

Letter on PEC Fact-Finding Trip to Ukraine and Russia

Subcommittee on Trade Promotion and Negotiations approved text,
not yet approved by the entire Council

Mr. President:

On behalf of the President's Export Council delegation of companies who accompanied U.S. Commerce Secretary Gutierrez to Ukraine and Russia recently, I wish to share some reflections, based on what the Delegation observed.

As the first U.S. Secretary of Commerce to visit the Ukraine, Secretary Gutierrez's trip had many important dimensions, from the symbolic to the concrete—all of which made the timing of the trip optimal as a national gesture to this important democracy.

We are pleased to confirm that Ukraine continues to have high regard for U.S. business and the U.S. generally, but must report that U.S. companies have yet to fully realize that potential. This Delegation's visit was a visible, positive step to ensuring American business has a "fair shake" at what opportunities Ukraine presents.

At long last, after much political turmoil in Ukraine, major political forces seem to have reached an agreement in a way that allows for the Ukrainian political environment to be supportive of broad and sustainable growth. As the Delegation heard in parting, however, some of the political harmony seemingly achieved since the "Orange Revolution," was starting to give way to a more challenging political climate.

The PEC feels that broad and sustained commercial engagement with the Ukraine is clearly in the national interest of the United States. Equally, as the businesses that accompanied the Secretary of Commerce can confirm, there are very specific reasons for this continued interest in engagement, both on behalf of our Government as well as the private sector.

- Ukraine's agriculture has rebounded to some of its heights, which has led it to being dubbed "the breadbasket of the world" during the Soviet period. With global food security and supply challenges reaching new levels, Ukraine will likely continue to play a key role in dealing with the rapidly changing environment.
- Ukraine recently joined the WTO and is quickly attempting to integrate itself with the West- politically (e.g. via discussions with the EU) and practically (e.g. by unifying customs codes/tariffs etc). Problems in doing so continue to exist, as the Delegation experienced firsthand. An example which stood out for our Delegation was the late repayment of VAT, which we discussed with the Ukrainian Government at length. The Delegation believed these attempts should continue to be supported, as US business greatly benefits from increased transparency and Western business acumen.

- Small and medium-sized businesses continue to thrive, despite the political instability which has historically gripped Ukraine. The fact that many smaller businesses continue to find viable opportunities gave all of us in the Delegation great confidence in Ukraine's future. These successes in the face of adversity further prove why Ukrainian entrepreneurs are desirable partners for U.S. firms of all sizes. The entrepreneurial culture of the Ukraine was further reinforced when we visited a Cisco Systems- sponsored entrepreneurship center in Kyiv

In Russia, the Delegation took part in the “St Petersburg International Business Forum”— one of the largest and, arguably, the most prestigious international gathering of executives annually. There, the Delegation met with key members of President Dmitry Medvedev's new Administration, including the head of the President's economic team, Minister Naibullina. We need to continue to engage with members of this new Administration, which has arrived with new ideas and openness, against the backdrop of political continuity. Finally, we met separately and jointly with many business executives and regional/local government officials.

- During our time in Russia, we were treated to a magnificent display of leadership from the most diverse areas of the Russian economy. There is no question that oil and gas resources have brought tremendous wealth and prosperity to Russia, which now steams forward at nearly 10% annual growth. President Medvedev's “4i Strategy” (innovation, industry, investment in human capital, infrastructure) nicely captured the Russian Government's vision on how to ensure that economic growth leads to broad, sustainable societal benefit.
- Russia is rapidly investing into many sectors, e.g. nanotechnology, which aim to put Russia on a more stable, diversified economic footing going forward. At the same time, its sovereign wealth fund, one of the world's largest, will also serve to stabilize Russia's economic future over the long-term.
- We have found this confidence in Russia's economic prospects is well-founded. Russia not only supports big business, which each of us experienced first-hand, but the Small & Medium Enterprise (SME) structure is also well established.
- Many difficult challenges remain for businesses in Russia. Rhetoric aside, many of the businesses continue to face important challenges with Intellectual Property, a strong, transparent regulatory regime and respect for rule of law. Equally, the growing Russian government ownership and interest in certain key areas of the economy have led to Western firms' private interests being fundamentally challenged.
- President Medvedev and Prime Minister Putin are extremely popular. One of the major reasons for this popularity is that the Russian people feel that the President and Prime Minister have invested in human capital (health) and infrastructure (roads, etc), which are not only visible, but also quite directly and positively impact some of Russia's most serious challenges. As you know, Russia is one of the few countries in the world experiencing severe “depopulation” due to premature death (e.g. cardiovascular disease being the top “killer”) and low birth rates. We were gratified by the fact that the Russian Government takes these challenges seriously and are willing to invest in the right

- technologies and skillsets, in order to reverse the dangerous spiral. U.S. firms have a real role to play, in partnership, to confront those challenges.
- WTO: an overriding interest for the Delegation participants in Russia was to see Russia enter into the WTO, at the latest by end of this calendar year. The participants heard, what they thought to be credible, Russian Presidential plans to ensure that all Russian laws would shortly be brought into line with the requests from international governments and businesses.

Mr. President, Russia and Ukraine are countries of deep historical and strategic importance to the U.S., which simultaneously exhibit a commercial environment which continues to be challenging and extremely rewarding for American business. We do not believe this Mission could have been undertaken at a more auspicious moment. Thank you for your continued confidence and partnership with American business in fulfillment of American national and business objectives.

Sincerely,