

1 EXECUTIVE BUSINESS MEETING TO CONSIDER S. 1607, THE  
2 CURRENCY EXCHANGE RATE OVERSIGHT REFORM ACT OF 2007, WITH  
3 A SUBSTITUTE AMENDMENT; AND TO CONSIDER FAVORABLY  
4 REPORTING THE NOMINATIONS OF DAVID H. McCORMICK, TO BE  
5 UNDER SECRETARY OF THE TREASURY; U.S. DEPARTMENT OF THE  
6 TREASURY; AND PETER B. MCCARTHY, TO BE ASSISTANT  
7 SECRETARY OF THE TREASURY, U.S. DEPARTMENT OF THE  
8 TREASURY

9 THURSDAY, JULY 26, 2007

10 U.S. Senate,  
11 Committee on Finance,  
12 Washington, DC.

13 The hearing was convened, pursuant to notice, at  
14 3:03 p.m., in room 215, Dirksen Senate Office Building,  
15 Hon. Max Baucus (chairman of the committee) presiding.

16 Present: Senators Kerry, Lincoln, Wyden, Schumer,  
17 Stabenow, Cantwell, Grassley, Lott, Snowe, Kyl, Smith,  
18 Bunning, Crapo, and Roberts.

19 Also present: Russ Sullivan, Democratic Staff  
20 Director; Bill Dauster, Deputy Staff Director and Chief  
21 Counsel; Kolan Davis, Republican Staff Director and Chief  
22 Counsel; Dean Zerbe, Tax Counsel and Senior Counsel to  
23 the Ranking Member; Carla Martin, Chief Clerk; Mark  
24 Blair, Deputy Clerk; and Jewel Harper, Hearing Clerk.

25 Also present: Demetrios Marantis, Chief

1 International Trade Counsel; Stephen Schaefer, Republican  
2 Chief International Trade Counsel; Janis Lazda,  
3 International Trade Policy Advisor; David Ross,  
4 International Trade Policy Advisor.

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## I N D E X

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2 OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM  
3 MONTANA, CHAIRMAN, COMMITTEE ON FINANCE

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5 The Chairman. The meeting will come to order.

6 The committee meets today to consider S. 1607, the  
7 Currency Exchange Rate Oversight Reform Act of 2007, with  
8 a substitute amendment, as well as the nominations of  
9 David McCormick and Peter B. McCarthy to have positions  
10 at Department of Treasury.

11 In July of 1944, delegates from 45 nations convened  
12 at the Mt. Washington Hotel in Bretton Woods, New  
13 Hampshire. For two weeks, these delegates considered the  
14 devastating economics that contributed to the second  
15 World War. They crafted policies that would sustain  
16 growth, foster peaceful relations, and endure for  
17 decades. Those two weeks at Bretton Woods laid the  
18 foundation of today's global economy. Since that  
19 meeting, the global economy has grown to nearly 10 times  
20 what it was then.

21 China has grown steadily for three decades. One of  
22 today's fastest-growing economies did not even exist in  
23 1944. Today's economy is one of globally accessible  
24 financial markets. Today's economy holds nearly  
25 limitless potential for new markets and jobs, yet today,

1 as in 1944, our economic growth is only as good as the  
2 policies that guide it.

3 Over the past few years, many of us had given  
4 renewed scrutiny to the policies that guide today's  
5 economy. We recognize that some international currency  
6 exchange rate policies can be disruptive. We recognize  
7 that when a country's policies keep its currency under-  
8 valued, those policies make the country's products  
9 unfairly cheap here, and we recognize that those policies  
10 also make American products unduly expensive there.

11 Today, China's renminbi is the focus of our  
12 concerns. Tomorrow, another economy's currency may  
13 threaten even more devastating effects. These are  
14 serious issues. They have real consequences. Many of my  
15 colleagues on this committee have thought long and hard  
16 about solutions.

17 Senators Bunning and Stabenow have dedicated a great  
18 deal of energy to this issue, and for them I am very  
19 thankful. Senators Snowe and Rockefeller have long made  
20 it an important priority, and I thank them as well. This  
21 issue has been the centerpiece of Senator Schumer's  
22 international economic policy. He has worked even harder  
23 than most of us. All of us share the same goal: we want  
24 our trading partners to play by the rules. We want a  
25 level playing field for American workers; on that, we all

1 agree.

2           And I expect we can also agree that we want a  
3 durable solution. We want a solution that will  
4 strengthen our rules-based economy. We want a solution  
5 that will protect American workers. The solution that we  
6 consider today is a compromise. It has been nearly one  
7 year in the making.

8           The Currency Exchange Rate Oversight Reform Act  
9 bridges differences between Senator Grassley, Senator  
10 Schumer, Senator Graham, and myself. I have very much  
11 enjoyed working with all three of my colleagues in  
12 drafting this bill.

13           The solution that we offer and consider today is a  
14 good one. It is firm, but it is fair. It does not  
15 single out any one country. It is consistent with World  
16 Trade Organization rules and International Monetary Fund  
17 standards, giving national and international credibility.  
18 It establishes a new framework that responds to the  
19 imperative of today's global economy and it is designed  
20 to address not just today's crises, but the challenges of  
21 tomorrow and decades to come.

22           This bill abolishes the pejorative currency  
23 manipulation formulation. That formulation has outlived  
24 its usefulness. Instead, the bill requires the Treasury  
25 Department to focus on objective economic indicators.

1 Treasury must identify what we call fundamentally  
2 misaligned currencies. Where explicit government  
3 policies drive the fundamental misalignment, Treasury  
4 must designate that country for priority action.

5 Then if the offending country does not mend its  
6 ways, the bill establishes tough consequences. The bill  
7 ratchets up the pressure on the U.S. administration and  
8 the bill ratchets up the pressure on the offending  
9 country.

10 Most significantly, the bill requires that the  
11 Commerce Department adjust its antidumping calculation to  
12 account for currency under-valuation. This adjustment  
13 would apply to both future investigations and existing  
14 orders. This adjustment would be the most cost-effective  
15 and quickest way to use our trade remedies to help our  
16 workers and our companies, and this adjustment would not  
17 violate our trade law obligations.

18 The bill also sets out other penalties for countries  
19 that fail to do the right thing. Those penalties include  
20 a procurement ban and possible remedial intervention.

21 The reaction to this bill has been strong. Some see  
22 this bill as too harsh and accuse us of China bashing.  
23 Others see this bill as too weak and believe that we have  
24 given the administration too much discretion. I think  
25 that we have struck the appropriate balance.

1           I believe this legislation finds the right  
2 equilibrium between the policy role of Congress and the  
3 role of the administration on currency issues. I am  
4 especially pleased that after productive consultations  
5 with my colleagues, we have made further improvements to  
6 this legislation to broaden committee support and sharpen  
7 this legislation's effectiveness.

8           This bill is no magic bullet to solve our trade  
9 deficit, but it is part--an important part--of the  
10 solution and we should act on it today. In so doing, let  
11 us move to a more durable solution that is  
12 internationally credible, let us strengthen our rules-  
13 based international economy, and let us protect American  
14 workers.

15           I now recognize other Senators wishing to make  
16 opening statements. We are in a bit of a time crunch  
17 here; nothing new. I think there may be a vote at 3:45.  
18 We will have to work with it if that happens, and I  
19 encourage Senators to limit their statements to no more  
20 than four minutes.

21           I would like to recognize Senator Bunning, who is  
22 seeking recognition first. Senator, you are recognized.  
23 Make your statement.

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2 OPENING STATEMENT OF HON. JIM BUNNING, A U.S. SENATOR  
3 FROM KENTUCKY

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5 Senator Bunning. Thank you, Mr. Chairman.

6 First, I appreciate the committee's effort to craft  
7 legislation to address the problem of currency  
8 manipulation. I commend you for recognizing the serious  
9 trade problem we have with China and a few other  
10 countries.

11 China has discovered, by joining the WTO and  
12 maintaining a fixed or artificial low exchange rate, it  
13 can gain free access to our markets while keeping its own  
14 markets closed. Our failure to address this problem has  
15 been a disaster. For our manufacturing workers in the  
16 United States, in Kentucky and in many other States.

17 When we voted for China's accession to the World  
18 Trade Organization, we agreed to a very low tariff on  
19 Chinese goods and services. But China has found a series  
20 loophole in the WTO regime that allows it to pursue  
21 protectionist trade policies and to maintain illegal  
22 nontariff barriers to trade.

23 We have heard a good deal of discussion about the  
24 WTO consistency, but let us talk about the WTO legalities  
25 of China trade policy. When China selectively rebates

1 its value added tax for selected products such as steel  
2 pipe, is that consistent with WTO rules? When China  
3 maintains a fixed exchange rate 40 percent below the free  
4 floating rate is that consistent with WTO rules? I  
5 maintain it is not.

6 Nevertheless, I have a few concerns with this bill  
7 we have before us. First, it probably conflicts with the  
8 jurisdiction of the Senate Banking Committee. I  
9 understand that Senator Dodd and Senator Shelby have  
10 written a letter objecting to this mark-up today on the  
11 grounds that this bill should be referred to the Banking  
12 Committee by the parliamentarian. I am originally a co-  
13 sponsor of similar legislation introduced by Senators  
14 Dodd and Shelby that I expect the Banking Committee will  
15 mark up next week.

16 Second, as you know, I believe this legislation  
17 should include a change to countervailing duty laws, as  
18 well as the helpful changes to antidumping laws that this  
19 bill already contains. Two remedies are better than one.

20 Thank you, Mr. Chairman.

21 The Chairman. Thank you, Senator, very much.

22 I just might, for the record, indicate that this  
23 bill that was introduced was referred by the  
24 parliamentarian to this committee. The parliamentarian  
25 clearly felt this committee had jurisdiction. But I

1 certainly understand the need to find a single solution,  
2 working with the Banking Committee, and we will certainly  
3 do that. I do not see that as being a big issue at all.  
4 Both committees are striving toward the same goal and  
5 they have jurisdiction over whatever bill they might want  
6 to work on. But we will work this out. I thank you very  
7 much, Senator, for your statement.

8         Senator Stabenow is seeking recognition.

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2 OPENING STATEMENT OF HON. DEBBIE STABENOW, A U.S. SENATOR  
3 FROM MICHIGAN

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5 Senator Stabenow. Thank you, Mr. Chairman. I,  
6 first, want to thank you and our Ranking Member, Senator  
7 Grassley, for bringing forward this critical issue. I  
8 want to thank Senator Schumer, who has been such a  
9 champion as well. This is really historic. It is an  
10 historic first step to addressing what is a cause of job  
11 loss in my State and serious problems for many American  
12 businesses. So I want to thank you.

13 I also want to indicate my pleasure in supporting  
14 and working with Senator Bunning on our additional tools,  
15 the additional tool of countervailing duties, and  
16 appreciate his passion on this.

17 The reason I care so much about this is that in  
18 Michigan alone we have lost one-quarter of our  
19 manufacturing jobs. Two hundred and fifty-thousand jobs  
20 were lost. There have been 3 million jobs lost in the  
21 country. But when we think about that, 250,000 jobs in  
22 one State alone -- our unemployment rate has gone from  
23 3.7 percent to an alarming 7.2 percent, the highest in  
24 the Nation.

25 We know that trade violations are not the only

1 issue, but they are a very significant issue for us. We  
2 know we need to tackle issues on health care,  
3 investments, and innovation. But the reality is, it is  
4 an irrefutable fact that trade violations have had a huge  
5 negative impact on the manufacturing economy, which is  
6 why I care about it so much.

7 Eight of the world's largest auto parts companies  
8 are headquartered in Michigan. They have laid off many,  
9 many Michigan workers. Six of those companies have gone  
10 into bankruptcy. When we look at this issue in very real  
11 terms, with China alone, there can be up to a 40 percent  
12 difference in price just because of currency  
13 misalignment.

14 For instance, if you have an auto part that is a  
15 \$100 auto part, a Chinese company can sell that for \$60  
16 in the United States. That does not count wage  
17 differential, health care, or anything else. So this is  
18 real and tangible, which is why I very much appreciate  
19 that the committee has chosen to take the word "intent"  
20 out of the current law.

21 As a former member of the Banking Committee, I can  
22 remember sitting many times hearing the Treasury  
23 Secretary come in. We all know that China is  
24 manipulation their currency, but they said, well, they  
25 did not technically meet the law. Well, we have taken

1 out "intent", which is critically important to make sure  
2 that, in fact, they can meet that.

3 I am very pleased to have worked, Mr. Chairman, with  
4 you, the Ranking Member, Senator Schumer, Senator  
5 Bunning, and so many people to offer some amendments that  
6 would, in fact, decrease the time between identifying  
7 currency misalignment and the ability to act, to be able  
8 to also, with the new advisory committee that has been  
9 set up, to have the advisory committee focus on small  
10 business manufacturing as a part of this, because it is  
11 not just our large manufacturers, but we also have many  
12 auto supply parts, furniture stores, others that are  
13 impacted. It is really a small business issue as well as  
14 a large business issue.

15 I also appreciate the fact that you are including an  
16 important study on how currency misalignment affects  
17 manufacturing. I would say that this is not just about  
18 China. In my State, as the Chairman has heard me say  
19 many times, Japan is an issue. We are talking on an  
20 automobile, a 7 or 8 percent differential of automobiles  
21 coming in, which in these times is very, very  
22 significant.

23 So I will put my full statement into the record, Mr.  
24 Chairman, but this is a very important step. I support  
25 whatever we can do to have meaningful tools to tackle

1 something that is costing jobs in America and hurting our  
2 businesses.

3 The Chairman. Thank you, Senator. I want to thank  
4 you. You have contributed a lot to this legislation in  
5 lots of ways and I deeply appreciate it. I know the  
6 problems in your home State and others, but especially in  
7 your State, and I thank you very much.

