

# EXPORT

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THE FEDERAL SOURCE FOR YOUR GLOBAL BUSINESS NEEDS

## A DECADE OF U.S.- RUSSIAN BUSINESS: A LONG ROAD TRAVELED

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### ■ INDUSTRY OPPORTUNITIES IN RUSSIA

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## NEW OPPORTUNITIES



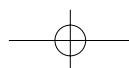
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law of this department.

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# H

## ow do we define community?

Is it merely our immediate surroundings, friends, family and social organizations? Or is there a larger sense of community that extends beyond that every day, local contact?

In the global community, our definition is much larger. Those of you who are engaged in international trade have come in contact with distributors, customers and partners and whether you consciously make the effort to act as a representative of the United States or not, you are usually perceived as such. I know from talking to many of you that many companies do not merely engage in exporting for the profit or diversity of markets but because their ideals of providing a better quality of life are fulfilled through establishing relationships, both business and personal, with clients and customers overseas. I've come in contact with women who seek to do business with other women so that the earning potential for their clients is greater than without that relationship. Additionally, environmental technology companies seek to educate and train their clients not only in how to operate and maintain the machinery but also to view the environment as a resource that can be managed to maximize the development potential of the region.

Whether your company is small, medium or large, every time you engage in business with foreign or domestic

customers, ethical and moral standards should apply. We should all live by example and therefore promote good codes of business ethics, corporate governance and transparency to strengthen the foundations of trust between countries.

The United States and Russia have embarked on a new relationship that embodies this view of the global community. Our feature this month focuses on the past decade of U.S-Russian business and the long journey toward a market economy in Russia. Ed Dunn will update us on the progress toward Russia's accession to the WTO and we will get a brief overview of opportunities in the oil and gas equipment industry and the aerospace industry. Erin Cole will also give us an overview of doing business in the Nordic region and Igor Abramov will tell us about efforts to establish corporate governance and good business practices in Russia and former republics.

Next month we will look at China and the efforts being made to provide technical assistance and monitor compliance with their commitments now that accession to the WTO is official.

Please send any feedback or comments to us at [Export\\_America@ita.doc.gov](mailto:Export_America@ita.doc.gov) and send any future article suggestions as well. Until we meet again in April, good luck in your exporting endeavors. ■

*Cory Churches*

Cory Churches  
Editor



## GLOBAL NEWS LINE

### CANADA

Quebec municipal procurement continues to be a significant market, valued at roughly US\$2.5 billion annually, but one to which U.S. exporters have not traditionally enjoyed any guaranteed access. Recently, however, the Province of Quebec and the State of New York agreed to subject their procurements by government ministries and institutions to reciprocal, non-discriminatory treatment. This gives New York State suppliers, without regard to the origin of their goods or services, equal access to Quebec public markets for procurements above specific thresholds. However, the "agreement" does not cover municipal procurement, unlike the 1994 Agreement on Internal Trade, which forced Quebec to open municipal procurement markets to suppliers from other Canadian provinces.

Nonetheless, Quebec's public markets seem to be adopting a more open and less protectionist stance. Although municipal procurements have traditionally been largely "reserved" for local firms, even to the exclusion of Quebec suppliers from other municipalities, there is some movement toward greater openness to competition and more opportunities for U.S. suppliers. For more information, please contact Commercial Officer Donald Businger at the U.S. Consulate General in Montreal. Tel: (514) 398-0673; Fax: (514) 398-0711; Email: Donald.Businger@mail.doc.gov.

### NORWAY

Norway's market for dogs, dog supplies and dog services has reached \$450 million. It is a good market for such products because of high income, love

of dogs and rising ownership in a relatively unsaturated market.

According to published reports on *Aftenposten's* (Norway's premier daily newspaper) Internet site and in *Dagensnaeringsliv* (financial daily), Norwegians spend \$450 million per year on dogs and associated products and services, a figure that is rapidly rising. There are about 400,000 dogs in Norway to snuggle the country's 4.5 million people. These are no mutts. The vast majority of dogs are purebred and typically these are work dogs like German shepherds and border collies or sporting dogs such as setters and retrievers. A puppy in Norway costs an average of \$825. The average owner spends about \$1,100 per year on the pet.

Befitting their incomes and love of dogs, Norwegians are moving upscale in their dog food purchases. Many buy the more expensive brands such as Iams, Science Diet and Eucanuba, which are sold through pet stores. Purina and Nestle have a strong presence. A number of local brands, including some similar in price to Purina and some off-price brands, are sold through grocery stores.

According to *Aftenposten*, Norwegian dog lovers also are buying pricier accessories like shampoos, collars and cages. Surprisingly, hardy Norwegians bundle up some of their friends in doggie coats. Even a market for doggie music CDs might develop.

### ITALY

The Italian cosmetics market is enjoying a phase of growth. The latest figures available for 2000 indicate a 5.8

percent increase in value over the previous year, thus reaching 7.4 billion Euros. This figure is all the more significant when compared to the total sales volume of 44 billion Euros generated by the 15 EU markets as a whole, giving Italy a significant share of the entire European market. Forecasts for the three years starting in 2001 indicate that these excellent results are likely to continue and expectations are for an increase of 2 to 3 percent in real terms over the short term.

Domestic buying patterns have shifted towards specialized perfumery boutiques, which have increased their business by 9 percent and to the pharmacies sector, which has increased by 5.3 percent. The best selling items have been facial cosmetics, with 9.9 percent growth for a total of 930 million Euros, followed by body care products, which increased by 7.8 percent, thus totaling slightly over 930 million Euros and perfumes which increased 9.8 percent bringing total sales to 775 million Euros.

There is further space for the growth of the Italian cosmetics industry if it can demonstrate its ability to maintain and build on a relationship of mutual trust with its customers.

### HUNGARY

The United States and Hungary Sign Comprehensive Trade Package: On January 30, the United States and Hungary signed an agreement in which Hungary agreed to reduce or suspend its tariffs on \$180 million worth of key U.S. agricultural and industrial exports annually. This agreement will establish a more level playing field for U.S. exports to

Hungary and will create more opportunities for U.S. firms in the Hungarian market. The new tariff rates will go into effect on April 1. A complete schedule of the reduced tariffs is available from the Central and Eastern Europe Business Information Center at [www.mac.doc.gov/eebic/ceebic.htm](http://www.mac.doc.gov/eebic/ceebic.htm)

## RUSSIA

The restaurant business in Moscow is one of the fastest growing segments of the city's fast growing economy. A reviving middle class is creating a solid customer base, with the result that numerous restaurants and cafes are opening or expanding and purchasing equipment and supplies. The restaurant sector has become one of the most attractive areas of investment for successful Russian businessmen seeking to diversify; a trend that some analysts believe is likely to continue for another 5 to 10 years. International cuisine is increasingly popular, driving demand for foreign foods. The range of fast food options is becoming more varied, with eateries offering variations on traditional Russian fare emerging to compete with the numerous hamburger restaurants. There is a growing need for advanced and efficient restaurant equipment, to enable these establishments to raise quality and control expenses in order to remain competitive

## CZECH REPUBLIC

PSA Peugeot Citroën and Toyota Motor Corporation will build a new plant to produce a new class of automobiles in the industrial zone in Kolin, Czech Republic. This will make the Czech Republic one of the biggest European automobile makers, after

Germany, France, Spain, U.K. and Italy. Together, the new plant and Skoda Auto will make around 800,000 vehicles per year.

The total amount of investment should reach \$1.3 billion. Production of small, compact passenger cars will be launched at the beginning of 2005. The new plant will be able to supply up to 300,000 automobiles per year on the European market. At least 2,000 direct new jobs will be created.

This represents a unique opportunity for U.S. automotive suppliers. The increase in indirect jobs among suppliers and related services is predicted to reach at least 10,000. The investment of such prestigious foreign companies will contribute to a restructuring of the industrial base in the Czech Republic. Arrival of new foreign investors, namely suppliers to the automotive industry is expected in coming years.

## CHINA

Now that Beijing has landed the 2008 Summer Olympic Games, the city will be spending \$23 billion to build the facilities and put in the infrastructure to ensure a success. This means enormous opportunities for U.S. companies. In the telecom and IT area alone, the city plans to spend \$3.6 billion to buy and install the technology necessary to support a state-of-the-art event. Much of this technology will come from the United States. Now is the time to identify the opportunities and move to the head of the pack.

Beijing's "Informization" Office outlined its IT and telecom plans for the Olympics at the China IT Annual Meeting on December 3. The Director

General of the office, Mr. Hua Pinlan, noted the importance of technology to the overall success of the Olympics and predicted that the Games would be the "Digital Olympics." In fact, there are more than 100 projects in this sector alone for which hardware, software and services will be procured. ■

### NEED MORE DETAIL?

Ask a Foreign Commercial Officer at one of the Department of Commerce's posts located around the globe. Contact information, including phone, fax and email, is available by calling the Trade Information Center at (800) USA-TRAD(E).

# BUILDING PRODUCTS SUPPLIER SHARES EXPORTING SECRETS

by Erin Butler,  
*U.S. Commercial Service*

For small businesses worried about the inevitable ups and downs of the business cycle, here's a tip: there are great markets for U.S. products overseas. Over 97 percent of U.S. exporters are small or medium-sized businesses. Exporting makes good business sense for these companies—having customers around the world can insulate against market turbulence.

The most important? It pays to be cautious — check out your potential buyers to avoid surprises.

Piccolo is the President of Artcrete, a small Louisiana business. The company's signature product is a concrete finishing system that makes concrete look like brick, stone, slate, or tile — for a fraction of the cost. The magic is in a stencil. The process goes something like this: concrete is poured and a cardboard stencil is laid on top while

Piccolo didn't start out with exporting in mind. Instead, he set out with a smart goal: to diversify his customer base. In 1989, after being in business for several years and selling mostly regionally, Piccolo and his partner decided to expand their reach. The crash of the oil economy in the late 1980s meant that building in oil boom towns was slowing — a serious blow to Artcrete. Piccolo decided to raise Artcrete's profile with a booth at a major industry trade show, World of

## PICCOLO DECIDED TO RAISE ARTCRETE'S PROFILE WITH A BOOTH AT A MAJOR INDUSTRY TRADE SHOW, WORLD OF CONCRETE.

Frank Piccolo is one small business owner who sought out opportunities in global markets. He thinks the 2008 Olympics in Beijing could mean big business for his building products company as new construction projects take off in China. These days, he's selling not only to China, but also to buyers in Canada, Mexico, Japan, Hong Kong, France, Belgium and Saudi Arabia. But Piccolo wasn't always so confident about doing business in tricky markets like China. Nor was he so savvy about the risks. But in the ten plus years he's been exporting, he's learned some tricks of the trade.

it's still wet. Then a mixture of sand and pigment is tossed on top of the stencil — “just like chicken feed,” says Piccolo. The stencil keeps the pigment in place and ensures that the design looks realistic — concrete “bricks” have strips of white “mortar” in between and the striations in slate look like the real thing.

It's a product with a wide range of applications and Piccolo says he's sometimes had more inquiries than he knew what to do with. Even so, he says building his export business was a challenge — but one that paid off.

Concrete. He'd done his research and knew that trade shows can be a good way to reach a broad audience of potential buyers at once. But what he didn't expect was the huge interest that would result from the show — and the challenges he'd face in dealing with it.

### WHAT YOU DON'T KNOW CAN HURT YOU

Piccolo and his partner leveraged themselves heavily to make a good showing at World of Concrete. And it paid off — at first. Even before the show, an article about Artcrete in a



Photo courtesy of Artcrete



Frank Piccolo, owner of Artcrete, displays an example of their signature product

pre-show publication prompted 40 or 50 calls a day — says Piccolo, “the phone started ringing immediately.” And after an enthusiastic reception at the show, Artcrete was “swamped.” But after shipping out responses to 600 inquiries a week, Artcrete was struggling.

Then Piccolo got an inquiry from an Australian buyer with deep pockets. In exchange for distribution rights to the entire continent, the buyer purchased a huge order of 100 rolls of stencil. Just like that, Artcrete became an exporter. When the product reached Australia, “it was like the Hula Hoop,” recalls Piccolo. Sales took off and Artcrete began to ship containers as fast as they could fill them.

But at this point, how much did these Louisiana boys know about international business? Not much, says Piccolo. “We were flying by the seat of our pants,” he recalls. And unfortunately, they were headed for a fall.

#### THE TROUBLE WITH SUCCESS

“We were trusting souls,” says Piccolo. He and his partner conducted business over the telephone and never met the international distributors they signed. Their instincts were good, but as Piccolo now warns other small exporters, good instincts aren’t enough. He learned this the hard way when he lost serious money on a deal with a crooked buyer in Brazil.

It was then that Piccolo turned to his local Export Assistance Center in Shreveport, part of the network of the U.S. Commercial Service, a Commerce Department agency that provides international business support to small and medium-sized U.S. companies.

#### HELP IS AVAILABLE

At the Shreveport office, Piccolo met former director Norbert Gannon and current director Pat Holt — and found out he didn’t have to go it alone. Holt has colleagues in embassies around the world and with a phone call can do a background check on a foreign business. Piccolo says he’s never again done business without first checking out the potential buyer with Holt’s office.

Holt says that U.S. business owners need to carefully target the best markets for their products and then be prepared to deal with cultural differences, unfamiliar labeling standards, customs issues and a host of other challenges. “Helping navigate the exporter through the exporting process is a big part of what I do,” says Holt. She and her colleagues have access to a vast amount of market research; if more is needed to answer highly specific questions about particular markets and products, customized research is available from one of the Commercial Service experts around the world.

Holt says one of the things her agency excels at is bringing buyers and sellers together. Piccolo agrees, citing his experiences with the agency’s Gold Key Service, in which Commercial Service specialists overseas arrange meetings for the visiting U.S. businessperson with the best prospects in their market. Background checks and interpreting services are part of the package, which cuts preparation time for businesspeople like Piccolo. “All I had to do was show up,” he says. He recalls that a Gold Key Service in Shanghai consisted of 12 appointments in 2 days. For a small business owner, less time on the road means real bottom-line savings.

Piccolo now swears by the Gold Key Service, which he’s done in Mexico, Hong Kong and several other countries in between.

