

# NATIONAL FOREIGN TRADE COUNCIL, INC.

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## **NFTC Supports Permanent Normal Trade Relations with Russia**

The National Foreign Trade Council (NFTC), an association of more than 250 U.S. corporations engaged in international trade and investment, strongly supports congressional approval of Permanent Normal Trade Relations (PNTR) with Russia. Russian membership in the World Trade Organization (WTO) has been approved and will become official this summer. Many NFTC member companies currently do business in Russia and PNTR will create major new opportunities for expansion.

Extending PNTR to Russia requires its exemption from a Cold War statute, the Jackson-Vanik amendment to the *Trade Act of 1974*. This measure denied normal trade relations – most-favored-nation status – until the Soviet Union liberalized its immigration policy for Jewish citizens of the USSR. Section 401 of the Act also prevents the President from extending PNTR to Russia. The objective of the Jackson-Vanik amendment has long been achieved with daily flights now connecting Moscow and Tel Aviv. A 1990 agreement with the Soviet Union provided an annual presidential waiver of the Jackson-Vanik amendment, enabling trade in goods to take place on a most-favored-nation basis. The agreement was updated in 1992 to apply to the Russian Federation. This agreement applies only to trade in goods and has no provisions for trade in services, investment, agriculture or intellectual property rights protection. The agreement does not meet the WTO requirement of mutual most-favored-nation status.

Russia was invited to join the WTO in December 2011, and will become a member when the Duma approves their accession agreement, which it must do by July 23. Russian membership takes effect 30 days later. Because the United States cannot extend PNTR to Russia because of the Jackson-Vanik amendment, the United States has invoked “non-application,” meaning that the commitments that Russia has made to join the WTO regarding services, trade-related investment measures, intellectual property rights and sanitary and phytosanitary measures, as well as access to WTO dispute resolution, do not apply to U.S. companies. Russia has invoked the same provision, ensuring that U.S. companies will not have equal treatment in the Russian market with the other 153 WTO members.

In joining the WTO, Russia has agreed to nondiscriminatory treatment of imports of goods and services; to reduce and bind its tariff levels; ensure transparency; enforce newly enacted intellectual property rights protections; limit farm subsidies; forego local content requirements and trade-related investment restrictions; open government procurement contracts to foreign firms; and to let information technology imports enter duty-free. Russia also agreed to join the Information Technology Agreement.

None of these measures will apply to American companies if the Jackson-Vanik amendment continues in force. This will put American companies at a major disadvantage with our European and Asian competitors. This is important because within five years after PNTR U.S.

exports to Russia will likely double from \$10 billion in 2010 to \$20 billion in 2017, according to the Peterson Institute for International Economics. This will add U.S. jobs in services, agriculture, manufacturing and high-tech sectors. Of the big emerging markets of Brazil, India, China and Mexico, Russia has the highest GDP per capita and its economy grew at seven percent from 1999 until the financial crisis in 2008. At this time Russia ranks only 37<sup>th</sup> among U.S. export markets and the United States has only four percent of the Russian market.

Obviously, there is enormous opportunity for growth in U.S. exports to Russia and for job creation in the United States. Extending PNTR to Russia would make a major contribution to President Obama's National Export Initiative and to job creation here in the United States. These opportunities can only be realized if the Congress acts to exempt Russia from the Jackson-Vanik amendment by the time Russia joins the WTO. Failure to do so will enable our competitors to gain market share in Russia that will be very difficult to overcome.