COMMITTEE TO SUPPORT U.S. TRADE LAWS

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VIA E-MAIL AND MAIL

The Honorable Gary Locke
Secretary
U.S. Department of Commerce
1401 Constitution Avenue, NW
Washington, DC 20230

Dear Secretary Locke:

I am writing on behalf of the Committee to Support U.S. Trade Laws ("CSUSTL"). CSUSTL is an organization of companies, trade associations, labor unions, workers, and individuals committed to preserving and enhancing U.S. trade laws. Its membership spans all sectors, including manufacturing, technology, agriculture, mining and energy, and services. The organization is committed to ensuring that the unfair trade laws are not weakened through legislation or policy decisions in Washington, in international organizations, or through dispute settlement processes at the WTO or elsewhere.

CSUSTL and its members are concerned about the Government of China's persistent currency undervaluation and urge the Department to investigate whether Chinese currency practices give rise to the types of subsidies addressable under U.S. and international law. On January 13, U.S. paper producers and workers filed an allegation in the <u>Certain Coated Paper Suitable for High-Quality Print Graphics Using Sheet-Fed Presses from the People's Republic of China</u> ("<u>Certain Coated Paper from China</u>") countervailing duty investigation that China's currency undervaluation is a countervailable subsidy. This claim has been raised in other, prior China cases, but has been rejected each time by the Department. The new allegation raises several new, important points and is accompanied by a detailed study demonstrating specificity.

Since 1996, the Government of China has intervened heavily in the foreign exchange markets in order to regulate the value of its currency. There is no serious debate as to whether China's currency is undervalued. According to economist and Nobel Price winner Paul Krugman in his November 16, 2009 New York Times op-ed article: "Despite huge trade surpluses and the desire of many investors to buy into [China's] fast growing economy - forces that should have strengthened the renminbi ["RMB"], China's currency - Chinese authorities have kept that currency persistently weak. They've done this mainly by trading renminbi for dollars, which they have accumulated in vast quantities." Thus, instead of allowing market forces to set the value of its currency, the Chinese government devotes considerable resources to keep its currency aligned with the dollar. As Chairman of the Federal Reserve Ben Bernanke stated in his prepared remarks in December 2006: "Greater scope for market forces to determine the value of the RMB would also reduce an important distortion in the Chinese economy, namely, the effective subsidy that an undervalued currency provides for Chinese firms that focus on exporting rather than producing for the domestic market." The result of China's currency undervaluation is the promotion of Chinese exports to the United States at the expense of U.S. manufacturers and jobs. This is a trade problem which is affecting millions of U. S. jobs and needs to be addressed under the U. S. trade laws.

Under U.S. law, a countervailable subsidy is defined as (1) a government "financial contribution" or "income or price support"; that (2) confers a benefit; and is (3) "specific" or qualifies as a "prohibited" subsidy because it is contingent on export performance. In the Certain Coated Paper from China investigation, and indeed in other cases, U.S. petitioners have articulated clear explanations of how China's currency undervaluation meets the requirements for the imposition of a countervailable subsidy.

The Government of China's requirement that foreign exchange earned from export activities be converted to RMB at a government-owned bank at an advantageous government-prescribed rate provides a financial contribution to Chinese exporters. The exporters benefit by receiving more RMB per dollar than they otherwise would. The benefit is linked directly to export earnings and disproportionately benefits a group of enterprises for which their sales comprise the majority of exports. The petitioners in the Coated Paper from China case have put in a detailed economic study on the link between exports and currency undervaluation.

The Department of Commerce has a statutory obligation to consider objectively whether a subsidy allegation meets the criteria required to initiate a countervailing duty investigation. In declining to investigate currency undervaluation, the Department has required U.S. producers to meet a higher threshold than necessary for the initiation stage of an investigation. According to section 771(5A) of the Act, U.S. producers must provide only what information is "reasonably available" in support of an allegation. Thus, under the statute, the threshold for initiating an investigation on a subsidy program is low, and it is only through investigation that the Department will decide whether each criterion for countervailability has been proved. A petition must not prove its cause from the outset.

We urge the Department to initiate an investigation of China's undervaluation of its currency, which subsidizes its exporters and thus harming the U. S. manufacturing job base.

Very truly yours,

David A. Hartquist

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Executive Director