

## **ARCCoM Speech**

**St. Paul, MN**

**October 8, 2015**

### **Introduction**

- I would like to thank the American Russian Chamber of Commerce for this invitation and Chairman Anatoli Korkin in particular. This is a great initiative and I look forward to participating in the interesting program scheduled for today and tomorrow.
- I would like to also thank the Minnesota State Trade Office, specifically Steve Riedel, for inviting me to speak. I am honored to be here and energized by the opportunity to learn more about Minnesota business activity in the Russian market.
- Before I begin, let me briefly tell you about who I work for, because it is not uncommon to hear, “What exactly do these Department of Commerce guys do?” By the way, when I was in your shoes in the private sector, I didn’t know either. Hopefully, I can make this a little clearer for you.

- The Commerce department has a number of different bureaus and offices. You have heard of them - the Census Bureau, NOAA or the weather service, the National Institute of Standards and Technology (NIST), etc. For international trade, there are two key bureaus you should be aware of if you are not already: the Bureau of Industry and Security or BIS, and the International Trade Administration, where I work. I will discuss BIS later when we talk about sanctions with Russia.
- Within the international trade administration, we have different units. One is in charge of industry-focused analysis and policy, another focuses on enforcing U.S. trade laws and agreements (such as anti-dumping and countervailing duties), and one is divided geographically—what you might think of as our “country desks” or regional offices. That’s my unit and it is called “Global Markets”.
- In Global Markets, we have trade and country specialists, commercial officers, like myself, at U.S. embassies and consulates abroad in most major markets, and a network of export assistance centers; including the one here in Minnesota.

- We cherish the opportunity to meet and discuss international trade with businesses at Global Markets, and over the next few days, one of my goal is to learn from you.
- So now that you know where I work, let me tell you the three points I want to address today. First, I will discuss our present day bilateral commercial relationship with Russia and how far we have come. Second, I will briefly describe the current challenges in the Russian economy and third, I will note what the U.S. federal government can do to help Minnesota businesses in a complex and often complicated context.
- Now, currently, promoting Russia as a market has been challenging, but that wasn't always the case and we are certainly not where we want to be. Unfortunately, given actions by Russia's leadership, this is where we have to be.
- So before we discuss the current climate in U.S - Russia trade, it is important to see how far we've come.

**U.S./Russia bilateral economic and commercial cooperation: past success and future opportunities.**

- The United States government long sought a robust and constructive trade and investment relationship with Russia. After the fall of the Soviet Union, the U.S. bipartisan core strategy has been to integrate Russia into the global economy by facilitating investment and trade, and by supporting Russia's assumption of a strong role in global institutions.
- A most recent example was Russia's accession to the World Trade Organization. This was a process supported on a bipartisan basis by multiple presidential administrations throughout the 1990s and 2000s, and which was successfully concluded in 2012.
- Although Russia's global integration remains incomplete, accession to the WTO was a big step in the right direction and a sign of Russia's commitment to reducing barriers and expanding trade, outbound and inbound. By changing hundreds of laws and regulations, cutting thousands of tariffs, and navigating through domestic political resistance to many of these changes, the WTO accession process demonstrated Russia's willingness to be part of the global economy.

- In recent years we saw what Russia's cooperation means for our bilateral commercial relationship. Less than two years ago, our bilateral trade and investment definitely benefited from our mutual efforts to strengthen commercial ties since the fall of the Soviet Union. **From 2000 to 2012, our bilateral trade quadrupled from \$10 billion to \$40 billion.** During the same period, U.S. direct investment on a historical basis grew from **\$1.1 billion to \$13.3 billion,** and **Russian direct investment on a historical basis grew from \$155 million to \$5.9 billion.** These are historic increases.
- Our last two Presidents considered the goal of deepening economic ties as a top priority for the U.S.-Russia bilateral relationship. This was due to the increasingly important potential for expanding our economic ties in order to create jobs and boost growth in both of our countries.
- At the end of 2013, we were discussing the possible negotiation of a Bilateral Investment Treaty and a bilateral action plan on improving protection of Intellectual Property Rights, among other topics.

- U.S. policy on Russia has long held that we – and Europe and indeed the broader global community – would be more secure, prosperous, and capable of tackling global challenges if Russia is secure, prosperous, and integrated in global and regional institutions as a constructive stakeholder in the international system.
- That assessment has not changed. What has changed is the Russian government's actions in Ukraine. Russia remains a \$2 trillion dollar economy, with a population of close to 144 million – almost as much as France and Germany combined – and could offer many opportunities for U.S. companies.
- To realize this potential, we must clear a couple of very high hurdles: the current instability of the Russian economy, and the crisis in Ukraine.

### **Russia's economy: short term instability, long term potential**

- In terms of the economy, I won't try to be an economic reporter here – you can get this on CNBC or the Moscow Times, or any number of places in greater detail. However, I feel it is useful to give you a broad overview.

