

**THE CARNEGIE ENDOWMENT
FOR INTERNATIONAL PEACE**

**RUSSIA'S ACCESSION TO THE WORLD TRADE
ORGANIZATION: NEGOTIATION OF THE U.S.-RUSSIAN
BILATERAL AGREEMENT**

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THE CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE**

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SHERMAN KATZ: Good afternoon, everyone. My name is Sherman Katz, I'm a Senior Associate in the Trade, Equity and Development program at the Carnegie Endowment for International Peace. Welcome to all of you.

We are delighted to have this most timely event. We are honored to have Assistant USTR for WTO & Multilateral Affairs, Dorothy Dwoskin, who's just come back from Asia. Indeed, she's here with us on her day off and if ever the taxpayer – American taxpayer – got his and her money's worth, it's certainly with Dorothy.

We are delighted that this panel could be here to talk with you about last week's agreement between the United States and Russia on WTO accession. As you know, the WTO is an exclusive club. Although it has 150 members, there are two stages, at least, to admission. One of them bi-lateral discussion with any member who wants to join and then multilateral discussion led by a working party that produces a working party report and then a Protocol of Accession. The United States and Russia have now concluded the first stage, bilateral stage, and this is a milestone toward Russian membership in the WTO.

We are delighted as Carnegie to be presenting this program to you, not only because it's an important trade policy issue, but also because the Carnegie Endowment since 1993 has had a center in Moscow as part of the Carnegie view that we ought to be a global think tank and Andy Kuchins who is with us today, was, for several years, the head of our Moscow Center. Andy is the Director of the Russian and Eurasian Program and he writes widely and is highly regarded and sought after around Washington, including by the White House before the President's discussions with Mr. Putin. He will talk with us about the foreign policy context of Russia's pursuit of membership in the WTO.

As you know, there were several major industry concerns in these talks. Three of them concerned intellectual property, agriculture and financial services and we have each of those industries, in a sense, represented here.

Eric Schwartz is Counsel to the International Intellectual Property Alliance, a coalition of seven associations that represent over 1,900 companies and Eric knows as much or more than anyone, about intellectual property in Russia. Indeed, you'll find in your folder a paper on the subject of IPR in Russia's WTO accession that my colleague Matthew Ocheltree and I wrote, and Eric was the most generous source for that paper and we thank him for that. He also had a distinguished career at the U.S. Copyright Office, so he'll be able to give a little of his view on the accession from an intellectual property aspect.

As you probably know, by the way, exports of intellectual property, including music and television, have become one of the largest exports of our economy.

Nick Giordano is International Trade Counsel to the National Pork Producers Council. I would bet that only a few of you know that the United States' largest export to Russia in 2005 was \$600 million worth of pork and pork products. So, this is not just potatoes to mix metaphors.

And, Nick also serves on the President's Advisory Committee on Trade Policy and Negotiations, the highest-ranking advisory committee at USTR, so he brings to this discussion a view from an agricultural industry, from a key area of difficulty for SPS reasons and others with Russia, and we're delighted to have him.

Diana Keegan, from AIG, acts, essentially, today as representative of the financial services industry. The insurance industry, of course, as well as the banking industry, has significant obstacles that Dorothy helped them deal with in these negotiations and we look forward to hearing from her.

And, finally, last, but certainly not least, Randi Levinas, is Director of Policy and Programs at the U.S.-Russia Business Council, and that group is acting as the secretariat for a recently formed coalition on U.S.-Russia trade and this group will be instrumental in working with Congress to obtain Permanent Normal Trade Relations, which is essential to Russia enjoying MFN rates with the United States.

By the way, I also want to mention, you have in your folders several parts of the "trade facts" which USTR produced on what Dorothy and her colleagues have been able to accomplish with USTR, should you want to refer to them.

Now, as to procedure, we've invited each of speakers to make eight to ten minutes of remarks. Dorothy's special, she can speak as long as she likes and then we will, before opening the floor to questions, invite the speakers to comment on what each of them has had to say, and then we'll invite your questions.

And since we are so many, and this is a long, thin room, I hope the speakers won't mind if I ask them to come up to the podium because it's so much easier for folks in the back of the room to see you.

We'll begin with Dorothy. Thanks, Dorothy.

DOROTHY DWOSKIN: Thanks very much. Thanks for doing this. I'm not sure my voice is going to do eight to ten minutes, but, anyway, thanks very much for inviting me.

So, this is the first opportunity I have to speak before a large group and say "Yes, we finished our bilateral agreement with Russia." (Applause.)

For the last couple of months, I've said, we're close; we're getting closer; we're not there; we're almost there, and it's nice to be able to change the beginning of the tape.

Let me just remind you that we've been working on the accession for quite some time – since 1944 – as the chairman said, we have two parts to the negotiation. One is this bilateral market access agreement that Russia much negotiate with any member of the WTO that's interested. I think Russia is upwards of – has more market access bilaterals, probably, than any other WTO acceding country, except for, perhaps, China. I think they're up to something like 55 members.

And, it's been a tough slog and a long slog and, in part, it's been tough and long because the United States has taken the opportunity to make sure that, as the negotiations proceeded, that we were looking at genuine market access. That is: that the tariffs would not be undermined by other actions or measure that the Russians might take. A number of our trading partners, generally, wait until the multilateral part of the negotiations until – before they test out some of their ideas.

It's not to say that we are finished in terms of the multilateral work, but I think we are reasonably confident that the process that we've engaged in with Russia will be one where we can actually take advantage of the concessions that we've obtained.

Now, you know, in July there were a lot of very disappointed people – my family. No, I'm just kidding – there were a lot of very disappointed people in July at the G8, because we really did think that we were going to be able finally come to an agreement on a handful of issues that had been very, very difficult. And, I think, people always, sort of, tried to read a lot of different things into the negotiations in terms of mood, in terms of whether or not something else was happening in our bilateral relationship with Russia and I think the President said, in answer to a question after the bilateral in St. Petersburg, he said, you know, "We're tough negotiators and the reason is because we want an agreement that can be accepted by the Congress and when we negotiate and agreement, it has to be approved. And any trade agreement that has to be approved mean that is very important."

He said, "I believe we're fair negotiators and our negotiators come to the table trying to achieve the objectives that I've set out, which is a commercial agreement. And that is that we want Russian accession into the WTO. That's what we want and we will continue negotiating." So, we all had our marching orders after the end of July.

We did have quite an – excuse me: the Hanoi flu. Sorry. My apologies; I don't know that I'll be able to do this for much longer.

The deal has a number of different components to it: agriculture, which is both tariffs and sanitary and phytosanitary measures. (Coughing.)

MR. : (Off mike.)

MS. DWORSKIN: Sorry, I apologize. I don't usually weep about trade agreements. (Laughter.)

(Crosstalk.)

MS. DWORSKIN: If I could make a suggestion?

MR. KATZ: Sure.

MS. DWOSKIN: I think if you would ask one of the other speakers –

MR. KATZ: Sure.

MS. DWOSKIN: – to go, then I'll catch up.

MR. KATZ: Sure. Andy, why don't come to the podium.

We'll move to Andy Kuchins and give Dorothy a little recovery time.

MR. KATZ: All cough drops are welcome. (Laughter.) He has Lifesavers, the best kind.

ANDREW KUCHINS: Well, Dorothy as you recover over there, let me take this opportunity to say, hallelujah – (laughter) – and congratulations. It's been a long time coming, more than 12 years of difficult negotiation and a really important achievement and I congratulate you and the USTR and the U.S. government and the Russian government and the Putin administration for having the patience and the diligence and the persistence to work this out, because I know it's not easy and I'm sure you and your family are really going to miss such frequent trips to Moscow and the regular opportunity to negotiate with the Russians. After spending my two and a half years in Moscow, I know I do.

This is really the first piece of good news for the U.S-Russian relationship – I think really good news – in quite a long time. I'm a political scientist. I'm not a trade lawyer. I'm not an economist. I'm not an industry expert. I'm not qualified to talk about the technical details of the agreement, so I'm going to talk about the WTO in the context of the U.S.-Russian relationship some and try to be very, very brief.