8 [The prepared statement of Senator Stabenow appears  
9 in the appendix.]

10 The Chairman. Senator Grassley?

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2 OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S.

3 SENATOR FROM IOWA

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5 Senator Grassley. I will put my full statement in  
6 the record. I want to thank the Chairman for his  
7 leadership on this. More importantly, over the previous  
8 12 or 18 months, working with me when I was Chairman of  
9 the committee on this issue. I want to thank Senator  
10 Schumer for waiting into this year to do something in  
11 this area. We, a year ago, agreed to have compromise,  
12 and that compromise worked out. This is a product of it.

13 I would like to also make sure that everybody  
14 understands that even though the papers only talk about  
15 China, this is a generic policy issue because the  
16 existing law is inadequate. It allows administrators in  
17 the executive branch of government to pussyfoot around  
18 too much in regard to what can be done and what should be  
19 done, and nothing is done.

20 This legislation curtails that pussyfooting to a  
21 considerable extent. If this bill were being written 20  
22 years ago, it would not be China, it would be Japan.  
23 Today people might say it is China, but next year or 20  
24 years from now it could be country X. So, understand,  
25 this is a policy change because we expect the people that



1 enforce this law in this country to do it vigorously to  
2 protect our interests.

3 The Chairman. Thank you, Senator.

4 [The prepared statement of Senator Grassley appears  
5 in the appendix.]

6 The Chairman. Are there other Senators who seek  
7 recognition? Senator Schumer?

8 Senator Schumer. Well, thank you, Mr. Chairman. I  
9 think this is a very important occasion. For the first  
10 time in 20 years, a tough currency reform bill is poised  
11 to pass a Senate committee with a broad bipartisan vote--  
12 not a procedural vote like we have had before, but a vote  
13 on an actual bill on an issue that the leadership has  
14 made a commitment to addressing.

15 As you know, I have been, along with Senator Graham,  
16 involved in this issue for a long time. When we first  
17 started the issue of China currency, almost everyone said  
18 it is not a problem. There were all these newspaper  
19 editorials saying, do not even change it. Now we have a  
20 consensus that it is a problem. The administration  
21 admits it is a problem, economists admit it is a problem,  
22 et cetera.

23 Our original bill, which was a really tough bill but  
24 we knew was not WTO-compliant, achieved its purpose,  
25 which was to get China's attention, get everyone's

1 attention, and put the issue on the map. But we always  
2 knew that that original bill, even if it were to pass and  
3 become law, would be ruled out of order by the WTO. The  
4 time for bringing the issue to the fore evolved into the  
5 time to passing legislation that could actually make a  
6 difference.

7 I want to thank Chairman Baucus and Ranking Member  
8 Grassley for their working hard to accommodate amendments  
9 and to accommodate Senator Graham and I. This is a tough  
10 bill, but a fair bill. It threads the needle to make a  
11 bill with real teeth that will have a real difference,  
12 but still be WTO-compliant. That is what the Chinese are  
13 most afraid of in terms of making them yuan the line and  
14 play by the rules of free trade, and we have achieved it.

15 I want to thank Senators Stabenow and Bunning, who I  
16 know have a bill that was probably more similar to the  
17 bill that Senator Graham and I had introduced. That  
18 bill, I know, will be before the Banking Committee and we  
19 will all have to work together. I am a member of both  
20 committees. The important thing is to get a bill that  
21 will work and that will pass. There has been a lot of  
22 noise on this issue, but there has not been much real  
23 action.

24 Now, I just want to say a couple of other points,  
25 Mr. Chairman. I apologize. I think there are some who

1 think that this bill should be stronger, others who think  
2 it is too strong. Some prefer certain trade sanctions to  
3 others or a different set of carrots and sticks. Some  
4 would like more discretion to the executive branch,  
5 others would want less.

6 I think we have struck the right balance. This is a  
7 little bit like Goldilocks: it is not too hot, it is not  
8 too cold, it is just right. It is hard to get it just  
9 right on trade issues, but I believe that this one is.  
10 In the end, what all of us want, regardless of which  
11 specific sanctions or definitions we may support, is  
12 simply for a bill to become law that will prompt the  
13 Chinese to take action. That is how we really help the  
14 manufacturers and workers in our States.

15 Our objective should be to pass the strongest  
16 possible bill with the largest possible vote that we can  
17 that will not be thrown out by the WTO. At the end of  
18 the day, if we let the perfect become the enemy of the  
19 good, if each person says I only want it my way or no  
20 way, we will get nothing done. We will have, again, a  
21 lot of speeches and not much action.

22 This bill--and I know there are other attempts to do  
23 the same thing that can be blended and merged, and I hope  
24 they will be. I will be supportive of the Banking  
25 Committee to do something as well--has a real chance to

1 get that done.

2           Again, I want to thank you, Mr. Chairman. I want to  
3 thank Senator Grassley, I want to thank my colleague who  
4 is not on this committee, Senator Lindsey Graham, who we  
5 worked with long and hard to make this happen. Reporting  
6 the Baucus-Grassley-Schumer-Graham bill is the first  
7 major step towards producing a bill that can become law  
8 this year, garner 67 votes in the Senate, 290 in the  
9 House, and then allow our businesses to actually take  
10 action against China when their currency is misaligned.  
11 Thank you.

12           The Chairman. Any other Senators seek recognition?  
13 Senator Kerry?

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2 OPENING STATEMENT OF HON. JOHN F. KERRY, A U.S. SENATOR  
3 FROM MASSACHUSETTS

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5 Senator Kerry. Mr. Chairman, thank you very much.  
6 I am sort of surprised and shocked that Senator Schumer  
7 remembers what Goldilocks actually said. [Laughter].  
8 Anyway, I am glad to join the anti-pussyfooting  
9 legislation as a co-sponsor. [Laughter].

10 We tried, in the 109th Congress, to do something  
11 about this, as some of you may remember. Obviously doing  
12 something that is WTO-compliant has been sort of the key,  
13 and tricky.

14 The Chinese originally pegged the yuan, as we all  
15 remember, to the dollar, then in 2005 started a system  
16 called, I think something like "controlled currency  
17 management". We have all seen what that is with the  
18 Central Bank intervening.

19 The result is, as Senator Stabenow has said and as  
20 we feel in Massachusetts and other parts of the country,  
21 Chinese goods are less expensive, American goods are more  
22 expensive. Our access to their market is affected and  
23 the economy is affected significantly. We obviously  
24 cannot continue to tolerate that.

25 Mr. Chairman, you may recall when we had former

1 Secretary Snow in front of the committee. I remember  
2 distinctly when he answered many of our frustrations by  
3 sort of saying to American business, hey, we went over  
4 there, we kind of negotiated, we did not get anywhere,  
5 and if you are in business you are going to have to go  
6 sue in the Chinese courts. That was basically the  
7 recourse.

8 Two years later, nothing else has happened and we  
9 are here. So, I thank Senator Schumer. I remember his  
10 trip over there which raised a lot of hackles at the time  
11 in some places, but I think he offered real leadership on  
12 this. I mean, sometimes when people are opposed and they  
13 do not respond and you are out there, that is leadership.  
14 The result is, now there is a consensus. He was ahead of  
15 the curve, with Senator Graham.

16 And you, yourself, have worked hard to help pull  
17 this together, Mr. Chairman. So I thank you, Senator  
18 Schumer, Senator Graham, and others, and I am happy to be  
19 a co-sponsor of this. I think we may have a few  
20 amendments to try to strengthen it, if I am correct, and  
21 I will vote for those. But this is long overdue.

22 The Chairman. Thank you, Senator.

23 A quorum is present. Unless Senators seek  
24 recognition --

25 Senator Kyl. Mr. Chairman?

1           The Chairman.    Senator Kyl?  
2           Senator Cantwell.   Mr. Chairman?  
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1 OPENING STATEMENT OF HON. JON KYL, A U.S. SENATOR FROM  
2 ARIZONA

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4 Senator Kyl. Thank you, Mr. Chairman. I can be  
5 very brief. I just wanted to express my concern about  
6 the legislation, especially if it is amended in ways that  
7 I hope it is not. I hope that this legislation is not  
8 interpreted as a swing toward a more protectionist  
9 Congress or a more protectionist United States away from  
10 free trade that has characterized our policy in the last  
11 several years, in both the Clinton administration and the  
12 Bush administration, and has been partially responsible  
13 for our great economic growth.

14 I am also troubled because I think less of a concern  
15 than the currency issue is concern over enforcement of  
16 the intellectual property and the failure of the Chinese  
17 to meet their WTO milestones, both of which I think are  
18 extraordinarily serious and have not received either  
19 enough attention from the administration or from the  
20 Congress.

21 If I support the legislation, it will be primarily  
22 to send a message that it is not just the currency issue,  
23 but other issues as well that will get the attention of  
24 the Congress if the Chinese are not able to meet their  
25 obligations under international law.



1           Thank you, Mr. Chairman.  
2           Senator Cantwell.   Mr. Chairman?  
3           The Chairman.    Senator Cantwell?  
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1 OPENING STATEMENT OF HON. MARIA CANTWELL, A U.S. SENATOR  
2 FROM WASHINGTON

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4 Senator Cantwell. Thank you, Mr. Chairman. I want  
5 to thank you and Senator Grassley for your hard work on  
6 this legislation. I do appreciate and share the concerns  
7 of many of my colleagues. I do think that the Chinese  
8 RMB is under-valued. I am not here to rain on my  
9 colleagues' parade of a long time, but I am from Seattle.  
10 I do have a different view on this policy.

11 I am not convinced that S. 1607 will achieve the  
12 goal of pressing the Chinese to move faster towards a  
13 market-determined exchange rate. We all want China to  
14 reform its financial sector. We all want the banking  
15 system and capital markets to be more similar to ours.  
16 We want them to fully implement, as my colleague from  
17 Arizona just said, the WTO commitments they have.  
18 Movement towards these objectives, I believe, will  
19 require constructive, but firm, dialogue.

20 But I question whether the legislative action that  
21 we take will not be perceived as protectionist actions  
22 against the United States. Now, I say this in the  
23 context of, think about what we would say if the Chinese  
24 parliament as passing legislation commenting on the U.S.  
25 debt and the size of the U.S. debt.

1           But more importantly, what if, in retaliation to  
2 this, the Chinese parliament actually passed legislation  
3 prohibiting the United States, or trying to prohibit the  
4 United States, from doing business in China based on that  
5 debt? Or God forbid that they actually said, in  
6 retaliation for this, let us start selling off Treasury  
7 bonds purchased by China in reaction to the United  
8 States.

9           I say this because I do believe that there are  
10 important dialogues going on. I appreciate my  
11 colleagues' frustration. I personally believe that China  
12 needs a much strong legal structure, that trade  
13 subsidies, intellectual property, environmental issues,  
14 and as we have all heard, consumer safety issues ought to  
15 be the paramount focus for us as a Nation in making sure  
16 that imports into our country do not fail to meet certain  
17 standards.

18           But I asked my colleagues, what really happens in  
19 this issue of currency increases? We have a lot of  
20 products coming from China, yes. I hope that their  
21 products continue to rise in value. But to just assume  
22 that a 30 percent increase in valuation of Chinese  
23 currency does not impact the U.S. economy is not, I  
24 think, adequately thinking through this issue.

25           The question, I believe, is what is the United

1 States going to sell to China, a market over 1.3 billion  
2 people? The closer the U.S. and Chinese economies are  
3 integrated, the more likely the Chinese economy is going  
4 to move towards those market reforms that we want to see.

5 Now, I know that may not be fast enough for some of  
6 my colleagues, but I do have concerns that this bill will  
7 be perceived as protectionist. I know my colleagues have  
8 worked hard not to do that, but to try to take currency  
9 and put it in the antidumping framework of legislation  
10 through our country, I think, is not a wise move. I hope  
11 that the Chairman will record me as a "no" vote on this  
12 legislation.

13 The Chairman. Thank you, Senator.

14 I think we all can tell from the remarks of all  
15 those who have spoken that there are two views here, and  
16 that is just what we tried to accomplish in this bill.  
17 That is, we tried to thread that needle between those who  
18 think this bill is too weak and those who think this bill  
19 is too strong.

20 But we are also, in this committee, attempting to  
21 advance our tradition of the committee being serious,  
22 thoughtful, balanced, and significant, as has worked in  
23 past legislation, that is very solid legislation. I  
24 deeply respect the views of my colleague from Washington,  
25 but I think this bill is very thoughtful and I think it

1 is about as good as we can get. I urge Senators to vote  
2 for it.

3 I see a quorum is present, so I would like to move.  
4 There is a modification before the committee, and the  
5 mark is so modified.

6 I would like, now, Mr. Marantis --

7 Senator Bunning. Mr. Chairman?

8 The Chairman. Yes, Senator Bunning?

9 Senator Bunning. I would like to offer an  
10 amendment.

11 The Chairman. At the appropriate time.

12 Senator Bunning. All right.

13 The Chairman. Yes. When we get to amendments.

14 Senator Bunning. I thought we were.

15 The Chairman. We will get there.

16 Senator Bunning. All right.

17 The Chairman. Thank you.

18 Let us walk through the mark if you could, very  
19 briefly, Mr. Marantis.

20 Mr. Marantis. Thank you, Mr. Chairman. The  
21 modification, Senators, that you have before you today  
22 makes 10 changes to the mark that was circulated on  
23 Tuesday. The first change accepts part of Senator  
24 Stabenow's Amendment #1. Under this amendment, the  
25 Treasury Department, in its semi-annual report, would be

1 required to report on actions, if any, taken by the  
2 country in question to eliminate the fundamental  
3 misalignment.

4 The second change accepts part of Senator Hatch's  
5 Amendment #1, and that amendment clarifies the scope of  
6 countries that the Treasury Department will analyze in  
7 its report in order to focus attention on developing and  
8 developed countries of bilateral and regional  
9 significance.