- Russia's economy is set to contract by at least 3% this year and inflation is in the double digits. The Russian central bank offers a discount rate in the mid-teens, which means an interest rate of 25-30% for small businesses in need of working capital. This is not a good borrowing environment.
- Many speculate why the economy is doing poorly. Again, I am not an economist, but it seems as though many factors are at play, including oil prices, which hit a six-year low recently. The devaluation of the ruble, lack of business reforms and financing difficulties due to sanctions are all having an effect on Russia's economy.
- Some of it may also be due to the political risk premium Russia's own actions have placed on business dealings with Russia. Ukraine was one of Russia's major customers and suppliers, and now the disruptions in Ukraine's economy have hurt Russia, which may have led to unintended consequences.
- U.S. foreign direct investment into Russia is flat. A few deals have proceeded, but at nowhere near the pace we had seen in preceding years.

- So, what can we do? How does the U.S. government or Commerce specifically continue to support U.S. business in this context? And what are the questions Minnesota businesses are asking themselves?

### **What can we do? What can't we do?**

- For one, none of the forward looking bilateral policy work we were actively pursuing 20 months ago is possible now, or in the near term.
- We try to tackle key market access issues and press for trade liberalizing policies at multilateral meetings, but, in the economic and commercial sphere, little is done bilaterally right now.
- On a case by case basis, we continue to help U.S. businesses maintain and grow existing export interests in non-sanctioned sectors by conducting matchmaking services, partner searches, and bringing Russian companies to trade shows in Europe and the United States to meet with U.S. companies.
- Our offices in Moscow and St. Petersburg have a network of relationships with Russian distributors and potential U.S. company partners you can tap into. One commercial



officer colleague in Moscow told me that most of the time, Russian companies are not making decisions based on politics. They are interested in getting the best products at the best price. And that makes sense. Many of them have survived the ups and downs financial crises in the past.

- Our commercial specialists at our Embassy in Moscow are also plugged into the market and have firsthand information about trade leads that you can't find in any trade publication.
- We are also helping firms access third country markets in Eurasia or the former Soviet Union, where emerging economies like Kyrgyzstan and Azerbaijan can be more easily targeted through the Russian market.
- But we don't know what's going to happen and must accept that there are a lot of unknowns. For Minnesota businesses, this means anything you do in Russia has greater risk.
- We are also helping companies understand the sanctions and how to conduct current business in Russia legally. Sanctions do complicate things quite a bit, but not in a straightforward way.

## **Sanctions: how does it affect my business?**

- Before I go into more detail, let me comment on the rationale of the sanctions, in a general sense, as I am not an expert.
- We sometimes take for granted that U.S. business and economic interests rely on peace and stability in Europe and respect for international law.
- The goals of the sanctions are to impose costs on the Russian government in order to deter further destabilizing steps and change the Kremlin's behavior in Crimea and eastern Ukraine. The robust range of sanctions can be carefully escalated over the long term if necessary, in coordination with the EU and our major trade partners. It's important to note that we are committed to a multilateral process so that U.S. companies will not be uniquely disadvantaged.

- Throughout the process, we want to understand the impact on businesses worldwide, and maintain a deliberative decision process.
- The official sanctions are on visas, financing, and export controls on physical and legal persons and entities. There are also sectoral sanctions in action in the financial, energy and defense sectors.
- The U.S. Department of the Treasury's Office of Foreign Assets Control or OFAC manages U.S. financial sanctions against physical and legal persons and Bureau of Industry and Security, which I mentioned earlier, regulates the export, re-export and transfer of dual- use goods, software, and technology.
- Lots of you probably are probably thinking: "OK, what does that mean for the business I am doing or thinking about doing?"
- In some cases it's pretty obvious: Company X is on the sanctions list, therefore they cannot buy something from

you. But in most cases it's going to be more difficult for you to feel certain about what you can and can't do.

- For example: you might have a business relationship with a Russian company that doesn't seem to be on the sanctions list; but then you might find out that this company is 40%-owned by someone who **IS** on the sanctions list; or your business partner might not be subject to sanctions, but you might find that he also owns a stake in some other company where he's a partner with a company that **IS** sanctioned. What do you do?
- Often, you just have to talk with someone at OFAC or BIS who can assist you. They can give you the specific advice and guidance you need to complete your transaction or not, or proceed or not proceed with a trade opportunity in Russia. After doing your own research, OFAC and BIS actually encourage you to seek out guidance in advance. I can help you get in touch with the right people and make sure there is follow up.
- This may be new territory for many of you, because for the first time since the mid-1980s, a number of major areas of

business are subject to one or more types of strict limits or outright prohibitions.

- Our broadest sanctions against Russia went into effect in July 2014, and the full impact of these sectoral sanctions is just starting to be measured; and certainly the other factors negatively affecting trade and investment haven't helped. The numbers we are seeing today highlight this unstable economic environment.
- U.S.-Russia bilateral trade in goods in 2014 decreased by 9.9% compared to 2013.
- The trend has worsened in 2015. After six months, U.S. exports to Russia were down 36% and U.S. imports from Russia were down 29%.
- In fact, no one seems to have gained economically as a result of Russia's actions in Ukraine – not the U.S., not the EU, not other partners, and certainly not Russia.

