**COMMITTEE ON FINANCE**

**NEWS RELEASE**

http://finance.senate.gov


FOR IMMEDIATE RELEASE
Wednesday, June 13, 2007

Contacts: Carol Guthrie/Jill Gerber (Finance) 224-4515
Andrew Koneschusky (Schumer) 224-7433
Wes Hickman (Graham) 224-5972


# SENATORS' BILL PUTS NEW TOOLS, TEETH IN CURRENCY POLICY

*Baucus, Grassley, Schumer, Graham unveil long-awaited legislation addressing misaligned foreign currencies, competitive threats to U.S. businesses and workers*

***Washington, DC*** – U.S. Senators Max Baucus (D-Mont.), Chuck Grassley (R-Iowa), Charles Schumer (D-N.Y.), and Lindsey Graham (R-S.C.) today introduced major legislation to deal with foreign currency concerns threatening the U.S. economy. The Currency Exchange Rate Oversight Reform Act of 2007 establishes a new approach to examining world currencies, requiring new consultations with offending nations and imposing new consequences for inaction. When currencies are so undervalued that they become fundamentally misaligned with the U.S. dollar, they can put American manufacturers and wage-earners at a significant disadvantage in the global economy. The bill unveiled today is the result of the four Senators' 2006 commitment to draft new, vigorous, and WTO-consistent legislation to address currency misalignments.

**"This bill requires the Treasury Department to take firm but fair action when other nations play games with the U.S. dollar. For too long, our currency policy has left American workers and businesses unprotected from foreign governments seeking an unfair financial advantage,"** said Baucus. **"We've worked together to craft a measured but meaningful framework for dealing with currency concerns. This is a reasonable response to the problems caused when currencies are significantly out of sync. Treasury should welcome the opportunity this bill offers to give America a strong and even hand in currency matters."**

**"The United States respects the rule of law. We expect our trading partners to do the same,"** said Grassley. **"Unlike some other approaches to currency manipulation, this bill is WTO-compliant. It sets consequences for countries that want to access the U.S. market but don't play fair. We're not picking a fight with anyone. Today, the problem country is China. Tomorrow, it may be Country X. This enforcement structure could apply to any trading partner with out-of-whack currency. It gives a good chance for self-correction before penalties ramp up. It's a velvet glove with a steel fist inside."**

**"This breakthrough proposal is like nothing else because it's tough, wide-reaching and WTO-compliant,"** said Schumer. **"The previous legislation got China's attention; the purpose of this legislation is to force change. Drafting legislation that was both tough and WTO-compliant was no easy task but we worked and worked for what appears to be the most elegant solution to the China conundrum so far."**

***--more—***

**"This is a wake-up call,"** said Graham. **"No longer will the United States sit on the sidelines and allow other nations to gain an unfair advantage by manipulating their currency. Our legislation is a much-needed and long overdue change. There is no doubt that China and other nations have been manipulating their currency to give themselves an advantage. For too long the game has been rigged against American business. Working together we will change currency practices to put American business on a level playing field."**

The Senators' bill eliminates the current U.S. Treasury Department framework for addressing currency concerns, which requires Treasury to label countries "currency manipulators" before taking action and then only requires negotiation with the offending country. The potential political consequences of the "manipulator" label have kept Treasury from applying it as needed to protect U.S. economic concerns.

The consensus proposal unveiled today instead requires the U.S. Treasury to identify "fundamentally misaligned" currencies to Congress twice a year, marking some currencies for "priority action" if the misalignment is clearly caused by a foreign government's economic policies. Treasury will be required to consult with any country with fundamentally misaligned currency, but a designation for "priority action" has further immediate consequences. The Treasury Department will be required to oppose changes in International Monetary Fund (IMF) rules benefiting that nation, and currency concerns will be taken into account if countries with non-market economies wish to receive market status.