10 The third change accepts part of Senator Stabenow's  
11 Amendment #1, and that amends the criteria for  
12 designation of currencies for priority action to clarify  
13 that the economic concept of sterilization is not an  
14 additional obligation.

15 The fourth change accepts part of Senator Hatch's  
16 Amendment #1, and this is a technical change that  
17 recognizes that the Treasury Department shall seek  
18 consultations with the designated countries.

19 The fifth change accepts parts of Senator Stabenow's  
20 Amendment #3, and that amendment accelerates the time  
21 line for the operation of the bill's consequences,  
22 including the antidumping provision. The time frame in  
23 the original bill was 180 days from identification, and  
24 the amendment will accelerate that time to 90 days.

25 The sixth change also accepts part of Senator

1 Stabenow's Amendment #1. That amendment tightens the  
2 discretion of the Treasury Department in two  
3 determinations: whether the designated country has failed  
4 to adopt appropriate policies and whether there has been  
5 persistent failure on the part of the designated country  
6 to adopt appropriate policies.

7 The way the change is made, is it replaces the  
8 original text which read "has adopted appropriate  
9 policies to eliminate the fundamental misalignment" with  
10 new language, which is, "has adopted appropriate policies  
11 and taken identifiable action to eliminate the  
12 fundamental misalignment."

13 The seventh change is designed to increase  
14 transparency with respect to the President's vital  
15 economic interest waiver, and in particular the  
16 modification requires the President, if he invokes that  
17 waiver, to publish the reasons for his determination in  
18 the *Federal Register*.

19 The eighth change accepts Senator Bingaman's  
20 Amendment #1. That change clarifies that if the  
21 Secretary of the Treasury considers remedial intervention  
22 as contemplated in the bill, he must take into account  
23 the economic implications of any potential action he  
24 considers.

25 The ninth change accepts Senator Conrad's Amendment

1 #1, part of Stabenow's Amendment #2, and Senator Snowe's  
2 Amendment #2. This change makes the congressional  
3 disapproval resolution in the bill binding, providing an  
4 opportunity for a congressional override of the  
5 President's waiver for vital economic interests.

6 The final change accepts parts of Senator Stabenow's  
7 Amendment #3, and this change is designed to ensure that  
8 small business owners have input into the advisory  
9 committee process.

10 Thank you, Mr. Chairman.

11 The Chairman. Thank you, Mr. Marantis.

12 For the benefit of my colleagues, I notice that a  
13 vote has started. I think we have about 10 minutes here.

14 I recognize Senator Bunning for any amendment he  
15 might wish to discuss.

16 Senator Bunning. It is my Amendment #1.

17 The Chairman. I think, for the benefit of my  
18 colleagues, we could --

19 Senator Bunning. This will take a very short time.

20 The Chairman. We could vote and report this bill  
21 out before we go back to vote.

22 Senator Bunning. It is Amendment #1 that I would  
23 like to call up and speak about, and then withdraw the  
24 amendment.

25 The Chairman. Thank you, Senator.



1           Senator Bunning. Thank you, Mr. Chairman.

2           As I mentioned earlier, I commend you and your  
3 staff, and Senators Grassley and Schumer, for developing  
4 a novel approach to addressing the problem of currency  
5 manipulation through the antidumping laws. I support  
6 that approach, but I believe this legislation could be  
7 strengthened if a countervailing duty remedy is included  
8 as well. I understand that you would prefer not to have  
9 a debate here about WTO consistency, so I will limit my  
10 remarks.

11           However, I would point out that we have already  
12 heard testimony in this room on this topic by a former  
13 Chief of Staff of this committee, Robert Lighthouser.  
14 Indeed, I have a list of seven prominent trade attorneys  
15 or professors who have endorsed the countervailing duty  
16 approach in my bill and Senator Stabenow's bill, the Fair  
17 Currency Act, which we have co-sponsored with Senator  
18 Snowe, Senator Conrad, and Senator Bayh on the Banking  
19 Committee.

20           Senator Schumer and I have worked on this issue in  
21 the past as well. I remain convinced that my approach is  
22 tougher, realistic, and fully consistent with WTO rules.  
23 But I will respect the wishes of the Chairman and the  
24 Ranking Member. With your consent, Mr. Chairman, I will  
25 offer my Amendment #1 so that other members who support

1 this approach may be heard, and then I would withdraw it  
2 before a vote is taken.

3 I fully expect to pursue it further as China trade  
4 legislation moves through the Senate, through the Banking  
5 Committee, and I hope my colleagues will join me in that  
6 effort.

7 Thank you very much.

8 The Chairman. Thank you, Senator, very much.

9 I really would like to move to a vote on this bill  
10 as quickly as possible.

11 Senator Stabenow?

12 Senator Stabenow. Thank you. In the interest of  
13 time, Mr. Chairman, I just want to associate myself with  
14 my colleague's remarks and thank him for his work. We  
15 will continue to pursue. I think it is important to have  
16 this tool as a part of the toolbox for our businesses.  
17 Thank you.

18 The Chairman. Thank you, Senator.

19 Senator Snowe. Mr. Chairman?

20 The Chairman. I might say, Senator Rockefeller has  
21 filed two amendments he does not plan to offer. Both  
22 relate to the topic which is of great concern to both  
23 Senator Rockefeller and myself, and that is trade  
24 enforcement. I agree with Senator Rockefeller that we  
25 need to strengthen enforcement of our trade laws, and

1 look forward to working with him.

2 Senator Snowe?

3 Senator Snowe. Mr. Chairman, may I include a  
4 statement in the record on behalf of Senator Bunning's  
5 amendment? Because I strongly endorse it and I think it  
6 would be a good adjunct in fighting these trade-  
7 distorting practices. And so I appreciate the resolution  
8 to this question.

9 The Chairman. Absolutely. Certainly.

10 Senator Snowe. And I also appreciate your efforts  
11 in the overall bill. Thank you.

12 [The prepared statement of Senator Snowe appears in  
13 the appendix.]

14 Senator Schumer. Mr. Chairman?

15 The Chairman. Senator Schumer?

16 Senator Schumer. Very briefly, I want to thank  
17 Senator Bunning and Senator Stabenow. I think these are  
18 two approaches that can work side by side, one through the  
19 Banking Committee, one through Finance, and then marry  
20 up. As I said, I intend to support your bill in the  
21 Banking Committee and hope that it moves through.

22 The Chairman. If there are no further amendments,  
23 I would entertain a motion that the committee report S.  
24 1607, the Currency Exchange Rate Oversight Act of 2007.

25 Senator Kerry. So moved.

1           The Chairman.    It has been moved.  Is a recorded  
2   vote requested?  A recorded vote is requested.  The Clerk  
3   will call the roll.

4           The Clerk.    Mr. Rockefeller?

5           The Chairman.   Aye by proxy.

6           The Clerk.    Mr. Conrad?

7           The Chairman.   Aye by proxy.

8           The Clerk.    Mr. Bingaman?

9           The Chairman.   Aye by proxy.

10          The Clerk.    Mr. Kerry?

11          Senator Kerry.   Aye.

12          The Clerk.    Mrs. Lincoln?

13          Senator Lincoln.   Aye.

14          The Clerk.    Mr. Wyden?

15          Senator Wyden.   Aye.

16          The Clerk.    Mr. Schumer?

17          Senator Schumer.   Aye.

18          The Clerk.    Ms. Stabenow?

19          Senator Stabenow.   Aye.

20          The Clerk.    Ms. Cantwell?

21          Senator Cantwell.   No.

22          The Clerk.    Mr. Salazar?

23          The Chairman.   Aye by proxy.

24          The Clerk.    Mr. Grassley?

25          Senator Grassley.   Aye.

1           The Clerk.    Mr. Hatch?  
2           Senator Grassley.   Aye by proxy.  
3           The Clerk.    Mr. Lott?  
4           Senator Lott.    Pass.  
5           The Clerk.    Ms. Snowe?  
6           Senator Snowe.    Aye.  
7           The Clerk.    Mr. Kyl?  
8           Senator Kyl.    Pass.  
9           The Clerk.    Mr. Smith?  
10          Senator Smith.    Pass.  
11          The Clerk.    Mr. Bunning?  
12          Senator Bunning.    Aye.  
13          The Clerk.    Mr. Crapo?  
14          Senator Crapo.    Aye.  
15          The Clerk.    Mr. Roberts?  
16          Senator Roberts.    Aye.  
17          The Clerk.    Mr. Ensign?  
18          Senator Grassley.    Ensign is aye by proxy.  
19          The Clerk.    Mr. Chairman?  
20          The Chairman.    Aye.  
21          Senator Lott.    Mr. Chairman?  
22          The Chairman.    Senator Lott?  
23          Senator Lott.    I ask to be recorded as "aye".  
24          The Clerk.    Mr. Lott changes his vote to "aye".  
25          The Chairman.    Any other Senators wish to change

1 their votes? Senator Kyl?

2 Senator Kyl. Aye.

3 The Clerk. Mr. Kyl changes his vote to "aye".

4 Senator Smith. Aye.

5 The Clerk. Mr. Smith changes his vote to "aye".

6 The Chairman. The Clerk will announce the results  
7 of the vote.

8 The Clerk. Mr. Chairman, the tally is 20 ayes, 1  
9 nay.

10 The Chairman. The ayes have it. The bill is so  
11 reported.

12 Before Senators leave, I might say we have a little  
13 bit more business to conduct, and that is two  
14 nominations.

15 I ask consent that the staff have authority to make  
16 technical and conforming changes to the bill just passed.  
17 Without objection, so ordered.

18 I thank the Senators and ask their indulgence. Now,  
19 we are not quite through. We have the nominations of  
20 David McCormick and Peter McCarthy for Treasury  
21 Department positions. I assume there is no debate.

22 Senator Kerry. Move their nominations.

23 The Chairman. The Chair hears a motion to move the  
24 nominations. All those in favor, say aye.

25 [Chorus of ayes]

1           The Chairman.   Those opposed, no.

2           [No response]

3           The Chairman.   The ayes have it.   The nominations  
4 are ordered reported.

5           Again, I thank all Senators very much.   Thank you  
6 very much.

7           The committee is adjourned.

8           [Whereupon, at 3:03 p.m. the meeting was concluded.]

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**UNITED STATES SENATE  
COMMITTEE ON FINANCE**

**Max Baucus, Chairman**

Thursday, July 26, 2007

215 Dirksen Senate Office Building

**Agenda for Business Meeting**

- I. A bill (S. 1607) entitled “The Currency Exchange Rate Oversight Reform Act of 2007,” with a substitute amendment
  
- II. To consider favorably reporting the nominations of David H. McCormick, to be Under Secretary of the Treasury, U.S. Department of the Treasury and Peter B. McCarthy, to be Assistant Secretary of the Treasury, U.S. Department of the Treasury.



AMENDMENT NO. \_\_\_\_\_ Calendar No. \_\_\_\_\_

Purpose: To provide a complete substitute.

IN THE SENATE OF THE UNITED STATES—110th Cong., 1st Sess.

**S. 1607**

To provide for identification of misaligned currency, require action to correct the misalignment, and for other purposes.

Referred to the Committee on \_\_\_\_\_ and ordered to be printed

Ordered to lie on the table and to be printed

AMENDMENT IN THE NATURE OF A SUBSTITUTE intended to be proposed by \_\_\_\_\_

Viz:

1 Strike all after the enacting clause and insert the fol-  
2 lowing:

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the "Currency Exchange  
5 Rate Oversight Reform Act of 2007".

6 **SEC. 2. DEFINITIONS.**

7 In this Act:

8 (1) **ADMINISTERING AUTHORITY.**—The term  
9 "administering authority" means the authority re-

1       ferred to in section 771(1) of the Tariff Act of 1930  
2       (19 U.S.C. 1677(1)).

3           (2) AGREEMENT ON GOVERNMENT PROCURE-  
4       MENT.—The term “Agreement on Government Pro-  
5       curement” means the agreement referred to in sec-  
6       tion 101(d)(17) of the Uruguay Round Agreements  
7       Act (19 U.S.C. 3511(d)(17)).

8           (3) COUNTRY.—The term “country” means a  
9       foreign country, dependent territory, or possession of  
10      a foreign country, and may include an association of  
11      2 or more foreign countries, dependent territories, or  
12      possessions of countries into a customs union out-  
13      side the United States.

14          (4) EXPORTING COUNTRY.—The term “export-  
15      ing country” means the country in which the subject  
16      merchandise is produced or manufactured.

17          (5) FUNDAMENTAL MISALIGNMENT.—The term  
18      “fundamental misalignment” means a significant  
19      and sustained undervaluation of the prevailing real  
20      effective exchange rate, adjusted for cyclical and  
21      transitory factors, from its medium-term equilibrium  
22      level.

23          (6) FUNDAMENTALLY MISALIGNED CUR-  
24      RENCY.—The term “fundamentally misaligned cur-

1 rency” means a foreign currency that is in funda-  
2 mental misalignment.

3 (7) REAL EFFECTIVE EXCHANGE RATE.—The  
4 term “real effective exchange rate” means a weight-  
5 ed average of bilateral exchange rates, expressed in  
6 price-adjusted terms.

7 (8) SECRETARY.—The term “Secretary” means  
8 the Secretary of the Treasury.

9 (9) STERILIZATION.—The term “sterilization”  
10 means domestic monetary operations taken to neu-  
11 tralize the monetary impact of increases in reserves  
12 associated with intervention in the currency ex-  
13 change market.

14 (10) SUBJECT MERCHANDISE.—The term “sub-  
15 ject merchandise” means the merchandise subject to  
16 an antidumping investigation, review, suspension  
17 agreement, or order referred to in section 771(25) of  
18 the Tariff Act of 1930 (19 U.S.C. 1677(25)).