It's no secret that the U.S.-Russian relationship has been suffering a number of difficult moments in the last few years and I think if you look back to the second honeymoon period after 9/11 – the first honeymoon being right after the collapse of the Soviet Union – the relationship has really deteriorated fairly steadily and you can even make the argument that it's a point of acrimony and distrust, perhaps not seen since the collapse of the Soviet Union or even going back to the point when Mikhail Gorbachev became General Secretary of the Communist Party of the Soviet Union 20 years ago.

The list of grievances on the U.S. side is well know, beginning with – well, you can begin with a lot of things, but human rights violations and the wars in Chechnya, the

Yukos affair, increasing state control in the economy, the weakening of democratic institutions under Mr. Putin, aggressive meddling with its neighbors like Georgia and Ukraine and other. And the list goes on.

The Russians, for their own part, have their own list and it was conveyed to us a rather entertaining way. At least some of us, in a now famous off-the-record discussion at the Carnegie Endowment a couple of weeks ago, held with Alexander Voloshin, the former Chief of Staff of both Mr. Yeltsin and Mr. Putin. And I think, he conveyed what is the Russian sense of the relationship. That is, that the Russians don't feel that they have received much in return, over the course of the last five years, for the many conciliatory steps that they've taken.

And, Mr. Voloshin conveyed this in a rather entertaining way, as I've said. He said, Vladimir Vladimirovich Putin, he counts on his fingers all the steps that Russia has taken since he became President to try to conciliate the U.S., including closing down the naval base at Cam Ranh Bay in Vietnam, closing down the listening station in Cuba, fully supporting the United States in Afghanistan, allowing for the establishment of U.S. military bases in Central Asia, quietly accepting U.S. withdrawal from the ABM Treaty and quietly accepting a second round of NATO expansion.

And then Mr. Putin looks at his hand and he says, "Well, what have I received in return from my American colleagues," and he looks at his hand and it remains clenched in a fist that becomes angrier and angrier and we've been hearing this fist pounding on the walls of the Kremlin louder and louder as the criticism of Mr. Putin's leadership in Washington has grown, as the United States had undertaken and contributed to, at least from the Kremlin's perspective, a series of regime changes, color revolutions in Russia's backyard and a number of other measures.

And then the failure to reach the WTO accession agreement in July, which as Dorothy said, did disappoint a lot of people, especially those in Moscow, it kind of spoiled, to some extent, or at least, it took a little bit of the tarnish off Mr. Putin's coming out party in St. Petersburg at the G8, and it led to Russian complaints that they been deceived by the Bush administration. And when I had the opportunity to meet with Mr. Putin and a number of other Westerners – mostly Western Europeans and Americans in these Valdai Discussion Clubs back in September – Mr. Putin sent us a clear message, that if the United States doesn't behave in a partner-like manner, then, in effect, Russia would accelerate its economic and security orientation eastwards to China.

Well, probably an idle threat to some extent, but I think there's a fundamental problem in the relationship in that we each have a different conception of what "partnership" is. For the United States, Russia's never going to be a very trusted partner until it more fully embraces Western values and becomes more democratic. Until, and if, that happens, Russia's going to remain in the category of countries that are partners and allies of convenience or necessity. And these countries include the likes of Saudi Arabia, Pakistan, China and many others and they are treated quite differently by Washington, for a combination of security, economic and other interests, as perceived by Washington.

Moscow will typically complain about double interests – excuse, double standards, in this regard, but that’s going to be the case for a long time to come until Moscow begins to promote more of a real and not a Potemkin democracy over there.

Now Russia, on the other hand, appears not to particularly trust anybody and doesn’t have any genuine allies - unless one wants to think about Mr. Lukashenko in Belarus - but only partners of convenience or necessity. And the superb economic recovery of recent years has instilled a new confidence and vigor in Moscow for sure, but that confidence barely masks an enduring sense of insecurity that pervades the Kremlin and it’s understandable, certainly, why Russia – why after the 1990’s Russia’s pleased that it could feel free to turn away from integration with the West and, instead, trumpet its independence and sovereignty, but I don’t think that’s really a long-term option, or a good long-term option for Russian foreign policy, but we will see.

Now, we don’t need to run through the reasons why Russia’s integration into the global economy and into global institutions, Western institutions, is in our interest. I think that’s fairly obvious and, certainly, Russia’s joining the WTO is not going to be game changer, but it does shift the momentum somewhat in that regard.

But, it’s this issue of partnership which I think is problematic for us and it’s going to – in Moscow, my sense is that it’s continuing being recalibrated. It’s an eternal negotiation which is not – which is fairly bereft of trust.

Some of you may have heard Igor Shuvalov, the Russian sherpa to the G8 negotiations, here in April in Washington, when he made explicit linkage between the United States agreeing to Russia’s bilateral WTO accession and then Russia giving in return or Russia could – then the United States could expect that Russia would behave in a more partnerly way and reciprocate with major commercial deals like involving U.S. companies in the giant – development of the giant Shtokman field in the Barents Sea, Aeroflot purchasing billions of dollars of Boeing orders and the like.

This kind of linkage is typically made in Moscow and, in fact, Shuvalov quite emphatically told this – told our group in Moscow back in September, that the Europeans and the Americans – well, the Americans; it’s a group of Europeans and Americans – that the Americans had made a huge mistake in not agreeing to the WTO accession with the Russians in July. And he made a different kind of linkage, that, in fact, there is a pitched battle going on between the *siloviki*, on the one hand, and the liberals, on the other, or maybe it's the *siloviki* over here and the liberals over here – it's sort of a reincarnation of the old hard-liners versus soft-liners in the Kremlin argument that goes back to Stalin's time and probably even before that – and that in fact by not giving Mr. Putin – who is, in Mr. Shuvalov's mind, of a more liberal inclination – what he wanted in the WTO accession, we were in fact empowering the hard-liners, even those antithetical to our interests in the long term. Idle threat? Perhaps.

Now, the recent flurry of commentary in Moscow before the WTO agreement was that the U.S. would trade the WTO agreement for the Russian government supporting

tougher sanctions on Iran. Now, you can accuse me of drinking Dorothy's Kool-Aid, which she wasn't able to fully convey to us at the outset. But frankly, I'm very skeptical that this kind of linkage argument was a principal driver in the Bush administration's position or even an insignificant driver in the Bush administration's position.

I think the main driver, as Dorothy began to get at, was the goal of negotiating the best agreement with the Russians that was most likely to be viewed in U.S. national and commercial interests, and that we are not simply horse trading; that these agreements have important intrinsic value in and of themselves.

And in fact, I would make the argument further that I think it would be foolish on our part, on the U.S. part, if we interpreted Russian policy strictly in these kinds of linkage terms, because I'm skeptical, for example, that the status of the WTO negotiations had a big increase – a big influence on what Gazprom decided to do or not do with the Shtokman gas deal involving U.S. partners. And I am quite skeptical that what the Russian government does on deciding about sanctions in the U.N. Security Council on Iran is going to be linked with this WTO agreement.

You know, we can't entirely discount political linkage explanations, since the overall state of the relationship does have some influence over the readiness of each side to compromise. But I think, as a general rule, it makes more sense to apply Occam's razor, if you will, by looking for explanations that address the discrete and direct dynamics, interests and logic of each policy decision in and of itself, both in Washington and in Moscow.

Now, while I'm more skeptical about linkage as an explanation of policy or as an effective motive for policy-making decisions in either the White House or the Kremlin, I am – I think the U.S. Congress is another matter. And not to steal any of Randi's thunder, who will be discussing this at greater length, let me just conclude by making a couple of comments about the debate that we're likely to have in the U.S. Congress about Russia's PNTR status and lifting of the Jackson-Vanik amendment.

A couple of weeks ago at the American Enterprise Institute, a congressional staffer on the Senate side made the argument that the U.S. Congress is less constrained and that the Russians will no longer be getting a free pass. Well, I can tell you, the Russians certainly don't believe that they have been getting a free pass from the Bush administration for the last five or six years.