These days, Piccolo can stay at home and still find buyers. He says most of Artcrete’s international inquiries are generated from quarterly advertisements in *Commercial News USA*, a product catalog produced by the U.S. Commercial Service and provided free to international buyers.

#### LESSONS LEARNED

Despite his years of experience, Piccolo still maintains a healthy caution toward international inquiries. He advises other small businesses to be scrupulous about checking the credit and reputation of potential international buyers and encourages them to enlist the help of their local Export Assistance Center.

Piccolo also recommends common sense and basic travel safety. He reads up on State Department travel advisories before he leaves the country and always registers with the American consulate in the country he’s heading to. In addition, he remains in close contact with U.S. Commercial Service specialists before, during and after his trip.

Shreveport director Pat Holt thinks that a world of opportunity awaits Louisiana small businesses. “95 percent of the world’s consumers live outside the U.S.,” says Holt. “And because the world’s consumers know U.S. products are excellent, our companies enjoy a competitive advantage. My job is to help local companies use that advantage.” ■

# PLASTIC PALLET-MAKER FINDS INTERNATIONAL BUYERS

by Amy Klemt,  
U.S. Commercial Service

For almost 25 years, Jeco Plastic Products, Inc., of Plainfield, Indiana, never imagined the success they could mold from international markets. Luckily, Craig Carson did. Three years ago he purchased Jeco Plastic Products, a manufacturer of 170 different sizes of plastic pallets, after years of international experience working for a large British firm in Europe. Carson bought the Indiana firm with the dream of turning the small domestic company into an internationally savvy exporter. Carson's dream is becoming a reality.

Although he faces numerous challenges common to small businesses, Carson has found international niches for his traditionally difficult-to-sell product. What is Jeco's advantage? "Our pallets are stronger and more durable than their wood and steel counterparts. They last forever and can handle both distributed or concentrated loads," explains Carson.

## PLAINFIELD COMES TO PARIS

After first finding buyers in the Canadian and Mexican markets, Jeco Plastic Products quickly shifted its focus to Europe. The new focus meant changes in their product line to include metric sizes and investments of time and travel. Carson and Richard Jefferies, President of Jeco Europe, discovered a knowledgeable ally in each of their targeted markets, who helped them identify buyers and bypass all potential roadblocks. These well-connected export facilitators are members of the U.S. Commercial Service.

Carson was initially hesitant to work with a government agency, but Mark Cooper, the Director of the Indianapolis Export Assistance Center, convinced him to give the U.S. Commercial Service a try. The result? Carson wouldn't think of entering a new overseas market without guidance from the Commercial Service. "The

Commercial Service staff overseas consists of skilled, professional country nationals, who speak the language and bring pertinent information to the table from their years working inside the industries in which I am interested," Carson said.

In his most recent venture into the French market, Carson worked with Stephanie Pencole of the Commercial Service in Paris to identify and meet with potential buyers. "Stephanie not only served as a translator, but was skilled enough to lead the negotiations with the French buyers. I wouldn't even trust some of my own people to do that, but Stephanie was a valuable asset for us."

Carson cautions that the Commercial Service cannot replace his own investment of time and travel, but after gaining some initial background knowledge of the market, he thinks that the Commercial Service should be a small company's next stop. "Small businesses have large barriers to overcome in entering international markets, but they can do it with Commercial Service help. There is no way my company would have the potential sales volume we do without that help."

Carson points out that exporting takes patience. He reminds other small businesses that the international sales process is often much longer than the domestic sales process, but that it's worth the wait. Carson expects his efforts in France to pay off soon and Stephanie and the Commercial Service will be there when they do. When it comes to export success, Jeco Plastic Products, Inc. intends to keep piling it on. ■



Photo courtesy of Jeco Plastic Products, LLC

Two Jeco Plastic Products, the smooth-top pallet for general use and the ribbed top for continuous feed press. Pallets are convenient for use in the automotive, printing and aviation industries.

# SPEEDING TO NEW GLOBAL MARKETS

by Erin Butler,  
U.S. Commercial Service

Stewart Dahlberg just made the quickest export sale of his life. He's the Export Sales Manager for J.D. Streett & Company, a small auto lubricant and antifreeze manufacturer in Maryland Heights, Missouri.

He had spent months trying to gain a foothold in Southeast Asia, but he closed an \$11,000 deal with a buyer in Vietnam in only 60 days — start to finish.

Dahlberg credits the new e-marketplace BuyUSA.com with finding him his buyer — and accelerating results. He spent \$400 several months ago to list J.D. Streett on the site; he confesses now to a certain skepticism when it comes to online selling. "I was a critic," he says. And now? "It works," he says.

"It was 60 days from when I received the solicitation via BuyUSA to having a confirmed letter of credit on my desk." The sale was conducted entirely online, except for the product catalog Dahlberg shipped to Vietnam. Soon Dahlberg will be able to post his catalog on BuyUSA too.

A joint effort of the U.S. Commercial Service and IBM Corporation, BuyUSA.com is an e-marketplace with advantage — a worldwide network of offices and expertise. The service offers online access to U.S. trade specialists who can assist buyers and sellers with exporting issues.

J.D. Streett & Company has been around for over 100 years. Dahlberg has only been there for 18 months, but in

that time he's seen the company's export sales grow by 40 percent and he now services 11 export markets. He believes that the company's quick turnaround time, expertise in custom design and willingness to supply smaller runs sets them apart in the marketplace.

His counsel to other small exporters? "Take every inquiry seriously and play it for everything its worth. The least-serious looking contact can turn out to be the best one," he says. Although he was initially surprised to receive an inquiry from Vietnam, Dahlberg pursued the lead and was pleased to see it check out. He's after long-term relationships and is confident that this buyer could become an excellent distributor.

Of course, developing markets like Vietnam come with their own set of challenges. Dahlberg says common sense is the best precaution, but also advises small exporters to check out potential buyers and steer clear of any with suspicious backgrounds. He does this with a quick call to Kristi Wiggins at the St. Louis Export Assistance Center, part of the U.S. Commercial Service's network. International trade specialists like Wiggins have colleagues at embassies and consulates worldwide who can quickly determine who's reputable and who may not be saving U.S. exporters time and heartburn. Dahlberg has worked with Wiggins since his first day at J.D. Streett.

More speed to market means more sales for J.D. Streett & Company. With BuyUSA.com, this one-hundred-year-old has never moved faster. ■



Photo courtesy of U.S. Commercial Service

Fast friends: Kristi Wiggins and Randall LaBounty of the St. Louis Export Assistance Center with Stewart Dahlberg of J.D. Streett & Company and John Blum of the Small Business Administration.

# WHY DO BUSINESS IN THE NORDIC COUNTRIES?

by Erin Cole,

*Office of European Union and Regional Affairs, Market Access and Compliance*

*Complied with contributions from Commercial Service offices in the Nordic Countries*

The group of countries know as the Nordic region includes Denmark, Iceland, Norway, Sweden and Finland. This region is an attractive market for American companies seeking stability and diversity. Over 24 million consumers, many with strong family ties to the United States, constantly seek high-quality, reputable products from abroad. American companies already active in the region rarely encounter trade barriers or market access difficulties, which is one reason why increasing numbers of U.S. companies are entering the market. Each country boasts its own strengths, but as a whole, they are known for their technical expertise, successful traditional and “New Economy” industries, English-language skills and receptivity to new products and technologies.

All five countries represent a unified market, making it easier for American companies to market and sell their goods throughout the region. Norway and Iceland are not members of the European Union (EU), but they are joined to the EU market as members of the European Economic Area (EEA) agreement. The Nordic countries also serve as an entry port into a much broader market, including the three Baltic nations (Estonia, Latvia and Lithuania), northwest Russia, Poland and even northern Germany. The Nordic countries are proud of their highly developed infrastructures, transportation routes and transparent, investor-friendly economies.

There are many organizations that are eager to help you identify the best

opportunities for your business in this region. The Department of Commerce employs American and foreign Commercial Service specialists in U.S. embassies overseas who assist American companies in exploring concrete market opportunities in each country. American Chambers of Commerce (AmCham) are also active in Denmark, Sweden and Norway. Their specialists can help you better understand the local tax structure, investment policies, employment issues, cultural sensitivities and the general business/corporate atmosphere. The U.S. embassies and AmChams work very closely together. They have access to a wealth of information regarding the best prospects for your industry sector that will save your company valuable time and resources.

## DENMARK

Denmark is the epicenter of a dynamic Northern European region of some 50 million people and boasts the world's second highest average income. There are more agents and distributors here than there are in any other country its size. The international airport in Copenhagen, Denmark's capital, is rated the world's best by the International Air Transport Association. The average international business executive speaks three foreign languages, including English. Leading industry sectors for American companies are telecommunications, biotech/medical equipment, computer software, pollution control equipment and electrical power systems and services. Since 1993, Denmark's distribution system has been ranked among the two best in the world by the highly regarded “World Competitiveness Yearbook.”

The area surrounding Copenhagen is becoming the spot for foreign and domestic companies to establish operations. This is mainly due to the development of “Medicon Valley”, a cross-border region encompassing Copenhagen, Denmark, Malmo and Skane, Sweden. Medicon Valley is home to a wide array of biotech, pharmaceutical and medical device and service companies (an industry whose R&D investment in Denmark is over \$500 million and whose exports are around \$3.5 billion). Nineteen of America's largest firms active in these industries are represented here and the majority are located in Denmark. The region is developing quickly thanks to cross-border train service and a newly constructed bridge that connects the outskirts of Copenhagen with Malmo, Sweden. Public and private sector entities from both countries work closely together to market the region and attract new investors.

## FINLAND

Once viewed as a remote northern outpost, Finland has transformed itself into a strong magnet for international business. According to the *Global Competitiveness Report 2001*, Finland is the most competitive economy in the world. The country boasts a healthy, transparent economy that is fed by the shipbuilding, paper, telecommunications and, more recently, the biotech industry. Despite the global economic slowdown, Nokia, Finland's most famous company, is still a major force behind Finland's continued growth. The company continues to move ahead with developing new technologies for the next phase of the “mobile revolution.”

Finland is a member of the European Union and the only member to share a border with Russia. Many companies see Finland as a logical “springboard” for commercial activity in northwest Russia and the three Baltic nations. Prior to the fall of the Soviet Union in 1991, Finland was deeply dependent on its trade with the Soviet republics, specifically with Russia. The collapse of the Soviet Union led to a major economic recession in Finland, which put pressure on the country to join the EU in January 1995. Since then, Finland’s trade with Russia has rebounded and expanded dramatically with other countries of the world. Finnish companies are now interested in partnering with U.S. companies to undertake joint commercial ventures in Russia, especially in Russia’s highly populated and industrialized northwest region. This could benefit U.S. companies, because Finns have a long tradition of trading with Russia and better understand its rules of the game.

## NORWAY

Norway is a modern, oil-rich nation where the per capita GDP is similar to that of the United States, but distributed more evenly. As a result, the average consumer in Norway is interested in and capable of, spending their disposable income on a wide range of consumer goods. Norway’s market, except for agricultural products and processed foods, is transparent and quite open. Few technical barriers to trade exist. Most Norwegian standards are harmonized with those of the EU. Although Norway is not a member of the EU, it is directly linked to the EU market through the European Economic Area agreement. Over 250 U.S. subsidiaries operate in Norway and some 2,000 Norwegian agents and distributors represent as estimated 4,000 American firms.

Oil and gas have fueled Norway’s recent economic performance, but other major industries are prospering as well. Many of the world’s major oil companies, including American ones,

are operating in Norway. Approximately \$4-5 billion is invested in this sector every year. The market is mature, but opportunities still abound for cutting edge and environmental technologies. Norway is one of the world’s foremost maritime countries, with extensive interests in shipping and shipbuilding. It is also a ravenous consumer of information and telecommunications technologies. These industries, together with health care, consumer goods and tourism, represent promising export markets for American businesses.

## SWEDEN

Beginning with the early days of the Vikings, the importance of trade has been firmly ingrained in the country. Sweden boasts a highly skilled, well-educated, English-speaking work force that is a magnet for IT, telecommunications, biotech and pharmaceutical companies. Sweden’s central location makes it an attractive base for regional headquarters, test marketing and direct marketing activities. Swedish consumers, much like their neighbors in the other Nordic countries, are known as “early adopters.” They are open to new products and technologies and are quick to adopt them into their everyday lives. In fact, Sweden is known as a world center for the development and launch of wireless technology and mobile services.

Sweden ranks as one of the top recipients of foreign direct investment, much of it technology-based, as companies expand their operations and acquire Swedish assets. The country has not been immune from the global economic slowdown, but still maintains its strengths in metalworking, forest products, machinery and the growing biotechnology sector. Universities and medical institutes across Sweden are working together with biotech companies to develop cutting edge technologies that attract both foreign and domestic investors. The synergies developing between Sweden’s established IT sector and its emerging

biotech industry will enhance future growth prospects.

The Nordic countries share many economic and political similarities that make them particularly attractive to American investors. In each, the business climate is transparent and healthy; the number of market access issues with the United States is minimal; and the local workforce is educated, skilled and generally speaks English fluently. All of these countries can boast high rates of Internet penetration, home computer usage and acceptance of new technologies. Major industries across the board include IT, biotechnology, pharmaceuticals, shipping/distribution and tourism to the United States.

The U.S. Commercial Service (CS) in each country has its proverbial finger on the pulse of the local business community and shares this knowledge with interested American companies. CS staff work closely with other elements within the U.S. Government, the American Chambers of Commerce, local companies and public officials to develop a well-rounded understanding of the economic situation in their respective countries. This translates into concrete opportunities for those companies willing to invest in or export to the Nordic market. ■

For more information on opportunities in the Nordic region, contact  
Erin Cole, International Trade Specialist  
Office of European Union and  
Regional Affairs  
Tel: (202) 482-4414  
Email: Erin\_Cole@ita.doc.gov

Or visit the U.S. Commercial Service web site ([www.usatrade.gov](http://www.usatrade.gov)) to locate an overseas office in the region.

# CORPORATE GOVERNANCE AND BUILDING GOOD BUSINESS PRACTICES

by Igor Abramov

*Office of Eastern Europe, Russia and Independent States Market Access and Compliance*

Today, consensus is growing among industrial and transitional countries alike that economic success comes increasingly to companies, and countries that provide transparent and rule of law based commercial environment. This means good business ethics, good corporate governance and effective commercial dispute resolution, all institutions of rule of law that are attributes of today's most successful economies.