19 (11) WTO AGREEMENT.—The term “WTO  
20 Agreement” means the agreement referred to in sec-  
21 tion 2(9) of the Uruguay Round Agreements Act (19  
22 U.S.C. 3501(9)).

23 **SEC. 3. REPORT ON INTERNATIONAL MONETARY POLICY**  
24 **AND CURRENCY EXCHANGE RATES.**

25 (a) REPORTS REQUIRED.—

1           (1) IN GENERAL.—Not later than March 15  
2 and September 15 of each calendar year, the Sec-  
3 retary, after consulting with the Chairman of the  
4 Board of Governors of the Federal Reserve System  
5 and the Advisory Committee on International Ex-  
6 change Rate Policy, shall submit to Congress, a  
7 written report on international monetary policy and  
8 currency exchange rates.

9           (2) CONSULTATIONS.—On or before March 30  
10 and September 30 of each year, the Secretary shall  
11 appear, if requested, before the Committee on Bank-  
12 ing, Housing, and Urban Affairs and the Committee  
13 on Finance of the Senate and the Committee on Fi-  
14 nancial Services and the Committee on Ways and  
15 Means of the House of Representatives to provide  
16 testimony on the reports submitted pursuant to  
17 paragraph (1).

18           (b) CONTENT OF REPORTS.—Each report submitted  
19 under subsection (a) shall contain—

20           (1) an analysis of currency market develop-  
21 ments and the relationship between the United  
22 States dollar and the currencies of major economies  
23 and trading partners of the United States;

24           (2) a review of the economic and monetary poli-  
25 cies of major economies and trading partners of the

1 United States, and an evaluation of how such poli-  
2 cies impact currency exchange rates;

3 (3) a description of any currency intervention  
4 by the United States or other major economies or  
5 trading partners of the United States, or other ac-  
6 tions undertaken to adjust the actual exchange rate  
7 relative to the United States dollar;

8 (4) an evaluation of the domestic and global  
9 factors that underlie the conditions in the currency  
10 markets, including—

11 (A) monetary and financial conditions;

12 (B) accumulation of foreign assets;

13 (C) macroeconomic trends;

14 (D) trends in current and financial ac-  
15 count balances;

16 (E) the size, composition, and growth of  
17 international capital flows;

18 (F) the impact of the external sector on  
19 economic growth;

20 (G) the size and growth of external indebt-  
21 edness;

22 (H) trends in the net level of international  
23 investment; and

24 (I) capital controls, trade, and exchange  
25 restrictions;

1           (5) a list of currencies designated as fundamen-  
2           tally misaligned currencies pursuant to section  
3           4(a)(2), and a description of any economic models or  
4           methodologies used to establish the list;

5           (6) a list of currencies designated for priority  
6           action pursuant to section 4(a)(3);

7           (7) an identification of the nominal value asso-  
8           ciated with the medium-term equilibrium exchange  
9           rate, relative to the United States dollar, for each  
10          currency listed under paragraph (6);

11          (8) a description of any consultations conducted  
12          or other steps taken pursuant to section 5, 6, or 7;  
13          and

14          (9) a description of any determination made  
15          pursuant to section 9(a).

16          (c) CONSULTATIONS.—The Secretary shall consult  
17          with the Chairman of the Board of Governors of the Fed-  
18          eral Reserve System and the Advisory Committee on  
19          International Exchange Rate Policy with respect to the  
20          preparation of each report required under subsection (a).  
21          Any comments provided by the Chairman of the Board  
22          of Governors of the Federal Reserve System or the Advi-  
23          sory Committee on International Exchange Rate Policy  
24          shall be submitted to the Secretary not later than the date  
25          that is 15 days before the date each report is due under

1 subsection (a). The Secretary shall submit the report to  
2 Congress after taking into account all such comments re-  
3 ceived.

4 **SEC. 4. IDENTIFICATION OF FUNDAMENTALLY MISALIGNED**  
5 **CURRENCIES.**

6 (a) IDENTIFICATION.—

7 (1) IN GENERAL.—The Secretary shall analyze  
8 on a semiannual basis the prevailing real effective  
9 exchange rates of foreign currencies.

10 (2) DESIGNATION OF FUNDAMENTALLY MIS-  
11 ALIGNED CURRENCIES.—As a result of the analysis  
12 conducted under paragraph (1), the Secretary shall  
13 identify any foreign currency that is in fundamental  
14 misalignment and shall designate such currency as a  
15 fundamentally misaligned currency.

16 (3) DESIGNATION OF CURRENCIES FOR PRI-  
17 ORITY ACTION.—The Secretary shall designate a  
18 currency identified under paragraph (2) for priority  
19 action if the country that issues such currency is—

20 (A) engaging in protracted large-scale  
21 intervention in one direction in the currency ex-  
22 change market, accompanied by partial or full  
23 sterilization;

1 (B) engaging in excessive and prolonged  
2 official or quasi-official accumulation of foreign  
3 assets, for balance of payments purposes;

4 (C) introducing or substantially modifying  
5 for balance of payments purposes a restriction  
6 on, or incentive for, the inflow or outflow of  
7 capital, that is inconsistent with the goal of  
8 achieving full currency convertibility; or

9 (D) pursuing any other policy or action  
10 that, in the view of the Secretary, warrants des-  
11 ignation for priority action.

12 (b) REPORTS.—The Secretary shall include a list of  
13 any foreign currency designated under paragraph (2) or  
14 (3) of subsection (a) in each report required by section  
15 3.

16 **SEC. 5. NEGOTIATIONS AND CONSULTATIONS.**

17 (a) IN GENERAL.—Upon designation of a currency  
18 pursuant to section 4(a)(2), the Secretary shall seek to  
19 consult bilaterally with the country that issues such cur-  
20 rency in order to facilitate the adoption of appropriate  
21 policies to address the fundamental misalignment.

22 (b) CONSULTATIONS INVOLVING CURRENCIES DES-  
23 IGNATED FOR PRIORITY ACTION.—With respect to each  
24 currency designated for priority action pursuant to section



1 4(a)(3), the Secretary shall, in addition to the consulta-  
2 tions with the country described in subsection (a)—

3 (1) seek the advice of the International Mone-  
4 tary Fund with respect to the Secretary's findings in  
5 the report submitted to Congress pursuant to section  
6 3(a); and

7 (2) encourage other governments, whether bilat-  
8 erally or in appropriate multinational fora, to join  
9 the United States in seeking the adoption of appro-  
10 priate policies by the country described in subsection  
11 (a) to eliminate the fundamental misalignment.

12 **SEC. 6. FAILURE TO ADOPT APPROPRIATE POLICIES.**

13 (a) IN GENERAL.—Not later than 180 days after the  
14 date on which a currency is designated for priority action  
15 pursuant to section 4(a)(3), the Secretary shall determine  
16 whether the country that issues such currency has adopted  
17 appropriate policies to eliminate the fundamental mis-  
18 alignment. The Secretary shall promptly notify Congress  
19 of such determination and publish notice of the determina-  
20 tion in the Federal Register. If the Secretary determines  
21 that the country that issues such currency has failed to  
22 adopt appropriate policies to eliminate the fundamental  
23 misalignment, the following shall apply with respect to the  
24 country until a notification described in section 7(b) is  
25 published in the Federal Register:

1           (1) ADJUSTMENT UNDER ANTIDUMPING LAW.—  
2           For purposes of an antidumping investigation or re-  
3           view under title VII of the Tariff Act of 1930 (19  
4           U.S.C. 1673 et seq.) the following shall apply:

5                   (A) IN GENERAL.—The administering au-  
6                   thority shall ensure a fair comparison between  
7                   the export price and the normal value by ad-  
8                   justing the price used to establish export price  
9                   or constructed export price to reflect the funda-  
10                  mental misalignment of the currency of the ex-  
11                  porting country.

12                   (B) SALES SUBJECT TO ADJUSTMENT.—  
13                  The adjustment described in subparagraph (A)  
14                  shall apply with respect to subject merchandise  
15                  sold on or after the date that is 30 days after  
16                  the date the currency of the exporting country  
17                  is designated for priority action pursuant to  
18                  section 4(a)(3).

19           (2) FEDERAL PROCUREMENT.—

20                   (A) IN GENERAL.—The President shall  
21                   prohibit the procurement by the Federal Gov-  
22                   ernment of products or services from the coun-  
23                   try.

24                   (B) EXCEPTION.—The prohibition pro-  
25                   vided for in subparagraph (A) shall not apply

1 with respect to a country that is a party to the  
2 Agreement on Government Procurement.

3 (3) REQUEST FOR IMF ACTION.—The United  
4 States shall inform the Managing Director of the  
5 International Monetary Fund of the failure of the  
6 country to adopt appropriate policies to eliminate  
7 the fundamental misalignment, and the actions the  
8 country is engaging in that are identified in section  
9 4(a)(3), and shall request that the Managing Direc-  
10 tor of the International Monetary Fund—

11 (A) consult with such country regarding  
12 the observance of the country's obligations  
13 under article IV of the International Monetary  
14 Fund Articles of Agreement, including through  
15 special consultations, if necessary; and

16 (B) formally report the results of such con-  
17 sultations to the Executive Board of the Inter-  
18 national Monetary Fund within 180 days of the  
19 date of such request.

20 (4) OPIC FINANCING.—The Overseas Private  
21 Investment Corporation shall not approve any new  
22 financing (including insurance, reinsurance, or guar-  
23 antee) with respect to a project located within the  
24 country.

1           (5) MULTILATERAL BANK FINANCING.—The  
2           Secretary shall instruct the United States Executive  
3           Director at each multilateral bank to oppose the ap-  
4           proval of any new financing (including loans, other  
5           credits, insurance, reinsurance, or guarantee) to the  
6           government of the country or for a project located  
7           within the country.

8           (b) WAIVER.—

9           (1) IN GENERAL.—The President may waive  
10          any action provided for under subsection (a) if the  
11          President determines that—

12                 (A) taking such action would cause serious  
13                 harm to the national security of the United  
14                 States; or

15                 (B) it is in the vital economic interest of  
16                 the United States to do so and taking such ac-  
17                 tion would have an adverse impact on the  
18                 United States economy greater than the bene-  
19                 fits of such action.

20          (2) NOTIFICATION.—The President shall  
21          promptly notify Congress of a determination under  
22          paragraph (1) (and the reasons for the determina-  
23          tion, if made under paragraph (1)(B)) and shall  
24          publish notice of the determination in the Federal  
25          Register.

1 (c) REPORTS.—The Secretary shall describe any ac-  
2 tion or determination pursuant to subsection (a) or (b)  
3 in the first semiannual report required by section 3 after  
4 the date of such action or determination.

5 **SEC. 7. PERSISTENT FAILURE TO ADOPT APPROPRIATE**  
6 **POLICIES.**

7 (a) PERSISTENT FAILURE TO ADOPT APPROPRIATE  
8 POLICIES.—Not later than 360 days after the date on  
9 which a currency is designated for priority action pursuant  
10 to section 4(a)(3), the Secretary shall determine whether  
11 the country that issues such currency has adopted appro-  
12 priate policies to eliminate the fundamental misalignment.  
13 The Secretary shall promptly notify Congress of such de-  
14 termination and shall publish notice of the determination  
15 in the Federal Register. If the Secretary determines that  
16 the country that issues such currency has failed to adopt  
17 appropriate policies to eliminate the fundamental mis-  
18 alignment, in addition to the provisions of section 6(a),  
19 the following shall apply with respect to the country until  
20 a notification described in subsection (b) is published in  
21 the Federal Register:

22 (1) ACTION AT THE WTO.—The United States  
23 Trade Representative shall request consultations in  
24 the World Trade Organization with the country re-

1       garding the consistency of the country's actions with  
2       its obligations under the WTO Agreement.

3       (2) REMEDIAL INTERVENTION.—

4               (A) IN GENERAL.—The Secretary shall  
5       consult with the Board of Governors of the  
6       Federal Reserve System to consider under-  
7       taking remedial intervention in international  
8       currency markets in response to the funda-  
9       mental misalignment of the currency designated  
10      for priority action, and coordinating such inter-  
11     vention with other monetary authorities and the  
12     International Monetary Fund.

13              (B) NOTICE TO COUNTRY.—At the same  
14      time the Secretary takes action under subpara-  
15      graph (A), the Secretary shall notify the coun-  
16      try that issues such currency of the consulta-  
17      tions under subparagraph (A).

18      (b) NOTIFICATION.—The Secretary shall promptly  
19      notify Congress when a country that issues a currency des-  
20      ignated for priority action pursuant to section 4(a)(3)  
21      adopts appropriate policies to eliminate the fundamental  
22      misalignment, and publish notice of the action of that  
23      country in the Federal Register.

24      (c) WAIVER.—

1           (1) IN GENERAL.—The President may waive  
2           any action provided for under this section, or extend  
3           any waiver provided for pursuant to section 6(b), if  
4           the President determines that—

5                   (A) taking such action would cause serious  
6                   harm to the national security of the United  
7                   States; or

8                   (B) it is in the vital economic interest of  
9                   the United States to do so, and that taking  
10                  such action would have an adverse impact on  
11                  the United States economy substantially out of  
12                  proportion to the benefits of such action.

13           (2) NOTIFICATION.—The President shall  
14           promptly notify Congress of a determination under  
15           paragraph (1) (and the reasons for the determina-  
16           tion, if made under paragraph (1)(B)) and shall  
17           publish notice of the determination in the Federal  
18           Register.

19           (d) REPORTS.—The Secretary shall describe any ac-  
20           tion or determination pursuant to subsection (a), (b), or  
21           (c) in the first semiannual report required by section 3  
22           after the date of such action or determination.

