



**Hearing of the Committee on Ways and Means  
U.S. House of Representatives**

**Russia's Accession to the World Trade Organization and  
Granting Russia Permanent Normal Trade Relations**

**June 20, 2012  
1100 Longworth House Office Building**

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*on behalf of*

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Business Roundtable  
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Chairman Camp, Ranking Member Levin, and Members of the Committee:

I am Doug Oberhelman, Chairman and CEO of Caterpillar. Today, on behalf of Caterpillar, the Business Roundtable and the National Association of Manufacturers, I am honored to testify in support of legislation to graduate Russia from the Jackson-Vanik amendment and to authorize Permanent Normal Trade Relations (PNTR) with Russia. The Business Roundtable and the National Association of Manufacturers are strong advocates of expanding U.S. trade because the thousands of American companies that are their members and the tens of millions of Americans working for these companies benefit from initiatives to open foreign markets for U.S. goods and services. Caterpillar is also pleased to be a co-chair of the Coalition for U.S.-Russia Trade, a broad-based group that represents U.S. manufacturing, services and agricultural interests.

Before addressing the specific issues of today's hearing, I would like to take a moment to put Russia's accession to the World Trade Organization (WTO) and PNTR legislation into the broader context of the overall importance of international trade and investment for generating new economic growth and job creation opportunities for U.S. businesses and workers.

- In 2008, more than 38 million jobs in the United States—more than one in five—depended on international trade—exports and imports.
- In 1992, a year before the implementation of a series of U.S. bilateral, regional and multilateral trade agreements, the total of trade-related jobs in the United States was only 14.5 million.
- The growth of 24 million new trade-related jobs for U.S. workers in two decades demonstrates clearly that trade is an important engine for economic growth and job creation.
- In 2009, more than 275,000 U.S. companies exported merchandise to customers abroad. Of those companies, 230,000 were small and medium-sized enterprises, and accounted for nearly 30 percent of U.S. merchandise exports.
- In 2009, nearly 180,000 U.S. companies imported raw materials, components and finished products for U.S. manufacturers, service providers and consumers.
- More than 95 percent of the world's population—and 80 percent of the world's purchasing power—is outside the United States. That means, U.S. economic growth and job creation depend on expanding U.S. trade and investment opportunities, so that U.S. companies, farmers and workers can sell more American products and services to these customers.

When the United States negotiates trade and investment agreements like Russia's accession to the WTO, foreign barriers fall and new markets open for U.S. manufacturers, service providers, farmers and workers. And growth in U.S. exports is one of the fastest and surest ways to support U.S. economic and job growth.

The most significant pending opportunity the United States has to increase U.S. exports to another country is by approving PNTR with Russia. Russia is the world's sixth largest economy in terms of purchasing power. It has a population of 142 million with a rapidly growing middle class. Russia imported nearly \$300 billion in goods in 2011, yet the United States accounted for only 5 five percent of those imports. An economy of this size should not be just our 31<sup>st</sup> largest goods export market. Clearly there is tremendous opportunity to increase U.S. exports to Russia.

PNTR is vital because Russia will join the WTO later this summer with strong open market and rule of law commitments negotiated in large part by the United States. When Russia enters the WTO all of its 155 members—except perhaps the United States—will be eligible to receive the full benefits of Russia's market-opening concessions.

In its consideration of this important issue, Congress should keep in mind that a vote for Russia PNTR legislation is not a vote for the benefit of Russia, but a vote for the benefit of American companies, farmers and workers.

First, if Congress doesn't act, *Russia will still join the WTO*. This isn't a vote about whether to allow Russia to join the WTO; that issue is already settled.

Second, Russia PNTR *does not require* any U.S. trade concessions. Russia PNTR *does require* Russia to make concessions by locking in its tariff reductions and other market-opening commitments that will benefit the export of U.S. products and services.

Third, and most important, if Congress doesn't act, *only* our foreign competitors will get all the benefits provided by Russia's new WTO market-opening and rule of law commitments. Those benefits are substantial, including the ability to use the WTO's enforcement mechanisms to force Russia to keep its promises. American companies, farmers and workers will be left behind.

