

THE RUSSIAN AEROSPACE SECTOR

by Heather Pederson,
Office of Aerospace, Trade Development

The aerospace sector is one of the most promising areas for U.S.-Russian commercial partnerships, especially for high-technology investments that support skilled jobs in both countries. The business climate for aerospace projects has recently improved; supported by general economic growth and the Russian government's newly announced plans for aerospace sector reform and consolidation.

Several major U.S. aerospace companies are active in joint investment and cooperative projects with Russian partners including Boeing, United Technologies representing Pratt &

Whitney engines and Honeywell. While these projects are benefiting from recent improvements in the business climate, the environment for aerospace projects remains challenging. Russian-American projects face a number of trade, regulatory and structural obstacles that impede their development. These obstacles include restrictions on foreign ownership, lack of long-term financing mechanisms for the aerospace industry, tariffs and market access issues in both countries, the export control process and standards and certification issues.

Commerce Deputy Assistant Secretary for Transportation and Machinery Joe Bogosian will travel to Moscow, March 11-15. During meetings with Russian government officials, he plans to discuss:

- Aerospace cooperation, trade and investment,
- Tariff barriers to imports of aircraft and parts imports,
- Russia's Federal law on State Regulation of Aviation Development which limits foreign ownership to 25 percent and
- A public/private-sector aerospace working group in conjunction with the Russian-American Business Dialogue (RABD).

The RABD is comprised of four private-sector organizations including the U.S.-Russia Business Council, the American Chamber of Commerce in Russia (AmCham), the Russian Union of Industrialists and Entrepreneurs and the Russian-American Business Council, that supports the RABD.

The RABD, which was announced by Presidents Bush and Putin during their Summit in June 2001, is required to prepare a report, which goes to Commerce Secretary Evans and Russian Minister of Economic Development and Trade Gref. This report identifies issues that both sides have agreed need addressing. The next Presidential Summit is planned for May/June 2002 in St. Petersburg.

U.S. aerospace companies are encouraged to provide input on trade issues with Russia in preparation for the upcoming trip and the proposed public/private-sector aerospace working group. Please contact Heather Pederson at (202) 482-6234 or Heather_Pederson@ita.doc.gov



Photo: Courtesy of Boeing, Inc.

The skills and resources of leading aerospace companies around the world contributed to the design and production of the Boeing B 777. Firms in Europe, North America, and Asia provided components and portions of the structure. Russian engineers also contributed to the B777 including the development of a unique manufacturing process which improved the arch beam for the overhead luggage bins.

OIL AND GAS EQUIPMENT IN RUSSIA

by Rachel Halpern,

The Energy Division Trade Development

Russia, one of the world's top energy producers, is currently the fifth largest export market for U.S.-made oil and gas field equipment. During the first eleven months of 2001, U.S. exports of oil and gas field machinery to Russia totaled \$261 million, an increase of 137 percent from the same period one year ago. High oil prices, which allowed Russian oil companies to put money into new and old oil fields, new pipeline construction and major loans to Russian oil companies from the U.S. Export-Import Bank and the European Bank for Reconstruction and Development account for much of this increase.

According to the U.S. Commercial Service, price is the main obstacle to

U.S. exports. Although Russian oil companies often prefer U.S.-made equipment for its high quality and reliability, it is usually much more expensive than domestic equipment. For this reason, some U.S. equipment suppliers may find it worthwhile to establish a joint venture and manufacture their equipment in Russia. And since companies producing oil or gas under a production sharing agreement are required to buy 70 percent of their equipment from domestic suppliers, establishing a joint venture with a Russian partner will also remove this potential barrier to business.

Because many of Russia's oilfields have been exploited for decades and are experiencing declines in production, some of the best prospects for exports in this field include oilfield rehabilitation and well workover equipment.

There are also a number of new projects in previously undeveloped regions such as the Timan Pechora area in the north, Eastern Siberia and the Far East. The huge oil fields offshore Sakhalin Island in the Russian Far East, which are being developed by several international consortia, present enormous opportunities for U.S. equipment suppliers. The consortia are expected to invest a total of \$30 - 45 billion over the lives of their projects. Investment in energy-related infrastructure such as pipelines, ports and processing facilities is also planned. In March, Deputy Assistant Secretary for Energy, Environment and Materials Kevin Murphy will lead an oil and gas equipment and services trade mission to Sakhalin to introduce U.S. equipment companies to these opportunities.

Developing opportunities for U.S. companies in Russia's energy sector is a priority for Commerce Secretary Evans, who led a trade mission that included U.S. energy companies to Russia last fall and has engaged Russian officials a number of times on energy issues. The Commerce Department is working with the Russian government to establish a regular dialogue on commercial energy issues in order to support U.S. investors and exporters. ■



For more information about energy in Russia, check ITA's Office of Energy website, www.export.gov/energy or contact Rachel Halpern at 202-482-4423, Email Rachel_Halpern@ita.doc.gov.