23 **SEC. 8. CONGRESSIONAL DISAPPROVAL OF WAIVER.**

24           (a) RESOLUTION OF DISAPPROVAL.—

1           (1) INTRODUCTION.—If a resolution of dis-  
2           approval is introduced in the House of Representa-  
3           tives or the Senate during the 90-day period (not  
4           counting any day which is excluded under section  
5           154(b)(1) of the Trade Act of 1974 (19 U.S.C.  
6           2194(b)(1)), beginning on the date on which the  
7           President first notifies the Congress of a determina-  
8           tion to waive action with respect to a country pursu-  
9           ant to section 7(c)(1)(B), that resolution of dis-  
10          approval shall be considered in accordance with this  
11          subsection.

12          (2) RESOLUTION OF DISAPPROVAL.—In this  
13          subsection, the term “resolution of disapproval”  
14          means only a concurrent resolution of the two  
15          Houses of the Congress, the sole matter after the re-  
16          solving clause of which is as follows: “That the Con-  
17          gress does not approve the determination of the  
18          President under section 7(c)(1)(B) of the Currency  
19          Exchange Rate Oversight Reform Act of 2007 with  
20          respect to \_\_\_\_\_, of which Congress was no-  
21          tified on \_\_\_\_\_.”, with the first blank space  
22          being filled with the name of the appropriate country  
23          and the second blank space being filled with the ap-  
24          propriate date.



1           (3) PROCEDURES FOR CONSIDERING RESOLU-  
2           TIONS.—

3           (A) INTRODUCTION AND REFERRAL.—Res-  
4           olutions of disapproval—

5           (i) in the House of Representatives—

6           (I) may be introduced by any  
7           Member of the House;

8           (II) shall be referred to the Com-  
9           mittee on Financial Services and, in  
10          addition, to the Committee on Rules;  
11          and

12          (III) may not be amended by ei-  
13          ther Committee; and

14          (ii) in the Senate—

15          (I) may be introduced by any  
16          Member of the Senate;

17          (II) shall be referred to the Com-  
18          mittee on Banking, Housing, and  
19          Urban Affairs; and

20          (III) may not be amended.

21          (B) COMMITTEE DISCHARGE AND FLOOR  
22          CONSIDERATION.—The provisions of sub-  
23          sections (c) through (f) of section 152 of the  
24          Trade Act of 1974 (other than paragraph (3)  
25          of such subsection (f)) (19 U.S.C. 2192(c))

1 through (f)) (relating to committee discharge  
2 and floor consideration of certain resolutions in  
3 the House and Senate) apply to a concurrent  
4 resolution of disapproval under this section to  
5 the same extent as such subsections apply to  
6 joint resolutions under such section 152.

7 (b) RULES OF HOUSE OF REPRESENTATIVES AND  
8 SENATE.—This section is enacted by the Congress—

9 (1) as an exercise of the rulemaking power of  
10 the House of Representatives and the Senate, re-  
11 spectively, and as such are deemed a part of the  
12 rules of each House, respectively, and such proce-  
13 dures supersede other rules only to the extent that  
14 they are inconsistent with such other rules; and

15 (2) with the full recognition of the constitu-  
16 tional right of either House to change the rules (so  
17 far as relating to the procedures of that House) at  
18 any time, in the same manner, and to the same ex-  
19 tent as any other rule of that House.

20 **SEC. 9. INTERNATIONAL FINANCIAL INSTITUTION GOVERN-**  
21 **ANCE ARRANGEMENTS.**

22 (a) INITIAL REVIEW.—Notwithstanding any other  
23 provision of law, before the United States approves a pro-  
24 posed change in the governance arrangement of any inter-  
25 national financial institution, as defined in section

1 1701(c)(2) of the International Financial Institutions Act  
2 (22 U.S.C. 262r(c)(2)), the Secretary shall determine  
3 whether any member of the international financial institu-  
4 tion that would benefit from the proposed change, in the  
5 form of increased voting shares or representation, has a  
6 currency that was designated a currency for priority action  
7 pursuant to section 4(a)(3) in the most recent report re-  
8 quired by section 3. The determination shall be reported  
9 to Congress.

10 (b) **SUBSEQUENT ACTION.**—The United States shall  
11 oppose any proposed change in the governance arrange-  
12 ment of the international financial institution (as defined  
13 in subsection (a)), if the Secretary renders an affirmative  
14 determination pursuant to subsection (a).

15 (c) **FURTHER ACTION.**—The United States shall con-  
16 tinue to oppose any proposed change in the governance  
17 arrangement of the international financial institution, pur-  
18 suant to subsection (b), until the Secretary determines  
19 and reports to Congress that the proposed change would  
20 not benefit any member of the international financial insti-  
21 tution, in the form of increased voting shares or represen-  
22 tation, that has a currency that is designated a currency  
23 for priority action pursuant to section 4(a)(3).

1 **SEC. 10. ADJUSTMENT FOR FUNDAMENTALLY MISALIGNED**  
2 **CURRENCY DESIGNATED FOR PRIORITY AC-**  
3 **TION.**

4 (a) **IN GENERAL.**—Subsection (c)(2) of section 772  
5 of the Tariff Act of 1930 (19 U.S.C. 1677a(c)(2)) is  
6 amended—

7 (1) by striking “and” at the end of subpara-  
8 graph (A);

9 (2) by striking the period at the end of sub-  
10 paragraph (B) and inserting “; and”; and

11 (3) by adding at the end the following:

12 “(C) if required by section 6(a)(1) of the  
13 Currency Exchange Rate Oversight Reform Act  
14 of 2007, the percentage by which the domestic  
15 currency of the producer or exporter is under-  
16 valued in relation to the United States dollar.”.

17 (b) **CALCULATION METHODOLOGY.**—Section 771 of  
18 the Tariff Act of 1930 (19 U.S.C. 1677) is amended by  
19 adding at the end the following:

20 “(37) **PERCENTAGE UNDERVALUATION.**—The  
21 administering authority shall determine the percent-  
22 age by which the domestic currency of the producer  
23 or exporter is undervalued in relation to the United  
24 States dollar by comparing the nominal value associ-  
25 ated with the medium-term equilibrium exchange  
26 rate of the domestic currency of the producer or ex-

1       porter, identified by the Secretary pursuant to sec-  
2       tion 3(b)(7) of the Currency Exchange Rate Over-  
3       sight Reform Act of 2007, to the official daily ex-  
4       change rate identified by the administering authority  
5       for purposes of antidumping proceedings.”.

6       **SEC. 11. NONMARKET ECONOMY STATUS.**

7       Paragraph (18)(B) of section 771 of the Tariff Act  
8       of 1930 (19 U.S.C. 1677(18)(B)) is amended—

9               (1) by striking “and” at the end of clause (v);

10       and

11               (2) by redesignating clause (vi) as clause (vii)

12       and inserting after clause (v) the following:

13                       “(vi) whether the currency of the for-  
14                       eign country is designated a currency for  
15                       priority action pursuant to section 4(a)(3)  
16                       of the Currency Exchange Rate Oversight  
17                       Reform Act of 2007, and”.

18       **SEC. 12. APPLICATION TO CANADA AND MEXICO.**

19       Pursuant to article 1902 of the North American Free  
20       Trade Agreement and section 408 of the North American  
21       Free Trade Agreement Implementation Act (19 U.S.C.  
22       3438), section 6(a)(1) and the amendments made by sec-  
23       tions 10 and 11 shall apply with respect to goods from  
24       Canada and Mexico.

1 **SEC. 13. ADVISORY COMMITTEE ON INTERNATIONAL EX-**  
2 **CHANGE RATE POLICY.**

3 (a) **ESTABLISHMENT.**—

4 (1) **IN GENERAL.**—There is established an Ad-  
5 visory Committee on International Exchange Rate  
6 Policy (in this section referred to as the “Com-  
7 mittee”) The Committee shall be responsible for—

8 (A) advising the Secretary in the prepara-  
9 tion of each report to Congress on international  
10 monetary policy and currency exchange rates,  
11 provided for in section 3; and

12 (B) advising the Congress and the Presi-  
13 dent with respect to—

14 (i) international exchange rates and  
15 financial policies; and

16 (ii) the impact of such policies on the  
17 economy of the United States.

18 (2) **MEMBERSHIP.**—

19 (A) **IN GENERAL.**—The Committee shall be  
20 composed of 9 members as follows, none of  
21 whom shall be from the Federal Government:

22 (i) **CONGRESSIONAL APPOINTEES.**—

23 (I) **SENATE APPOINTEES.**—Four  
24 persons shall be appointed by the  
25 President pro tempore of the Senate,  
26 upon the recommendation of the

1 Chairmen and Ranking Members of  
2 the Committee on Banking, Housing,  
3 and Urban Affairs and the Committee  
4 on Finance of the Senate.

5 (II) HOUSE APPOINTEES.—Four  
6 persons shall be appointed by the  
7 Speaker of the House of Representa-  
8 tives upon the recommendation of the  
9 Chairmen and Ranking Members of  
10 the Committee on Financial Services  
11 and the Committee on Ways and  
12 Means of the House of Representa-  
13 tives.

14 (ii) PRESIDENTIAL APPOINTEE.—One  
15 person shall be appointed by the President.

16 (B) QUALIFICATIONS.—Persons shall be  
17 selected under subparagraph (A) on the basis of  
18 their objectivity and demonstrated expertise in  
19 finance, economics, or currency exchange.

20 (3) TERMS.—Members shall be appointed for a  
21 term of 4 years or until the Committee terminates.  
22 An individual may be reappointed to the Committee  
23 for additional terms.

1           (4) VACANCIES.—Any vacancy in the Com-  
2           mittee shall not affect its powers, but shall be filled  
3           in the same manner as the original appointment.

4           (b) DURATION OF COMMITTEE.—The Committee  
5           shall terminate on the date that is 4 years after the date  
6           of the enactment of this Act unless renewed by the Presi-  
7           dent pursuant to section 14 of the Federal Advisory Com-  
8           mittee Act (5 U.S.C. App.) for a subsequent 4-year period.  
9           The President may continue to renew the Committee for  
10          successive 4-year periods by taking appropriate action  
11          prior to the date on which the Committee would otherwise  
12          terminate.

13          (c) PUBLIC MEETINGS.—The Committee shall hold  
14          at least 1 public meeting each year for the purpose of ac-  
15          cepting public comments. The Committee shall also meet  
16          as needed at the call of the Secretary or at the call of  
17          two-thirds of the members of the Committee.

18          (d) CHAIRPERSON.—The Committee shall elect from  
19          among its members a chairperson for a term of 4 years  
20          or until the Committee terminates. A chairperson of the  
21          Committee may be reelected chairperson but is ineligible  
22          to serve consecutive terms as chairperson.

23          (e) STAFF.—The Secretary shall make available to  
24          the Committee such staff, information, personnel, admin-



1 istrative services, and assistance as the Committee may  
2 reasonably require to carry out its activities.

3 (f) APPLICATION OF FEDERAL ADVISORY COM-  
4 MITTEE ACT.—

5 (1) IN GENERAL.—The provisions of the Fed-  
6 eral Advisory Committee Act (5 U.S.C. App.) shall  
7 apply to the Committee.

8 (2) EXCEPTION.—Except for the annual public  
9 meeting required under subsection (c), meetings of  
10 the Committee shall be exempt from the require-  
11 ments of subsections (a) and (b) of sections 10 and  
12 11 of the Federal Advisory Committee Act (relating  
13 to open meetings, public notice, public participation,  
14 and public availability of documents), whenever and  
15 to the extent it is determined by the President or the  
16 Secretary that such meetings will be concerned with  
17 matters the disclosure of which would seriously com-  
18 promise the development by the United States Gov-  
19 ernment of monetary and financial policy.

20 **SEC. 14. REPEAL OF THE EXCHANGE RATES AND INTER-**  
21 **NATIONAL ECONOMIC POLICY COORDINA-**  
22 **TION ACT OF 1988.**

23 The Exchange Rates and International Economic  
24 Policy Coordination Act of 1988 (22 U.S.C. 5301–5306)  
25 is repealed.

AMENDMENT NO. \_\_\_\_\_ Calendar No. \_\_\_\_\_

Purpose: To provide a complete substitute.

**IN THE SENATE OF THE UNITED STATES—110th Cong., 1st Sess.**

**S. 1607**

To provide for identification of misaligned currency, require action to correct the misalignment, and for other purposes.

Referred to the Committee on \_\_\_\_\_ and ordered to be printed

Ordered to lie on the table and to be printed

AMENDMENT IN THE NATURE OF A SUBSTITUTE intended to be proposed by \_\_\_\_\_

Viz:

1 Strike all after the enacting clause and insert the fol-  
2 lowing:

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Currency Exchange  
5 Rate Oversight Reform Act of 2007”.

6 **SEC. 2. DEFINITIONS.**

7 In this Act:

8 (1) **ADMINISTERING AUTHORITY.**—The term  
9 “administering authority” means the authority re-

1       ferred to in section 771(1) of the Tariff Act of 1930  
2       (19 U.S.C. 1677(1)).

3               (2) AGREEMENT ON GOVERNMENT PROCURE-  
4       MENT.—The term “Agreement on Government Pro-  
5       curement” means the agreement referred to in sec-  
6       tion 101(d)(17) of the Uruguay Round Agreements  
7       Act (19 U.S.C. 3511(d)(17)).

8               (3) COUNTRY.—The term “country” means a  
9       foreign country, dependent territory, or possession of  
10       a foreign country, and may include an association of  
11       2 or more foreign countries, dependent territories, or  
12       possessions of countries into a customs union out-  
13       side the United States.

14              (4) EXPORTING COUNTRY.—The term “export-  
15       ing country” means the country in which the subject  
16       merchandise is produced or manufactured.

17              (5) FUNDAMENTAL MISALIGNMENT.—The term  
18       “fundamental misalignment” means a significant  
19       and sustained undervaluation of the prevailing real  
20       effective exchange rate, adjusted for cyclical and  
21       transitory factors, from its medium-term equilibrium  
22       level.