There are – in order for the signing agreement that just took place in Hanoi to be more than a blip on the screen, some other things have to happen. And first and foremost, the United States and Russia have got to bridge the gap in their positions in Iran. And sometime in 2007, this debate's going to take place, and it's not simply going to be a discussion about Russia's fitness to join the WTO. I think it's going to be a much broader referendum on Russia and the U.S.-Russian relationship, and issues like Iran, issues like Russia's status as a democracy, what's going on with human rights in the Northern Caucasuses, et cetera – many of those things are likely going to come into play.

But particularly, I think, if Congress is not satisfied with Russia's Iran policy, then I think that vote is going to be dead in the water.

Now, there are going to be two opportunities for Congress to weigh in on Russia in 2007 and 2008. I think one is going to be this PNTR vote; the other one is going to be – if this agreement is reached on the 123 Civilian Nuclear Agreement – that would also reach the Congress. It's not clear which one's going to come first. I'm not sure how long this multilateral negotiation in Geneva is going to last. German Gref says six months; the multilateral with China lasted 20 months. It could be fairly complicated.

But I think there are three factors that are going to come into play as far as the congressional debate goes.

First of all, we do have, as of a couple of weeks ago, a Democratic Congress, which is most likely going to be less friendly to trade agreements in general. And we look at what happened last week with the decision of the Congress to pass – or to – well, to not take up the vote on Vietnam's WTO status. I don't take that as a particularly good harbinger for the next Congress.

Secondly, there are going to be little – few political incentives for Republicans or Democrats in the coming electoral cycle in the United States to be viewed as soft on Russia. And we can already see that as you look at some of the positions that have been taken by some of the potential candidates for 2008.

The third point is Russia's going to be in an election season also, and there are going to be very few incentives on the part of the Russian government to be viewed as soft on the U.S. or foreigners. So I think we should expect, most likely, some things to happen, be they of a nature like the NGO legislation law from about a year ago or the recent trade and political problems with Georgia, be they turning off gas to Ukraine. I think we should expect that there are going to be some things that the Russian government does in the next year or so which are going to – well, I would say piss people off here – but let's say inflame certain anti-Russian sentiments in Washington.

And the final point I would make in that regard is that I really think it's time for the Russian government to get pretty serious about lobbying in Washington and really working to improve its image. I think that for years the fact that the recently ousted and scandal-ridden Curt Weldon was regarded in Moscow as the leader of the Russian lobby, to me that pretty much says all you need to know about the Russian lobby in Washington. The mood in this town about Russia is pretty grim. And I don't think the Democratic takeover of the Congress is going to help matters for Mr. Putin, although I wouldn't exaggerate how negative it's going to be, as many of my Russian colleagues are doing.

But I think it's really past time for Moscow to take a more professional approach to improving Russia's image here, because while Mr. Putin and his colleagues can guarantee outcomes in the Duma with a couple of phone calls, the Congress doesn't

exactly work that way, despite certain scandals that we know of in the past. It's a little bit more complicated.

And the final point being that if there is a failed vote on Russia's PNTR status and the Jackson-Vanik, well, one, it's possible that Russia, I suppose, could join the WTO without a bilateral – without the United States. I'll let my colleagues talk about the negative implications of that. But there would certainly be another round of recriminations from Moscow and accusations about broken promises, and the like. And it would leave a very, very negative residue in the relationship for who is ever going to be sitting in the Kremlin beyond the presidential election in Russia in 2008.

Thanks.

MR. KATZ: Thank you very much.

We're going to go to Eric Schwartz and give Dorothy a little more recovery time.

ERIC SCHWARTZ: While Dorothy recuperates, let me begin by thanking Sherm and Matt and Andy and others here for hosting this event. And I'm delighted to participate. And I also wanted to publicly thank Dorothy and Ambassador Schwab and the rest of her negotiating team, and those in the other agencies at State, Commerce, PTO, and my old stomping ground, the Copyright Office, for a tremendous amount of work.

What I was asked to do in about 10 minutes was to provide you the IPR point of view on the obstacles overcome or that have been overcome or are yet to be overcome, the current status of IPR issues and the prospects going forward at this stage of the U.S.-Russia negotiations and just generally in the U.S.-Russia IPR scheme of things.

Let me say that there is, as Dorothy I'm sure would have told you had her voice held out, an IPR side letter, a very extensive agreement that I was asked to comment on, but I have not yet seen because it is still confidential. It was just signed, as you know, this weekend, and I understand it will be posted on the USTR website within the next probably 24 hours. But there is on the USTR website a terrific fact sheet on that side letter and the other agreements. So my comments on the IPR issues and what's in the side letter are based on the fact sheet.

Let me begin before you all come down from your sugar high from the cookies that were provided talking about the obstacles and current status of IPR issues. We essentially break them into two parts: One are legal reforms and the other – and clearly our number one priority – is enforcement. The legal reforms are just the means to the end of enforcement.

On legal reforms – and I'm talking about existing Russian copyright law, regulations and other related laws – there are a whole host of deficiencies. On optical disks, which is the manufacturing of CDs and DVDs, the licensing and regulation of the

production of these materials on all types of digital media – these are the provisions and copyright laws that pertain to the so-called WIPO – digital treaties. There are a variety of very sort of specialized parts of the laws that are missing from current Russian law, for example, on camcording, the copying of motion pictures in theaters and criminal prosecution of those activities.

On collective administration, Russia is unique in the world. In its 2004 copyright law, it adopted provisions which essentially force you to become a member of a collecting rights society. In the U.S., of course, you decide for yourself whether you want to be a member of ASCAP, BMI or CISAC. They are a non-exclusive licensee for you. They take out an administration fee for their administration – for the administration of your copyrights. But in Russia, they established a provision which essentially forces membership in collecting rights societies, which is why you have these piratical organizations, one known ROMS, for example. And then there are a whole host of enforcement-related provisions that concern us.

There are not clear provisions in the Russian copyright regime on the confiscation of equipment used to produce illegal material. There are provisions with regard to the goods that are produced, so they can seize the CDs at the plant, but not necessarily the machinery, the molds and all of the material that produces them. So obviously it's a fairly ineffective – when used at all, fairly effective criminal enforcement scheme. And we have a host of provisions, shortcomings, on border enforcement and other types of administrative regulations which we annually set out, that is the IIPA, in our special 301 filing.

And I should clarify at this point, if I didn't – it wasn't clear in the introduction, that I'm only here representing the copyright industry – so the music, film, software, both the business and entertainment software, and book publishing industries, and I'm not here talking about any trademark or patent issues.

And then on the legal reforms, sort of – the issue that forced us to spend the most time and attention in the last year – after 15 years of negotiating with the Russian government on its copyright legal regime – and I say "negotiating" because in 1992, Russia received most favored nation trade status as the result of a bilateral trade agreement, and I was a negotiator on the copyright provisions in that agreement when I was at the Copyright Office. And that agreement set out the provisions in law and enforcement that Russia had to comply with in order to get MFN, now called normal trade relations.

It took them 11 years to properly implement those obligations. In July of 2004, they finally provided the last of the amendments into their copyright law.

No sooner had Russia completed that project then they announced that – something that had been percolating for about 10 or 12 years was now going to come to the fore, and that was they were going to redo all of their intellectual property laws with a new civil code and delete the copyright law, the patent law and the trademark law, so a

total do-over. And it's referred to as the Civil Code Part IV, because those are the provisions that pertain to IPR.

The key for the copyright industries and patent and trademark is not to step backwards after 15 years of finally, finally getting the legal regime more or less in place that we were looking for that would get us to the place where we really wanted to be, which was about enforcement of the laws. So let me talk about enforcement, but simply note, if you hadn't been following the news, that on November 8th of this year, the Duma passed in the second reading Part IV of the Civil Code, and with about 390 amendments, we are just getting translations now and are just getting the opportunity to go through it, because it was far from a transparent process. We're finally going to see what the copyright law, patent and trademark laws of Russia are going to look like, because the third reading in the Duma is very pro forma, so this is now going to be the intellectual property laws of Russia, and they will then undo the last 15 years of law.

And so let's talk about our priority, which was not about legal reform until the last year, but enforcement. A few statistics on copyright.