We live in an age of globalization and new technology that cuts across borders to create larger and more dynamic markets. Today's business environment is in constant flux. Corporate structures, customer demands, technologies, competition — all are constantly changing.

Businesses can no longer afford only to rely on personal relations. Instead, they must be able to call on institutions to provide assurances that potential partners and borrowers will employ proper business practices; that shareholders rights will be protected, creating the confidence necessary for corporations to raise capital; and that, when necessary, they can rely on effective commercial dispute resolution mechanisms.

Just as the problems are multi-faceted, so too are the solutions. A responsible approach should embody a recognition that governments and private sectors

devise cooperative strategies in sharing the burden of promoting good governance, transparency and rule of law.

American companies have highlighted the lack of transparency and fairness in the commercial environment, and noted the absence of trust in the current business climate in Russia. Undoubtedly, accountability, reliability, honesty and good reputation of business are essential prerequisites to trade and investment. Ethics in business and public service are in large measure a reflection of a national culture and the social fabric of a country as a whole. The Secretary of Commerce, Don Evans, has a particular interest in promoting this concept of trust and business ethics.

During his trip to Russia in July of 2001, Secretary Evans participated in a good governance roundtable event, attended by the Russian Deputy Minister of Economic Development and Trade, Elvira Nabiullina as well as members of the Duma, and Russian and American private sector participants. The objectives of this event were to engage the Russian government and the Russian and American private sectors in the Department's good governance program and build on the momentum of positive developments on good governance in Russia.

What role can an ethics code play in building a corporate reputation? A written code of business conduct has many tangible and practical benefits

for a company, an individual and society as a whole. For instance, written codes of conduct:

- Can build public trust and confidence in business and political institutions;
- Create a predictable environment that helps ensure that employees and their companies will behave ethically when confronted by improper requests or demands; and
- Set clear boundaries and definable standards that can be objectively measured by individuals, businesses and society.

A business ethics code should be one part of a company's overall ethics initiative and must be complemented by appropriate education, training, supportive infrastructure and implementation. A code alone is not enough.

During Secretary Evans' two visits to Russia in 2001, he placed a strong emphasis on good corporate governance and ethics as a key component to promoting good relations between Russia and the United States. "To build a relationship and environment of trust, good governance, the development of business codes of conduct and guidelines for resolving business disputes in a transparent manner are all essential components to the process. It is my strong belief that trust is the fundamental basis for our future success," said Secretary Evans during

an address to the American Chamber of Commerce in Russia during his July visit.

The U.S. Department of Commerce's Good Governance Program, in cooperation with foreign governments and the American and domestic private sectors, develops and implements joint projects and programs to enhance good governance and transparency in business environments in the regions of Eastern Europe, Russia and the Independent States.

#### **Improving Commercial Dispute Resolution Mechanisms:**

Weak and complex commercial dispute mechanisms have been a key concern for U.S. companies. In cooperation with national justice departments and local courts, the U.S. Department of Commerce works to promote fair resolution of commercial disputes and timely enforcements. In Russia, for example, the Department along with the Supreme Arbitration Court and International Commercial Arbitration Court and International Commercial Arbitration Court and Russian and American experts jointly developed and published (in English and Russian) a Handbook on Commercial Dispute Resolution in the Russian Federation. The aim of the Handbook is to help the business community make more effective use of existing Russian institutions and to consider areas for possible improvements.

#### **Improving Enforcement of Arbitral Awards and Court Judgments:**

In spite of local court recognition of arbitration awards and judgments, U.S. companies are often unable to enforce awards and court judgments in many countries. The problem of lack of transparency contributes to a lack of uniformity, predictability and consistency in the area of enforcement. The Department advocates for fair and timely enforcement of awards and judgments and seeks to develop projects to educate and help improve the enforcement mechanisms.

**Promoting Better Business Practices and Professional Ethics:** As part of a five phase program, the Department conducts preliminary consultations with private sector and foreign government participants and assists with the development of basic guidelines for codes of business conduct. The program also offers a series of ethics training workshops and an intensive "train-the-trainer" program in the U.S. for professionals intent on implementing their skills and knowledge upon their return home. As a follow-up, the Department is developing a business ethics manual and other training tools as well as sponsor conferences on business ethics to sustain the initiative and help build lasting institutions to promote good governance in public and private sectors.

#### **Strengthening Corporate Governance:**

The lack of fair and transparent corporate governance processes often leads to abuse and dilution of shareholder rights as well as preferential treatment of domestic stakeholders. Weak corporate governance practices also inhibit growth of foreign and domestic investment. In this area, the Department examines ways in which it can promote the importance of strong corporate governance. For example, in Russia, the Department is cooperating with the Federal Commission for the Securities Markets and the private sector on the development of a Corporate Governance Guidebook for Enterprises in Russia.

#### **Safeguarding Intellectual Property**

**Rights:** Lack of effective customs and judicial enforcement and inadequate legislative and regulatory regimes and deterrents contribute to high rates of copyright piracy and counterfeiting in many countries. Consequential monetary and market losses to American companies are immeasurably high. By working to establish a continual private sector to foreign government dialogue through consultative seminars and training workshops and development of training programs for enforcement

officials, the Department seeks to strengthen protection of intellectual property rights.

Working at a grass-roots level to develop a collectively accepted code of ethics and corporate governance will improve the overall atmosphere of business globally.

Good corporate governance and business ethics are not the sole responsibility of business enterprises. Government also has a role to play. To begin with, government can support these efforts by adopting these business and ethics codes for public officials, providing incentives to the private sector, and promoting education and training. Government can also promote civil society in which individuals play significant role in government processes. The business community and non-governmental organizations can and should work together with regional and federal government in public/private partnerships to adopt principles and effective practices to fight corruption and to promote transparency and good governance.

A growing number of American companies are enacting strict ethical guidelines and backing them up with internal mechanisms to enforce them. Companies such as Lockheed Martin, EDS and Boeing are requiring employees and senior management to take classes in ethics and mandatory meetings are held to discuss ethics issues and problems.

Without government leadership and support, the best efforts of the private sector will fall short. But without private sector participation and leadership, all these efforts would not be enough and is more than likely wasted. ■

# ASK THE TIC

## INSPECTION CERTIFICATES FOR U.S. EXPORT PRODUCTS

by Shikha Bhatnagar,

*Trade Development*

*Inspection certificates are often required by foreign customs or businesses for certain regulated products, often relating to agriculture, health, or the environment. Inspection certificates may also be required to ensure that vessels or crates are free of contaminants before entering certain ports. Certificates are issued by various agencies, such as the U.S. Department of Agriculture, the Environmental Protection Agency, or the Food & Drug Administration, depending on the product being exported.*



### WHAT ARE THE VARIOUS TYPES OF INSPECTION CERTIFICATES USED IN EXPORTING U.S. PRODUCTS?

#### **Agricultural Exports**

Several U.S. Department of Agriculture agencies provide inspection services when certificates are required to clear imported agricultural products through overseas customs.

#### **Plants**

Most countries require a certificate to import plants and plant products (trees, seeds, mulch). The Animal Plant Health Inspection Service (APHIS) conducts inspections and issues "phytosanitary" certificates indicating the tree or plant being exported is free of pests. The certificates are issued by state and local offices, listed online at [www.aphis.usda.gov/ppq/sphd.html](http://www.aphis.usda.gov/ppq/sphd.html). These state offices also maintain information on import regulations in each country. Inspections can also be done at ports.

#### **Animals and Animal By-Products**

Live animals also fall under the purview of APHIS, under Veterinary Services ([www.aphis.usda/vs](http://www.aphis.usda/vs)). Certain foreign governments have quarantine or health requirements for arriving animals. People transporting animals abroad are advised to contact the appropriate embassy, governmental agency, or consulate at least 4 weeks in advance. Additional airline requirements also exist for international flights. These rules may require additional ventilation, labeling and a shipper's certification. Airlines should be contacted for further information. More country-specific information on exporting live animals is available at [www.aphis.usda.gov/guidance/regulations/animal/](http://www.aphis.usda.gov/guidance/regulations/animal/)

For animal by-products (such as hides, pet foods, semen), exporters should contact the APHIS veterinarian in their

area. A listing of these veterinarians can be found at [www.aphis.usda.gov/oa/vsoffice2.html](http://www.aphis.usda.gov/oa/vsoffice2.html).

For more information about APHIS services, visit them at [www.aphis.usda.gov](http://www.aphis.usda.gov)

#### **Meat and Poultry**

When required by foreign governments, the Food Safety and Inspection Service (FSIS) provides export inspections and certification for meat and poultry. Exporters initiate an application for inspection and when the inspector has received all pertinent information, including any additional documentation required for the specific transaction, he will perform the inspection at the exporting establishment. If the inspector is satisfied with the inspection and verifies the foreign language sticker and labeling, he will sign the application, issue the export certificate and number and permit the establishment to stamp the product. Subsequently, a certifying official receives the completed export certificate and a copy of the certified application from the exporter to verify and sign. Export requirements vary by product and country, so exporters of meat and poultry products should consult FSIS' online library which houses this information at [www.fsis.usda.gov/OFO/export/explib.htm](http://www.fsis.usda.gov/OFO/export/explib.htm). For additional assistance, call the FSIS Technical Service Center Export Staff at (402) 221-7400.

#### **Grain**

For exporters, the Federal Grain Inspection Service (FGIS) provides inspections under the U.S. Grain Standards Act (USGSA) and the Agricultural Marketing Act (AMA) and conducts mandatory inspections for all exported grain. Products examined by FGIS include rice, peas, beans, lentils, all grain and grain-based processed products. Anyone exporting 15,000 tons or more (per year) of grain covered by the USGSA must first register with FGIS. The registration process involves submitting a form and paying a fee. The registration requirement does not apply to AMA commodities. Exporters may call the Compliance Division at (202) 720-8262 for additional assistance. You may register with FGIS online at [www.usda.gov/gipsa/oversight/regreq.htm](http://www.usda.gov/gipsa/oversight/regreq.htm)

FGIS is also required to certify the quality and weight of all export shipments of grain covered by the USGSA. Exceptions include grain exports under 15,000 tons per year by any individual, grain exported for seeding purposes, grain shipped in bond, grain exported by rail or truck to Canada or Mexico and grain not sold by grade. In addition, all corn exports must be tested for aflatoxin by FGIS unless the buyer and seller agree to have the corn tested by an entity other than FGIS, or to bypass testing. Contact the Policies and Procedures Branch at (202) 720-0252 for more information. More information about FGIS is available at [www.usda.gov/gipsa](http://www.usda.gov/gipsa).



### **Other Agricultural Certificates**

USDA's Agricultural Marketing Service (AMS) offers a variety of fee-based, voluntary product, production process and equipment certification services that provide independent, third-party assurance that contractual or foreign government requirements are met. Grading services for livestock and poultry products, fruits and vegetables, cotton, dairy products and tobacco ensure that agricultural products meet U.S. grade standards or other product standards. Process verification services assure customers that production processes meet identified requirements.

Dairy and meat processing equipment certification assures that equipment has been designed to meet hygienic standards. For more information on AMS, please visit [www.ams.usda.gov/index.htm](http://www.ams.usda.gov/index.htm)

Consumer safety offices and trade specialists in the National Oceanic and Atmospheric Administration's (NOAA) National Marine Fisheries Service (NMFS) Inspection Services Division offer a range of services to assist U.S. fishing industry businesses that export fish and fishery products. Besides inspecting and certifying products for export, program officers advise seafood marketers about foreign regulations and maintain contact with foreign government regulatory agencies to resolve sanitary-hygienic issues. NOAA is an active participant in international activities that promote and facilitate the trade of fishery products. For more information, visit <http://seafood.nmfs.noaa.gov>.

### **Environmental Exports**

For countries that require a certificate for pesticide products, the Environmental Protection Agency (EPA) will issue a "Gold Seal" certificate certifying that a pesticide is registered in the United States and available in the U.S. market. To obtain a Gold Seal Certificate, contact the EPA at (703) 305-5446 to speak with an EPA product manager for your specific product. You need to provide your EPA pesticide registration number.

### **Food and Drug Exports**

The Food and Drug Administration (FDA), at the request of U.S. exporters, will issue export certificates for certain human drugs and biological products, animal drugs, medical devices, food products, dietary supplements, cosmetics and animal-derived products for shipment to the European Union (EU). Several types of certificates are issued.

### **Pre-shipment Inspections**

"Pre-shipment inspections" (PSI) are sometimes required when mandated by the government of the importing country. Countries requiring PSI claim they are needed to ensure a fair price, prevent substandard goods from entering the country, or deflect attempts to avoid payment of customs duties. The cost of these inspections is usually borne by the importer, although exporters sometimes incur costs due.



### **WHAT ARE SOME OTHER CERTIFICATIONS OR INSPECTION REQUIREMENTS EXPORTERS MIGHT BE REQUIRED TO MEET?**

By the year 2004, an estimated half of U.S. exports to the European Union (EU) will require the CE mark, indicating that a company has met certain health, safety and environmental requirements. The CE mark functions as a "passport" to circulate industrial products freely within the internal market of the EU. Manufacturers in the EU and abroad must affix the CE mark to those products covered by the relevant directives. Once a product receives the CE mark, it can be marketed throughout the EU without undergoing further product modification.

Australia has stringent sanitary and phytosanitary restrictions affecting imports of fresh fruit, vegetables, meat and poultry products. Under Australia's new quarantine and inspection process, imported agricultural commodities must have an import risk analysis (IRA) to determine a commodity's risk of introducing pests and diseases into Australia. All produce should have an Australian import permit and a U.S. phytosanitary certificate. The import permit can be requested from the Australian Department of Agriculture, Fisheries and Forestry (formerly DPIE) in Canberra, or from the appropriate State Departments of Agriculture located in the Australian state capitals. The Australian Quarantine and Inspection Service (AQIS) has a detailed import conditions database on its web site at [www.aqis.gov.au/](http://www.aqis.gov.au/) under "Quarantine and Inspection." Also on this site are Australian labeling requirements for imported packaged food, requirements for animals and animal products, documents for public comment, fee schedules, forms etc.

