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Senate Committee Action on Anti-Currency Misalignment Legislation Expected Prior to August Recess

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Senate Finance Committee Markup Scheduled on Currency Bill

On Thursday, July 26 at 3:00 PM, the U.S. Senate Committee on Finance is expected to markup an anti-currency misalignment bill, S. 1607, the Currency Exchange Rate Oversight Act of 2007.

Finance Bill Weaker Than AMTAC-Endorsed Bunning-Stabenow Companion to Ryan-Hunter Anti-Currency Misalignment Bill

Unfortunately, S. 1607 is far weaker than anti-currency manipulation legislation introduced earlier this year by Senators Jim Bunning of Kentucky and Debbie Stabenow of Michigan. The bill is the Senate companion to the Ryan-Hunter bill in the House, both of which have been endorsed by AMTAC. The Bunning-Stabenow bill, S. 796, contains three important provisions that in tandem pose a substantial threat to countries that unfairly manipulate their currencies. S. 796 creates strong incentives for all nations to play by the rules in the currency exchange rate arena by:

1. Removing “intent” from the decision-making process to designate a country as a currency manipulator. This would force U.S. Treasury Department to analyze the currency misalignment issue in an objective, transparent manner. (In order to be cited as a currency manipulator under present law, a country must demonstrate “intent” to gain unfair advantage by manipulating its currency. In recent years, the U.S. Treasury Department has refused to cite any country, such as China, as a currency manipulator because Treasury claimed it could not determine that country’s “intent” in its intervention in relation to its currency exchange rates.)
2. Making currency misalignment actionable as an illegal subsidy under U.S. countervailing duty (CVD) law.
3. Codifying the application of U.S. CVD law to non-market economy (NME) countries like China.

In contrast, while S. 1607 does reduce the leeway given to the U.S. Treasury Department in determining whether to cite a country for fundamentally misaligning its currency and adds an anti-dumping trade remedy, it does not make currency misalignment actionable under U.S. CVD law nor does it codify the application of U.S. CVD law to NME countries.

AMTAC strongly believes that S. 1607 significantly must be strengthened to be effective.

There always is the possibility that amendments to strengthen S. 1607 may be offered at the Finance Committee's scheduled markup. As such, AMTAC will monitor tomorrow's Finance Committee markup closely and report back to you any significant developments of consequence.

Banking Committee May Move Forward with Own Bill Next Week

The U.S. Senate Committee on Banking also may markup its own bill, S. 1677, next week. The Chairman of the Banking Committee, Senator Christopher Dodd of Connecticut is on record as saying that a trade remedy component is necessary to give teeth to any anti-currency manipulation legislation. With potentially competing bills from Finance and Banking, it is unclear which bill eventually will be the vehicle taken to the Senate floor. Either way, AMTAC will work hard to ensure the U.S. Senate passes the strongest bill possible to address unfair currency misalignment.

Congressmen Ryan and Hunter Introduce Expanded Anti-Currency Manipulation Legislation in the House

Congressman Tim Ryan of Ohio and Duncan Hunter of California recently introduced a new bill, H.R. 2942, that expands upon the legislation they introduced earlier this year, H.R. 782. Specifically, H.R. 2942 adds an anti-dumping trade remedy as another option for companies to use to combat currency misalignment in addition to the CVD remedy included in H.R. 782.

Earlier this year, supporters of anti-currency misalignment legislation were hopeful that legislation would move in the House prior to August recess. At this time, however, prospects of any such bill moving prior to August recess are dim.

Currency Issue Background

Several countries, including China, intervene in foreign exchange markets to artificially lower the value of their currency below what ordinarily would be its fair market value. By manipulating or misaligning their currency to make it cheaper compared to the U.S. dollar, countries can make their exports more affordable and imports from the United States more expensive, thereby harming U.S. producers. To combat this unfair trade practice, a counterbalancing policy response by the United States is needed.

China is an example of one country that manipulates currency for commercial advantage. The rapidly growing \$233 billion U.S. foreign trade deficit with China should have the natural free market effect of raising the value of the Chinese Yuan against the dollar, making Chinese goods less competitive in the United States and U.S. goods more competitive in China. But China has refused to allow its currency to float freely. Factoring in China's exploding trade surplus with the United States, the effective real rise of the Yuan is negligible; as the Yuan should have risen much faster in value than the 9.25 percent it has risen in the last two years. Today, most economists estimate that the Yuan is undervalued by between 15 and 40 percent, constituting a *de facto* subsidy for producers in China. In fact, applying the standard Purchasing Power Parity (PPP) technique to official International Monetary Fund (IMF) statistics, the Yuan is undervalued by about 77 percent.