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.

* * *

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.

United States House of Representatives
Committee on Foreign Affairs

"TRUTH IN TESTIMONY" DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name:	**2. Organization or organizations you are representing:**
Peter Rashish	U.S. Chamber of Commerce
3. Date of Committee hearing:	
Tuesday, March 27, 2012	
4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	**5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?**
☐ Yes ☑ No	☑ Yes ☐ No
6. If you answered yes to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.	
Please see attached document.	
7. Signature: P.S. Rashi	

Please attach a copy of this form to your written testimony.

Question 6: If you answered yes to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.

Granting Agency: The US Chamber of Commerce is a sub-recipient to the National Chamber Foundation under a grant from the Department of Commerce

Award #: IT10MAS112004

Project Title: Export Green: Growing SME Exports to Brazil

Award Period: November 1, 2010 to March 31, 2013

Award Amount: $194,400