First, there are currently 54 plants in Russia producing optical discs. Of those, we can only identify, so far, 24 that are engaged in piratical activity. Why can't we identify more? Because there's no comprehensive system of inspection of the plants, as there would be in any other country that is properly producing, distributing and properly licensing the production and distribution of optical discs. The plants have a capacity that ranges somewhere around 390 million discs per year. The local market can sustain the sale of somewhere around one-tenth that amount. The discs have been found in over – illegal discs have been found in over 25 countries, verifiable proof in over 25 countries. Much of the material is produced by organized crime syndicates for export. The film discs, for example, will be in eight – DVDs in eight languages, and Russia is not one of the eight languages on the disc because it's not for local consumption, it's for export.

In 2005, Russia undertook about 21 raids in total, and some were repeat raids on the same plants. The problem was, and has been, and continues to be that these are not surprise inspections. So sometimes they'll go into plants, and surprise, surprise, there's no illegal material in the plant. Or the plants have, in almost all cases, remained open even after inspection, and/or a lot of the material ends up back out on the market because there's a provision in the Russian law which actually allows charitable institutions to sell illegal material for the benefit of their charities. (Laughter.) So, in short, there's no criminal deterrence.

Now, in the side letter, as we understand from the fact sheet, there are new statistics that the Russian government has recently provided to the U.S. government on progress on these types of enforcement activities. First of all, let me say this. What it shows is that there have been more cases commenced. Now, that's a good thing – more criminal cases commenced. But what it doesn't show is the disposition of the cases. The problem for us has been there are very, very few criminal sentences actually imposed, very few, I think one in the last eight years, against any plant operator. So there's really

no economic or other deterrent to stop this type of large-scale piratical activity at the plants. So, you know, what we really absolutely need to see is effective enforcement.

So, turning to the IPR side letter, what the U.S. and Russia just completed was phase one of accession. They completed, essentially, an agreement in which they agreed to what Russia needs to do as the next steps before it can accede to the WTO. And from my experience in this area – and I've been working on Russia, and before that Soviet, IPR issues since 1988. I can tell you – and you know, Dorothy and others well know, implement – as difficult as this negotiation was to get the side letter, the implementation is going to be much tougher.

In general, the side letter is very good, and it's very comprehensive, but of course, the jury is out on whether it will be completely and fully implemented. There are – and just not to run over my time, but just – essentially eight areas on IPR on the side letter that are covered.

Optical disc piracy. Both the required fixes in the law to properly provide the type of inspections and criminal deterrent penalties for illegal activities at the plants, as well as to undertake actual surprise inspections. There are provisions in the side letter on Internet piracy to shut down the sorts of large-scale piratical sites such as allmp3.com. The largest Internet pirate in the world is this website that's been, you know, acting with impunity for years.

To fix the collecting society provisions, this unique provision on the forced member to comply with WIPO digital treaties, to comply with the WTO TRIPS agreement, the so-called Trade-Related Aspects of Intellectual Property Agreement of the WTO on copyright. And this means – and it clearly says in the side letter or so the fact sheet says – that there can be no backsliding in the civil code. So even though the civil code has deficiencies and we know that it has deficiencies, they're going to have to redo the civil code and provide additional provisions just to get it back to where we were before November 8th of this year. To improve criminal deterrence and border enforcement and to improve bilateral cooperation.

We want the IIPA and its members wants Russia in the WTO when they're TRIPS compliant, but they've got a lot of work to do on phase two. There are clear deadlines in the agreement that they must meet, most of them by June 1 of next year. We will work with the U.S. government and hopefully the Russian government if they act more transparently than they did in the last round of copyright revision to make sure that they set out all of the required obligations in law and enforcement and that they meet the deadlines. And if they do that, we will gladly accept them into the WTO, but we all have our work cut out for them.

I would just add, you know, on a final note that I'm cautiously optimistic. I think a lot is in the side letter, and we really, you know, owe a lot of thanks to you because you've covered all of our bases. Now, we have to see them properly implemented.

Thank you.

MR. KATZ: Thanks very much. We're going to go to Nick Giordano.

Nick?

NICK GIORDANO: Good afternoon. Appreciate The Carnegie Endowment inviting the National Pork Producers Council to present our views on the U.S.-Russia bilateral deal, and in my comments, I'm going to be providing our views not just on what this means to U.S. pork producers, but also to our colleagues in American food and agriculture. The National Pork Producers Council represents pork producers in 44 affiliated states that annually generate approximately \$14.35 billion in farm gate sales. The U.S. pork industry supports over 565,000 domestic jobs, and generates more than \$84 billion annually in total economic activity.

In 2005, total U.S. pork exports set a record of 1.16 million metric tons, valued at \$2.6 billion. Much of the growth of U.S. pork exports is directly attributable – in fact, the majority – is directly attributable to market access made possible through trade agreements. U.S. exports of pork and pork products have increased by 389 percent in volume terms, and more than 361 percent in values terms since the implementation of the NAFTA in 1994 and the Uruguay Round in 1995. Our top export markets, our top eight export markets in 2005 are all markets in which pork exports have soared because of recent trade agreements, whether FTAs, WTO accession deals, or the Uruguay Round. It is for this reason that our industry pays very special attention to all U.S. trade negotiations.

I dare say Dorothy could vouch for the intensity of our involvement in most of the various recent FTAs and accession talks. If a trade deal is good for our producers, we will support it and support it aggressively, and we will work with other food and agriculture groups to gain its acceptance and passage by the U.S. Congress. If, on the other hand, an agreement does not measure up for us, we will work against it. Trade is simply too important for us. We need good trade deals. This is a good trade deal for our producers, I'm very pleased to say.

We're very thankful to Ambassador Schwab, Ambassador Crowder, Secretary Johanns, their staffs; Dorothy and all those who worked very hard to make this a reality. It achieves virtually all the goals we set out for a deal that would allow us to support Russia's WTO membership and to support extending Permanent Normal Trade Relations to Russia. The deal is also good for other agricultural sectors, and I believe that most other farm groups, if not all, will support PNTR for Russia when the time comes as well.

Let me give you some of the highlights, starting with the meat sector. Not only is this sector the one in which I obviously have the most direct interest, but it is also the most important, by far, in overall trade relationship with Russia.

In 2005, the U.S. exported to Russia \$740 million worth of meat and poultry products. I believe that this is the largest U.S. export item, except perhaps all forms of machinery taken together. Meat and poultry exports represent about a quarter of total U.S. exports to Russia right now are poultry. However, pork's star has been rising in the Russian market. In recent years, our pork exports to Russia have grown exponentially. In September 2003, the U.S. and Russia reached an agreement on a country-specific quota for U.S. pork. That agreement, which we viewed as a down payment on Russia's accession to the WTO, has facilitated an increase in U.S. pork exports to Russia from only about \$8 million in 2003 to \$72.2 million in 2005, making Russia the sixth-largest export destination for U.S. pork and pork products.

According to Iowa State Economist Dermot Hayes, January through September 2006 pork exports to the Russian market increased live hog prices in the U.S. by about 2 percent more than otherwise would have been the case. At today's prices, this corresponds to about \$2.42 per animal. For an industry with continuously fluctuating prices and profits, additional margins of \$2.42 per hog certainly can tip the scale to a positive return and make a pork producer's operation sustainable.

The bilateral agreement establishes new and improved procedures for inspection and approval of U.S. meat processing plants which impact pork, beef and poultry, and we and our colleagues in those sectors are very pleased.

Of specific importance to pork, Russia agreed to accept international norms and allow freezing as mitigation for trichina in pork. This will allow us to export frozen pork for retail of sale in Russia without hugely expensive and thus unnecessary testing for the parasite. And some of you might be asking, what the heck is trichina? Good. I'm glad you don't know, because back in Grandma's time, maybe it was a problem, but it's not an issue in the U.S. commercial food supply. It's nothing the Russians should be concerned about, and we're delighted that they have decided to embrace international norms and accept our product for retail sale.

U.S. exports of beef were banned by Russia in 2003 after detection of BSE in the United States. As part of the bilateral agreement, Russia has agreed to implement a two-step process to fully open its market to U.S. beef.

First, Russia will immediately open its market to all beef under 30 months of age – deboned beef, bone-in beef, beef by-products – all from cattle 30 months under age. The two sides have agreed to expeditiously inspect U.S. processing facilities that wish to export beef to Russia, and trade is hoped to resume quickly.

