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May 17, 2007

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BRETT LOPER,
MINORITY STAFF DIRECTOR

The Honorable Susan C. Schwab
U.S. Trade Representative
600 17th Street N.W.
Washington, D.C. 20508

Dear Madam Ambassador:

We are filing this petition under section 301 of the Trade Act of 1974 to request the Administration take action to end the Government of China's undervaluation and manipulation of its currency, the renminbi (RMB). In particular, we are calling on the Administration to request formal consultations with China under the relevant provisions of the World Trade Organization agreements and to file a formal dispute settlement case within 60 days if those consultations do not resolve this serious and urgent problem that is causing so much harm to U.S. farmers, workers, and businesses.

Members of Congress made similar requests in September 2004 and April 2005. The Office of the U.S. Trade Representative (USTR) was unwilling to accept those requests because, it stated, it did not want to interfere with efforts by the Department of the Treasury to address the issue through dialogue with the Chinese authorities. Nevertheless, USTR made clear that it had "serious concerns" about China's currency policy: "China is now ready to move toward a flexible, market-based exchange rate and should move without delay in a manner and magnitude that is sufficiently reflective of underlying market conditions."

Now, more than two years later, there has still been no real progress made on this issue. To the contrary, in December 2006, U.S. Federal Reserve Chairman Ben Bernanke stated that "the situation has likely worsened recently." He stated that the undervalued RMB operates as an "effective subsidy" that acts as "an important distortion in the Chinese economy." While economists have estimated that the RMB is undervalued in the range of 15 to 40 percent, the RMB has appreciated by just 0.2 percent, in real terms, since April 2005.

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In November 2005, Treasury reported that China's foreign exchange regime "remains, in practice, a tightly managed currency peg against the dollar." Treasury called on the Chinese authorities to take action "by the time this [semi-annual] report is next issued." Treasury reported no real progress in its next report (May 2006) – or in the most recent report (December 2006). Today, the Government of China's foreign asset reserves (an indication of its level of intervention in the currency markets) exceed \$1.2 trillion, up from \$243 billion in June 2002. Meanwhile, the U.S. trade deficit with China grew to \$233 billion in 2006, a new record.

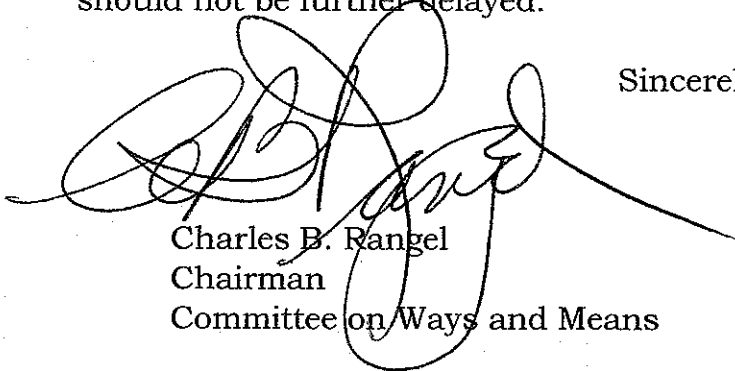
Unfortunately, efforts over the past four years to cajole China to revalue its currency have not borne fruit. We therefore request that you initiate an investigation under Section 301 of the Trade Act of 1974, with a view to ending, finally, the undervaluation and manipulation of the RMB.

We also ask that you consider taking action to address the undervalued Japanese yen. As you know, the yen is at its lowest level in more than 20 years, and *The Economist* magazine recently described it as "perhaps the world's most undervalued currency." Past and current actions by the Government of Japan (including the accumulation of \$900 billion in foreign asset reserves and a monetary policy that keeps interest rates abnormally low) are a major factor in the value of the yen today.

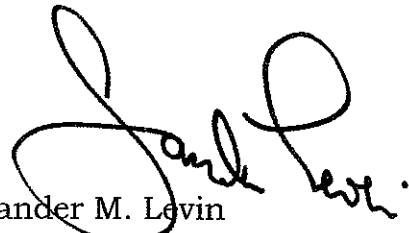
Thus, the situation with both China and Japan is a history of massive government intervention in, and other management of, its markets – a major factor in combined foreign exchange reserves of more than \$2 trillion. This kind of activity distorts markets, harming in real terms businesses and working people in the United States.

We respectfully submit that the time for talk has long passed and action should not be further delayed.

Sincerely,



Charles B. Rangel
Chairman
Committee on Ways and Means



Sander M. Levin
Chairman, Subcommittee on Trade
Committee on Ways and Means