



## Challenges and Opportunities for Economic Relations Between Russia and the United States

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Good morning and thank you for that kind introduction. And thank you too, Andy Somers for your longstanding leadership as President of the American Chamber, and to the staff and members here, for hosting this event. I would also like to recognize our Ambassador Bill Burns. Thank you, Mr. Ambassador, for being here. Let me congratulate our Russian friends on being awarded the 2014 Winter Olympic Games. Sochi is a fabulous venue at which to host the games. There is nothing like the Olympics to bring out the best in the human spirit.



It is not an accident that Russia is my first visit since taking office as Under Secretary. Russia is a key economic partner of the United States, and our ties go far back. In fact, this year we are celebrating two centuries of diplomatic relations between our nations, which formally began in 1807. Actually, being 200 years ago, it took over two years for the first American representative to arrive to St. Petersburg to present his credentials to Tsar Alexander.

Notwithstanding the delay, we trust the Tsar agreed it was worth the wait, because U.S. President James Madison sent John Quincy Adams as our envoy. He, of course, was later to become the sixth President of the United States. So, I guess we all should be well-mannered around our current Ambassador Bill Burns – you never know where he may end up.

But even before the US and Russia had diplomatic ties, we had economic ones. Russian fur traders came to the Pacific coast in the 1790s. And commerce was what brought us to sign the first treaty between our nations. The 1824 Convention established free shipping and free fishing for both countries in the Pacific Ocean.

This week my meetings with government and business leaders here have served as important reminders of the tremendous economic progress Russia has made over the past 15-plus years. Russia's trillion dollar economy is one of the largest in the world, with real GDP growth over 6 percent in the last several years. These are impressive numbers that not many people would have predicted a decade ago.



A middle class is emerging, and Russians today have many choices they did not have a decade ago, from credit cards and mortgages, to property rights. Foreign direct investment in Russia is at record levels, and more and more governments are coming here to invite Russian outward investment.

As things change in Russia, and its economy takes on greater importance on the world stage, much is expected of Russia. And, as the global interest in the Kennebunkport meeting between our two presidents attests, much is expected of the relationship between our two countries. And so I come here today to discuss how we can each live up to those expectations in the economic, development, and energy spheres.

I'd like to discuss several of these opportunities and challenges. First, both our nations need to continue to promote global economic engagement. There is a pushback against global economic engagement in the United States, in Russia, and in many other countries. Some want to pursue inward-looking policies of isolationism and protectionism. These policies may seem easier in the short term, but they won't create jobs, they won't grow our economies, and they won't give our children and grandchildren the opportunities to prosper in an increasingly competitive global economy.

Nothing compares to the promise that open markets and fair competition can bring.

The United States has worked to boost its economic ties around the world. Since taking office, the Bush Administration has gone from having two free trade agreements in three countries, to nine free trade agreements with 14 countries. These free trade agreements covered 42 percent of all U.S. exports in 2006.

Economic engagement between Russia and the United States has been expanding as well. In 2006, US exports to Russia grew by more than 20 percent, reaching close to \$5 billion last year, and Russian exports to the U.S. grew almost 30 percent to more than \$19 billion.

Russia's bid for WTO membership is a key to furthering Russian integration into the world economy. Russia's membership would also create a more stable global trading system.

Last November, the United States and Russia signed a bilateral market access agreement and an intellectual property rights agreement, a big step along the process for WTO membership.

WTO accession is also a multilateral process, and Russia has some serious work still to do, including strengthening protections and enforcement for intellectual property rights, increasing market access and adopting objective, science-based standards for beef and other agricultural products.

Russia has a highly educated population that produces many original ideas, ranging from the sciences to literature and music. The intellectual heritage of Russia is nothing short of breathtaking – from Pushkin and Tolstoy and the great symphonic works of Tchaikovsky, to the recent scientific breakthroughs of scientists and physicists. Russia has produced no fewer than 21 Nobel laureates.

We therefore share a common interest in protecting intellectual property.

Another part of economic engagement is helping to ensure that underdeveloped nations – especially those in Africa – have opportunities to lift themselves out of poverty and hopelessness. Creating conditions that lead to economic opportunity is a key part of U.S. foreign policy.

Russia's membership in the Paris Club of creditor nations provides us with an opportunity to work together to resolve unsustainable debt burdens of developing nations. In the past, Russia itself had benefited from the cooperative assistance of the Paris Club.

In the late 1990's, Russia began to provide debt relief as a creditor, and last year, thanks to a strong economic recovery, paid its remaining Paris Club debts. We welcome Russia joining us in committing to 100 percent debt relief for Afghanistan and we eagerly await Russia fulfilling its November 2005 Paris Club commitment to reduce Iraq's debts. Economic recovery is a key part of our collaborative efforts to combat terrorism in both these strategic countries.

Another significant challenge is global energy security. In Kennebunkport, our presidents announced a new agreement that will enable more countries to have access to civilian nuclear power. Civilian nuclear power is a critical means for helping achieve economic growth while maintaining a healthy environment.

The agreement will allow greater access to peaceful nuclear energy for a range of nations. We know that more than a dozen countries in Asia, Africa and the Near East have expressed interest in acquiring nuclear reactors.