The second step will occur once the world organization for animal health, the OIE, designates the risk status of the U.S. with regard to BSE. An OIE designation of the United States as a controlled risk or negligible risk country would then open Russia's market to all U.S. beef of all ages, and that could come as soon as this spring, this OIE finding that's referenced in the agreement.

Now, what about the other agricultural products? As part of its WTO membership obligations, Russia will bind its tariffs on all food and agriculture products. For the first time, U.S. exporters will know with certainty what the maximum tariff will be on their products from one year to the next. Moreover, once Russia is a full member of the WTO and the U.S. grants it PNTR status, U.S. producers, processors and exporters will gain from specific tariff reductions negotiated as part of this accession package.

Tariffs will be reduced and/or bound on such products as wheat, corn, barley, apples, pears, grapes, raisins, cherries, oranges, grapefruit, almonds, walnuts, pistachio nuts, certain key dairy products, soybeans, soybean meal, soybean oil, pet food and wine, in addition to the aforementioned trade benefits coming to my sector, the beef sector and the poultry sector.

It is worth mentioning – indeed, stressing – that all these concessions are part of an agreement in which the U.S. is obligated to give Russia nothing in return. This is often overlooked by opponents of trade agreements when WTO accession agreements are considered for congressional approval. All we are obliged to do is to provide Russia permanent normal trade relations, as we do for all the other members of the WTO.

As most of you probably know, PNTR does not mean we must reduce tariffs on products from Russia. It simply means that we must make permanent the normal trade status we already extend to Russia on a temporary basis.

In conclusion, the bilateral agreement recently negotiated with Russia holds enormous promise for U.S. food and agriculture exports. Now, I'm not so naive as to believe that it will resolve or prevent all bilateral problems in the future. Of course not. Generally, increased trade means some increased trade frictions, since somebody always believes that their ox is being gored by imports or by practices associated with the agreement. But the potential for some problems is not a reason to avoid trade agreements. It simply means those problems must be confronted and resolved as they arise. With Russia a member of the WTO, it will be possible to utilize the WTO's dispute settlement mechanism to respond as necessary and need to such challenges.

Thank you.

MR. KATZ: Thanks.

Okay. We're going to go right to Diana and then Randi and then Dorothy at the end.

DIANA KEEGAN: Is that on?

MR. KATZ: Yes.

MS. KEEGAN: Yes. Okay. I hope I don't have the same problem as Dorothy might. I've had a throat problem, too. I'll try. (Chuckles.)

Anyway, good afternoon, everybody. First, I'd like to thank the Carnegie Endowment and Sherm Katz for this wonderful opportunity; and secondly, but no less, Ambassador Schwab; Dorothy, especially Dorothy, and her team; and the services and investment team at USTR, who have concluded such a commercially meaningful, strong bilateral with Russia. I would like to add that on the insurance side, we are very privileged to have such a dedicated group of professionals acting on our behalf on our international trade agreements, both the FTAs and the multilateral WTO level.

What I'd like to do is to give you a little bit of information about the insurance market that this agreement is so important for. I can't profess to represent the entire financial services industry because my knowledge is more limited to insurance.

AIG has been in Russia, in the Russian insurance market, since the early 1990s when it first opened up to trade. And what I would add is, is that over the years, I think the local domestic industry, the Russian firms have benefited greatly from the presence of foreign insurers there in the expansion of their products and business, and today remain the most important players in the market.

So what would a prospective market look like? What would a market's important for future years, what will we be looking at? First of all, of course, population. If you don't have anybody to buy your products, there's really no point in going. Russia's 2005 – I would add that the figures I'm giving you here were as at the end of year 2005, unless I say so. I got them from statistics that were issued earlier this year. I couldn't find anything across the board more up to date, so I apologize in advance if that's not okay.

Two-thousand-five population census: 143 million. Two-thousand-five GDP was, U.S. dollars, 752 billion; per capital GDP in 2005, U.S. dollars, 5,258. And perhaps more importantly, their growth over the past five years has averaged – GDP growth has averaged 6 percent, which is good.

Another thing that we would look for is a concerted effort by authorities to regulate their market in a fair and transparent manner. We operate in 130 jurisdictions worldwide. That is something which is coming, but of course there are still markets where it's better than in others. The Russian Federation authorities have made efforts to reorganize and strengthen the insurance sector over the past year. In 2005, 200 companies' licenses were revoked for improper activities. So we are down to – and then, there was a process of consolidation. The number of insurance companies then dropped to 1,075, which is down from 1,280 in 2004. The number of reinsurance companies currently in the market is 42.

The Russian Federation market itself is the 23rd largest insurance market in the world, and this was as of 2003 and after the U.S. Japan, and the United Kingdom. But interestingly enough – this I found very interesting going into the numbers – was the Russian Federation is the third-largest growing insurance market in the world, and after

our two last discussions, Ukraine and Vietnam. So that's an interesting point I didn't know before.

Insurance premium income growth. In 2001, insurance premium totaled U.S. dollars 8.2 billion. In 2004, that had risen to 17 billion – increase – a dramatic increase. Of that, a compulsory alliance, which would be – such as your auto liability. In Russia also certain forms of coverage for government employees was about 32 percent of that, and then the voluntary insurance market, which we are much more active in with exception of the auto liability, 68 percent. And that amounted to in numbers for life insurance of the voluntary 3.86 billion in U.S. dollars and 7.8 – 7 billion for the non-life.

Over all, the penetration of insurance products or private insurance products is low in Russia, and you often get this with a system where there is a social system in place. People don't really understand or see the need to purchase insurance, so there's plenty of room for growth private insurers. The penetration of insurance products was 2.8 of GDP, but incomes are rising and customer expectations are growing, and there are still many, many first-time buyers in the market – plenty of room for expansion.

So what's lacking, and why a WTO membership? We've been there 10 years. We've been operating. People might say, well, why would you need such an agreement? I think perhaps first and foremost it's because of – working with a WTO member company or working in a WTO member company provides you with a level of certainty, a predictability, as to your future treatment and status as a foreign-invested enterprise than you would have if that country is not a WTO member.

WTO accession formalizes Russia's participation in the international trade circuit. It's much more difficult to act with impunity outside of that trade circuit.

Of course, things will wrong; we don't expect everything to go right. But as two of my colleagues here have mentioned, it is the – we are now working within a system where there is a dispute resolution system that we can use as a means to bring our disputes and settle them on a rules-based basis.

The WTO agreement would provide a baseline of commercially meaningful commitments in line with international practice. It equalizes competitive conditions among foreign and against domestic interests. And as I mentioned, it provides a rules-based international dispute settlement system from which we can benefit.

I think, perhaps, of these, it's the baseline – it means we can't go below this; we can only go forward. And that is, of course, extremely important for businesses such as insurance to have.

In addition that, there is a great improvement in market access to new insurance companies going in. We have been able to secure, as of the date of accession, 100 percent foreign ownership in non-life enterprises and 51 to 100 percent foreign ownership. And that will be over five years for the life companies.

At the present time, equity is restricted in life to 49 percent and similarly in the non-life sector, unless, of course, you are a European Union country – company.

But as I said, there will be an equalization of the competitive conditions going forward. Hopefully that's what this would be about.

Direct branches – branch operations of foreign insurers and reinsurers and auxiliary services will be permitted within nine years. That's a long transition, but it's for the direct branch commitment. And perhaps importantly for us, there is protection for existing licenses and investments as of the date of accession.

You've probably read in the press and heard a lot about a discretionary limitation on FDI, or foreign direct investment, in the insurance sector and in the banking, that was requested and held to by the Russian negotiators. Of course, as an industry, we would have preferred very much that that cap either be phased out within a reasonable period of time or not exist at all. But Dorothy and her team really went to the mat and held out as long as possible, and I think we feel that they have reached the best possible solution, which I will go through a little bit with you.

I must say that the difficulties with it were largely as a source of precedent, but we have been assured that that would be inconsistent with existing commitments for any other existing member company – country to attempt to put in place a cap of this nation. And we know that the U.S. government would vigorously oppose any such attempt.

