May 30, 2007

VIA E-MAIL

The Honorable Evan Bayh
Chairman
Subcommittee on Security and
International Trade and Finance
United States Senate
131 Russell Senate Office Building
Washington, D.C. 20510

Re: Supplemental Submission for the Record of the Hearing on May 23, 2007, "U.S. Economic Relations with China: Strategies and Options on Exchange Rates and Market Access"

Dear Senator Bayh:

With reference to the Subcommittee's May 23rd hearing and on behalf of the China Currency Coalition, we request that this supplemental submission be included in the record.

Toward the end of the hearing and in response to a question that you posed, Morris Goldstein distinguished between "currency manipulation" and "exchange-rate misalignment." From his perspective as an economist, we understand that he made his observations based upon a definition of "exchange-rate misalignment" that is commonly recognized and used by economists generally. However, the legal concept of "exchange-rate misalignment" as defined in S. 796, "The Fair Currency Act of 2007," is carefully distinguished from the common usage of that term by economists.

In the view of the China Currency Coalition ("CCC") and under S. 796, protracted large-scale intervention in the exchange market directly or indirectly by a foreign government that results in undervaluation of that government's currency is "exchange-rate misalignment" and should be actionable under law as a countervailable prohibited export subsidy. Moreover, relief under the countervailing duty law should be available against such subsidization even if the foreign government does not intend by means of the undervaluation to gain an unfair competitive advantage or prevent effective balance of payments adjustment and so is not engaged in "currency manipulation" as that concept is set forth in Article IV of the International Monetary Fund's Articles of Agreement.

In contrast to S. 796's definition, our impression is that from Mr. Goldstein's perspective "exchange-rate misalignment" – as that term is commonly defined by economists – could, but need not be, the result of protracted long-term intervention in the exchange market by a foreign government; the source is not necessarily clear. Put otherwise, such "misalignment" is a deviation of a currency from the market equilibrium for whatever reason. Furthermore, it is likely that at any given time the currencies of several dozen or more countries, including perhaps the U.S. dollar, will be "misaligned."

With "exchange-rate misalignment" as defined under S. 796, however, it is known who and what are responsible for a foreign currency's undervaluation, and such risky and unsettling behavior by foreign governments is fortunately relatively rare. The injurious impact on U.S. domestic industry of this protracted and large-scale governmental intervention and the undervaluation that follows accordingly should and can be offset under the trade laws by treating this protectionist measure as a countervailable prohibited export subsidy. The CCC submits that this approach should be found to be consistent with the World Trade Organization's agreements. Moreover, as noted above, such remedial action to counter "exchange-rate misalignment" should not entail an element of intent as "currency manipulation" does.

The bottom line is that, were it enacted, S. 796, "The Fair Currency Act of 2007," would not be applicable to any misaligned currency <u>unless</u> the foreign government used protracted large-scale intervention in the exchange market to sustain the undervaluation for a significant period of time.

Thank you very much again for your attention to this letter and for inviting the China Currency Coalition to participate in the Subcommittee's hearing.

Very truly yours,

David A. Hartquist

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Copies to:

Senator Jim Bunning
Senator Debbie Stabenow