- My colleagues in Moscow have seen a dip in the delivery of business development services over the last two years, but insist that business opportunities remain. However, in some cases you can't conduct business as you did before and need to be more careful about who you buy from and sell to and whether or not what you sell to Russia can be sold there, for reasons that may not be obvious at first.

**Conclusion – Work with the Russia we face, not the Russia we wish to see**

- In short, most of the businesses we talk to are very concerned about the current instability of the market, but also recognize the long term opportunities of the Russian market and take a balanced view.
- U.S. Russia bilateral trade and investment were booming not long ago and the potential for growth remains a significant long-term opportunity for Minnesota businesses.

- We can and still do hope for a Russia that is secure, prosperous, integrated, and on a track to provide a better future for its citizens. Meanwhile, we have to face the challenge of the Russia that exists, not the Russia we wish to see.
- In the meantime, we continue to keep lines of communication open with the Russian government, develop relationships with non-sanctioned Russian companies interested in doing business with U.S. companies and work with U.S. businesses with a competitive advantage in the Russia market.
- My goal today, was not to advise you to do business in Russia. And it wasn't necessarily to tell you to stay away (unless you're in a sanctioned area of business).
- My goal, as it would be for any market, was to make sure you have most realistic and up-to-date information and perspective from which to make your own decisions, and a handle on sources from which to get more information.
- Thank you for the opportunity to speak with you today. I look forward to meeting many of you over the next two

days, and I hope I can continue to provide you with helpful and honest information.



Back up points:

- However, as I outlined earlier, there are many opportunities for increased trade and investment that could benefit both our countries in the future in many sectors. The energy, aerospace, automotive, and agricultural machinery sectors have potential for significant growth.
- As for Ukraine, the U.S. government believes an economically prosperous Ukraine, that can pay its bills and serve as a reliable supplier as well as customer, will stand to benefit Russia greatly.
- What lack of business reforms?
  - suspended privatizations
  - little deregulation,
  - poor or non-existent implementation of anti-corruption measures.
- It is also good to see my colleagues from the Trade Representative office. I recently had the pleasure of meeting Mr. Stadnik in our offices in Washington D.C. but it's nice to get away from Washington on occasion!
- I am relatively new to the Russia portfolio. In fact, I just returned from a two-year tour in Bulgaria as the Senior Commercial Officer at the U.S. Embassy and am currently

working in the Office of Russia, Ukraine, and Eurasia. However, I will have to get up to speed quickly, because next summer I head to our Embassy in Moscow to start a three-year tour as the Deputy Senior Commercial Officer.

- I am really excited about working on our Russia bilateral commercial agenda. It is a huge opportunity for me to be working on Russia because of the historic nature of the bilateral relationship, the complex and complicated nature of our engagement, and Russia's significant potential in the world market place for U.S. companies.
- Did you know that bilateral trade between the U.S. and Russia quadrupled from 2000 to 2012? I will start, however, by tell you a little more about the office I work in at Commerce to give you a sense of where I am coming from. Then briefly discuss the state of our bilateral commercial cooperation, past, present and future. Finally, I will address the current state of the Russian economy and sanctions, with some key information about who to contact for more information and how I can assist you.
- Our office at Commerce assists companies with commercial issues in Russia and helps support our team in Moscow conducting business development and advocacy. In a moment, I will give you a better sense of how our office fits into U.S. government bureaucracy.

- We are all here today because of a mutual interest in international trade in Russia. I want to know about the problems you have experienced or are experiencing to see if what we can potentially do to assist you.
- As Trade Representative Stadnik may also tell you, some of our most important work happens on a case by case basis; working with you to solve your problems in a specific market. Actually, working in this way often gives us more satisfaction than indirect and less personal problem solving tactics. There are many resources available in the U.S. federal government that are not well known.
- Part of my job is to help you get the information you need to help you grow your business overseas, create jobs here in the U.S., and succeed long-term. This is a core part of the U.S. government's mission worldwide, including in Russia.
- We are trying to ensure that the things we are doing to deter Russia don't end up harming U.S. economic interests more than the Russians. We also want to make sure the U.S. has allies, so our companies aren't uniquely exposed to loss of market share.

- In addition, we are doing what we can to assist Ukraine and promote reforms that will help improve what has become a very difficult business environment in that country.
- Hopefully now you have a better understanding of who the people at Global Markets are and how we aim to assist you. Russia is a huge market, and one we want to continue to trade in, however, the Russian government's recent actions are making that difficult.
- (suspended privatizations, little deregulation, and poor or non-existent implementation of anti-corruption measures),
- The Russian government's own policies, such as its imposition of "counter-sanctions" and its efforts to enhance import substitution may have further contributed to the deterioration of the U.S.-Russia trade relationship. For example, U.S. agricultural exports to Russia declined 28 percent in 2014 compared to 2013. The picture in 2015 is even more dramatic so far, with U.S. agricultural exports to Russia having declined over 68%, compared to the same period in 2014.

- In non-sanctioned sectors, most Minnesota businesses can maintain their commercial ties under these complex new regulations.
- However, the Russian economy, compounded by sanctions, do make it more difficult, but not impossible, to successfully do business in Russia today.