The United States and Russia both have a vested interest – I'd even say a responsibility – to help other nations seeking to develop civilian-use nuclear energy as a means of boosting their own energy security. By working together, we can ensure that these nations are able to tap this resource while limiting the danger and spread of the most sensitive technologies: enrichment and reprocessing.

For other energy sources such as oil and natural gas, energy security includes having diversified sources of supply, multiple routes to market, and adequate refining capacity. This can increase competition, make productive use of market forces, and help ensure that in cases of natural or man-made disasters, nations have multiple ways of getting the energy they need. This is good for everyone – importers and exporters of energy alike.

We also need to promote the development of technologies that ensure cleaner and more efficient use of both traditional sources of energy such as coal and petroleum, as well as newer sources such as wind and ethanol.

Russia is a key player in this. Russia's vast energy resources are one of the country's greatest assets, and Russian oil and gas production is critical to global energy security.

However, to even maintain current levels of gas and oil production, Russia will need large amounts of investment in both money and technology. There have been limitations on foreign partnerships, however, so it is not altogether clear how this need will be met.

Russia could benefit greatly by partnerships with the large, multinational oil and gas companies on mutually advantageous economic terms. This is a win-win, not a win-lose prospect.

At the same time, we are encouraged to hear that Russia is taking steps to improve energy efficiency and bolster conservation at home, including a plan to raise domestic natural gas prices gradually toward market levels. Independent producers are increasingly active, and U.S. energy services companies are already operating in the Russian market.

Much of Russia's existing production, particularly of natural gas, is based in Western Siberia, where fields are being depleted. New fields are located in extremely remote areas, like the Artic, Eastern Siberia, and the Far East.

Bringing in international investors will allow Russian firms to share the risks of exploration and production, and also share technologies and know-how.

We welcome Russia's decision to begin the process of inviting foreign partners to help with the massive Shtokman field in the Barents Sea.

Another factor on many people's minds is the political use of energy resources, such as in the case of Ukraine and the Caucasus last year, and Belarus and the Baltic States this year. To be clear, we do not support endless subsidization by Russia of its neighbors, but we urge that moves toward market pricing be gradual, so as not to upset the economies of Russia's neighbors.

In our interconnected global economy, it is vital that major companies managing important resources are seen to be acting for valid commercial purposes, and not as instruments of politics.

Investment in energy requires a long-term commitment and substantial infrastructure that cannot be packed up and moved elsewhere. Investors in the energy sector need clear rules of the game that are applied consistently to all players – from environmental standards to tax obligations. Investors as well as consuming nations also need to be reassured that they will pay market prices, and have steady and predictable supplies.

We encourage Russia to reaffirm its commitments to upholding the G8 energy security principles, endorsed by leaders in St. Petersburg a year ago.

Finally, a good business climate is vital. This is especially important when countries come into large amounts of capital and seek to put it to productive use, such as the case in Russia since the increase in energy prices.

Indeed, Russia has the third largest financial reserves in the world. This is a great opportunity for Russia to boost long-term growth and development through a series of reforms that can help Russia broaden its economy and thereby sustain growth in the event of shifts in energy prices in the future.

One measure of Russia's transparency and openness to investment will be the Strategic Sectors Law, which, according to early drafts that have been made public, would regulate government reviews of investments into 39 sectors of the Russian economy.

The U.S. government too maintains a process for review of inward investment for national security risks, but it is narrowly tailored to look at individual transactions. Many of the sectors identified in the draft Russian law are those where Russia has unique strengths that could diversify its economy and where it would benefit from foreign partnerships. We hope this law will be shaped to help keep the Russian economy open and competitive.

Additional structural reforms could promote even better outcomes and uses of Russia's resources. Here, I am thinking of the banking sector, the capacity of the financial sector and accounting standards. Improving the judiciary – particularly for financial cases – would also provide greater confidence in the Russian market.

Above all I need to mention the paramount importance of the rule of law, good governance, transparency, respect for contracts, and strong anti-corruption measures.

As some of you may know, I've sat in two very different chairs, with very different perspectives. I was an investment banker in the private sector for over twenty years, and since 2001, I have been in government.

Part of my government experience has been as a regulator of the U.S. commodities and futures markets. I can tell you that strong, technically proficient, fair and transparent governing institutions such as regulatory agencies keep the business sector in line.

They also encourage investment, because they help ensure investors understand where they are putting their money.

And, on the other side, having a vibrant civil society – including a free and independent media – is essential to long term development. Civil society serves as a check on both the private sector and the government.

The United States and Russia can both gain if we work together and continue a constructive relationship. This means recognizing differences, talking about them, and

learning from one another. A strong Russia and a strong United States can be mutually reinforcing. In fact, as history shows, we can benefit from our ties.

From our earliest encounters fishing the Pacific and trading in furs, to cultural exchanges during the Cold War, and the famous 'handshake in space' between the Russian Soyuz and the American Apollo spacecraft, the ties between our countries are deep and longstanding. More importantly, although we have many challenges, our economic prospects together have much promise and we look forward to developing them in the years ahead.

With that, let me turn it over to our host. Thank you all for coming, and I look forward to working with you.

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 [BACK TO TOP](#)

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