The TIC has authored several articles that give more comprehensive information on several of the aforementioned topics. To see a list of them, please visit the Export America web site <http://exportamerica.doc.gov> or go directly to the TIC web site [www.export.gov/tic](http://www.export.gov/tic) and click on "Answers to Your Export Questions." ■

#### **FOR MORE INFORMATION**

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The Trade Information Center (TIC) is operated by the International Trade Administration of the U.S. Department of Commerce for the 19 federal agencies comprising the Trade Promotion Coordinating Committee. These agencies are responsible for managing the U.S. Government's export promotion programs and activities. You, too, can "Ask the TIC" by calling 1-800-USA-TRAD(E) toll free, Monday through Friday, 8:30-5:30 EST. Or visit the TIC's website at [www.export.gov/tic](http://www.export.gov/tic).



# A DECADE OF U.S. – RUSSIAN BUSINESS

## A LONG ROAD TRAVELED

by Judith Robinson and

*Business Information Service for the Newly Independent States (BISNIS)*

Geoff Cleasby

*U.S. Commercial Service – Moscow*

Austria's Chancellor Metternich remarked at the dawn of the 19th century that Russia is never as strong as she appears, and Russia is never as weak as she appears. The comment has stood up over time and is useful to keep in mind when looking back over Russia's first decade as a democracy and a market economy.

One decade ago, Russia embarked on the transition to a market-oriented economy that also would transform the nation's political, social and cultural identity; the changes in public ethics and in business, professional and personal relationships were no less radical than the economic changes. In 2002, after ten eventful years of reform, Russia is a rapidly changing, fast-paced economy offering opportunity and challenge in equal measure. The country is in its third consecutive year of

solid economic growth, and there is cause for optimism over its future direction — both economic and political. The reform agenda of the Putin Administration is steadily transforming the economic landscape, and the reformers are gaining in strength and confidence with each success.

### PRE-CRISIS RUSSIA

The watershed in Russia's decade of change was the financial crisis of August 1998, a pivotal event. Prior to the crisis, the country managed to enact much of the legal framework underpinning a market economy, but with little real effect. Crony capitalism went virtually unchecked, as many of the Soviet era managers remained in place, continuing to run their operations as personal fiefdoms.

In the deceptive euphoria that ran right up to the crash, Western and Russian businessmen alike appeared to fall victim to unrealistic expectations. To many Westerners, the transition from a

centrally planned economy to a free market was of less interest than the new commercial opportunities that it opened: the immense natural resources, the highly educated and inexpensive workforce and, in some fields, the advanced technology. The rush to the "Wild East" carried with it an assumption that once Russia opened its markets, an injection of capital and management expertise would deliver huge returns. Russian managers, inexperienced in valuing their enterprises objectively, and in operating within a competitive environment, were often driven by unrealistic expectations of overnight wealth.

The financial crisis of August 1998, while costly to Russia's reputation, was by no means an economic meltdown. Life for the vast majority of ordinary Russians was little changed — they were poor before the crisis, and a little poorer afterwards. Russia was selling minerals and oil and gas on Western markets, which remained strong, and this lion's share of its exports continued



to bring in revenue. In fact, the rise in world oil prices supported much of Russia's recovery from 1999 to 2001.

The dramatic devaluation of the Russian currency in 1998 provided breathing space for the Russian manufacturing enterprises, which form such a large part of the economy. At five rubles to the dollar, many Russian products could not compete with foreign imports in price or quality. At 25 rubles to the dollar, they could effectively compete on price at least. Import substitution with domestic production was especially noticeable in food products. Prior to the devaluation, 80 percent of food products were imported. The crisis was sobering. Many enterprises that had taken dollar-denominated loans went out of business, and those that survived became financially very conservative. Both Russian firms and their Western partners have developed more reasonable expectations of how a market economy can work in Russia.

#### POST CRISIS RUSSIA

Although the road to a full-fledged, smoothly operating Russian market

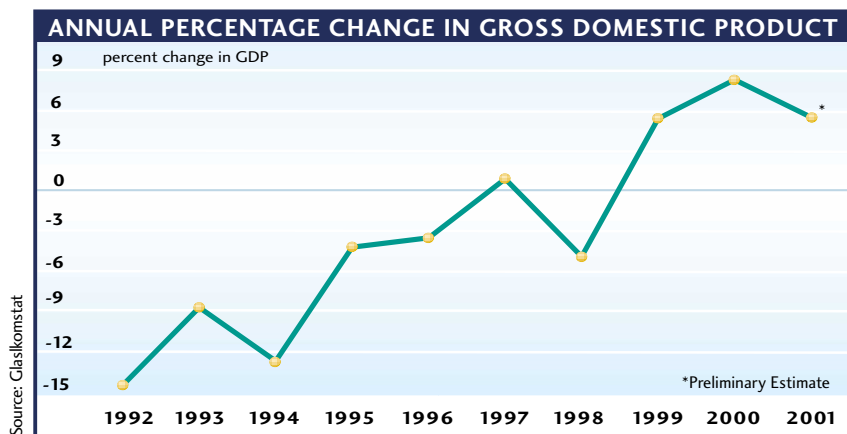
economy is half traveled, and still carries significant risk, the past two years have seen both accelerated economic growth and an increasing number of business successes: enterprises like Russia's home-bred oil/gas giant Lukoil; the cell phone and food processing entrants to New York's ADR market — Vimpelcom and WimBillDann; international cooperative efforts like the young airline Transaero and the stunning new shopping center on Manezh Square. Western tourists in Moscow can drop in at the Russian Bistro for "pirozhki" and "kvass," or McDonalds for a Big Mac in the same city block. The Western-style hotels and glittering stores lining Moscow's Tver Street and St. Petersburg's Nevsky Prospect are highly visible witnesses to Russia's new economic, political and social relationships, a business culture and business practices, and all the advances towards a stable and permanent framework for domestic and international commercial interchange.

Still, Foreign Direct Investment (FDI) in Russia remains low — a mere \$32 billion, flowing mainly into Moscow and St. Petersburg and their environs

and into the oil and gas industry, as the countryside meanwhile loses population, regional opportunities remain largely untapped, and numerous remote manufacturing centers sink into decay. America, the largest investor, has invested \$7 billion, an amount roughly equivalent to U.S. investment in Costa Rica. Russia is perhaps the best example of the huge premium that international capital markets place on such intangible assets as the rule of law, respect for the sanctity of contracts, assurance of property rights, transparent financial reporting and good corporate governance. Few examples better illustrate the penalty that markets exact when corruption, abuse of power and excessive bureaucracy are allowed to distort the economic landscape.

That these inhibitors to investment are common to most developing countries including Russia is sometimes forgotten. Indeed it is difficult to imagine Russia, America's Cold-War adversary for so many years, as a developing nation. But Russia's economic evolution like its history simply differs in nature from that of developing countries in Africa, Latin America and the Near and Far East. Russia's task is one of reconstruction and refurbishment, rather than development, and Russia now seems prepared to tackle its problems. The results, of late, have been dramatic.

Recent evidence whispers of corporate Russia's awakening to reality as the new generation managers and officials take their places in the boardrooms. With the growth in business sophistication firms now understand that financial markets reward responsible corporate behavior. Some large Russian firms have been testing the theory that by adopting International Accounting Standards or GAAP, implementing good governance codes and paying dividends, they can increase shareholder value. The overall results may indicate that enlightened self-interest is the surest guarantor of continued reform.



**THE ECONOMIC LANDSCAPE**

Key economic indicators tracking Russia's development course provide a two-year picture of strong turnaround. The Gross Domestic Product, in free-fall during each year after independence, registered a tiny positive for just one year, 1997, then plummeted anew in the 1998 crisis year (-4.9 percent). But 1999 and 2000 registered 5.4 percent and an amazing 8.3 percent, a recovery mainly due to substitution of Russian domestic products for imported products, especially food, and higher world prices for oil, which constitutes over half the Russian exports. Barter, once estimated to account for 70-80 percent of transactions in Russia, is rapidly disappearing as liquidity returns to the system.

Russia's Economy Minister, German Gref attributed the estimated 5 percent GDP growth rate in 2001 to two promising new factors of economic growth: Growth in consumer purchasing power accelerated following a drop of 30 percent in personal income after 1998, and there was an investment surge by the Russian industries, which spent on new or upgraded machinery and equipment, especially in machine building/metallurgy and food processing. This was already reflected in increased outputs of 7.2 percent and 8.4 percent respectively for the two sectors. The inflation rate has steadily declined from 840 percent in 1993 to 38.5 percent, 20.2 percent and 18.6 percent in 1999, 2000 and 2001 respectively.

In 2001, a number of indicators pre-saged an upswing in the still-lagging foreign investment that might have been expected to support Russia's development. In 2001, Fitch, Standard and Poors, and Moody all upgraded their

investment ratings for Russia to B+, B+ (sovereign long term)/B (short term) and Ba3 respectively. International financial institutions began to make credit available for sub-sovereign loans. The U.S. Export-Import Bank increased its cover in Russia, always a pointer for future U.S. investment. There are indications that Russian capital — having fled the country at the rate of an estimated \$1.5 billion yearly — may be returning home. U.S. firms with long term presence in Russia announced expansion plans: Ford announced a second new plant; General Motors has entered into a major joint venture with auto giant AvtoVas; Exxon recently announced the largest foreign investment in Russia to date in its Sakhalin Island oil project — a possible \$40 billion over the life of the

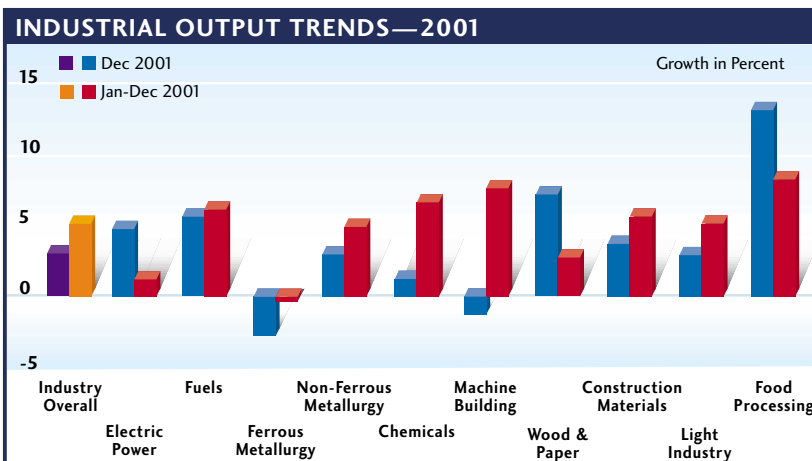
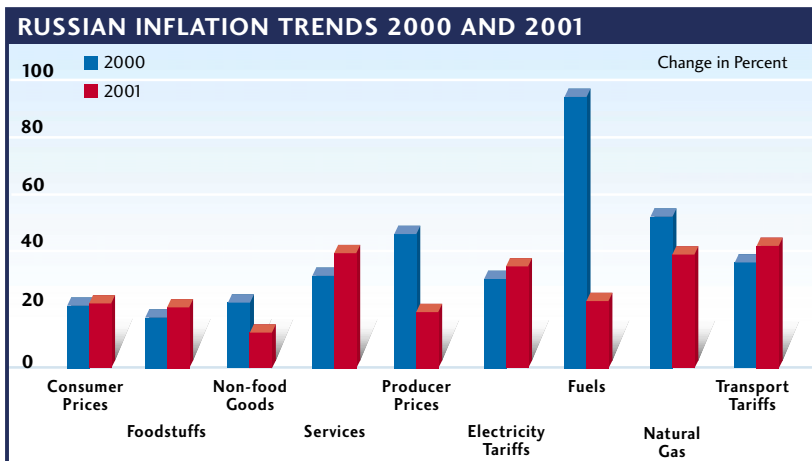


Photo courtesy of U.S. Commerce Department



Secretary Evans with U.S. Ambassador Alexander Vershbow, U.S. Commercial Service Director General Maria Cino, and Senior Commercial Officer Stephan Wasytko and Moscow staff along with representatives of SABIT and BISNIS.

project. And Pizza Hut and Kentucky Fried Chicken are back in Moscow.

In 2001, the Russian stock market increased in value by 98 percent, one of the world's best performers, albeit with very modest market capitalization — perhaps a stimulus to foreign portfolio investment, low since 1998.

Meanwhile, much of Russia's infrastructure is in decay, its manufacturing facilities deteriorating, obsolete, and non-competitive on the world market. Restructuring, rehabilitation and replacement will be costly, an estimated \$2.5 trillion in the next quarter century. The electrical power system alone will need \$50-70 billion to renovate its power stations, and projected life extensions measures are only stopgaps for upgrades in essential new technology and equipment.

#### THE POLITICAL LANDSCAPE:

Democratic institutions are young and fragile in Russia. Nevertheless, assertions that, because Russians lacked a history of democracy, they were culturally or psychologically unready for it, proved to be unfounded. The

electoral process appeared to work well by the standards of developing countries, and in March 2000, Russia saw the first democratic hand-over of power in its 1,000-year history. Russian law now includes a Civil Code setting out the most basic rights of citizens in a democratic society: equal rights to property, to be free from public interference in private matters, and to legal recourse when rights were violated. A host of commercial laws support operation of a free marketplace, although key amendments to existing laws and new legislation are needed to improve the business environment. Admittedly, the democratic process is far from perfect and a subject of much internal debate, including the role of unbiased electronic media.

President Putin's administration is firmly focused on establishing orderly governance, reassertion of authority over the far-flung regions, institutional restructuring and progress in economic reform. President Putin, in his two years in office, has overseen measures for the rule of law and judicial reform. His administration has achieved outstanding fiscal results: a budget surplus, debt management with external debt

refinancing, and early repayments of IMF loans. He has attacked corruption, and has apparently managed to rein in the oligarchs of finance and industry. He has strengthened the voice of federal government outside Moscow through the appointment of seven personal representatives in Russia's new federal administrative districts, while limiting the excesses of some regional governments. Critics cite central control and stability at the possible expense of personal freedoms.

There remain protectionist elements in both the executive and legislative branches that call for limits on foreign share holdings and property ownership, or increased tax burdens on foreign businesses.

