# The Currency Reform for Fair Trade Act

Few actions by foreign governments do more to disrupt free and fair trade and to harm U.S. job growth than currency manipulation. The Peterson Institute estimates that interventions in currency markets by foreign governments have cost U.S. workers as many as five million jobs over the last decade by making it more difficult for U.S. exporters to compete in other countries and by subsidizing their exports.

At the same time, few problems present a solution so clear-cut and with such bipartisan support. The Currency Reform for Fair Trade Act takes aim at currency manipulators by enabling the Department of Commerce to impose countervailing duties to offset the impact of currency manipulation on a U.S. industry. These duties are not "punitive" in nature – the duties simply offset the effect of unfair currency manipulation. This bill provides American manufacturers and workers who are unfairly affected by the actions of foreign governments with a targeted domestic remedy.

## Summary

The Currency Reform for Fair Trade Act is the same bill that passed the House of Representatives in 2010 by a vote of 348-79, with a majority of both Republicans and Democrats. Unfortunately, the Senate did not take up the bill in that Congress, although the Senate eventually passed a similar bill. The Currency Reform for Fair Trade Act has been introduced in the last two Congresses with more than 150 bipartisan cosponsors each time. This bill is consistent with all WTO rules.

The bill provides three clarifications that apply in assessing claims that a country has provided countervailable subsidies in maintaining a "fundamentally undervalued currency":

> *Fundamentally Undervalued Currency*: The bill defines a "fundamentally undervalued currency" as one where: (1) an authority of the country engages in protracted, large-scale intervention in the foreign exchange markets; (2) the exchange rate of the country is undervalued by at least 5 percent; (3) the country has experienced significant and persistent global current account surpluses; and (4) the foreign asset reserves of the country are excessive. The bill also lays out the methodology to calculate the level of undervaluation, based on IMF guidelines.
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> *Measuring the Benefit (the amount of the import duty)*: The bill clarifies that a "benefit" is conferred when the currency of an allegedly subsidizing country is exchanged for foreign currency (such as U.S. dollars) obtained from export transactions. The bill directs Commerce to measure the benefit conferred under such circumstances as the difference between the amount of currency provided and the amount of currency that would have been provided if the currency of that country were not fundamentally undervalued.
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> *Specificity/Export Contingency*: Under WTO rules, countervailable subsidies may not be applied unless a subsidy is contingent upon exportation or otherwise specific to an industry or group of industries. The bill clarifies, consistent with WTO rulings, that

Commerce may not refuse to find that there is export contingency in a given case based on the single fact that a subsidy is available in circumstances in addition to export. This provision addresses the rationale used by Commerce when it decided *not* to apply countervailing duties in the context of currency manipulation.

The bill also requires the Comptroller General of the United States to Congress a report on the implementation of the amendments made by this Act. The report is to include a description of the extent to which U.S. industries that have been materially injured by reason of imports of subject merchandise produced in countries with fundamentally undervalued currencies received relief.

**Trans-Pacific Partnership & Currency Manipulation**

The Currency Reform for Fair Trade Act, by itself, may not end the practice of currency manipulation. We also need to include provisions in our trade agreements that would provide our trading partners with a strong deterrent from manipulating their currency in the first place. We have such an opportunity in the ongoing Trans-Pacific Partnership (TPP) negotiations.

The aim is to cooperate with our trading partners on this issue and ultimately achieve strong and enforceable multilateral disciplines. The TPP is an opportunity to take a big step in that direction.

Bipartisan majorities in the House and the Senate have urged the Administration to include strong and enforceable currency obligations in the Trans-Pacific Partnership, which includes a number of former currency manipulators, such as Japan. Other countries interested in joining TPP in the future – such as China, Korea, and Taiwan – are also current or former currency manipulators. Yet, one and a half years since letters were circulated and specific proposals began to surface, the Administration has not yet broached the subject in the TPP negotiations.

The U.S. government needs a multi-pronged approach to address currency manipulation. The House of Representatives should pass The Currency Reform for Fair Trade Act, and the Administration should push to include a strong and enforceable currency manipulation provision in the TPP.