

U.S. Senate Committee on Finance

For Immediate Release

Thursday, April 14, 2005

Grassley, Baucus Outline Concerns to Be Resolved Prior to Russia's WTO Membership

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, and Sen. Max Baucus, ranking member, have urged the Acting United States Representative and the Administration to resolve a number of outstanding trade concerns before concluding negotiations that would allow Russia to join the World Trade Organization.

The text of the senators' April 11 letter to the Acting United States Trade Representative follows.

April 11, 2005

Honorable Peter F. Allgeier
Acting United States Trade Representative
Winder Building, 600 17th Street, NW
Washington, D.C. 20508

Dear Ambassador Allgeier:

We write to you regarding our bilateral negotiations on the accession of the Russian Federation to the World Trade Organization (WTO). We note that President Bush and President Putin met in February and issued a joint statement indicating our commitment to complete bilateral negotiations with Russia in 2005. That is certainly a worthwhile objective. However, we must express our strong concern that the negotiations not be rushed to conclusion simply to meet an artificial deadline. Many key issues remain outstanding in both our bilateral and the multilateral WTO negotiations on Russia's accession. These issues must be resolved satisfactorily before the negotiations can be concluded, even if that entails extending the negotiations beyond the end of this year.

Foremost among our outstanding issues is the absence of a comprehensive legal and regulatory framework for the protection of intellectual property rights (IPR), coupled with a disturbing lack of commitment on the part of the Russian government to enforce existing laws to protect intellectual property. Russia has been on the Special 301 Priority Watch List since 1997 and significant deficiencies remain in Russia's IPR regime. A case remains pending to review Russia's status as a beneficiary country under the U.S. Generalized System of Preferences (GSP) program. Estimated losses to U.S. copyright industries due to piracy of films, videos, sound recordings, books, and

computer software continue to exceed \$1 billion annually. Over 80 percent of all DVDs on the Russian market are estimated to be pirated, while pirated music is estimated at 66 percent of sales and software piracy is estimated at about 88 percent. Pirated CD and DVD products are exported from Russia to more than 25 other countries, and we understand that exports of software pirated in Russia are increasing at an alarming rate. Not only are enforcement efforts anemic, the legal framework is incomplete. According to a recent report in the press, Moscow prosecutors have refused to take action against piracy over the Internet because Russian copyright laws cover only physical media such as CDs and DVDs. U.S. and multinational companies also continue to report serious problems with the counterfeiting of patented and trademarked goods.

Piecemeal legislative, regulatory, and administrative changes introduced over the past few years have failed to quell the problem. Instead, the scale of IPR infringement in Russia has become markedly worse. Membership in the WTO must be founded upon a strong commitment to embracing and enforcing the rule of law and living up to one's obligations. To date, the Russian government has failed to demonstrate such commitment. We must insist upon visible and sustained improvement in this area, coupled with a demonstrable commitment to long-term enforcement, before the accession negotiations may be concluded.

A second matter of particular importance to U.S. producers of beef, pork, and poultry is access to the Russian market. This includes producers of beef, pork, and turkey in Iowa, as well as beef and pork producers in Montana. In September 2003, we reached an agreement in principle with Russia on market access parameters for beef, pork, and poultry. To date, that agreement has yet to be finalized. Russia's market access commitments for these important U.S. exports must be finalized before the accession negotiations may be concluded. Significant non-agricultural market access issues also remain outstanding. Chief among these are an effective tax in excess of 40 percent on Russian imports of aircraft and 70 percent on imports of larger U.S.-made passenger cars and sport utility vehicles. These levels of protection are unacceptable if Russia is to join the WTO.

Third, Russia's current domestic gas pricing policy is of major concern due to the commercial distortions that result for industrial consumers of natural gas. Gas is sold on Russia's domestic market for about \$25/tcm, while estimates of cost-recovery levels are roughly \$35-\$40/tcm and gas for export on the world market sells at \$100-\$120/tcm. The downstream effects are significant. Natural gas is the primary feedstock for producing nitrogen fertilizers, accounting for roughly 70-90 percent of the cost of production. It is no surprise, then, that Russia has become the world's largest exporter of nitrogen fertilizers. The volume and pricing of Russian nitrogen exports have disrupted international fertilizer markets and are a major concern of U.S. producers in Iowa and across the United States. We must ensure that the trade-distorting aspects of Russia's natural gas pricing practices are clearly and effectively addressed in Russia's WTO accession commitments. Russia must agree to conduct any state intervention in its economy on commercial terms, so that U.S. participants in the Russian market and other markets are afforded an adequate opportunity to compete.