The small and medium-sized enterprises (SMEs), having spent the last decade in the shadows, are just emerging as a political, as well as economic, force in Russia. Blocked by the collapse of the command economy from careers in state-owned enterprises, many of Russia's graduates turned to small entrepreneurial endeavors. In an unsupportive, often obstructive business environment, the most successful deliberately avoided the attention of government authorities, which accounts for the sharp upswing in sole proprietorships — up 600,000 since 1999. Still, the number of SMEs fell to 842,000 last year, from 2000's mere 891,000 — about 5-6 small enterprises per 1,000 people in Russia compared to an average 50-60 in developed countries. This growth failure is blamed on the business costs such as multiple, unevenly applied regulatory requirements, expensive and frequent inspections ranging from tax to fire, and access to capital and credit. The large, former state-owned industries account for an estimated 80 percent of GDP. Big is still regarded as beautiful by many Russians, and the perception of the SMEs as the dynamic engines of job and wealth creation have yet to take hold. Nevertheless, President Putin's new and unprecedented focus on SME

development, the new laws on licensing, registration, and taxes, most notably lowered corporate and personal income taxes, should help improve the health and growth of the SMEs, and keep them ever more visible and politically active in the reform process while opening new trade and investment opportunities for U.S. companies in the year ahead.

### THE SOCIAL LANDSCAPE

A decade of relatively free travel outside Russia, of unrestricted access to outside information via television, movies and news media, has helped average Russians formulate their ideas about the direction they wish to see their country take. Moreover, over the last decade a younger generation has begun to take over the reins of power. Currently aged about 26 to 40, this new generation was educated during perestroika, when the excellent Soviet education system was still intact, but less dominated by dogma. In their college years, many of this generation embraced all things Western, realizing that they had no future, or a vested interest in the communist past. Upon graduating, many pursued training or postgraduate study opportunities in the U.S. and Western Europe. Returning home, they are moving up the corporate ladder in successful Russian companies into middle and upper management positions. The more entrepreneurial among them are a driving force behind the rapidly emerging small and mid-sized enterprise sector, which is in turn a factor that should contribute to the rise of a Russian middle class.

Soviet-era education delivered excellent education free to its citizens, reaching literacy rates higher than in the U.S. It endowed Russia with valuable human capital, especially in the form of scientists, engineers and technicians. That educational investment has fallen over the last decade. Teachers, including highly educated professionals, earn 50-60 percent of

the average national wage, and the teaching profession is not attracting young graduates. Education standards are dropping as the best teachers seek work in the private sector. Innovations are planned, for instance education delivered by Internet in order to address particularly acute inadequacies in Russian's vast regions.

Finally, Russia's birth rate is one of the lowest in the world, about half the replacement rate, and is due mainly to poverty and lack of confidence in the near future. Life expectancy also has fallen since the Soviet era — to age 60 for men. This foreshadows a decrease in the 145-million population by as much as a third at the present rate over the next 50 years. One negative implication among many is the immense financial burden that an aging population will place on the dwindling number of young taxpayers.

### KEY REFORMS

The reform process is very much a work in progress, with debate centered on how much and how fast. Changes in property ownership, taxation, and contracting, all business cornerstones, have required not just decisive action, but significant conceptual reorientations. The Russian government has addressed its super-challenges most effectively since the 1998 collapse.

### RULE OF LAW AND JUDICIAL REFORM

Russia has well drafted laws in such key areas as business organizations, taxation, property, banking, labor, and land ownership. The “dictatorship of the Law” — correcting imperfect laws and their even more imperfect enforcement — is a priority of the Putin administration. At the federal level, Russia's commercial courts and arbitration tribunals are demonstrating independence, transparency and impartial judgments. At the regional and local level, it cannot be assumed yet that some courts will deliver judgments of similar quality, free of financial or political persuasion.

A decade of Russian practice in the art of contracting and contract management is leading towards a modicum of respect for contract sanctity — also a rewrite of history; the Soviet era was riddled with disrespect for impossible, complex laws, and its managers routinely forced to rely on informal relationships. The Soviet breakup also shattered the institutions, structures and conditions of repeat business enabling this system to work, leaving private transactions involving business with strangers that could be governed only by written, objectively interpreted rules of the game — commercial law. Starting with a new Constitution and Civil Code, an entire legal framework





adapted to a market economy took shape and went into use. Reasonable judicial support came with the emergence of the commercial “arbitrage” courts in the mid 1990s, training of judges to staff them, and increased recourse to international and then Russian arbitration tribunals. Post judgment enforcement is still problematic. Knowledgeable business people strongly recommend pre-contract due diligence, acquaintance between prospective business partners, and thorough understanding of the business terms.

### **TAX REFORM**

The star of the past two years is the new Tax Code, comparable to those of advanced market economies and bringing some relief from exorbitant taxes, which threw government’s need for revenue out of balance with business’s need to grow. Adopted in stages, the Code simplifies and reduces both federal and regional taxes. Highlights are a drop in personal income taxes to a flat 13 percent and corporate income tax to 24 percent. One result has been a sharp upswing in voluntary tax payments to the budget — they are now about 16 percent of the GDP.

### **NATURAL MONOPOLIES REFORM**

The natural monopolies, electrical power generation/distribution (Unified

Energy Systems — UES), gas extraction/distribution (Gazprom), and rail transportation (Railway Ministry), account for about 13 percent of Russian GDP, but play a huge role in the economy: domestic prices for energy and transportation are set artificially low, distorting the economic landscape. Restructuring plans for UES and the Railways Industry call for government-retained control, but competition will be created by opening access to their unified infrastructure networks by independent rail operators and electricity generators in return for an access fee. Minority shares of UES and Gazprom are to be privatized. Recently, the heads of both the Railways Ministry and Gazprom were replaced.

### **BANKING AND ACCOUNTING REFORM**

Glaring weaknesses remain in a half-developed banking system, although a new government Banking Plan of December 5, 2001, calls for gradual overhaul. A shift in corporate accounting procedures to meet International Accounting Standards (IAS) and to the U.S. GAAP has received a push from a renewed Accounting Reform Program. This program is to change the Russian accounting standards from the old bookkeeping emphasis on data provision to a central government to financial reporting for shareholders. Creation of a cadre of accounting

professionals through the new Russian Institute of Professional Accountants and the appearance of companies with IAS on Western stock exchange listings are incentives.

### **BUREAUCRACY REFORM**

As a part of efforts to reduce the burden of red tape and bureaucratic barriers to entrepreneurship, a new licensing law, in effect February 2002, reduces the types of business activities requiring licenses from about 500 to 100, while tax reforms impose limitations on hitherto onerous, seemingly capricious tax inspections of businesses. Draft laws going before the Duma this year are expected to simplify business registration procedures, and Russia’s desire for membership in the World Trade Organizations is driving efforts to resolve the non-transparent, complex and procedure-bound practice of certifying nearly every item entering Russia for quality and safety. Much remains to be done: harmonization of Russian standards with those prevailing internationally has not happened; permits and licenses still present unwelcome, expensive and unexpected surprises; and arcane Customs practices and procedures present barriers to free flows of goods and services across the Russian border.

### **PROPERTY**

The difficulty of establishing clear property rights, following the privatization process, was the cause of innumerable disputes throughout the 1990s. A system of property law and regulations has since developed from the basis laid out in the Civil Code, which defined the right of ownership itself. The year 2002 opens on a system of well-drafted property-related laws, including those on mortgage, leasing, insurance, franchising, bankruptcy — and the sensitive issues of intellectual property rights (IPR) protection and land ownership.

Intellectual Property Rights: For 70 years, intangibles like technology, designs, literature texts and methods were considered everyone’s property. In



2002, Russian business people have a stake in software they have developed, films and music they have created and published, their own trade secrets, and their own trademarks, and in enforcement of the right to intellectual property. Despite Russia's well drafted IPR laws and membership in international IPR conventions, the creation of Rospatent in Moscow to manage its own patent and trademark activity and that of other CIS countries through the Eurasian Patent Convention, the country is plagued by an estimated annual \$2 billion plus in losses from IPR abuses that defy enforcement. In November 2001, new draft laws aimed at IPR protection, and amendments to the Trademark Law, Criminal Code, Criminal Procedure Code, and Law on Consumers Rights Protection, awaited expected passage. Criminal penalties — imprisonment, fines, and other measures — are to be imposed for unauthorized use of trademarks, counterfeiting pharmaceuticals, and other violations.

### LAND

Ownership of land is a sensitive issue although it is provided for in the Constitution and Civil Code. In 2002, a Land Code allowed ownership of urban non-agricultural land and land underlying commercial facilities. Ownership of small plots and dachas had been legalized in preceding years. The new laws affect urban land only, which while the most valuable, accounts for an estimated 2 percent of Russian land. Agricultural land remains State property and can only be leased.

### IMPLICATIONS FOR U.S. RUSSIA BUSINESS

The outlook for U.S. and Western business with and in Russia looks more favorable, although still risky. A recent Economist Intelligence Unit survey of 75 multinationals operating in Russia revealed a generally positive view of the country's current business environment. Over 80 percent of the companies reported profits in 2000, and over 60 percent were operating at

pre-crisis 1998 levels; about half expected sales growth of 10 – 25 percent in 2001. 70 percent hired new employees and expect to continue hiring. All companies rated political risk as not worsening, and 85 percent believed it improved. Familiar complaints included lack of corporate transparency and crime and corruption, although most companies rated the latter two as manageable.

The Russian market for a wide range of very big-ticket items is unique and huge. No economy in the world has suffered the sheer degree of radical and sudden change in direction, save Russia itself. The disruption and economic decline throughout the 1990s denied enterprises the resources to replace aging capital equipment, and most remain seriously uncompetitive and ultimately unviable. Some survivors of the chaos are gaining strength through good management and strong market positions. Economic reform is forcing major industrial restructuring of others — particularly the natural monopolies — so that they can become viable in a market economy and identifiable income streams. The pent-up demand

for a wide range of capital equipment is enormous, but restricted by still low disposable income; however sustained economic and spending power growth is likely to generate big business.

Best prospects in Russia for U.S. exporters include; the oil and gas industry, telecommunications, mining and construction equipment, automotive equipment, aircraft, and agricultural and food processing equipment. With President Putin's newly announced emphasis on health and fitness, the medical sector is likely to emerge into the market spotlight. In all, and given reform and moderate growth, Russia has the potential to become a major market for U.S. industrial equipment and engineering services, which are vitally needed to upgrade its industry and agriculture. In the near term, industries such as aluminum, steel, transportation equipment, food processing and forestry products seem to have sufficient cash flow and organization to be potential prospects for trade or investment. In the longer term, there should be great demand in such sectors as electric power and agricultural equipment for U.S. products



Secretary Evans with Sergei Kravchenko, Vice President of Boeing, and U.S. Ambassador Alexander Vershbow (right) at Boeing's Moscow Technology Center.

Photo courtesy of U.S. Commerce Department

## BUSINESS INFORMATION SERVICE FOR THE NEWLY INDEPENDENT STATES - BISNIS

*BISNIS, with its programs of direct information and assistance to U.S. companies, was created in response to a U.S. business community demand for support in negotiating the new and changing commercial conditions in the Russian marketplace. Since then, the BISNIS staff of 12 in Washington and 19 in Russia and the NIS, has developed powerful communications lines to interested U.S. companies and potential Russian business partners, and has a record of assistance that has yielded several billion dollars for our U.S. clients.*

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## U.S. COMMERCIAL SERVICE IN RUSSIA

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and services. Should incomes continue to rise, demand for a whole range of consumer products can be expected to increase exponentially, although competition from European and domestic sources will be steep.

Once land reform is a fact, Russia will be a major market for agricultural equipment and food processing technology. Meanwhile, there is demand for food products, some for further processing in country, and fruits of trees and the sea — and pet foods. Bulk and intermediate agricultural products with good export potential currently are wheat and soybeans, their products, animal feed corn and planting seeds.

One interesting recent trend has been a growth of the offshore services sector. Much of Russia's existing large pool of scientific and engineering talent remains underutilized. Foreign companies are opening such enterprises as engineering design bureaus and software development shops in Russia to harness inexpensive human labor. These types of projects are particularly successful, and are embraced by Russian authorities worried by a brain drain of Russia's best talent overseas.

Indications are that the stability of the past two years may last. That U.S. — Russian relations have entered a sunnier era is witnessed by Russia's response to the September 11 terrorist attacks on the United States coupled with a series of high profile events such as the Bush Administration's first Business Development Mission to Russia led by Commerce Secretary Evans, and the Presidential Summit in Washington and Crawford. With the televised meetings in two countries of their two leaders in amiable conversation, and despite a road yet to be traveled, the 2002 horizon for U.S. — Russian commercial interchange appears brighter. ■

# THE NEW U.S.-RUSSIAN RELATIONSHIP

**"We recognize a market economy, the freedom of economic choice and an open democratic society as the most effective means to provide for the welfare of our citizens. The United States and Russia will cooperate, including through the support of direct contacts between the business communities of our countries, to advance U.S.-Russian economic, trade, and investment relations. The achievement of these goals requires the removal of legislative and administrative barriers, a transparent, predictable investment climate, the rule of law, and market-based economic reforms. To this end, it is important to reduce bureaucratic constraints on the economy and to combat economic crime and corruption."**

**—Joint Statement by President George W. Bush and President Vladimir V. Putin on a New Relationship Between the United States and Russia, November 13, 2001**

The U.S. relationship with the Russian Federation is, and will be, an ongoing priority for this administration. It is our hope that the trade and commercial relationship we are building between our two nations will be a cornerstone of an ever-stronger partnership between our countries. I have tremendous faith in the future of the U.S.-Russia partnership. I know President Bush is committed to building an enduring, mutually beneficial relationship between our countries. And in July (2001), on my first trip to Russia, I experienced first-hand the commitment of President Putin and

other Russian government and business leaders to building a strong partnership. And it was clear that the commitment to stronger ties between the U.S. and Russia goes beyond Russia's leaders. Indeed, it is widespread throughout the business community in Russia.

The U.S.-Russia Business Council has played a vital role in strengthening ties between our countries, and you have indeed the sincere appreciation of the Bush administration for your contributions. We thank you for helping to organize the new Russian-American Business Dialogue, which has its first meeting, and we look forward to the

progress of that dialogue being a constructive force in building our relationships.