Because Russia PNTR legislation is so clearly in our national interest, there is broad public and business community support for its enactment. In March, more than 170 companies and associations wrote an open letter to Congress urging passage of legislation to graduate Russia from the Jackson-Vanik amendment and establish PNTR with Russia. Earlier this month the Business Roundtable released a new public opinion survey showing that 70 percent of Americans favor Congressional action to allow U.S. businesses to sell more to Russia.

<b>PNTR Is Needed to Sell More U.S. Goods and Services to Russia</b>
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From the perspective of the business community, Russia's WTO market access commitments, which require no reciprocal U.S. economic concessions, will

create substantial new opportunities for the sale of products and services made by American workers, farmers and companies. But for the United States to capitalize on those opportunities, Congress needs to pass PNTR with Russia.

**Manufacturing:** As a condition for joining the WTO, Russia has agreed to reduce tariffs on manufactured goods from an average rate of 9.5 percent to 7.3 percent, and to bind these reductions. While Russia did agree in its 1992 trade agreement with the United States to give the United States “most favored nation” or MFN treatment for tariffs, that agreement does not have any enforcement provisions. When it joins the WTO, Russia will become subject to the WTO’s dispute settlement provisions, but the United States cannot take advantage of those enforcement provisions until Congress passes PNTR with Russia. Russia PNTR is, therefore, the key to ensure Russia keeps its promise to open its market for manufactured products and for U.S. manufacturers to take advantage of the extraordinary opportunities created by an open Russian market.

With an estimated 60 percent of Russian industrial enterprises seeking to replace obsolete and outdated equipment within the next 3-5 years, the Russian market offers extraordinary new export opportunities for American manufacturing companies and workers producing a wide array of manufactured goods, from construction machinery and cars to chemicals and medical equipment. For example, from Caterpillar’s perspective, Russia ranks among our top ten export destinations; in fact, in the last five years, Caterpillar exports to Russia were nearly \$2 billion. But because Russia is the world’s largest country by territory and the world’s largest exporter of energy, Russia should be our largest export market. With PNTR, Caterpillar’s products will be more competitive in Russia.

With PNTR, other U.S. manufacturing sectors will also have an opportunity to take advantage of Russia’s need to replace obsolete and outdated equipment. For example, Russia has about 8 percent of the world’s farmland and needs to replace an estimated 70 percent of its aging agricultural machinery in order to efficiently develop its agricultural resources. Also, nearly two-thirds of Russia’s medical equipment is obsolete. Moreover, Russia’s domestic chemical industry can only produce enough to satisfy half of its domestic market demand, so there are major market opportunities for U.S. chemical manufacturers.

**Services:** U.S. service providers are among the most competitive in the world. They are poised to take full advantage of Russia’s extensive WTO commitments to improve market access in 116 service sub-sectors and to ensure full national treatment in 30 sub-sectors, ranging from telecommunications, computer and transportation services to banking and insurance services. Russia will also allow 100 percent foreign ownership of banks, broker dealers and investment companies.

**Agriculture:** Under its WTO commitments, Russia's average tariff ceiling for agricultural products will drop to 10.8 percent from the current 13.2 percent. The United States was the third largest supplier of agricultural goods to Russia in 2010. With over 140 million consumers, a rapidly growing middle class and an appetite for agricultural goods expected to grow 20 percent over the next few years, the Russian market offers exceptional opportunities for selling U.S. agricultural products.

The combination of Russia's WTO market-opening commitments and increasing demand in Russia for manufactured goods, services and agricultural products create extraordinary opportunities for increasing our exports. But these opportunities are not a secret. Our foreign competitors also know about them, and are preparing to take advantage of the opportunities as well. With PNTR, we will all be on a level playing field and can effectively compete with our foreign competitors for these exports to Russia. Without PNTR, our companies, farmers and workers will face a disadvantage that will certainly hurt our competitiveness.

### **PNTR is Needed to Provide Rule of Law Protections for U.S. Companies**

Trade barriers can take many forms, which is why the rule of law is so important to ensuring a level playing field in international commerce. As part of its WTO accession, Russia is undertaking substantial rule of law commitments. But for the United States to fully benefit from those commitments, Congress needs to pass PNTR with Russia.