With respect to services negotiations, we remain concerned that we have yet to reach an acceptable compromise on the issue of branching for financial service providers. Consumers of banking, insurance, and securities services in Russia stand to benefit greatly from liberalization in this area.

We are also concerned about Russia's equity and sectoral cap limitations in the areas of insurance, banking, and securities. In the telecommunications sector, significant outstanding issues include the preferential treatment of Russian satellite communication systems, the relatively short duration of telecommunications licenses, and the absence of transparent regulatory procedures applicable to providers of telecommunications services. Indeed, a lack of transparency is not limited to Russia's telecommunications sector. Expanding Russia's commitment to transparency and the rule of law should be prioritized in all areas of the negotiations. For example, Russia must commit to transparent application of the rule of law when conducting preshipment inspections in customs and special economic zones. And Russia must ensure uniform application of its trade regime throughout its territory. Corruption continues to present a huge problem for foreign investors in the Russian market. In fact, Russia's Economic Development and Trade Minister reported recently to President Putin that in a survey of 158 foreign companies operating in Russia for some time, 71 percent identified corruption as the main impediment to their business. We also find it remarkable that Russia has yet to ratify the Bilateral Investment Treaty (BIT) between the United States and Russia that was signed in 1992 and ratified by the United States Senate that same year. The failure to ratify our BIT sends the wrong signal about Russia's commitment to fostering transparency and the rule of law.

We are concerned that other trade frictions may undermine political support for Russia's entry into the WTO. One concern arises from Russian's sanitary and phytosanitary (SPS) measures, which are often burdensome and at times do not appear to be grounded in sound science. For example, since December 2003 Russia has imposed a ban on U.S. beef imports in response to the detection of one positive case of Bovine Spongiform Encephalopathy (BSE) from a cow imported from Canada. Yet science shows that U.S. beef is safe. SPS measures must not be used as non-tariff barriers to impede legitimate access to the Russian market for U.S. exports of beef and other agricultural products.

Russia's industrial policies also raise some concerns. In May 1999, Russia imposed a 15 percent export tariff on ferrous steel scrap (amounting to not less than 15 euros per metric ton). In the context of rising global demand for steel and steel scrap, Russia's export tax artificially restricts global supply thus contributing to higher prices for steel scrap and finished steel. And higher steel prices adversely impact U.S. steel consumers in Iowa, Montana, and across the United States. Russia also currently maintains a 10 percent export tariff on copper cathode and a 0 percent export tariff copper wire rod. As a result, copper cathode producers in Russia cannot export their product for fair market value and Russian producers of copper wire rod obtain favorable prices for this input. This tax differential thus serves to distort the global market for copper. But a primary function of the WTO is to promote the elimination of artificial market distortions. Russia's accession negotiations offer an excellent opportunity to address the elimination of these artificial distortions in the steel and copper markets.

The list of significant outstanding issues does not end there. Additional trade frictions worth mentioning include: Russia's restrictions on overflight rights and express delivery services; reports that illegal logging accounts for as much as 20 to 30 percent of Russia's timber harvest; various issues regarding customs valuation including the failure to pass final legislation in the Duma; and the possibility that Russia will require unduly onerous customs border inspections based on encryption concerns.

Taken together, all the foregoing concerns make clear that we have a long way to go and many difficult issues to resolve before reaching an agreement on Russia's WTO accession that will serve to advance the interests of U.S. farmers, ranchers, workers, and service providers. In our view, forced adherence to an artificial deadline will not serve to advance our interests in these negotiations. We hope that you and the Administration will agree.

Thank you for your ongoing attention to these important concerns. In addition, please note that we intend to raise them with your successor at the earliest opportunity.

Sincerely,

Charles E. Grassley
Chairman

Max Baucus
Ranking Member

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