If a designated country fails to take appropriate action within six months, additional steps must be taken. When the U.S. works to determine whether a country is unfairly dumping goods into the American market, it must be taken into account that the undervalued currency makes imported goods from the designated country artificially cheap. Further steps include suspension of U.S. government procurement, requests for special consultation by the IMF, and suspension of loans and private insurance from the Overseas Private Investment Corporation to U.S. companies wishing to operate in that nation. If issues are not resolved within one year, the legislation requires the U.S. Trade Representative to commence WTO dispute settlement proceedings regarding the currency problem, and requires the Treasury Secretary to consider possible remedial intervention by the Federal Reserve Board and other central banks.

At the six-month and twelve-month marks, the President of the United States may waive the bill's requirements if implementing them poses a threat to national security or America's economic interests. But the bill also increases congressional input by giving Congress the ability to voice disapproval of the Presidential economic waiver, and by creating a new body – appointed by the President and the leaders of committees of jurisdiction – with which Treasury must consult during the development of its report.

Baucus and Grassley are Chairman and Ranking Republican and Schumer is a member of the Senate Finance Committee, which has jurisdiction over U.S. trade policy. The Senators' bill is expected to be referred to the Finance Committee.

**--more--**

## The Currency Exchange Rate Oversight Reform Act of 2007

Senators Max Baucus (D-MT), Charles Grassley (R-IA), Chuck Schumer (D-NY), and Lindsey Graham (R-SC) have introduced legislation on June 13, 2007, to reform and enhance the oversight over currency exchange rates. The legislation builds on their commitment to draft new, vigorous, and WTO-consistent legislation to address currency misalignments.

***New overall approach.*** The legislation requires Treasury to develop a biannual report that identifies two categories of currencies: (1) a general category of "fundamentally misaligned currencies" based on observed objective criteria and (2) a select category of "fundamentally misaligned currency for priority action" that reflects misaligned currencies caused by clear policy actions by the relevant government.

***New Consultations Required.*** The legislation requires Treasury to engage in immediate consultations with all countries cited in the report. For "priority" currencies, Treasury would seek advice from the International Monetary Fund (IMF) as well as key trading partners.

***New Consequences.*** For "priority" currencies, important consequences take effect should consultations fail to result in the adoption of appropriate policies to eliminate the misalignment.

<u>Immediately upon designation</u>

- Oppose IMF governance changes that benefit a country whose currency is designated for priority action.
- Take fact of priority designation into account in determining whether to grant a country "market economy" status for purpose of U.S. antidumping law.

<u>After 180 days of failure to adopt appropriate policies</u>

- Reflect currency undervaluation in dumping calculations for products produced or manufactured in the designated country.
- Forbid federal procurement of goods and services from the designated country unless that country is a member of the WTO Government Procurement Agreement ("GPA").
- Request the IMF to engage the designated country in special consultations over its misaligned currency.
- Forbid Overseas Private Investment Corporation (OPIC) financing or insurance for projects in the designated country.
- Oppose new multilateral bank financing for projects in the designated country.

<u>After 360 days of failure to adopt appropriate policies</u>

- Require the U.S. Trade Representative to request dispute settlement consultations in the World Trade Organization with the government responsible for the currency.
- Require the Department of Treasury to consult with the Federal Reserve Board and other central banks to consider remedial intervention in currency markets.

**--more—**

***New Waiver Provision.*** The President could initially waive the consequences after the first 180 days if such action would harm national security or the vital economic interest of the United States. However, the President must explain how the adverse impact of taking an action would be greater than the benefits of such action. Any subsequent economic waiver would require the President to explain how the adverse impact of taking an action would be substantially out of proportion to the benefits of such action. Furthermore, any Member of Congress may thereafter introduce a disapproval resolution concerning the President's waiver.

***New Congressional Input.*** The bill would create a new body with which Treasury must consult during the development of its report. Of the nine members, one would be selected by the President and the remainder by the Chairmen and Ranking Members of the Senate Finance and Banking Committees, as well and the House Ways and Means and Financial Services Committees