**Intellectual Property:** Because intellectual property is the foundation for innovation, its protection is essential to the competitiveness of American companies. It is significant that Russia has agreed to legislation which complies with the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Russia has also agreed to implement specific additional commitments, including internet piracy and stronger enforcement.

**Sanitary and Phytosanitary Standards (SPS)/Technical Barriers to Trade:** Standards and technical barriers are among the most difficult trade-related barriers to overcome, so it is significant that Russia: (1) has committed, in accordance with the WTO's Agreement on the Application of Sanitary and Phytosanitary Measures, to provide a scientific justification for any SPS measure that is more stringent than the relevant international standard and to ensure that its control, inspection and approval procedures are not more trade restrictive than necessary to achieve the appropriate level of consumer safeguards; and (2) has agreed that all legislation related to technical standards and conformity assessment procedures complies with the WTO's Agreement on Technical Barriers to Trade.

**Customs Rules:** Clearing goods through customs is often one of the most difficult barriers to trade to overcome, so Russia's commitment to implement the WTO's Agreement on Customs Valuation is an important step in opening its market.

**Transparency:** Transparency is essential to the rule of law because if a company doesn't know the rules which regulate the sale of its products and services, it cannot be competitive in a foreign market. Russia's commitments to adhere to WTO standards for transparency will enhance the ability of foreign companies to compete in the Russian market with the added benefit of constraining corruption.

**Dispute Settlement:** Dispute settlement is in essence the glue that holds the WTO trading system together. By joining the WTO, Russia is subjecting itself to the WTO's dispute settlement process. WTO members will have the right to use that process to challenge Russia if it enacts any laws, rules or policies which conflict with its WTO obligations. Given that the 1992 U.S.-Russia trade agreement does not have an enforcement mechanism, it is critical for the United States to be able to use the WTO's dispute settlement system to protect U.S. companies, farmers and workers if Russia violates any of its WTO commitments. But the United States will not be able to use the WTO enforcement process until Congress approves PNTR with Russia.

### **PNTR Will Help Support Much-Needed U.S. Economic Growth and Jobs**

Russia is the world's sixth largest economy in terms of purchasing power with a rapidly growing middle class, yet it is currently only the United States' 31<sup>st</sup> largest goods export market. Russia's accession to the WTO coupled with PNTR will give U.S. companies, farmers and workers a dynamic new opportunity to expand their exports. And exports help create new jobs and sustain the current jobs of the hard working men and women across the United States whose jobs depend on trade like the Caterpillar employees in more than three dozen facilities spread across the country.

With the Russian economy growing rapidly over the past decade, U.S. exports to Russia have already grown more than twice as fast as U.S. exports to the world, according to the U.S. International Trade Commission. This makes Russia an important market for several major categories of U.S. exports.

Today, U.S. exports to Russia are growing, up by more than 50 percent from 2005 to 2010. Moreover, 2011 data show that U.S. exports grew more than 40 percent over 2010 levels. Clearly, there is strong and growing demand for U.S. goods and services in Russia. The President's Export Council has estimated that Russia's accession to the WTO could double or triple U.S. exports to Russia over the next five years—adding jobs in the services, agriculture, manufacturing and high tech sectors.

In March, the Business Roundtable released state-by-state economic analyses which show current trade with Russia and how every state has the potential to increase exports to Russia *provided* Congress passes Russia PNTR. For example, in Michigan, companies exported \$225 million worth of goods to Russia in 2011. In 2011, 12 other states—including Illinois where Caterpillar is headquartered—also exported more than \$200 million to Russia. Another 11 states exported in excess of \$100 million to Russia. Eighteen more had exports of more than \$10 million to Russia. Each Business Roundtable state fact sheet identifies the state’s major exports to Russia and highlights how U.S. exports to Russia are already falling behind exports from Asia, Europe and elsewhere, and could fall even further behind if Congress does not pass PNTR.

While Russia may present a new opportunity for many American sectors, it has been an important market for Caterpillar for many years. By landmass, Russia is the world’s largest country. It has more minerals and energy than any other nation. Caterpillar’s export to Russia of U.S.-manufactured heavy equipment has played an important role in thousands of construction and extraction projects across Russia and the Commonwealth of Independent States. Our commitment to selling in Russia is evidenced by the fact that Caterpillar has put in place a comprehensive dealer network to support Caterpillar customers in Russia.