The enthusiasm of the businesses springs from the optimism about what is happening in Russia. They know the Russian market is opening, and they are eager to establish contacts for bilateral trade and investment. There is a window of opportunity right now, both for the U.S. and Russia, and we want to make sure the benefits of this window of opportunity are realized. There is no doubt in my mind that Russia wants a more open, transparent and investment-driven economy. Their goal is an economy governed by laws



Photo courtesy of U.S. Commerce Department

Secretary Evans with staff of MosFlowline, a joint venture between Alaskan and Moscow companies that produces insulated pipe.

and rules that make it more attractive to foreign investors, as well as to domestic investors.

Russia also has signaled its intent to actively seek membership in the World Trade Organization (WTO). WTO membership should give businesses greater confidence, as the rule of law continues to take hold in Russia. And I believe that other actions of the Putin administration – including things like pushing for major tax reforms, maintaining tight fiscal discipline — also emphasize that Russia is ready, willing and able to take the necessary steps to join the global economy as a full economic partner.

The Russian government has also demonstrated willingness to reform in other areas. They passed a new Land Code that allows for the sale of commercial and residential property. And they are working on important judicial and labor reforms. These are all positive signs for the Russian business environment. They help to build business confidence and business trust. Finalization of the multibillion-dollar Caspian Pipeline Consortium is another impor-

tant symbol to foreign investors of Russia's movement in this direction.

Barriers do remain in Russia for full participation in the global economy, and further reforms are necessary to tear down these barriers. Russia's banking system needs to be restructured. International accounting standards need to be adopted. Intellectual property rights must be recognized and protected. Court judgments and awards from arbitrations must be enforced. And Russia's production-sharing agreement regime must be finalized. These reforms are critical to building successful commercial relationships with industry partners and with business partners around the world.

Russia's economy is moving in the right direction, poised for the growth that will follow as reforms are pursued and take hold. Despite concerns for the worldwide economy, Russia's economic growth is likely to continue this year. Inflation is in check. And real foreign investment in Russia continues to expand. While Russia is not a large market right now, with a GDP of about \$300 billion, we are confi-

dent that it can be as it continues to grow its economy.

As we pursue opportunities in Russia, we must keep our eye on the ball and stay focused on the end result. It goes far beyond free trade and economic growth. Our goal is nothing less than a world that lives in peace and prosperity. ■

*Excerpts from Secretary Evans' Keynote presentation at the U.S.-Russia Business Council 9th Annual Members and Directors Meeting October 4-5, 2001.*

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# RUSSIA'S WTO ACCESSION

by Edward Dunn

*Office of Multilateral Affairs, Market Access and Compliance*

Russian President Putin has made joining the Geneva-based World Trade Organization (WTO) a priority and Russia is actively pursuing WTO membership. Accession to the WTO will bring Russia firmly into the rules-based international trading system and will mark an important milestone in the transformation of Russia's economy. While there is no way to predict when Russia will become a member, one thing is clear. Russia and the world economy, will be better off when that day comes.

The pace of work on Russia's accession is expected to pick up in 2002. A productive meeting, which moved Russia closer to its goal, was held in January and more meetings are scheduled in the coming months. In addition, Russia has announced that it is submitting legislation to the Duma (Russia's legislature) to bring its trade regime into conformity with WTO rules. WTO delegations will be reviewing these laws during 2002, as they are made public. Ultimately, the pace of progress toward WTO membership will be determined by Russia's willingness to actually enact WTO-consistent legislation and to make commercially

meaningful market access commitments in goods and services.

WTO membership will benefit Russia in numerous ways. It will send a clear signal that economic reforms, backed by the rule of law, are here to stay. This will help attract both domestic and foreign investment — and the jobs that come with it.

The reduced trade barriers that are a condition of WTO membership will provide Russian businesses, farmers, workers and consumers with access to a wider selection of goods than is currently available. This will improve Russia's economic efficiency, help Russian factories and farmers become more competitive and strengthen Russia's agricultural sector.

The economic gains that will follow from making the improvements required for WTO membership will, over time, improve living standards for Russian families. Lower tariffs and other barriers will put downward pressure on the price of food, clothing and other consumer goods throughout the country.

As a WTO Member, Russia will be able to exercise the numerous rights available to it under WTO rules. It will be able to defend its exports against arbitrary discrimination in foreign markets

and ensure that foreign import policies are applied fairly, using the WTO as a forum for consultation, negotiation and dispute settlement. And, Russia will be able to participate fully in trade negotiations conducted under WTO auspices.

Exporters and investors in all WTO member countries, including the United States, will also benefit from Russia's accession to the WTO. They will have increased opportunities to sell their products and invest in a large and potentially dynamic market. They too will enjoy the protection of WTO rules in Russia. And they will find that export and investment opportunities grow along with the Russian economy. ■

# THE RUSSIAN AEROSPACE SECTOR

by Heather Pederson,  
*Office of Aerospace, Trade Development*

The aerospace sector is one of the most promising areas for U.S.-Russian commercial partnerships, especially for high-technology investments that support skilled jobs in both countries. The business climate for aerospace projects has recently improved; supported by general economic growth and the Russian government's newly announced plans for aerospace sector reform and consolidation.

Several major U.S. aerospace companies are active in joint investment and cooperative projects with Russian partners including Boeing, United Technologies representing Pratt &

Whitney engines and Honeywell. While these projects are benefiting from recent improvements in the business climate, the environment for aerospace projects remains challenging. Russian-American projects face a number of trade, regulatory and structural obstacles that impede their development. These obstacles include restrictions on foreign ownership, lack of long-term financing mechanisms for the aerospace industry, tariffs and market access issues in both countries, the export control process and standards and certification issues.

Commerce Deputy Assistant Secretary for Transportation and Machinery Joe Bogosian will travel to Moscow, March 11-15. During meetings with Russian government officials, he plans to discuss:

- Aerospace cooperation, trade and investment,
- Tariff barriers to imports of aircraft and parts imports,
- Russia's Federal law on State Regulation of Aviation Development which limits foreign ownership to 25 percent and
- A public/private-sector aerospace working group in conjunction with the Russian-American Business Dialogue (RABD).

The RABD is comprised of four private-sector organizations including the U.S.-Russia Business Council, the American Chamber of Commerce in Russia (AmCham), the Russian Union of Industrialists and Entrepreneurs and the Russian-American Business Council, that supports the RABD.

The RABD, which was announced by Presidents Bush and Putin during their Summit in June 2001, is required to prepare a report, which goes to Commerce Secretary Evans and Russian Minister of Economic Development and Trade Gref. This report identifies issues that both sides have agreed need addressing. The next Presidential Summit is planned for May/June 2002 in St. Petersburg.

U.S. aerospace companies are encouraged to provide input on trade issues with Russia in preparation for the upcoming trip and the proposed public/private-sector aerospace working group. Please contact Heather Pederson at (202) 482-6234 or [Heather\\_Pederson@ita.doc.gov](mailto:Heather_Pederson@ita.doc.gov)



Photo: Courtesy of Boeing, Inc.

The skills and resources of leading aerospace companies around the world contributed to the design and production of the Boeing B 777. Firms in Europe, North America, and Asia provided components and portions of the structure. Russian engineers also contributed to the B777 including the development of a unique manufacturing process which improved the arch beam for the overhead luggage bins.

# OIL AND GAS EQUIPMENT IN RUSSIA

by Rachel Halpern,

*The Energy Division Trade Development*

Russia, one of the world's top energy producers, is currently the fifth largest export market for U.S.-made oil and gas field equipment. During the first eleven months of 2001, U.S. exports of oil and gas field machinery to Russia totaled \$261 million, an increase of 137 percent from the same period one year ago. High oil prices, which allowed Russian oil companies to put money into new and old oil fields, new pipeline construction and major loans to Russian oil companies from the U.S. Export-Import Bank and the European Bank for Reconstruction and Development account for much of this increase.

According to the U.S. Commercial Service, price is the main obstacle to

U.S. exports. Although Russian oil companies often prefer U.S.-made equipment for its high quality and reliability, it is usually much more expensive than domestic equipment. For this reason, some U.S. equipment suppliers may find it worthwhile to establish a joint venture and manufacture their equipment in Russia. And since companies producing oil or gas under a production sharing agreement are required to buy 70 percent of their equipment from domestic suppliers, establishing a joint venture with a Russian partner will also remove this potential barrier to business.

Because many of Russia's oilfields have been exploited for decades and are experiencing declines in production, some of the best prospects for exports in this field include oilfield rehabilitation and well workover equipment.

There are also a number of new projects in previously undeveloped regions such as the Timan Pechora area in the north, Eastern Siberia and the Far East. The huge oil fields offshore Sakhalin Island in the Russian Far East, which are being developed by several international consortia, present enormous opportunities for U.S. equipment suppliers. The consortia are expected to invest a total of \$30 - 45 billion over the lives of their projects. Investment in energy-related infrastructure such as pipelines, ports and processing facilities is also planned. In March, Deputy Assistant Secretary for Energy, Environment and Materials Kevin Murphy will lead an oil and gas equipment and services trade mission to Sakhalin to introduce U.S. equipment companies to these opportunities.

Developing opportunities for U.S. companies in Russia's energy sector is a priority for Commerce Secretary Evans, who led a trade mission that included U.S. energy companies to Russia last fall and has engaged Russian officials a number of times on energy issues. The Commerce Department is working with the Russian government to establish a regular dialogue on commercial energy issues in order to support U.S. investors and exporters. ■



For more information about energy in Russia, check ITA's Office of Energy website, [www.export.gov/energy](http://www.export.gov/energy) or contact Rachel Halpern at 202-482-4423, Email [Rachel\\_Halpern@ita.doc.gov](mailto:Rachel_Halpern@ita.doc.gov).

# UPCOMING TRADE EVENTS

APRIL - OCTOBER 2002

DATES	EVENT	LOCATION
April 8 - 16	Services Matchmaker A Matchmaker Trade Delegation to Mexico City, Mexico, Santiago, Chile and Caracas, Venezuela for companies in services sectors. Participants will receive two days of Matchmaker appointments with potential agents/distributors/partners or end-users, along with a business briefing and reception.	Mexico, Chile, Venezuela
April 12 - 21	The Rio International Boat Show U.S. Exports of boats and marine engines to Latin America totaled \$95 million in 2000. The Brazilian market for all marine equipment is estimated at \$320 for 2000. This event has nearly 150 exhibitors and attracts more than 55,000 visitors. It is recognized as a key event that fuels the Latin American market.	Rio de Janeiro, Brazil
April 16 - 18	Seventh Southeast Asian Healthcare Show The medical and healthcare sectors have been identified as one of Malaysia's best sectors. The government of Malaysia has allocated \$1.4 billion to further develop the health service during the Eight Malaysia Plan (2001-2005)	Kuala Lumpur, Malaysia
April 24 - 27	Supply Chain & Logistics China 2002 This will be the most important national B2B supply chain event in China. China's transportation, warehousing, distribution and material handling industries are poised for explosive growth. This event will be one of the most effective sales and marketing channels to establish a foothold in this dynamic market.	Beijing, China
May 6 - 9	Information Technologies Matchmaker Export Promotion Services Matchmaker Trade Delegation Program will lead an Information Technologies (IT) Matchmaker Trade Delegation. The Matchmaker will target the IT industry, including the security, distance learning and tele-health sectors. The focus of the delegation will be to match participating U.S. companies with qualified agents, distributors, representatives, licenses and joint venture partners in these markets.	Toronto and Montreal, Canada
May 7 - 9	Giftware, Homeware and Furnishing International This show is tailored to the Australian market but attracts importers, wholesalers, agents and retailers from all over the Western Pacific Rim, including New Zealand and the Asia Pacific region. The show is a terrific opportunity to obtain exposure and attract interest of distributors in a hot market.	Melbourne, Australia
May 8 - 9	MoneyWorld Asia 2002 This annual show features over 50 exhibitors from Hong Kong, China and Asia's financial institutions, displaying a comprehensive range of financial services, such as consumer and corporate banking, equity investment, fund management, commodities and forex trading. The fair itself provides an ideal platform for industry professionals, corporate and individual investors to access numerous money-related products and financial services and also to encourage the exchange of ideas and information on investment strategies and incentives.	Hong Kong, China
May 9 - 12	Interzoo 2002 Interzoo, sponsored by the German pet industry association, proved its importance once again in 2000 as the world's largest pet supplies trade fair. There were over 1,000 exhibitors from 44 countries and more than 21,000 trade visitors. U.S. companies may display product literature at this event through our trade specialists.	Nuremberg, Germany
May 12 - 21	Medical Mission to Central Europe Poland, Hungary and the Czech Republic represent over 60 million people and a combined medical market of \$1.3 billion. The regulatory environment is one of the most important elements for U.S. medical device exporters. As these three markets prepare for EU accession, U.S. exporters will find a much improved regulatory environment.	Poland, Hungary, Czech Republic
May 16 - 18	Natural Products Asia 2002 Very few of the natural products available in the United States are available in China, Taiwan, Hong Kong, Singapore or Japan, primarily because U.S. companies have not yet had the opportunity to introduce their products into these markets or connect with Asian distributors. This fair will allow U.S. companies in the natural products industry to establish ties, perform market research and demonstrate their products to buyers in Asia.	Hong Kong, China
May 22 - 24	Expo Medica Hospital 2002 Expo Medica Hospital the leading medical hospital exhibition in Mexico. Attendance was over 700 professional visitors in 2000. Expo Medica Hospital is endorsed by the Mexico Hospital Associations, which holds the annual congress meeting at this show. The show also features "the hospital of the future," a special exhibition area where state-of-the art equipment is showcased.	Mexico City, Mexico



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Computer Software, Services and Information Services	Bill Kutson Tel: (202) 482-2839 Email: William.Kutson@mail.doc.gov
Housewares and Giftware	Ludene Capone Tel: (202) 482-2087 Email: Ludene_Capone@ita.doc.gov
Financial Services	Alice Lai Tel: (852) 2521-4638 Email: Alice.Lai@mail.doc.gov
Pet Supplies	Edward Kimmel Tel: (202) 482-3640 Email: Edward_Kimmel@ita.doc.gov
Medical Equipment	Valerie Barth Tel: (202) 482-3360 Email: Valerie_Barth@ita.doc.gov
Natural Products	William Corfitzen Tel: (202) 482-0584 Email: William.Corfitzen@mail.doc.gov
Medical Equipment	Lisa Huot Tel: (202) 482-2796 Email: Lisa_Huot@ita.doc.gov

**HIGHLIGHTED EVENTS****OIL AND GAS EQUIPMENT AND SERVICES AND RELATED CONSTRUCTION MISSION**

**MARCH 11 — 13, 2002  
VLADIVOSTOK, RUSSIA (YUZHNO-SAKHALINSK, SAKHALIN, RUSSIA)**

CS Vladivostok and the American Business Center (ABC) will provide a thorough briefing on the status of oil and gas projects, supporting industries, infrastructure projects, and the regulatory environment (Russian content regulations). One-on-one business appointments with potential customers and partners in the oil and gas industry will be prearranged, as will group mission meetings with the larger oil concessions (Sakhalin 1 and 2) and appropriate government officials. Commercial activity on the island increase greatly in April, so the March dates will provide companies with greater access to government officials and company representatives and allow time to build relationships and conclude agreements as the 2002 drilling season progresses.