23              (6) FUNDAMENTALLY MISALIGNED CUR-  
24       RENCY.—The term “fundamentally misaligned cur-

1       rency” means a foreign currency that is in funda-  
2       mental misalignment.

3           (7) REAL EFFECTIVE EXCHANGE RATE.—The  
4       term “real effective exchange rate” means a weight-  
5       ed average of bilateral exchange rates, expressed in  
6       price-adjusted terms.

7           (8) SECRETARY.—The term “Secretary” means  
8       the Secretary of the Treasury.

9           (9) STERILIZATION.—The term “sterilization”  
10      means domestic monetary operations taken to neu-  
11      tralize the monetary impact of increases in reserves  
12      associated with intervention in the currency ex-  
13      change market.

14          (10) SUBJECT MERCHANDISE.—The term “sub-  
15      ject merchandise” means the merchandise subject to  
16      an antidumping investigation, review, suspension  
17      agreement, or order referred to in section 771(25) of  
18      the Tariff Act of 1930 (19 U.S.C. 1677(25)).

19          (11) WTO AGREEMENT.—The term “WTO  
20      Agreement” means the agreement referred to in sec-  
21      tion 2(9) of the Uruguay Round Agreements Act (19  
22      U.S.C. 3501(9)).

23   **SEC. 3. REPORT ON INTERNATIONAL MONETARY POLICY**  
24                   **AND CURRENCY EXCHANGE RATES.**

25      (a) REPORTS REQUIRED.—

1           (1) IN GENERAL.—Not later than March 15  
2           and September 15 of each calendar year, the Sec-  
3           retary, after consulting with the Chairman of the  
4           Board of Governors of the Federal Reserve System  
5           and the Advisory Committee on International Ex-  
6           change Rate Policy, shall submit to Congress, a  
7           written report on international monetary policy and  
8           currency exchange rates.

9           (2) CONSULTATIONS.—On or before March 30  
10          and September 30 of each year, the Secretary shall  
11          appear, if requested, before the Committee on Bank-  
12          ing, Housing, and Urban Affairs and the Committee  
13          on Finance of the Senate and the Committee on Fi-  
14          nancial Services and the Committee on Ways and  
15          Means of the House of Representatives to provide  
16          testimony on the reports submitted pursuant to  
17          paragraph (1).

18          (b) CONTENT OF REPORTS.—Each report submitted  
19          under subsection (a) shall contain—

20               (1) an analysis of currency market develop-  
21               ments and the relationship between the United  
22               States dollar and the currencies of major economies  
23               and trading partners of the United States;

24               (2) a review of the economic and monetary poli-  
25               cies of major economies and trading partners of the

1 United States, and an evaluation of how such poli-  
2 cies impact currency exchange rates;

3 (3) a description of any currency intervention  
4 by the United States or other major economies or  
5 trading partners of the United States, or other ac-  
6 tions undertaken to adjust the actual exchange rate  
7 relative to the United States dollar;

8 (4) an evaluation of the domestic and global  
9 factors that underlie the conditions in the currency  
10 markets, including—

11 (A) monetary and financial conditions;

12 (B) accumulation of foreign assets;

13 (C) macroeconomic trends;

14 (D) trends in current and financial ac-  
15 count balances;

16 (E) the size, composition, and growth of  
17 international capital flows;

18 (F) the impact of the external sector on  
19 economic growth;

20 (G) the size and growth of external indebt-  
21 edness;

22 (H) trends in the net level of international  
23 investment; and

24 (I) capital controls, trade, and exchange  
25 restrictions;

1           (5) a list of currencies designated as fundamen-  
2           tally misaligned currencies pursuant to section  
3           4(a)(2), and a description of any economic models or  
4           methodologies used to establish the list;

5           (6) a list of currencies designated for priority  
6           action pursuant to section 4(a)(3);

7           (7) an identification of the nominal value asso-  
8           ciated with the medium-term equilibrium exchange  
9           rate, relative to the United States dollar, for each  
10          currency listed under paragraph (6);

11          (8) a description of any consultations conducted  
12          or other steps taken pursuant to section 5, 6, or 7,  
13          including any actions taken to eliminate the funda-  
14          mental misalignment; and

15          (9) a description of any determination made  
16          pursuant to section 9(a).

17          (c) CONSULTATIONS.—The Secretary shall consult  
18          with the Chairman of the Board of Governors of the Fed-  
19          eral Reserve System and the Advisory Committee on  
20          International Exchange Rate Policy with respect to the  
21          preparation of each report required under subsection (a).  
22          Any comments provided by the Chairman of the Board  
23          of Governors of the Federal Reserve System or the Advi-  
24          sory Committee on International Exchange Rate Policy  
25          shall be submitted to the Secretary not later than the date

1 that is 15 days before the date each report is due under  
2 subsection (a). The Secretary shall submit the report to  
3 Congress after taking into account all such comments re-  
4 ceived.

5 **SEC. 4. IDENTIFICATION OF FUNDAMENTALLY MISALIGNED**  
6 **CURRENCIES.**

7 (a) IDENTIFICATION.—

8 (1) IN GENERAL.—The Secretary shall analyze  
9 on a semiannual basis the prevailing real effective  
10 exchange rates of foreign currencies.

11 (2) DESIGNATION OF FUNDAMENTALLY MIS-  
12 ALIGNED CURRENCIES.—With respect to the cur-  
13 rencies of countries that have significant bilateral  
14 trade flows with the United States, and currencies  
15 that are otherwise significant to the operation, sta-  
16 bility, or orderly development of regional or global  
17 capital markets, the Secretary shall determine  
18 whether any such currency is in fundamental mis-  
19 alignment and shall designate such currency as a  
20 fundamentally misaligned currency.

21 (3) DESIGNATION OF CURRENCIES FOR PRI-  
22 ORITY ACTION.—The Secretary shall designate a  
23 currency identified under paragraph (2) for priority  
24 action if the country that issues such currency is—



1 (A) engaging in protracted large-scale  
2 intervention in one direction in the currency ex-  
3 change market, particularly if accompanied by  
4 partial or full sterilization;

5 (B) engaging in excessive and prolonged  
6 official or quasi-official accumulation of foreign  
7 assets, for balance of payments purposes;

8 (C) introducing or substantially modifying  
9 for balance of payments purposes a restriction  
10 on, or incentive for, the inflow or outflow of  
11 capital, that is inconsistent with the goal of  
12 achieving full currency convertibility; or

13 (D) pursuing any other policy or action  
14 that, in the view of the Secretary, warrants des-  
15 ignation for priority action.

16 (b) REPORTS.—The Secretary shall include a list of  
17 any foreign currency designated under paragraph (2) or  
18 (3) of subsection (a) in each report required by section  
19 3.

20 **SEC. 5. NEGOTIATIONS AND CONSULTATIONS.**

21 (a) IN GENERAL.—Upon designation of a currency  
22 pursuant to section 4(a)(2), the Secretary shall seek to  
23 consult bilaterally with the country that issues such cur-  
24 rency in order to facilitate the adoption of appropriate  
25 policies to address the fundamental misalignment.

1 (b) CONSULTATIONS INVOLVING CURRENCIES DES-  
2 IGNATED FOR PRIORITY ACTION.—With respect to each  
3 currency designated for priority action pursuant to section  
4 4(a)(3), the Secretary shall, in addition to seeking to con-  
5 sult with a country pursuant to subsection (a)—

6 (1) seek the advice of the International Mone-  
7 tary Fund with respect to the Secretary's findings in  
8 the report submitted to Congress pursuant to section  
9 3(a); and

10 (2) encourage other governments, whether bilat-  
11 erally or in appropriate multinational fora, to join  
12 the United States in seeking the adoption of appro-  
13 priate policies by the country described in subsection  
14 (a) to eliminate the fundamental misalignment.

15 **SEC. 6. FAILURE TO ADOPT APPROPRIATE POLICIES.**

16 (a) IN GENERAL.—Not later than 90 days after the  
17 date on which a currency is designated for priority action  
18 pursuant to section 4(a)(3), the Secretary shall determine  
19 whether the country that issues such currency has adopted  
20 appropriate policies, and taken identifiable action, to  
21 eliminate the fundamental misalignment. The Secretary  
22 shall promptly notify Congress of such determination and  
23 publish notice of the determination in the Federal Reg-  
24 ister. If the Secretary determines that the country that  
25 issues such currency has failed to adopt appropriate poli-

1 cies, or take identifiable action, to eliminate the funda-  
2 mental misalignment, the following shall apply with re-  
3 spect to the country until a notification described in sec-  
4 tion 7(b) is published in the Federal Register:

5 (1) **ADJUSTMENT UNDER ANTIDUMPING LAW.**—

6 For purposes of an antidumping investigation or re-  
7 view under title VII of the Tariff Act of 1930 (19  
8 U.S.C. 1673 et seq.) the following shall apply:

9 (A) **IN GENERAL.**—The administering au-  
10 thority shall ensure a fair comparison between  
11 the export price and the normal value by ad-  
12 justing the price used to establish export price  
13 or constructed export price to reflect the funda-  
14 mental misalignment of the currency of the ex-  
15 porting country.

16 (B) **SALES SUBJECT TO ADJUSTMENT.**—  
17 The adjustment described in subparagraph (A)  
18 shall apply with respect to subject merchandise  
19 sold on or after the date that is 30 days after  
20 the date the currency of the exporting country  
21 is designated for priority action pursuant to  
22 section 4(a)(3).

23 (2) **FEDERAL PROCUREMENT.**—

24 (A) **IN GENERAL.**—The President shall  
25 prohibit the procurement by the Federal Gov-

1           ernment of products or services from the coun-  
2           try.

3           (B) EXCEPTION.—The prohibition pro-  
4           vided for in subparagraph (A) shall not apply  
5           with respect to a country that is a party to the  
6           Agreement on Government Procurement.

7           (3) REQUEST FOR IMF ACTION.—The United  
8           States shall inform the Managing Director of the  
9           International Monetary Fund of the failure of the  
10          country to adopt appropriate policies to eliminate  
11          the fundamental misalignment, and the actions the  
12          country is engaging in that are identified in section  
13          4(a)(3), and shall request that the Managing Direc-  
14          tor of the International Monetary Fund—

15                (A) consult with such country regarding  
16                the observance of the country's obligations  
17                under article IV of the International Monetary  
18                Fund Articles of Agreement, including through  
19                special consultations, if necessary; and

20                (B) formally report the results of such con-  
21                sultations to the Executive Board of the Inter-  
22                national Monetary Fund within 180 days of the  
23                date of such request.

24           (4) OPIC FINANCING.—The Overseas Private  
25           Investment Corporation shall not approve any new

1 financing (including insurance, reinsurance, or guar-  
2 antee) with respect to a project located within the  
3 country.

4 (5) MULTILATERAL BANK FINANCING.—The  
5 Secretary shall instruct the United States Executive  
6 Director at each multilateral bank to oppose the ap-  
7 proval of any new financing (including loans, other  
8 credits, insurance, reinsurance, or guarantee) to the  
9 government of the country or for a project located  
10 within the country.

11 (b) WAIVER.—

12 (1) IN GENERAL.—The President may waive  
13 any action provided for under subsection (a) if the  
14 President determines that—

15 (A) taking such action would cause serious  
16 harm to the national security of the United  
17 States; or

18 (B) it is in the vital economic interest of  
19 the United States to do so and taking such ac-  
20 tion would have an adverse impact on the  
21 United States economy greater than the bene-  
22 fits of such action.

23 (2) NOTIFICATION.—The President shall  
24 promptly notify Congress of a determination under  
25 paragraph (1) (and the reasons for the determina-

1 tion, if made under paragraph (1)(B)) and shall  
2 publish notice of the determination (and the reasons  
3 for the determination, if made under paragraph  
4 (1)(B)) in the Federal Register.

5 (c) REPORTS.—The Secretary shall describe any ac-  
6 tion or determination pursuant to subsection (a) or (b)  
7 in the first semiannual report required by section 3 after  
8 the date of such action or determination.

9 **SEC. 7. PERSISTENT FAILURE TO ADOPT APPROPRIATE**  
10 **POLICIES.**

11 (a) PERSISTENT FAILURE TO ADOPT APPROPRIATE  
12 POLICIES.—Not later than 360 days after the date on  
13 which a currency is designated for priority action pursuant  
14 to section 4(a)(3), the Secretary shall determine whether  
15 the country that issues such currency has adopted appro-  
16 priate policies, and taken identifiable action, to eliminate  
17 the fundamental misalignment. The Secretary shall  
18 promptly notify Congress of such determination and shall  
19 publish notice of the determination in the Federal Reg-  
20 ister. If the Secretary determines that the country that  
21 issues such currency has failed to adopt appropriate poli-  
22 cies, or take identifiable action, to eliminate the funda-  
23 mental misalignment, in addition to the provisions of sec-  
24 tion 6(a), the following shall apply with respect to the

1 country until a notification described in subsection (b) is  
2 published in the Federal Register:

3 (1) ACTION AT THE WTO.—The United States  
4 Trade Representative shall request consultations in  
5 the World Trade Organization with the country re-  
6 garding the consistency of the country's actions with  
7 its obligations under the WTO Agreement.

8 (2) REMEDIAL INTERVENTION.—

9 (A) IN GENERAL.—The Secretary shall  
10 consult with the Board of Governors of the  
11 Federal Reserve System to consider under-  
12 taking remedial intervention in international  
13 currency markets in response to the funda-  
14 mental misalignment of the currency designated  
15 for priority action, and coordinating such inter-  
16 vention with other monetary authorities and the  
17 International Monetary Fund. In doing so, the  
18 Secretary shall consider the impact of such  
19 intervention on domestic economic growth and  
20 stability, including the impact on interest rates.

