

***Testimony before the House Ways and Means Committee  
Subcommittee on Trade***

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Chairman Camp and Members of the Committee:

Thank you for the invitation to speak on a topic which I know very well, U.S. trade with Russia. I am happy to speak to you as president of Argus Limited, a company with thirty-one years of experience in business with Russia, and as a member of the U.S.-Russia Business Council.

In fact I began doing business in what then was the Soviet Union back in 1973, coincidentally, even before the Jackson-Vanik amendment was enacted. In retrospect, the amendment achieved its goals, but it clearly has no place in today's world.

Allow me to brief you a bit on my background. When I began my business career, Soviet General Secretary Leonid Brezhnev had made his historic visit to the United States following President Richard Nixon's ground-breaking 1972 visit to Moscow. The Vietnam War was still underway. Secretary of State Henry Kissinger wisely saw that building trade relations was a good way to defuse tension between the superpowers. Thus began the period of *détente*, the first real break in the Cold War. Please bear in mind that this was just over ten years after the Cuban Missile Crisis and the building of the Berlin Wall.

Veteran entrepreneur and Russian business expert Dr. Armand Hammer, then chairman of California-based Occidental Petroleum Corporation, came to the Soviet Union with pioneering deals involving trade in fertilizer chemicals and the construction of plants and pipelines. I met Armand Hammer on several occasions and our company was involved in subcontracting under the Occidental Petroleum umbrella.

At that time all business was conducted exclusively with Soviet state foreign trade organizations. Negotiations were endless, nerve-racking and arduous. Extracting concessions in price and terms was the main object for the Soviet side. Political lectures occasionally accompanied the negotiations.

Nevertheless, our business grew gradually until, in 1979, the US responded to the Soviet Union's invasion of Afghanistan with a raft of trade restrictions and boycotted the 1980 Moscow Olympic Games. It has been a see-saw ride ever since.

I founded our firm, Argus Limited, perhaps at the worst of times, in 1981. Many industrial products made in the United States were considered to have military applications. Thus exporting them to Russia was controlled very strictly by the U.S. Department of Commerce.

Despite all the ups and downs, we persisted. Argus came to specialize in supplying U.S. made equipment and services for the construction and rehabilitation of oil and gas pipelines, principally for welding high-alloy steel cross-country pipelines, as well as equipment and materials for treating steel pipe against corrosion, along with equipment and services for testing pipe welds, bending pipe and testing the integrity of pipelines after they are built. We also offer a full array of equipment to clean up oil spills and remediate land polluted by petroleum.

Argus became a "one stop shop" for the Russian pipeline construction industry. We are factory-authorized distributors for America's leading companies in our field, none of them household names. We bring the equipment into Russia, install it, train customer technicians, provide technical manuals in the Russian language, and maintain large warehouses to be sure that spare parts are always at hand. We provide services in the form of contract welding of pipelines and operating oil waste sludge treatment facilities in Russia.

The end of the Soviet Union brought an end to the monopoly of government trading corporations. We now contract with Russian oil companies, as well as pipeline construction companies for the gas giant Gazprom and the oil pipeline operator, Transneft. Our technicians are welding pipe aboard Russian pipeline barges in the waters of the Arctic Sea and around Exxon's oilfields offshore Sakhalin Island.

We were pleased last year to learn that our sale of American-made compression equipment, used in testing the integrity of gas pipelines in Siberia, was the largest U.S. Ex-Im Bank deal with Russia over the last fifteen years. Yet it was only \$45 million in value, a small figure compared to the potential for U.S. exports to Russia. As you probably know, the Ex-Im Bank requires that products sold abroad under its guaranty must be 85% American made. Given the globalization of industry many companies have encountered great difficulty in meeting that benchmark. On that particularly deal all our products were manufactured in Ohio, Indiana and Oklahoma to the extent that our domestic content exceeded 95%.

Year in, year out our major vendor is Houston-based CRC-Evans Pipeline, a world class manufacturer now part of the Stanley Black & Decker group, with plants in Houston, Texas, and Tulsa, Oklahoma. Another major vendor is Berry Plastics Polyken Division whose plant in Franklin, Kentucky, has been providing corrosion protection pipewrap tapes to the Russian market since the 1970s.

Repealing the Jackson-Vanik amendment with respect to Russia will bring US-Russian trade relations into harmony when Russia joins the WTO later this year.

But what benefits will Russian WTO accession bring to US businesses exporting to Russia? There are many.

For years high-ranking Russian trade figures have complained to me about the discrimination their country experiences in its trade with the United States because each year, the president must waive the outdated Jackson-Vanik Amendment and allow Russia, for the next twelve months, to enjoy “most favored nation” status. In fact “most favored” means normal status, i.e. no discrimination. As a result our company was excluded from taking part in several tenders where our competitors were from European countries that had no similar discriminatory treatment. In fact, the Russian tender system is arbitrary and subjective. I am hopeful that this would change with Russia’s graduation from Jackson-Vanik and the U.S. Congress acting to extend permanent normal trade relations to Russia.

In a practical sense there are other restrictions that affect us. Since my time is brief, I will provide just a few examples.

1. *World Customs* magazine regularly rates Russia’s customs service near the bottom of its list in terms of transparency and convenience. Documentation requirements are extreme. Simple typographical errors can lead to shipments of goods being seized indefinitely. Harmonization of customs procedures with WTO will go a long way to overcoming that obstacle. Taking the arbitrary and subjective elements out of customs decision-making will be a major improvement.

2. When we perform services, such as contract welding on pipelines in Russia, the tax authorities withhold 20% of what we earn unless we can produce a letter from the U.S. Internal Revenue Service confirming that we are current on our taxes. In that case, they will waive the withholding under the US-Russia Treaty on Avoidance of Double Taxation. The only problem is that the I.R.S. will grant such a letter only at the time taxes are paid, in April. The I.R.S. tells us they offer a standard form for this kind of a request that appears to be accepted everywhere but Russia. We understand that WTO accession does not directly address this specific concern, but overall we would hope that with Jackson-Vanik lifted for Russia, Russia’s willingness to work in a more cooperative fashion with U.S. companies and not require unnecessary documentation could be a spillover effect from the WTO’s emphasis on transparency.

3. As I understand it, Russia’s WTO accession removes restrictions on construction and engineering services, so we would hope that the unpredictability and discrimination we have experienced in the Russian market would dissipate with Russia’s removal from the Jackson-Vanik amendment.

Finally, I’d like to make a separate comment on visas, which, although it is not covered by rules related to Russia’s WTO accession, is particularly important in the the services business, where people must be able to be brought into and out of the country as efficiently as possible. At present, Russian multiple-entry business visas

are very laborious to obtain. They are valid for only one year and require the visa holder to spend no more than 90 days in country of every 180. When working on large infrastructure projects like the construction of pipelines in remote areas, visa restrictions become a problem. It will be of great benefit to companies like mine when the multi-year visa regime is finally approved.

Russia is presently the world's number one producer of oil and number one producer and exporter of gas. American companies are ideally suited to service that industry. Plentiful supply of energy resources benefits all. We have plenty of competition from other countries so we need all the help we can get.

Chairman Camp and Members of the Committee, please do all in your power to remove this restrictive legislation as soon as possible, paving the way for fruitful trade to revitalize American manufacturing and meet the president's goal of doubling U.S. exports in five years.

Thank you for your attention.

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Embargoed until June 20th at 2pm