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Vladivostok, Russia

**ITA'S CENTRAL AND EASTERN EUROPE BUSINESS INFORMATION CENTER (CEEBIC) COMMERCIAL OPPORTUNITIES IN CENTRAL AND EASTERN EUROPE OPEN HOUSE**

**APRIL 18, 2002  
WASHINGTON, DC**

ITA's Central and Eastern Europe Business Information Center will host an Commercial Opportunities this event U.S. companies will have the opportunity to meet with CEEBIC's overseas network and Washington-based specialists for the 15 countries in Central and Eastern Europe. This will be a unique opportunity to learn about commercial opportunities in this dynamic region.

Contact:  
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<b>DATES</b>	<b>EVENT</b>	<b>LOCATION</b>
June 3 - 7	ACE/Infrastructure Matchmaker A traditional Matchmaker, which will provide two days of one-on-one, prescreened appointments to participants at each stop. Briefings and hospitality events and full logistical support will also be provided in each market.	Spain, Morocco
June 14 - 15	Fieldays Fieldays is New Zealand's leading agriculture, floriculture and horticulture trade event. The exhibition hosts more than 900 exhibitors and is attended by over 110,000 visitors. Exhibitors participating in Fieldays generate approximately \$65 million in sales from the event.	Wellington, New Zealand
June 15	Seoul International Book Fair 2002 Seoul International Book Fair (SIBF) is Korea's largest book fair organized by the Korean Publishers Association (KPA) and regarded as an important cultural event. Exhibitors will gain exposure of books or catalogs to publishers, book sellers, educators, librarians, agents and distributors.	Seoul, South Korea
June 25 - 28	Asian Securitex U.S. companies may test foreign markets, develop sales leads and locate agents or distributors through American Products Literature Centers sponsored by the Commerce Department. They feature displays of U.S. product catalogs, sales brochures and other graphic sales aids in conjunction with trade shows abroad. Commerce staff provide each company with sales leads and a visitors list of foreign buyers attending the event.	Hong Kong, China
July 10 - 12	PALA 2002 PALA 2002, Asia's largest entertainment technology exhibition, will feature a U.S. pavilion. PALA 2002 is an opportunity for U.S. firms to showcase professional audio and lighting equipment, studio sound and broadcast equipment, music and special effects technologies, multimedia and networking solutions and DJ services.	Hong Kong, China
July 18 - 20	Asia Comm/Expo Comm Thailand The ninth international telecommunications, networking, IT and wireless technology exhibition and conference for Thailand and Indochina.	Bangkok, Thailand
July 22 - 28	Farnborough International 2002 Farnborough is the second largest and among the most prestigious shows in the world for the aerospace industry. The 2000 show was the most successful ever and recorded orders totalling \$26.7 billion. The show site was expanded to accommodate 1,325 exhibitors from 32 countries, with 50 official delegations attending during the five days.	Farnborough, United Kingdom
August 3 - 6	ISPO Summer 2002 Each year at the ISPO Summer in Munich, the sports equipment and fashion industry sets the tone for the following summer season in sports articles and sports fashion. Exhibitors from over 40 countries present their range of products, focusing on both summer and non-seasonal sports.	Munich, Germany
September 25 - 27	Mexican Manufacturing Week 2002 Mexican Manufacturing Week is Mexico City's premier manufacturing trade show — the only event specializing in solutions for every aspect of the manufacturing process: management, engineering, production, assembly, quality control and maintenance. U.S. companies may test foreign markets, develop sales leads and locate agents or distributors through U.S. Products Literature Centers sponsored by the Commerce Department.	Mexico City, Mexico
September 26 - 29	Aquatech 2002 Aquatech is one of the largest and most important events in the water sector — and draws not only Europeans but a worldwide audience. American Products Literature Center offers smaller companies new to Europe a very cost-effective market introduction — and contact with potential representatives.	Amsterdam, Netherlands
September 30 - October 2	Golf Europe 2002 Golf Europe is a specialized show for golf course operators — last year some 5,500 trade-only buyers from 47 countries — and the key event that fuels Europe's golf market. Germany itself is the fastest growing and fifth largest foreign market for U.S. golf equipment. Focus on golf equipment, accessories, apparel and other golf-related products. U.S. companies may test foreign markets, develop sales leads and locate agents or distributors through American Products Sample & Literature Centers sponsored by the Commerce Department. They feature displays of U.S. product samples, catalogs, sales brochures and graphic sales aids in conjunction with trade shows abroad. Commerce staff provide each company with sales leads of foreign buyers attending the event. This is very cost effective for smaller companies new to a foreign market to introduce their products and services.	Munich, Germany

## INDUSTRY CONTACT INFORMATION

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Agricultural Machinery and Equipment	Janet Coulthart Tel: (644) 462-6002 Email: Janet.Coulthart@mail.doc.gov
Books/Periodicals	Mitchel Auerbach Tel: (82 2) 397-4655 Email: Mitchel.Auerbach@mail.doc.gov
Safety and Security Equipment	Howard Fleming Tel: (202) 482-5163 Email: Howard_Fleming@ita.doc.gov
Entertainment technology, broadcasting,	Fanny Chau Tel: (852) 2521-3721 Email: Fanny.Chau@mail.doc.gov
Telecommunications	William Corfitzen Tel: (202) 482-0584 Email: William.Corfitzen@mail.doc.gov
Aircraft, Parts, Ground Support Equipment,	Anthony Largay Tel: (202) 482-6236 Email: Anthony_Largay@ita.doc.gov
Sporting Goods Equipment and Apparel	Ludene Capone Tel: (202) 482-2087 Email: Ludene_Capone@ita.doc.gov
Materials Handling Machinery, Machine Tools, Process Controls	Graylin Presbury Tel: (202) 482-5158 Email: Graylin_Presbury@ita.doc.gov
Water Resources Equipment/Services	Anne Marie Novak Tel: (202) 482-8178 Email: AnneMarie_Novak@ita.doc.gov
Sporting Goods/Recreational Equipment	Ludene Capone Tel: (202) 482-2087 Email: Ludene_Capone@ita.doc.gov

## U.S. PAVILION AT MOTHERHOOD AND WOMAN EXPO 2002

**AUGUST 16 – 18, 2002  
MANILA, PHILIPPINES**

This is the first international exhibition and conference on mothers and children's needs. This event will be held on August 16-18, 2002, at the World Trade Center Metro Manila, Philippines. This expo will feature mothers and babies' needs, home and family entertainment, lifestyles showcase, health products, fitness and sports apparel and equipment, business and career management, kid's needs, gifts accessories, women's wellness and spa products.

This exhibition theme is a perfect venue for American suppliers of consumer goods, cosmetic products and sports apparel to showcase their products and services. The Philippine population is currently at 70 million. Approximately 50 percent of this population is composed of women between the ages of 19-59.

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## ELECTRIC POWER TRADE MISSION

**SEPTEMBER 30 – OCTOBER 4, 2002  
VIETNAM, THAILAND**

From September 30 to October 4, 2002, the Deputy Assistant Secretary for Basic Industries or a designee will lead an electric power trade mission to Hanoi and Ho Chi Minh City, Vietnam and Bangkok, Thailand. The mission will include representatives from U.S. electric power companies and equipment manufacturers interested in entering or expanding their presence in Vietnam and Thailand.

Vietnam is undergoing major economic and social transitions. A nation of nearly 80 million people with a growing middle class, Vietnam and its citizens' demand for electrical power in Vietnam has been growing rapidly over the last several years and is expected to continue at an annual growth at of 14-15 percent.

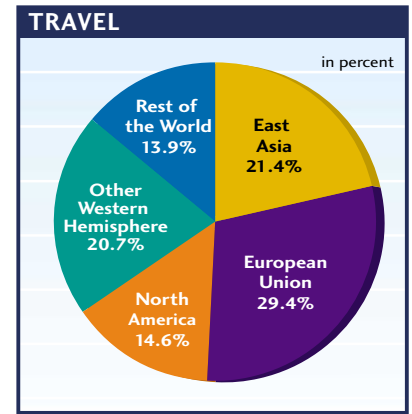
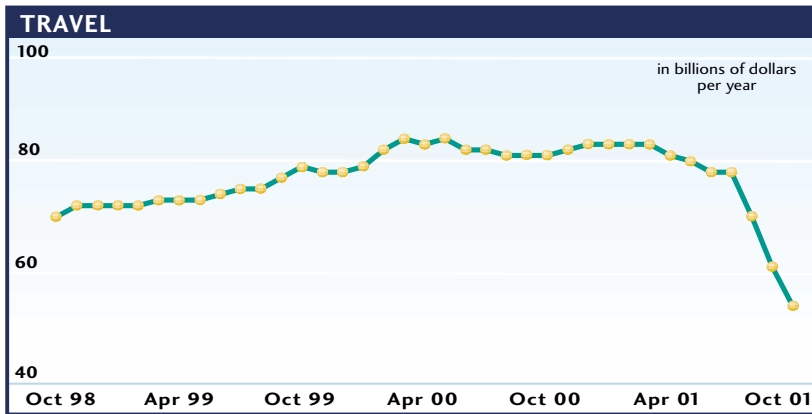
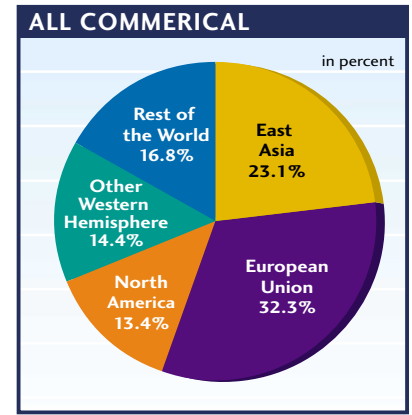
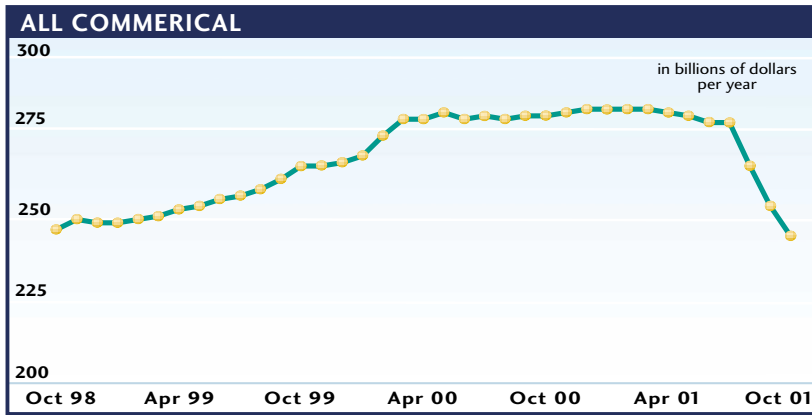
Although there is currently an excess of generating capacity in Thailand due to the economic downturn of a few years ago, there are many medium-term opportunities for U.S. companies.

During this week-long visit to Bangkok, Hanoi and HCMC, U.S. Commercial Service posts will host briefings by leading Vietnamese and Thai experts, industry counseling by American experts on the Vietnamese and Thai market, one-on-one meetings with pre-qualified potential partners/end-users, and a reception for U.S. delegates and significant Vietnamese and Thai contacts.

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# EXPORTS OF COMMERCIAL SERVICE

This month we focus exclusively on services, which account for more than 25 percent of total U.S. exports. We also add a breakout for exports to the Western Hemisphere other than North America; this enhancement will be carried forward into a number of other charts to be presented in future issues.