21 (B) NOTICE TO COUNTRY.—At the same  
22 time the Secretary takes action under subpara-  
23 graph (A), the Secretary shall notify the coun-  
24 try that issues such currency of the consulta-  
25 tions under subparagraph (A).

1 (b) NOTIFICATION.—The Secretary shall promptly  
2 notify Congress when a country that issues a currency des-  
3 ignated for priority action pursuant to section 4(a)(3)  
4 adopts appropriate policies to eliminate the fundamental  
5 misalignment, and publish notice of the action of that  
6 country in the Federal Register.

7 (c) WAIVER.—

8 (1) IN GENERAL.—The President may waive  
9 any action provided for under this section, or extend  
10 any waiver provided for under section 6(b), if the  
11 President determines that—

12 (A) taking such action would cause serious  
13 harm to the national security of the United  
14 States; or

15 (B) it is in the vital economic interest of  
16 the United States to do so, and that taking  
17 such action would have an adverse impact on  
18 the United States economy substantially out of  
19 proportion to the benefits of such action.

20 (2) NOTIFICATION.—The President shall  
21 promptly notify Congress of a determination under  
22 paragraph (1) (and the reasons for the determina-  
23 tion, if made under paragraph (1)(B)) and shall  
24 publish notice of the determination (and the reasons



1 for the determination, if made under paragraph  
2 (1)(B)) in the Federal Register.

3 (d) DISAPPROVAL OF WAIVER.—If the President  
4 waives an action pursuant to subsection (c)(1)(B), or ex-  
5 tends a waiver provided for under section 6(b)(1)(B), the  
6 waiver shall cease to have effect upon the enactment of  
7 a joint resolution described in section 8(a)(2).

8 (e) REPORTS.—The Secretary shall describe any ac-  
9 tion or determination pursuant to subsection (a), (b), or  
10 (c) in the first semiannual report required by section 3  
11 after the date of such action or determination.

12 **SEC. 8. CONGRESSIONAL DISAPPROVAL OF WAIVER.**

13 (a) RESOLUTION OF DISAPPROVAL.—

14 (1) INTRODUCTION.—If a resolution of dis-  
15 approval is introduced in the House of Representa-  
16 tives or the Senate during the 90-day period (not  
17 counting any day which is excluded under section  
18 154(b)(1) of the Trade Act of 1974 (19 U.S.C.  
19 2194(b)(1)), beginning on the date on which the  
20 President first notifies the Congress of a determina-  
21 tion to waive action with respect to a country pursu-  
22 ant to section 7(c)(1)(B), that resolution of dis-  
23 approval shall be considered in accordance with this  
24 subsection.

1           (2) RESOLUTION OF DISAPPROVAL.—In this  
2 subsection, the term “resolution of disapproval”  
3 means only a joint resolution of the two Houses of  
4 the Congress, the sole matter after the resolving  
5 clause of which is as follows: “That the Congress  
6 does not approve the determination of the President  
7 under section 7(c)(1)(B) of the Currency Exchange  
8 Rate Oversight Reform Act of 2007 with respect to  
9 \_\_\_\_\_, of which Congress was notified on  
10 \_\_\_\_\_.”, with the first blank space being filled  
11 with the name of the appropriate country and the  
12 second blank space being filled with the appropriate  
13 date.

14           (3) PROCEDURES FOR CONSIDERING RESOLU-  
15 TIONS.—

16           (A) INTRODUCTION AND REFERRAL.—Res-  
17 olutions of disapproval—

18           (i) in the House of Representatives—

19           (I) may be introduced by any  
20 Member of the House;

21           (II) shall be referred to the Com-  
22 mittee on Financial Services and, in  
23 addition, to the Committee on Rules;  
24 and

18

1 (III) may not be amended by ei-  
2 ther Committee; and

3 (ii) in the Senate—

4 (I) may be introduced by any  
5 Member of the Senate;

6 (II) shall be referred to the Com-  
7 mittee on Banking, Housing, and  
8 Urban Affairs; and

9 (III) may not be amended.

10 (B) COMMITTEE DISCHARGE AND FLOOR  
11 CONSIDERATION.—The provisions of sub-  
12 sections (c) through (f) of section 152 of the  
13 Trade Act of 1974 (other than paragraph (3)  
14 of such subsection (f)) (19 U.S.C. 2192(c)  
15 through (f)) (relating to committee discharge  
16 and floor consideration of certain resolutions in  
17 the House and Senate) apply to a joint resolu-  
18 tion of disapproval under this section to the  
19 same extent as such subsections apply to joint  
20 resolutions under such section 152.

21 (b) RULES OF HOUSE OF REPRESENTATIVES AND  
22 SENATE.—This section is enacted by the Congress—

23 (1) as an exercise of the rulemaking power of  
24 the House of Representatives and the Senate, re-  
25 spectively, and as such are deemed a part of the

1 rules of each House, respectively, and such proce-  
2 dures supersede other rules only to the extent that  
3 they are inconsistent with such other rules; and

4 (2) with the full recognition of the constitu-  
5 tional right of either House to change the rules (so  
6 far as relating to the procedures of that House) at  
7 any time, in the same manner, and to the same ex-  
8 tent as any other rule of that House.

9 **SEC. 9. INTERNATIONAL FINANCIAL INSTITUTION GOVERN-**  
10 **ANCE ARRANGEMENTS.**

11 (a) INITIAL REVIEW.—Notwithstanding any other  
12 provision of law, before the United States approves a pro-  
13 posed change in the governance arrangement of any inter-  
14 national financial institution, as defined in section  
15 1701(c)(2) of the International Financial Institutions Act  
16 (22 U.S.C. 262r(c)(2)), the Secretary shall determine  
17 whether any member of the international financial institu-  
18 tion that would benefit from the proposed change, in the  
19 form of increased voting shares or representation, has a  
20 currency that was designated a currency for priority action  
21 pursuant to section 4(a)(3) in the most recent report re-  
22 quired by section 3. The determination shall be reported  
23 to Congress.

24 (b) SUBSEQUENT ACTION.—The United States shall  
25 oppose any proposed change in the governance arrange-

1 ment of the international financial institution (as defined  
2 in subsection (a)), if the Secretary renders an affirmative  
3 determination pursuant to subsection (a).

4 (c) **FURTHER ACTION.**—The United States shall con-  
5 tinue to oppose any proposed change in the governance  
6 arrangement of the international financial institution, pur-  
7 suant to subsection (b), until the Secretary determines  
8 and reports to Congress that the proposed change would  
9 not benefit any member of the international financial insti-  
10 tution, in the form of increased voting shares or represen-  
11 tation, that has a currency that is designated a currency  
12 for priority action pursuant to section 4(a)(3).

13 **SEC. 10. ADJUSTMENT FOR FUNDAMENTALLY MISALIGNED**  
14 **CURRENCY DESIGNATED FOR PRIORITY AC-**  
15 **TION.**

16 (a) **IN GENERAL.**—Subsection (c)(2) of section 772  
17 of the Tariff Act of 1930 (19 U.S.C. 1677a(c)(2)) is  
18 amended—

19 (1) by striking “and” at the end of subpara-  
20 graph (A);

21 (2) by striking the period at the end of sub-  
22 paragraph (B) and inserting “; and”; and

23 (3) by adding at the end the following:

24 “(C) if required by section 6(a)(1) of the  
25 Currency Exchange Rate Oversight Reform Act

1           of 2007, the percentage by which the domestic  
2           currency of the producer or exporter is under-  
3           valued in relation to the United States dollar.”.

4           (b) **CALCULATION METHODOLOGY.**—Section 771 of  
5 the Tariff Act of 1930 (19 U.S.C. 1677) is amended by  
6 adding at the end the following:

7           “(37) **PERCENTAGE UNDERVALUATION.**—The  
8           administering authority shall determine the percent-  
9           age by which the domestic currency of the producer  
10          or exporter is undervalued in relation to the United  
11          States dollar by comparing the nominal value associ-  
12          ated with the medium-term equilibrium exchange  
13          rate of the domestic currency of the producer or ex-  
14          porter, identified by the Secretary pursuant to sec-  
15          tion 3(b)(7) of the Currency Exchange Rate Over-  
16          sight Reform Act of 2007, to the official daily ex-  
17          change rate identified by the administering authority  
18          for purposes of antidumping proceedings.”.

19 **SEC. 11. NONMARKET ECONOMY STATUS.**

20          Paragraph (18)(B) of section 771 of the Tariff Act  
21 of 1930 (19 U.S.C. 1677(18)(B)) is amended—

22               (1) by striking “and” at the end of clause (v);  
23          and

24               (2) by redesignating clause (vi) as clause (vii)  
25          and inserting after clause (v) the following:

1                   “(vi) whether the currency of the for-  
2                    foreign country is designated a currency for  
3                    priority action pursuant to section 4(a)(3)  
4                    of the Currency Exchange Rate Oversight  
5                    Reform Act of 2007, and”.

6 **SEC. 12. APPLICATION TO CANADA AND MEXICO.**

7           Pursuant to article 1902 of the North American Free  
8 Trade Agreement and section 408 of the North American  
9 Free Trade Agreement Implementation Act (19 U.S.C.  
10 3438), section 6(a)(1) and the amendments made by sec-  
11 tions 10 and 11 shall apply with respect to goods from  
12 Canada and Mexico.

13 **SEC. 13. ADVISORY COMMITTEE ON INTERNATIONAL EX-**  
14 **CHANGE RATE POLICY.**

15           (a) ESTABLISHMENT.—

16               (1) IN GENERAL.—There is established an Ad-  
17               visory Committee on International Exchange Rate  
18               Policy (in this section referred to as the “Com-  
19               mittee”) The Committee shall be responsible for—

20                   (A) advising the Secretary in the prepara-  
21                   tion of each report to Congress on international  
22                   monetary policy and currency exchange rates,  
23                   provided for in section 3; and

24                   (B) advising the Congress and the Presi-  
25                   dent with respect to—

1 (i) international exchange rates and  
2 financial policies; and

3 (ii) the impact of such policies on the  
4 economy of the United States.

5 (2) MEMBERSHIP.—

6 (A) IN GENERAL.—The Committee shall be  
7 composed of 9 members as follows, none of  
8 whom shall be from the Federal Government:

9 (i) CONGRESSIONAL APPOINTEES.—

10 (I) SENATE APPOINTEES.—Four  
11 persons shall be appointed by the  
12 President pro tempore of the Senate,  
13 upon the recommendation of the  
14 Chairmen and Ranking Members of  
15 the Committee on Banking, Housing,  
16 and Urban Affairs and the Committee  
17 on Finance of the Senate.

18 (II) HOUSE APPOINTEES.—Four  
19 persons shall be appointed by the  
20 Speaker of the House of Representa-  
21 tives upon the recommendation of the  
22 Chairmen and Ranking Members of  
23 the Committee on Financial Services  
24 and the Committee on Ways and



## 24

1 Means of the House of Representa-  
2 tives.

3 (ii) **PRESIDENTIAL APPOINTEE.**—One  
4 person shall be appointed by the President.

5 (B) **QUALIFICATIONS.**—Persons shall be  
6 selected under subparagraph (A) on the basis of  
7 their objectivity and demonstrated expertise in  
8 finance, economics, or currency exchange.

9 (3) **TERMS.**—Members shall be appointed for a  
10 term of 4 years or until the Committee terminates.  
11 An individual may be reappointed to the Committee  
12 for additional terms.

13 (4) **VACANCIES.**—Any vacancy in the Com-  
14 mittee shall not affect its powers, but shall be filled  
15 in the same manner as the original appointment.

16 (b) **DURATION OF COMMITTEE.**—Notwithstanding  
17 section 14(c) of the Federal Advisory Committee Act (5  
18 U.S.C. App.), the Committee shall terminate on the date  
19 that is 4 years after the date of the enactment of this  
20 Act unless renewed by the President pursuant to section  
21 14 of the Federal Advisory Committee Act (5 U.S.C.  
22 App.) for a subsequent 4-year period. The President may  
23 continue to renew the Committee for successive 4-year pe-  
24 riods by taking appropriate action prior to the date on  
25 which the Committee would otherwise terminate.

1 (c) PUBLIC MEETINGS.—The Committee shall hold  
2 at least 2 public meetings each year for the purpose of  
3 accepting public comments, including comments from  
4 small business owners. The Committee shall also meet as  
5 needed at the call of the Secretary or at the call of two-  
6 thirds of the members of the Committee.

7 (d) CHAIRPERSON.—The Committee shall elect from  
8 among its members a chairperson for a term of 4 years  
9 or until the Committee terminates. A chairperson of the  
10 Committee may be reelected chairperson but is ineligible  
11 to serve consecutive terms as chairperson.

12 (e) STAFF.—The Secretary shall make available to  
13 the Committee such staff, information, personnel, admin-  
14 istrative services, and assistance as the Committee may  
15 reasonably require to carry out its activities.

16 (f) APPLICATION OF FEDERAL ADVISORY COM-  
17 MITTEE ACT.—

18 (1) IN GENERAL.—The provisions of the Fed-  
19 eral Advisory Committee Act (5 U.S.C. App.) shall  
20 apply to the Committee.

21 (2) EXCEPTION.—Except for the annual public  
22 meeting required under subsection (c), meetings of  
23 the Committee shall be exempt from the require-  
24 ments of subsections (a) and (b) of sections 10 and  
25 11 of the Federal Advisory Committee Act (relating

1 to open meetings, public notice, public participation,  
2 and public availability of documents), whenever and  
3 to the extent it is determined by the President or the  
4 Secretary that such meetings will be concerned with  
5 matters the disclosure of which would seriously com-  
6 promise the development by the United States Gov-  
7 ernment of monetary and financial policy.