This discretionary limitation would – the way it would work is that new foreign – that would be as of the date – as of January 1, 2007 – new foreign investment in the insurance sector can be limited if the foreign share of total capital exceeds 50 percent. What I do have to say is that this cap exists currently. It's lower; it's 25 percent. And I'll give you a very interesting statistic here. Total capital as of January 1, 2005 was U.S. dollars 4.2 billion, and that was 150 percent increase in total capital from 2003. But the share of foreign capital as of 1/1/2005 went down to 3.6.8 from 5 – 5 to 3.68 percent, down 1.4 percent from 2004. So even though there was an increase in the total capital, our share went down, and that is because the Russian share of the capital grew at a greater pace than ours did.

That said, we have an agreement of the Russians to review the necessity of maintaining the limitation of this cap five years from the date of accession. Perhaps more importantly, this cap excludes foreign investment in the sector – that's present in the sector as of January 1. It will exclude any capital in companies' privatized poster sessions, and any capital you're required to put out for internal branches, and any capital over 51 percent if you have been there for 12 years, but that is a discretionary measure.

Okay, in conclusion I would like to say the WTO accession and PNTR are, in our opinion, the threshold, not the end of the normalization of trade relations with Russia. I think what we have to see is that – as I think one of my colleagues mentioned – is that

joining the WTO is an important step forward. It means that there is a means through which we can see our trade grow and expand in Russia, and at the same time, we have the comfort of having an institution such as the WTO and its rules to fall back on if there are problems to be solved.

I think U.S. insurers have much to gain from the commitments that have been made in Russia, and I think PNTR will commit us – obviously will commit us to benefit from that agreement. And AIG will join with those of its colleagues that are in support of PNTR for Russia as we go forward with that in the coming months.

Thank you very much.

MR. KATZ: Thank you very much.

And Randi.

RANDI LEVINAS: Thank you. I'd like to join my fellow panelists in thanking Sherman Katz and The Carnegie Endowment for pulling together this timely discussion on Russia's WTO accession and also, by echoing my fellow panelists, congratulations to Ambassador Schwab and Dorothy. The creativity and tirelessness that Dorothy and her team demonstrated throughout this process was – and I was only witness to a small sliver of that – was truly inspiring.

You know, in the business community, we press and we press, and when you have someone like Dorothy and her team in action, I think you see what true public service is all about. So I think we in the business community have a lot to be thankful for. This is the season, and I just want to make a point of that.

So I'm here to tell you why the U.S. business community and U.S. companies care so much about this agreement. There are some basic, abstract principles that are really hard to quantify, but they're very important for understanding – you know – well, they're very important for the business community, and, you know, there's a number of them in terms of certainty, as Nick said – in bringing certainty to an often uncertain environment in Russia. We're moving Russia to a rules-based system with Russia's accession to the WTO.

Also, Russia's going to be taking on obligations with respect to its regulatory regime. And to have tariffs that are bound with limiting, unjustified, unilateral actions – and goodness knows, we've seen how that can affect U.S. exports to Russia – and also adding valuable transparency to the business environment with the mere concept of notification, for example, so you open the way for consultations and public comment – all of these tools – national treatment, the concept of national treatment – all of these are really hard to quantify but very important, I think, for the U.S.-Russia relationship.

In terms of more concrete statistics, I would tell you that USRBC members find that their biggest challenge – one of their biggest challenges – is managing their growth.

In a study that was released earlier this year, more than 90 percent of foreign businesses say they plan to expand their operations and investments in Russia over the next three years. Last year, the top managers in the world's largest companies ranked Russia number six in the top 10 most attractive investment destinations. And foreign direct investment in Russia rose another 55 percent in the first three quarters of 2006. And often we don't focus a lot on what's happening with the middle class in Russia. Certainly our members do. But, you know, from January through August of this year, real disposable income in Russia increased 12.1 percent. Now, overall in 2005, real incomes rose 8.8 percent, and that came on the heels of a 9.9 percent increase in 2004.

So obviously, we have some real positives going on in the Russian market, and WTO membership is really a crucial part of all of this in moving Russia along. But I would caution that WTO membership is not a panacea. It's not something that's going to transform Russia overnight. You know, we in the business community, we do see that – this strong commercial agreement as a positive in bringing Russia into the – as a member in good standing, and that's what's key to us. But we can't transform Russia overnight. It's unrealistic. It's a process, and we have to recognize that progress has been made over time; for example, in trademark and copyright area and accepting international SPS rules – these are important steps Russia has taken in moving forward. And we want to work with them towards compliance. And in many ways, it's going to be a constant education process.

But the bottom line is here at home we're going to be shooting ourselves in the foot if we don't pass PNTR at the appropriate time. All the benefits are going to go to our competitors and we'll be on the sidelines. And all the folks from the numerous embassies here today are probably chomping at the bit at the deals that Dorothy and her team have negotiated.

So we look forward to moving this process forward and we're eager to continue the positive momentum that this bilateral has generated. And we in the business community are organized and we're going to be ready at the appropriate time to move forward. When we saw the momentum in the talks at the end of last year, the U.S.-Russia Business Council, I think you can call the go-to business organization in town on Russia, as Russia-watchers, we have the familiarity and the knowledge on the issues that other business groups in town don't have – we got together with our friends at the AmCham in Moscow and taking the cue from the serious momentum that we saw, began organizing and laying the groundwork for the Coalition for U.S.-Russia Trade.

But we know our limitations, and we've gone to the Washington trade community experts on this. So we've joined forces with the NAM and the BRT, ECAT, the U.S. Chamber, and the NFTC, who know how to run these battles. And we don't just represent manufacturing, we've pulled in the Coalition of Service Industries in full recognition of the importance of this growing portion of the U.S. economy. And we're optimistic now that agricultural groups will join in in this effort.

So we've got an excellent cross-section of companies leading this effort. One of our co-chairs, Steve Beagin, from the Ford Motor Company, who understands Russia so well. And we've got stars of trade battles past, Bill Lane of Caterpillar; and Scott Miller of Proctor & Gamble. AIG is on our steering committee. And I see another steering committee member out there, Kathleen Palma from G.E.

But I can promise you that our companies are dedicating and will dedicate, and the association's time and attention to this effort. It's our top trade issue. And hopefully something we'll do in 2007. When it does come up, it's going to be "must do" legislation to ensure that U.S. businesses can be competitive in the Russian market.

But we have no illusions. We know there's still work to do, and important pieces of the negotiations lay ahead. For the most part, we've been working over the past months and the most – a good part of this year in focusing on the bilateral discussions and keeping in contact with members of Congress and informing them of the progress made and our continuing concerns. But now, we have the multilateral process ahead and the numerous chapters related to customs and other issues. The ball is in Russia's court.

And during this time, our eyes are going to be closely trained on the IPR piece of this. We're delighted to see the binding blueprints that the two sides negotiated because I think it's fair to say that the one area that's consistently been in focus for members of Congress in terms of Russia – and they're not always focused on Russia. There's issues – you know, the non-economic issues that people track – democracy and human rights and security issues. But really in the economic area on the commercial side, the one area that they really do track is IPR.

So our work is cut-out for that, and we hope to see a good conclusion there with implementation of the agreement that's been negotiated.

So – just to be brief here, our work is cutout for us, and we're going to be educating members. The big – one of the big challenges we face is that many members of Congress believe that they are voting on Russia's accession to the WTO when in fact they're not voting on Russia's accession to the WTO or on the bilateral agreement, but rather on U.S. firms getting access to the Russian market in the very terms that we've negotiated with the removal of Jackson-Vanik and extending permanent normal trade relations to Russia. So we only get the benefits if we do that.

And it's important also that members of Congress know that this is not a free trade agreement. This is all about opening the Russian market. I think – you know, when we look at what – the way Congress is going to view this, and we suggest that, you know, Congress doesn't like trade agreements. Well, it's not an FTA, and I think we have to be careful. And again, as Nick already said, this is an accession agreement, and the U.S. is not giving up anything.

So you know, this is about opening the Russian market, lowering Russian tariffs, removing non-tariff obstacles. And it's not to say that Russia won't benefit. I think, you

know, there are important efficiencies that will be achieved, a competitiveness to be gained which will benefit the Russian economy as well. So I think it's fair to say, as Minister Gref has suggested, that this is a win-win for both countries and both economies, and we look forward to working with USTR and Congress as we move forward in the next step of this process.