As I mentioned earlier, in the last five years, Caterpillar exported nearly \$2 billion of products to Russia. I believe PNTR with Russia will give Caterpillar and our employees the opportunity to grow our exports to Russia.

This could mean our employees in Illinois could build and ship more mining trucks and bulldozers to Russia. Our employees in California could build and ship more gas turbines to Russia. Our team in North Carolina could build and ship more skid steer loaders to Russia. Our employees in Indiana could build and ship more engines and more locomotives to Russia. I could go on and on with examples from all the other states where we have people and factories that would benefit from PNTR with Russia, but hopefully I have made the point. For Caterpillar and the nearly 55,000 employees we have in the United States, PNTR with Russia is a winner. And it’s also a winner for the hundreds of companies that supply parts and components to Caterpillar and all of their employees.

We cannot, however, rest on our success. Caterpillar faces intense competition from European and Asian manufacturers. These competitors will be handed a huge advantage in the Russian market if Congress does not graduate Russia from the Jackson-Vanik amendment and approve PNTR. This situation would amount to a repeat of history, in which the United States chooses to disadvantage itself rather than level the playing field.

I refer to the early 1980s, when, as a method of protesting the construction of a Soviet gas pipeline to Western Europe, the United States imposed sanctions that virtually cut off bilateral trade with Russia. The results were devastating. Caterpillar was forced to cede its 85 percent market share in the then-Soviet Union to its Japanese competitors. This came at a huge cost to our company and our American workers. In effect, 12,000 man-years of work were transferred from Illinois to Japan. In the end, the decision only hurt U.S. companies. The pipeline was completed ahead of schedule using Japanese pipelayers.

Thirty years later, we still make pipelayers in East Peoria, Illinois, but our market share for pipelayers in Russia has not recovered to pre-sanction levels. I urge Congress to use history as a guide and to not make another mistake that could harm our competitiveness and potentially cost U.S. jobs.

The pipeline debacle, together with the Soviet grain embargo, had a long-term negative impact on the U.S. economy and U.S. jobs. But as the years pass, memories fade—which is why I think it’s important for the Committee to be aware of this experience. For Caterpillar, the lesson learned was that it can take decades to earn the business of your overseas customers, but only days for the government to cede that business to your competitors.

To avoid a repeat of history for all of American business, Congress needs to graduate Russia from the Jackson-Vanik amendment and approve PNTR as soon as possible. Jackson-Vanik is a relic with respect to Russia. It was enacted in 1974 to put pressure on the Soviet Union to end policies that prevented Jewish emigration. In 1991, Russia terminated its exit fees on Jewish emigrants, and today Russian Jews freely emigrate.

Since 1992, U.S. presidents of both parties have certified annually that Russia complies with Jackson-Vanik, and the United States has maintained Normal Trade Relations (NTR) with Russia on a temporary, year-to-year basis. The WTO, however, requires its members to give each other PNTR. Secretary of State Clinton, and a long list of former U.S. diplomats, have endorsed Russia PNTR because they know that a deeper and permanent economic relationship will create a more constructive foundation to work on human rights, foreign policy and national security issues.

<b>Conclusion</b>
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To sum up, *the good news* is that Russia’s accession to the WTO will create dynamic new opportunities for U.S. companies, farmers and workers to increase their exports to Russia.



*The glitch* is that we will be able to take advantage of these dynamic new export opportunities *only* if Congress passes legislation to graduate Russia from the Jackson-Vanik amendment and to establish PNTR with Russia.

*The risk* is that Congress will not move the needed legislation forward quickly enough to prevent American companies, farmers and workers from losing their competitiveness in the Russian market. Our foreign competitors will immediately benefit from all of Russia's WTO commitments when it joins the WTO this summer, and we will get left behind.

*The solution* is that Congress shouldn't give our European and Asian competitors an advantage in Russia. It should pass PNTR this summer so U.S. companies, farmers and workers can be competitive in the Russian market from day one, and so the United States can hold Russia accountable to its WTO commitments.

Let's not take any chances. I urge you to pass Russia PNTR legislation before Russia joins the WTO in August.