8 **SEC. 14. REPEAL OF THE EXCHANGE RATES AND INTER-**  
9 **NATIONAL ECONOMIC POLICY COORDINA-**  
10 **TION ACT OF 1988.**

11 The Exchange Rates and International Economic  
12 Policy Coordination Act of 1988 (22 U.S.C. 5301–5306)  
13 is repealed.

**Statement of Senator Chuck Grassley  
Committee Markup of the Currency Exchange Rate  
Oversight Reform Act of 2007**

*July 26, 2007*

Thank you, Mr. Chairman.

*Put in Record  
Chuck Grassley*

Last September, I agreed to work with Senators Baucus, Schumer, and Graham, to develop a new, WTO-consistent approach for addressing undervalued foreign currencies.

The bill we are marking up today is the result of that agreement.

I want to thank my colleagues and their staffs for all of their hard work.

Our bill is a solid, bipartisan compromise on this important issue.

The bill establishes a new framework that will allow the Treasury Department to identify foreign currencies that are in fundamental misalignment.

And if the fundamental misalignment is the result of government actions, Treasury must designate the currency for priority action.

This new standard – fundamental misalignment – is the same standard that the International Monetary Fund adopted last month for its own use in monitoring currencies.

We've conformed our bill to the IMF's new standard so that Treasury's findings and actions will be credible internationally.

This also ensures that our bill complements the IMF's oversight activities.

○ Our existing currency laws are outdated. They require Treasury to make various findings, but no real consequences result from those findings.

This bill fixes the problem by imposing meaningful consequences if a country fails to take action to remedy a misaligned currency.

○ Treasury can use these tools to encourage quicker action by the trading partner in question.

And there's no way to know who that trading partner might be in the years ahead.

China's currency is the biggest problem today. But this legislation will establish a framework for tackling the biggest problems both today and tomorrow.

○ In other words, the bill is country-neutral.

We need to create an effective oversight regime that's suited to the globalized economy of the 21<sup>st</sup> century.

This bill accomplishes that. It strikes the right balance.

⊖ I believe it merits strong bipartisan support in this Committee. This is the first step.

I look forward to continue working with my colleagues to see the issue of currency exchange rates addressed in legislation enacted into law this Congress.

Thank you, Mr. Chairman.

THE HONORABLE GORDON H. SMITH  
Senate Finance Committee Business Meeting  
July 26, 2007

- Mr. Chairman, I think that we all share the view that China needs to do more to address its current trade deficit with the U.S., intellectual property issues and currency valuation.
- I think that we have a harder time finding consensus on how we work with China to deal with these issues.
- I share my colleagues' frustration with the painfully slow pace at which China is undertaking many of these reforms, a pace which I think reflects a lack of will on the part of the Chinese.
- Still, I have serious reservations about this bill. I fundamentally believe that the best long-term approach to get China to make reforms is to engage in steady and regular dialogue and negotiation like what we are doing in the ongoing Strategic Economic Dialogue negotiations.



- While there has been progress in these talks, both the Chinese and the U.S. administration need to understand that patience is running out – which is why Congress has a wide range of legislation it is considering.
- But I think that we need to be careful not to let our frustration level, and our shared desire for reform, get in the way of making real and long-term progress. In other words, let's not pass legislation that jeopardizes these talks and ends up making the economic relationship worse.
- Oregon is a trade dependent state, and China is one of our biggest trading partners. It is now the second largest export market for Oregon products. So I am concerned about any action that could jeopardize Oregon companies, our exports to China, and the jobs that are associated with this trade.
- I also have concerns about the anti-dumping provisions included in this bill. But comparing this legislation to other, more draconian bills, this legislation is the most reasonable, so I am inclined to support it in mark-up, but as I said earlier, I do so with reservations.

**STATEMENT**  
**FINANCE COMMITTEE MARK-UP**  
**CURRENCY EXCHANGE RATE OVERSIGHT ACT OF 2007**  
**July 26, 2007**  
*U.S. Senator Olympia J. Snowe*

**Thank you, Mr. Chairman.**

**I appreciate both the need for consensus on this critical issue and the work that my committee colleagues Chairman Baucus, Ranking Member Grassley and Senator Schumer have done in crafting the bill before us. It is my hope that this mark-up will yield a strong bill which reflects the true consensus of this committee, this Congress and this country.**

**When the United States— including its Congress and this committee— decided to extend the benefits of World Trade Organization membership to China, it did so in consideration of a promise by China to reform or eliminate those practices which gave its enterprises unearned advantages not enjoyed by businesses in free market countries.**

**However, five years after its accession to the WTO— its specially negotiated transition period having now expired— China has yet to fulfill its promise to America and the world. Even the United States Trade Representative admitted in its most recent annual report that “government intervention, evident in many areas of China’s economy, is a reflection of China’s historic yet unfinished transition from a centrally planned economy to a free-market economy governed by the rule of law.”**

**Nowhere is such continuing intervention more evident than in China’s ongoing manipulation of the Renminbi. More than two years following its removal of the hard peg to the U.S. dollar, China has allowed its currency to appreciate a mere 6 percent— less than half the amount of even the most conservative estimates of the degree to which it is undervalued. And there is**

**little hope for corrective action in the foreseeable future, with the Chinese Ministry of Commerce's setting a goal of a 4 to 5 percent appreciation in 2007.**

**But the Government of China is not solely to blame. From the mills of Maine to the hearths of the Heartland, the silence of our government on China's currency manipulation has become the silence of our factories. Despite growing awareness of the deleterious effects of the artificially undervalued Renminbi, the Treasury Department has consistently declined to designate China as a "currency manipulator", most recently failing to do so in June of this year.**

**The troubling consequence of our government's unwillingness to challenge such unfair competition is the decline of America's production base and the dramatic reduction in the number of manufacturing jobs in recent years. Since 2000, America has lost approximately 3 million, or 17 percent, of its manufacturing jobs. My home state of Maine has lost over 21,000 jobs in that period, representing over 26 percent of our manufacturing workforce! According to the American Alliance for Manufacturing, nearly 9,000 of those jobs losses were due to trade competition from China.**

**That is why I was pleased to work with my friends and fellow committee members, Senators Bunning and Stabenow, to introduce legislation which would end the devastating silence of our government in the face of Chinese currency manipulation. The Fair Currency Act of 2007, with its myriad supporters in all fields of industry, is the collective voice of American business proclaiming that such inaction ends now. Our legislation not only provides the government with the mandate to challenge China's trade-distorting currency practices, but also provides the tools for U.S. industry to ensure that the job is seen through.**

**The alternative legislation this committee is considering today, however, falls short of the tough yet necessary enforcement measures set forth in the bill I authored with Senators Bunning and Stabenow. Specifically, our bill would treat currency manipulation as an illegal foreign government subsidy, which would**

**allow U.S. companies to challenge currency manipulation under existing countervailing duty law, resulting in corrective duties corresponding to the amount of the subsidy. In contrast, the bill before us today would only apply those extra duties on the products of specific foreign companies challenged under U.S. anti-dumping law. In other words, our bill would penalize all Chinese exports—because they all benefit from the subsidy of an undervalued currency—while the bill we will be marking up now would only penalize those products which are already being dumped, independent of the price benefit conferred by currency manipulation.**

**I believe that it is essential that the bill the Congress ultimately sends to the President treat currency manipulation as the illegal subsidy it clearly is. My twenty-five year experience with the Canadian Softwood Lumber controversy has shown me the strategic and practical necessity of imposing countervailing duties on unfairly subsidized products. If the U.S. hadn't been holding \$5 billion of Canadian lumber companies' cash in our coffers as a result of corrective duties, Ottawa would have had no incentive to negotiate with us toward a resolution. Wouldn't it be similarly advantageous to deal with China from a similar position of strength?**

**I therefore hope that we can meld the two approaches proposed by members of this committee, and arrive at a consensus bill that incorporates the best elements both. Accordingly, I want to thank the Chairman and Ranking Member for incorporating in the modified bill we will vote on today my proposal to give Congress the power to override a Presidential decision not to take enforcement action against a currency manipulator under the bill—a necessary amendment given the administration's dismal record on challenging China's trade-distorting currency practices. I look forward to the opportunity to further strengthen this bill as it proceeds to consideration by the full Senate.**

**STATEMENT IN SUPPORT OF BUNNING-SNOWE AMENDMENT ON  
ADDITION OF ANTI-SUBSIDY PROVISION**

**Thank you, Mr. Chairman. I was pleased to work with my friends and fellow committee members, Senators Bunning and Stabenow, to introduce legislation-- the Fair Currency Act of 2007-- which would end the devastating silence of our government in the face of Chinese currency manipulation. It is my hope that the currency bill ultimately passed by the Senate will incorporate the additional countervailing duty enforcement provisions from our bill, moving us forward with a joint bill that represents the true consensus of this committee, this Congress and the country.**

**The bill proposed by Senators Bunning and Stabenow would not only provide the government with the mandate to challenge China's trade-distorting currency practices, but also provides the tools for U.S. industry to ensure that the job is seen through. First among these tools is a provision that would treat currency manipulation as an illegal foreign government subsidy, which would allow U.S. companies to challenge currency manipulation under existing countervailing duty law, resulting in corrective duties corresponding to the amount of the subsidy.**

**The bill before us today does not go far enough in terms of enforcement. It would only apply corrective duties on the products of specific foreign companies challenged under U.S. anti-dumping law. The addition of a countervailing duty component would remedy that shortcoming, penalizing all Chinese exports—because they all benefit from the subsidy of an undervalued currency—not just those which are already being dumped, independent of the price benefit conferred by currency manipulation.**

**Maine has lost nearly 9,000 jobs to the flood of illegally subsidized Chinese exports across many sectors, not just those produced by the one or two Chinese firms that have been found guilty of dumping wood and paper products,**

**competing with mills in my home state. A broader solution is therefore needed. That is why I believe it is essential that the final bill treat currency manipulation as the illegal subsidy it clearly is.**

**Additionally, My twenty-five year experience with the Canadian Softwood Lumber controversy has shown me the strategic and practical necessity of imposing countervailing duties on unfairly subsidized products. If the U.S. hadn't been holding \$5 billion of Canadian lumber companies' cash in our coffers as a result of corrective duties, Ottawa would have had no incentive to negotiate with us toward a resolution. Wouldn't it be similarly advantageous to deal with China from a similar position of strength?**

**Senator Debbie Stabenow**  
**Talking Points for Currency Mark-Up**  
**July 26, 2007**

As you know, my home state of Michigan is going through very tough times. Since 2000, Michigan has lost one-quarter of its manufacturing workforce, or more than 250,000 jobs. In the same seven year period our unemployment rate has grown from 3.7% to an alarming 7.2%. The highest in the nation.

Additionally, we have lost over 3 million manufacturing jobs nation-wide since 2001 and the real median wage has actually decreased.

Eight of the world's largest auto parts companies that are headquartered in Michigan have already laid off large numbers of Michigan workers, and six of these companies have entered bankruptcy.

I know that trade issues alone do not solve the manufacturing problem in this country. There are other issues that need to be addressed, such as getting the costs of health care off the back of businesses and investing in innovative practices through retooling and other means.

But it is an irrefutable fact that trade violations are having a huge negative impact on manufacturing.

Other countries are cheating, and our companies and workers are suffering.

In real world terms it is simple: The same good, made with the same materials, will cost up to 40% less when made in China solely because of currency misalignment.

Take, for instance, an auto part made in Michigan. Then take the exact same auto part made in China. Solely because of currency manipulation the American auto part will cost \$100 while the Chinese auto part will cost only \$60.

We aren't talking cheaper materials or cheaper products —this price difference is based only on the fact that other countries are cheating by intervening in currency markets.

The global market is tough enough without forcing our companies to fight an uphill battle.

Any businessperson will tell you that a 40% price disadvantage is extremely difficult to overcome.

The choice many business people confront is to either layoff workers or move production to offending countries to neutralize the price disadvantage.

Either way, our domestic economy loses and American workers lose their jobs. We must provide another way.

As someone who has been working on bringing currency legislation to the forefront for sometime, I am pleased that this bill finally identifies that there is a currency problem that must be dealt with.

I applaud Chairman Baucus, Ranking Member Grassley, and Senator Schumer for taking a lead role in bringing this forward.

As everyone on this committee knows from the late night and early morning conversations, I am passionate about this issue and will continue to do what I can to make sure we have a level the playing field for American companies and workers.

I believe we must continue to ratchet up the pressure on countries that use these types of tactics to gain an unfair advantage. In my opinion, we need to use every tool we have, including countervailing duties, to address unfair trading practices.

Currency manipulation can take many forms. What matters, though, is the outcome.

This bill sends a signal to all of our trading partners that currency manipulation will not be tolerated.

It puts China, Japan, and any other nation engaged in currency manipulation on notice that the United States is not going to sit idly by and let them cheat.

This bill marks a historic first step because it finally puts currency manipulation on the table. It finally shows that this Congress is not going to stand by and watch as our businesses are forced into bankruptcy because of unfair trade practices.

I want to thank the Chairman and his staff for a good bill and for including a number of my amendments.

This bill does several important things:

- it removes “intent” as a necessary factor for determining currency manipulation.
- it applies anti-dumping calculations to misaligned currencies, providing a valuable remedy to devastated industries.
- it guarantees that small businesses and manufacturing will have a voice in the trade debate.
- it requires the Administration to take a closer look at how currency manipulation impacts manufacturing.
- and, it shortens the time our businesses have to wait for remedies.



America is built on the principles of hard work and fairness. In a free market economy a company's success is rooted in their ability to work harder and smarter than the competition. But that system only works when everyone plays by the rules.

I truly believe we are on the right path to leveling the playing field on trade.

And, it doesn't stop here.

We now need to enforce these laws and strengthen them whenever possible.

Companies and workers in Michigan and throughout America are counting on us to hold these countries accountable. Today, we make an important step in that direction.