Thank you.

MR. KATZ: Now, Dorothy Dwoskin for whom we've been waiting patiently. (Laughter.)

MS. DWOSKIN: My apologies, but my remarks got a lot shorter. (Laughter.) I would make, I think, six points.

First off, thanks very much for all the kind words directed to USTR, Ambassador Schwab, myself. We had a huge interagency team, and it really was an interagency effort. Ambassador Burns and his team and the embassy in Moscow were with us every step of the way. Folks – Paul Graham from NOC, our colleagues from State; I think, my friend Amy Homan is here, a member of our negotiating team. I don't know that – I saw that there were others that were going to be on the – that were on the list. If I haven't seen you, Matt Edwards, I apologize.

But it really was an interagency effort, and it was an effort where we tormented a lot of our congressionally cleared – or private sector advisers that are mandated by the Congress, and Nick is one of them. And it was, well, if you don't like this, how about that? Does that work?

And I think that we are very effective negotiators because of this system of consultation that we have. You know when you have a deal you can sell, and you know when you have a deal you can't sell. And you know when the person across from you is blowing smoke at you, and you know when they're telling the truth. And if there's a way to solve the problem, I think my friends here at the table have been really instrumental in helping us find ways to address some of the issues to see if there's not some sort of technical assistance or other kind of support to help out. So I think that it really strengthened the partnership.

And I dare say, in the agriculture side, I think it really did strengthen the relationship, because we had, I think, some very good discussions with the vets.

So stay tuned. We're not finished yet. The multilateral negotiations are still to come.

I think the second point I would make is that I think for a long time a number of people in Russia – and probably still today – think that this is all about politics and it has nothing to do with commercial reality. And I was really heartened in Hanoi when President Putin thanked the President for the kind words that he had said about WTO, and

then he made a point of saying that both teams were very professional, very expert and very businesslike in what they were doing. So I think actually President Putin has an idea of how difficult of some of the commercial issues were to counter. I don't think he knows as much about Trichina as I do – (laughter) – or the difference between Trichina nativa or Trichina spiralis and all of those kinds of things, Nick.

But in any case, I think there's been a lot of comments today about timing, and we'll see how long this is going to take us. We have a good agreement. We have an agreement that, with the exception of a few things that go into effect now, which really resolve some of our SPS issues, as Nick was mentioning, most of these things don't go into effect until the accession is over. So there's a powerful incentive to keep up the momentum, to keep moving and to finish the job.

Finishing the job means dealing with a number of things, like in agriculture we only work on bilateral and market access on the SPS issues. We still need to complete multilateral work on the domestic support and export subsidy commitments that each member needs to take. I know there have been comments in the press that that seems to be all done. I can tell you it's not done. It's not something that we've discussed multilaterally in quite some time.

There will be an opportunity to talk about some of the sanitary and phytosanitary issues. There will be a discussion on enforcement and compliance with TRIPS. That certainly will be aided by the blueprint that we developed. There will a lot of work on customs-related matters, a lot of work on transparency and transparency-related matters in both goods and services.

There will be work to be done on state enterprises. And clearly we have a requirement in our own domestic law that says that when the state is involved in a commercial activity, that it needs to be involved in a way that is based on commercial terms. And that's something that we have worked with other acceding partners on, and we will continue to work with Russia on as the multilateral process goes forward.

So we still have some work to do. I'm an optimist by nature, but I am much more optimistic now that we've got the bilateral out of the way. I think our Russian partners have become good colleagues, and I think that they know what's left to do, and they are going to go home and push and push to get the job done.

That's MEDT – that's German Gref's Ministry. And just like USTR, sometimes you have to bring along some of the other ministries. And I think, having finished the bilateral, that may help Minister Gref bring along some of the other ministries to help finish the job.

So my prognosis is that we still have a lot of work to do. I'm not going to tell you that – how long it's going to take, because, as somebody else said, it really depends on Russia. But I will tell you one thing – and I notice that there are a lot of embassies out here, a lot of folks from a lot of foreign countries represented here – and I know you all

have been waiting for the U.S. to finish the bilateral so that you can get back in the game and push your issues. And I'm delighted to have you as my partner in Geneva because you left me holding the bag for a while – (laughter) – and I am really looking forward to having you as a partner as we move forward on issues of importance to you, like IPR enforcement, like customs, like agriculture. So it'll be nice to be working multilaterally with all of you as we move to complete Russia's accession.

Thanks for having me. And I apologize for my choking festival. (Applause.)

MR. KATZ: Okay. We can take questions among the speakers or comments among the speakers, if we have any. If not, we'll jump right out into the floor. Do we have any? Eric?

MR. SCHWARTZ: I was just going to ask Dorothy if she wanted to comment at all on the legal status of the IPR side letter, because my understanding is it's treated as a separate trade agreement. Is that correct?

MS. DWOSKIN: That is correct. And I can tell you that probably when you get back to your office today, you will find the agreement on the USTR website.

MR. SCHWARTZ: Okay.

MR. KATZ: Okay. Dorothy, can you say anything about how the – you hope the multilateral process may work, to spell out a bit procedurally for those of us who've never been in the room when these multilateral stages of accession go. Use, for example, if you'd like, IPR – say, here's a particular concern the U.S. couldn't quite score a touchdown on, to use a current metaphor, and here's how we hope it might go at the multilateral level.

MS. DWOSKIN: The working party – and I never understood why they call it a "party," because it's – (laughter) – anything but that – the working party will go through a draft report that has a section, for example, on IPR that gives sort of factual information about what Russia has done, and then it will go through the commitments that Russia is going to undertake to come into compliance with WTO rules.

There probably will be some informal work among interested delegations on key chapters, and then as the report is developed, it will come back to the committee, the working party, for further approval. The whole package has to come together under the chairmanship of Stefan Johannesson, who is the Ambassador from Iceland to the WTO. He's since moved to Brussels. But he's clearly ready to convene and hold meetings as appropriate.

So we'll just go sort of methodically through the report. The last full report was published in January 2005, when – and all members made comments then. We'll have to make some improvements.

I think, for those of you who have been through the process before – and we just finished Vietnam – that's just a series of give-and-take, trying to make sure that we've captured the information correctly as to what the state of play is, and then ensure that the commitments accurately reflect what we need the Russians to do in order to fulfill their obligations.

And in some cases – I mean, each of the – if you look at all of the reports from the past accessions, they're all a little bit different. And they're all a little bit different because some of the problems are different. And you – that's our opportunity to lock in multilaterally some of the solutions to some of the problems.

So for example, with respect to products with encrypted technology, which was a huge issue for a lot of our high-tech companies, we managed with the Russians on language that we will jointly submit now to the working party to have them use multilaterally with other members. We've done that in a number of areas. We did that in services. Diana explained a little bit on services. And we have some jointly agreed language on the sector cap, which should help move the process along.

I think, hopefully, we've introduced some energy into the process. We'll be meeting with the Russians probably before the end of the year. I don't know if there will be a formal working party or not, but there will be some additional meetings this year.

MR. KATZ: Three little follow-ups, if I may. There were three points I noticed this morning in looking at the trade facts, where the U.S. said it hoped that – well, more than hoped – that the Russians agreed by June 1 to propose legislation in IPR areas.

Now, if, for example, that doesn't happen, would this be a subject that would be legitimately raised at the multilateral level as part of the discussions in the multilateral working party? That's number one.

Number two, with China, we had them say many things about their intentions in the working party discussions. There was a transcript of what they said. And it seemed to some of us that we hoped that this would become legislative history, in a sense, to which they could be held in some respect. Any comment on that?

And finally, third, we've seen all kinds of speculation about how long this process might take. The Russians have said we'd hope to wrap it up in six months. Others have said we think it's going to take at least a year. Would you care to make any comment on that?

MS. DWOSKIN: (Chuckles.) Well, on IPR, you're right; the Russians have said that they're going submit legislation by June 1. We certainly expect them to do so, and I think the benchmarks that are in the side letter should help us flesh out some of the needed detail in the report.