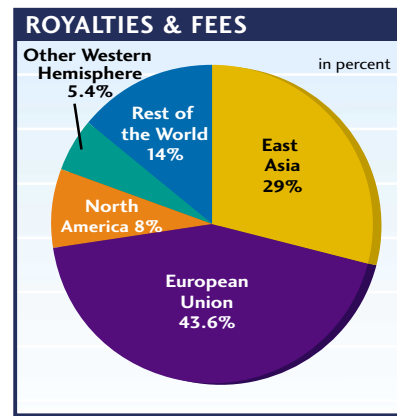
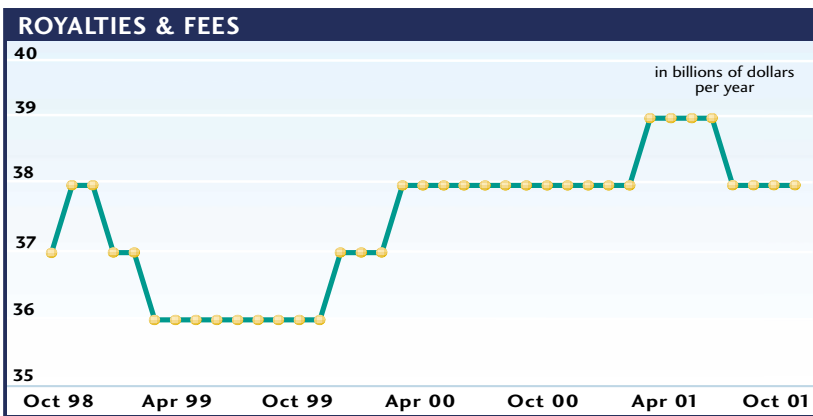
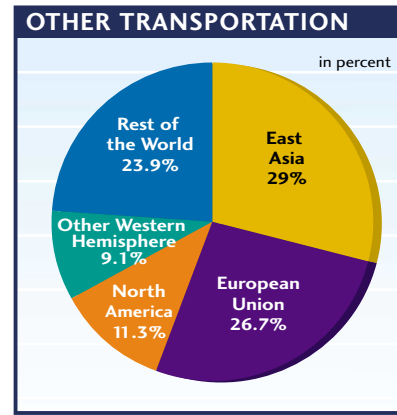
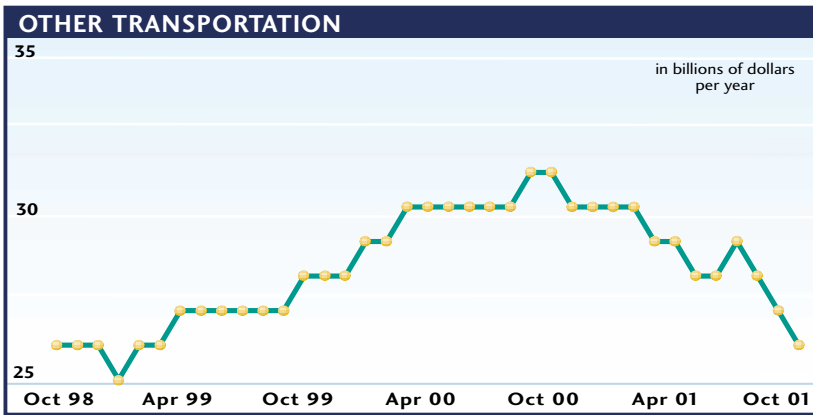
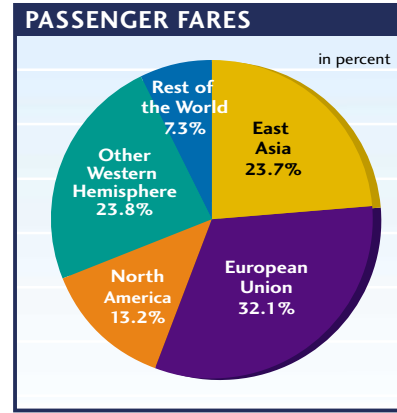
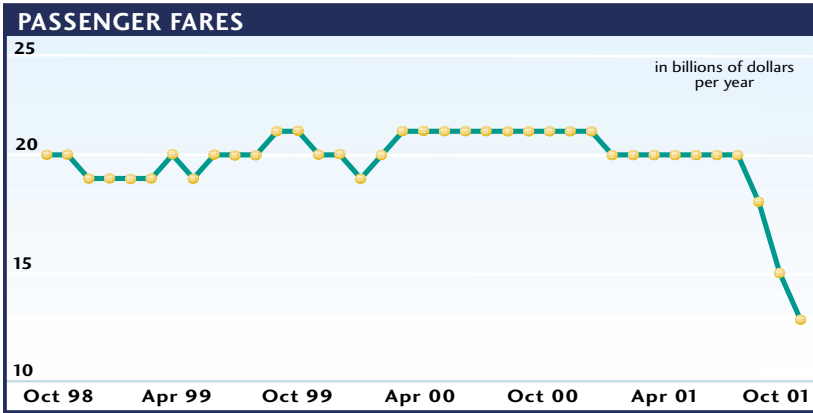
Monthly data are centered three-month moving averages, based on seasonally adjusted figures and expressed as annual rates. Pie charts are based on data for 2000. Commercial services include all private services.

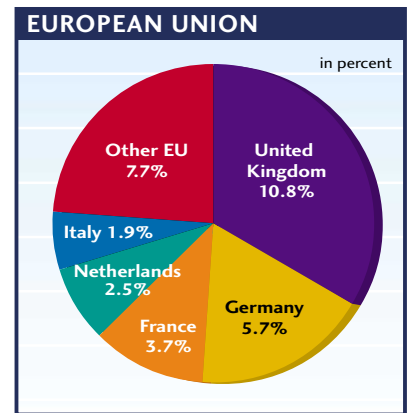
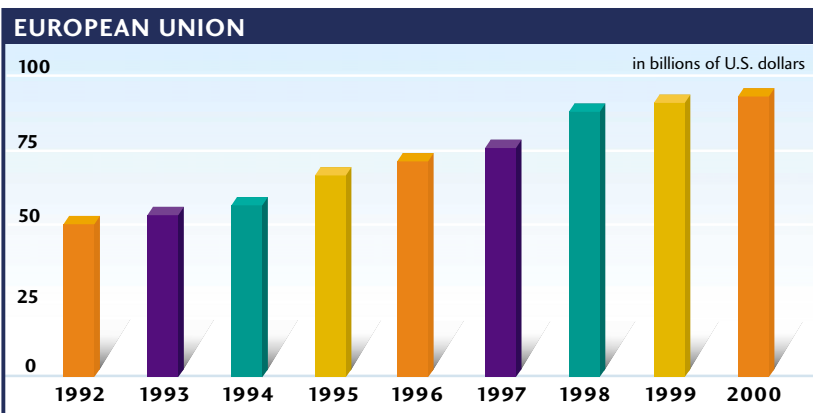
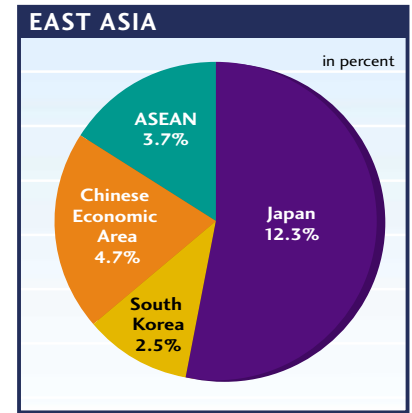
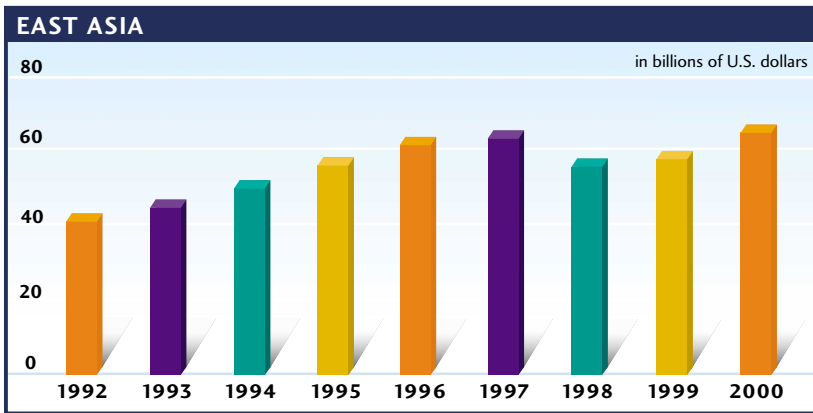
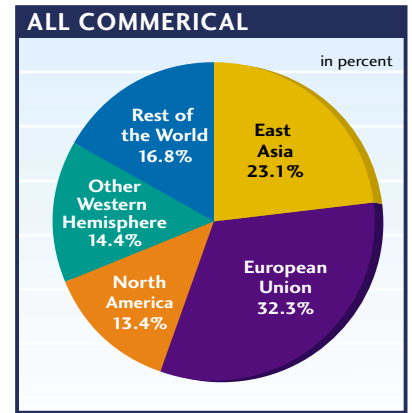
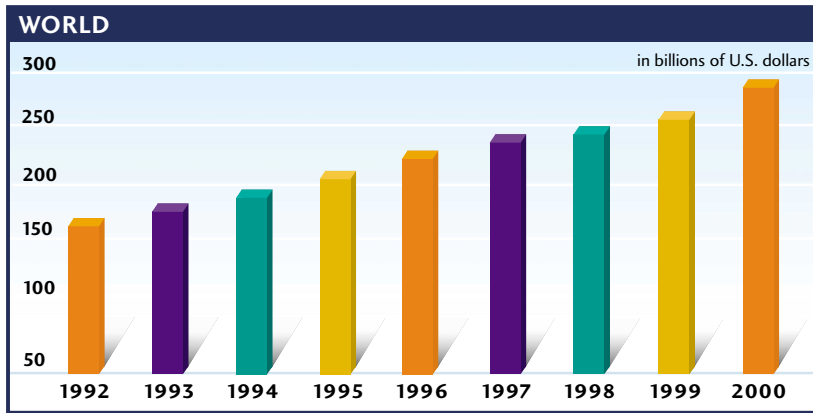
North America: Canada and Mexico.

Caribbean includes Bermuda and the Bahamas.

European Union: Austria, Belgium, Denmark, France, Finland, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and United Kingdom.

East Asia: China, Hong Kong, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand.



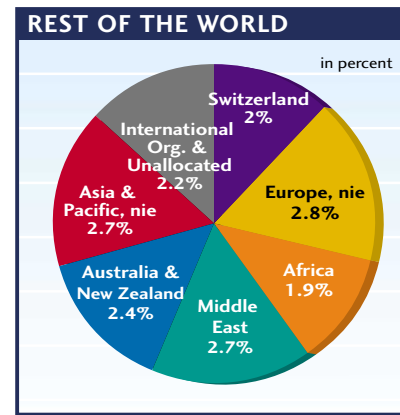
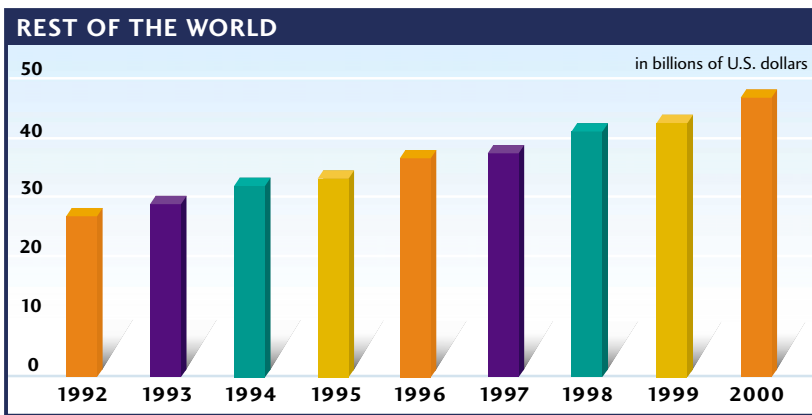
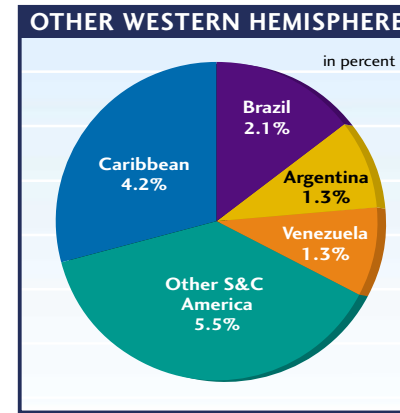
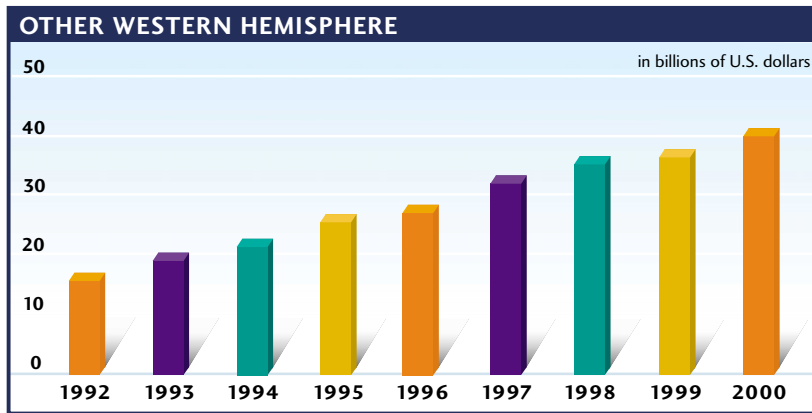
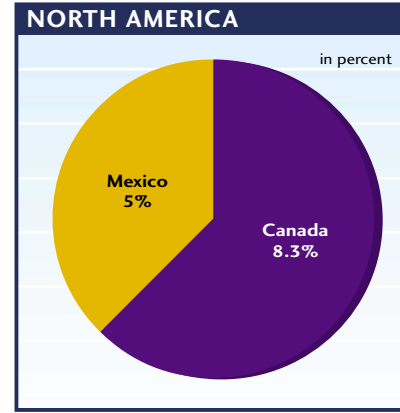
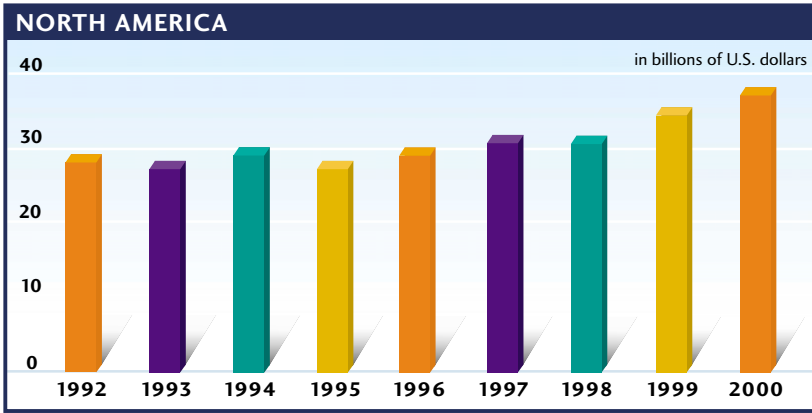


Chinese Economic Area: China, Hong Kong and Taiwan.

Association of Southeast Asian Nations (ASEAN): Indonesia, Malaysia, Philippines, Singapore and Thailand; data for other members is included in "Asia & Pacific, nie": nie: not included elsewhere

The chart showing exports of services by region is based on data for calendar year 2000. Other charts showing product mix and geographic destination are based on data for the year ending October 2001.

Source: Bureau of Economic Analysis.



Additional information is available from the International Trade Administration ([www.ita.doc.gov/tradestats/](http://www.ita.doc.gov/tradestats/)), and the Bureau of Economic Analysis ([www.bea.doc.gov/bea/](http://www.bea.doc.gov/bea/)).

U.S. Commercial Service

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Oklahoma City  
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(215) 597-6101  
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Memphis (901) 323-1543  
Nashville (615) 259-6060

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Wheeling (304) 243-5493

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