

FACTBOX-What US law on currency manipulation says

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U.S. President Barack Obama's vow to get tougher on countries such as China that undervalue their currencies has heightened attention on whether the U.S. Treasury Department will formally label China as a currency manipulator in a semiannual report due in April.

That move would require the department to begin "expedited" negotiations with China on the currency, although U.S. law provides an escape clause to avoid that. For details, see [ID:nN12170250].

Obama criticized his predecessor, former President George W. Bush, for repeatedly refusing to label China as a manipulator. But Obama has followed the same course in the two Treasury reports released since he took office.

Following are details on the 1988 law that governs the report and efforts to revamp it:

CURRENT LAW

- The U.S. Treasury Department, in consultation with the International Monetary Fund, shall analyze the exchange rate policies of foreign countries on an annual basis.
- Semiannual reports are due April 15 and Oct. 15.
- The reports examine whether countries are manipulating their currency's exchange rate with the U.S. dollar "for purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade."
- If manipulation is found, the Treasury secretary shall "initiate negotiations with such foreign countries on an expedited basis, in the International Monetary Fund or bilaterally, for the purpose of ensuring that such countries regularly and promptly adjust the rate of exchange between their currencies and the United States dollar."
- The secretary "shall not be required to initiate negotiations in cases where such negotiations would have a serious detrimental impact on vital national economic and security interests."
- In such cases, the secretary must notify leaders of the Senate Banking Committee and the House of Representatives' Financial Services Committee of his decision.

The authorizing statute: [here](#)

CONGRESSIONAL EFFORTS AT REVAMP

- Many U.S. lawmakers say the law needs to be changed because Treasury has historically been reluctant to label countries as currency manipulators. However, there has not been a serious push to revamp the law since 2007.
- Some lawmakers want to give Treasury less discretion to avoid citing a country when certain conditions are met; others want the U.S. government to adopt what they consider more neutral language in its semi-annual reports.
- The Senate Finance Committee passed legislation in 2007 that would have required Treasury to identify countries with "fundamentally misaligned currencies," but action on the bill stalled, partly because of a jurisdictional battle with the Senate Banking Committee.
- Top Democrats and Republicans on both committees issued a joint statement in July 2008 in which they said the Bush administration's implementation of the law was "inadequate" and pledged to work together to revamp the law. No further action by the two committees was taken.

RECENT STATEMENTS AND ACTIVITY

- A bipartisan bill with 78 sponsors in the House and seven in the Senate aimed mainly at China would allow the Commerce Department to slap duties on goods from countries that have persistently undervalued currencies.
- In November, Senators Charles Schumer and Lindsey Graham urged Commerce Secretary Gary Locke to use existing authority to treat currency manipulation as an unfair foreign subsidy in order to impose countervailing duties on Chinese goods. Locke declined, citing legal obstacles to taking that step.
- Senate Majority Leader Harry Reid wrote China's President Hu Jintao on Dec. 9 to urge Beijing to significantly revalue the national currency. Two months later, Hu had still not responded to Reid.
- Senator Charles Grassley, a Republican, urged Obama last week to get Beijing's attention by formally labeling China as a manipulator. He made the statement just after Obama told senators that unfair currency practices put the United States at a "huge competitive disadvantage."
- U.S. Treasury Secretary Timothy Geithner told a Senate committee a day after Obama and Grassley's comments that he believed China was going to move on its currency because it recognized that was in the country's best interest.
- Schumer said on Friday he would be revamping his China currency legislation in coming days.

(Compiled by Doug Palmer; Editing by Kenneth Barry)