Sometimes comparisons with China are good and sometimes they're not so good. And I think, you know, Russia is in a different place than China was in the accession. The problems are different, our commercial interests are somewhat different. And I think the situation with respect to IPR is also somewhat different, given the fact that Russia has had in place some laws and some effort at reform. I know Eric is very, very concerned about Part 4 of the Civil Code. And we have weighed in on that pretty heavily, and I think we have finally gotten the attention of leaders in the Russian government that we hope that they are going to seriously look at all of the work that we've done to try and help them with their Part 4 revisions in a way that actually brings them closer to WTO compliance, as opposed to moving them away from that. And clearly, that is a commitment that we got in the side letter.

You know, I can't really speculate on how long it's going to take to finish the process. Just from a procedural set of issues, the schedules for goods and services – we'll give our schedules to the secretariat, then they'll consolidate all of this, all of the 54 bilaterals that the Russians have done. And that will take some time in terms of verification, particularly, I think, probably in services where there are – traditionally that usually is a little bit more difficult to do.

But in terms of writing the report, I mean we still have a fair bit to do, and the draft is clearly outdated. The Russians can make this a really hard exercise or they can make it a really, you know, easy exercise. And we certainly have shown them what we've done in the past, and we certainly are committed to it, and we know how to get things done. So hopefully the partnership that we've enjoyed in the bilateral will yield some benefits and we'll be able to move this rapidly. But I won't speculate on timing.

MR. KATZ: Okay. Andy Kuchins had a question.

MR. KUCHINS: Dorothy, another question on timing which maybe you can't speculate on. But would you expect that the PNTR issue would be brought to the Congress after the multilateral negotiation, or is it possible that that could happen before the multilateral is concluded?

MS. DWOSKIN: Well, I think just as a practical matter, it's been done differently in a variety of accessions. In the case, for example, of Vietnam, we went for PNTR at about the same time that we finished multilateral. In other cases it's been somewhat different.

So I think we'll have to work with the Congress on the most appropriate timing. And, obviously, I think the enforcement on IPR will be quite telling. I know that there are a number of people who would very much like to get PNTR through. I think we've created some incentive because I think we have a good commercial agreement that U.S. business is interested in taking advantage of over the long run.

MR. KATZ: Questions from the floor. And I think – do we have any people with microphones here? Yes, we do. So, would you come down front, Will? If you don't mind, stand and just tell us your name and organization.

Q: Yes, Matthew Murray with a company called Sovereign Ventures. And I also chair the Center for Business Ethics in St. Petersburg. A quick question about how you think – this is for Dorothy – how you think the bilateral negotiations with Georgia and Moldova will now proceed? And this is really a two-part question, one is mechanistic. Can the multilateral process go forward without Georgia and Moldova having agreed to bilaterals with Russia? And secondly, how do you think the politics of this are going to play out?

MS. DWOSKIN: I'd make two points. One is, is that the multilateral work has been ongoing, and obviously we've played a big role in that, even though we hadn't finished our bilateral agreement.

I think the – in order to move the process forward there needs to be a consensus of the working party members to convene meetings and do whatever. I think the Georgians are looking at this in a very practical way. We've been talking to the Georgians in the WTO, sat across from them at the last informal. I think there's a very interesting interview that my counterpart in the Russia negotiations gave maybe two weeks ago – Maxim Medvedkov, where he was asked about the negotiations with Georgia. And I think he recognized that, you know, the WTO is a place where countries who sometimes don't get along in other ways actually can work on very practical economic issues. And I think the Russians understand that. So we are hopeful that they will continue to discuss what's in their bilateral agreement so that they can come back to the table and be put back in the category of finished bilateral.

Q: I was going to ask about Georgia and Moldova.

MR. KATZ: Okay.

Other questions?

Yes.

Q: Hi. My name is Tomas Votsovsky. I'm with the law firm White & Case. A question for Ms. Dwoskin. You mentioned some of the issues that the U.S. might raise in the multilateral working party talks. Can you speculate on some of the issues that you expect your other trading partners to raise?

MS. DWOSKIN: Actually, the list that I was giving you was a list that I expect trading partners to raise. They're different chapters in a working party report, agriculture being one, services being another, IPR, and then there's a whole series of customs-related issues and transparency-related issues. So I would expect that there will be quite a lot of attention to each of the chapters.

Traditionally, in agriculture the key exporting agricultural interests from both developed and developing countries play a pretty active role in discussions.

MR. KATZ: We may have to go to some other questioners.

Yes?

If we have any questions for other panelists, so we could give Dorothy a pause for the moment.

Q: Yeah, okay. I actually have one. My name is Andrei Sitov, I'm with *Business People* magazine.

MR. KATZ: Could you stand?

Q: Thank you – (audio break).

MR. KUCHINS: Well, I think that my colleagues on the panel outlined quite comprehensively and effectively the reasons why the United States government views this bilateral accession agreement with the Russian Federation as in its interest. I mean, there is a political impulse, to some extent, to have Russia in the WTO. And all else being equal, that's a good thing. You want Russia in a rules-based organization, in which there's responsibility for dispute resolution, as my colleagues addressed. That's important.

My concern, just to clarify my position, is that my preference is that – certainly that the Congress will address this issue simply on the merits of – the benefits and simply on the merits of the case of Russia in the WTO and lift the – and the impact of lifting PNTR status. And I think, again, my colleagues have outlined quite effectively how that is in U.S. commercial interests, in my view national interest as well in our broader relationship with Russia.

My concern, however, is that the Congress will see this as an opportunity not to be constrained in its discussion about Russia and to possibly bring in a whole series of other issues, which would detract, I think, from the essence of the decision about PNTR status. And that could be quite negative, I think, for the broader relationship.

MR. KATZ: Do you want us to come back to you, Dorothy?

MS. DWOSKIN: You asked whether or not Congress would approve the agreement. I think the President was very clear in July in saying that he wanted to make sure that we have an agreement, that could pass the Congress, and I think we have a good bilateral agreement, a good bilateral market access agreement. The Congress most likely will want to look at the overall agreement and see at least the shape of it before acting on

PNTR. But it would be our intention to have an agreement that could pass muster in Congress.

Q: A follow-up to that –

MR. KATZ: Is there a microphone still – could you give him the microphone, if you wanted to take a brief follow-up.

Q: Yes, a very brief follow-up. Why didn't the President ever mention this as one of his priority – trade priorities? He did mention Vietnam, for instance, and I think some other countries, but not Russia.

MS. DWOSKIN: This being PNTR?

Q: Yes, the trade deals. He mentioned a number of trade deals that – (off mike) – his last press conference.

MS. DWOSKIN: Well, I'm not sure I know what you're referring to, but the Vietnam accession was much farther advanced. You may know that on the 7th of November the WTO General Council approved the terms of Vietnam's accession, which also had a lot to do with moving on PNTR.

MR. KATZ: Other questions? Okay. We're ready – oh, one more here, please. Yes?

Q: I'm – (inaudible) – Meifert . I'm with the U.S. Department of Agriculture. And I guess my question is just about a procedural matter. Is it the case that none of the bilateral agreements negotiated thus far concerning agriculture have addressed the domestic support issue? That is, you mentioned that that's being left to the multilateral – so none of the bilateral agreements have actually addressed it or established any kind of constraints on that matter?

MS. DWOSKIN: As far as I know, there weren't any agreements. Traditionally what the multilateral process does is to look at the domestic support levels, pick a recent base period, the most recent three years, and look at the various programs and how they fit into some of the boxes. That work really is done best multilateral and pluri-laterally.

Q: (Off mike.)

MR. KATZ: All right, we'll let you sneak in under the wire. One more question here.

Q: Sorry. Hopefully it will be brief since it's also about timing. When would we expect to know what other countries have negotiated in their bilaterals with Russia? Is that only after the WTO consolidates all the schedules?

MS. DWOSKIN: Afraid so. I mean it really depends on how transparent others are about their bilaterals. It's hard for us to announce an agreement and not be pretty open about what we've negotiated. And I think the Russians recognize that.

MR. KATZ: Well, Dorothy, you've been courageous and most generous not only for the past several months and years, but also today. We thank you very much. We thank all the panelists for their work today. Thanks so much.

(Applause.)

(END)