- High Technology. Many Information Technology (IT) products and telecommunications equipment will enter Russia duty-free as a result of Russia's commitment to join the WTO's Information Technology Agreement. Russia's IT market is expected to be valued at \$17 billion in 2011, and its personal computer market is projected to grow nearly 11% annually for the next 5 years. Today nearly 40% of Russians regularly use the internet. U.S. officials continue to work with Russia and our global trading partners to secure commitments

regarding acceptable rules in Russia for imports of goods with encrypted technology, which is important to the IT sector and will make Russia's Information Technology Agreement commitments meaningful.

- Intellectual property rights (IPR). Russia has made progress in implementing the terms of the bilateral intellectual property rights agreement with the United States. Most notably the Russian Duma recently passed legislation to provide regulatory data protection for confidential test data produced by pharmaceutical companies for the purpose of obtaining marketing approvals and has now granted its customs officials *ex officio* authority to interdict suspected counterfeit and pirated goods. Russia's enforcement of its intellectual property commitments, however, as well as high rates of on-line piracy remains a significant concern. The United States' ability to hold Russia to its bilateral commitments to enforce intellectual property rights, particularly in the online marketplace where Russia suffers from serious infringement, is essential in making Russia's accession agreement meaningful; and during this intervening period before Russia joins the WTO, the Administration should urge Russia to take clear and credible actions to improve their protection and enforcement of intellectual property rights.
- Industrial Exports. A broad range of U.S. manufactured and other industrial exports (chemicals, aircraft, and medical, power generation and construction equipment) will enjoy lower tariffs averaging 8.2 percent as a result of Russia's WTO commitments.
- Agriculture. The Russian agricultural market will offer opportunities for U.S. farmers and ranchers looking to export their products and for U.S. firms selling farm machinery or value-added food products. In acceding to the WTO, Russia will be obligated to bind its agricultural tariffs, adding predictability to our trade relationship and opening export opportunities for the U.S. agricultural industry. The terms of WTO membership should bring about improved transparency and put much-needed limits on Russia's continued ability to impose arbitrary restrictions on imports of U.S. poultry, beef and pork, for which Russia has been a major market. Moreover, the terms of WTO membership should require Russia to abide by science-based sanitary and phytosanitary (SPS) standards that will help facilitate U.S. farm exports to the Russian market. Full and dedicated implementation will help build confidence that Russia will abide by its obligations.
- Aerospace. Russia is expected to need more than 1,000 new commercial aircraft over the next two decades, creating long-term opportunities for U.S. exporters to supply Russia with top-quality passenger jets. Not later than one year following accession, Russia's tariffs on wide-body commercial aircraft will decline from the current 20% to 7.5% over a four-year period and decline from 20% to 12.5% on narrow-body commercial aircraft over seven years,

creating additional export opportunities for U.S. aerospace entities. U.S. manufacturers of parts for civil aircraft will also benefit from Russia's WTO commitments – tariffs on aircraft parts, including engines will be reduced to an average of 5% when Russia enters the WTO.

- Autos and trucks. Under the terms of Russia's WTO accession, tariffs on foreign autos will fall to 15% from the current 20%-35%, representing major market access gains on the horizon for U.S. auto exporters, particularly in trucks and specialized vehicles as well as parts, suppliers, and components. Russia is forecast to become the largest single motor vehicle market in Europe by 2014. Foreign trucks are in demand for many industrial uses, and Russia's growing passenger-car industry still depends heavily on imported components, parts and assembly kits.
- Environmental and Energy Technologies and Services. In order to achieve its energy-efficiency goals, Russia will need to invest an estimated \$320 billion by 2020 (according to the IFC) in residential and public buildings, industrial facilities, transportation, electricity, and heating systems. These investments, along with policies such as new building codes that emphasize greater energy efficiency, present opportunities for U.S. firms to provide specialized environmental technologies and services, and Russia's membership in the WTO will be an important tool to ensure that these markets remain open.
- Services. Russia's WTO accession commitments on services will improve or bind current trade practices in 116 services sub-sectors, ensure full national treatment in 30 sub-sectors and provide U.S. service companies with greater market access in Russia.

Russia's adherence to WTO rules will bring more certainty to an often uncertain environment, enabling U.S. companies that export to Russia to plan with significantly greater confidence. As a WTO member, Russia would be required to comply with transparency and notification requirements, thus allowing us better tools with which to assert our commercial rights. Further, Russia would be required to bind its tariff levels, preventing unilateral increases for purely protectionist reasons. Had Russia been in the WTO by 2008, its negotiated tariff commitments likely would have reduced risks to U.S. exporters from several protectionist steps taken by Russia in reaction to the 2008-2009 financial crisis. Finally, having Russia in the WTO will allow the United States to seek redress with Russia through the WTO's dispute settlement procedures with Russia if there are challenges in implementation.

Given the breadth of opportunity presented by Russia's WTO accession, we in the business community would like to ensure that this key emerging market continues to receive the proper attention and focus on your Administration's trade agenda in 2011. We all need to clarify and to correct misimpressions that the WTO's admission of Russia as a member would constitute a benefit conferred upon Russia by and at the expense of the United States.

Mr. President, reaching agreement on a commercially meaningful accession agreement for Russia to the WTO will provide the American worker the opportunity to compete more effectively in this fast-growing global economy and support the NEI goal of doubling exports in the next five years. We stand ready to work with you on a PNTR campaign at the appropriate time, given the vast potential we see in the Russian market and the importance of Russia to our global competitiveness.<sup>1</sup>

Sincerely,

A handwritten signature in black ink, appearing to read "Jim McNerney". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Jim McNerney

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<sup>1</sup> Please note that this letter has been prepared by the private-sector appointed members of the PEC.