I

110TH CONGRESS
1ST SESSION

H. R. 2886

To address the exchange-rate misalignment of the Japanese yen with respect to the United States dollar, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JUNE 27, 2007

Mr. KNOLLENBERG introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committee on Financial Services, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

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A BILL

To address the exchange-rate misalignment of the Japanese yen with respect to the United States dollar, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the ''Japan Currency Manipulation Act''.

SEC. 2. FINDINGS.

Congress finds the following:

(1) The Japanese yen is, by any measure, in fundamental misalignment with every major currency and, according to the Bank of Japan, is now trading at the lowest trade-weighted average in the last 20 years.

(2) The Board of Governors of the Federal Reserve System reported, in a January 2004 working paper, ''Since the early 1990s, the monetary authorities of the major industrialized countries, with one notable exception, have greatly curtailed their foreign exchange interventions. That exception has been Japan, where the Ministry of Finance has continued to intervene frequently—and at times massively—in foreign exchange markets.''.

(3) The fundamental cause of Japan's exchange-rate misalignment is a set of deliberate policy decisions by the Government of Japan designed to artificially suppress the world market value of the yen in order to increase Japanese exports substantially.

(4) Japan's $875,000,000,000 in foreign currency reserve holdings are the second largest in the world, far exceeding any reasonable economic justification and extremely disproportionate to the for-

eign currency reserves held by other industrialized nations.

(5) The United States trade deficit with Japan is the second highest—$88,000,000,000 in 2006—and trade in automobiles and automobile parts makes up two-thirds of the trade deficit.

(6) Japan has maintained a massive and consistently large current account trade deficit with the United States for more than 25 years, with the majority of that deficit attributable to automobiles and automobile parts.

(7) At the current average rate of exchange of 117 Japanese yen to the United States dollar, Japan is providing a $3,600 subsidy for a typical family 4-door sedan made in Japan, a $9,700 subsidy for upper-end and luxury vehicles made in Japan, and thousands of dollars in cost advantages for Japanese automobiles made in the United States with imported Japanese automobile parts.

(8) The exchange-rate misalignment of the Japanese yen with respect to the United States dollar effectively provides a subsidy to Japanese exporters and an unfair competitive advantage for Japanese automobile manufacturers over United States automobile manufacturers.

SEC. 3. DEFINITIONS.

In this Act:

(1) CURRENCY INTERVENTION.—The term ‘‘currency intervention’’ means—

(A) direct currency intervention, such as purchases of United States dollars and sales of Japanese yen that are greater than such purchases and sales for the preceding 3-year period with a correlating effect of countering the appreciation of the Japanese yen; and

(B) indirect currency intervention, such as comments by officials of the Government of Japan on the value of the Japanese yen that are accompanied by a correlated change in the rate of exchange of the Japanese yen with respect to the United States dollar and other currencies.

(2) EXCHANGE-RATE MISALIGNMENT.—

(A) IN GENERAL.—The term ‘‘exchange-rate misalignment’’ means an undervaluation of the Japanese yen as a result of protracted large-scale currency intervention by or at the direction of the Government of Japan in the exchange market. An undervaluation exists if the observed exchange rate for the Japanese yen is below the rate of exchange that could reasonably be expected for the Japanese yen absent the intervention.

(B) FACTORS.—In determining whether exchange-rate misalignment is occurring and a benefit thereby is conferred, the Secretary in each case—

(i) shall consider Japan's—

(I) bilateral balance-of-trade surplus or deficit with the United States;

(II) balance-of-trade surplus or deficit with its other trading partners individually and in the aggregate;

(III) foreign direct investment in its territory;

(IV) currency-specific and aggregate amounts of foreign currency reserve holdings; and

(V) mechanisms employed to maintain the Japanese yen at an undervalued rate of exchange with respect to the United States dollar and other currencies and, particularly, the nature, duration, and monetary expenditures of those mechanisms;

(ii) may consider such other economic factors as are relevant; and

(iii) shall measure the trade surpluses or deficits described in subclauses (I) and (II) of clause (i) with reference to the trade data reported by the United States and the other trading partners of Japan, unless such trade data are not available or are demonstrably inaccurate, in which case Japan's trade data may be relied upon if shown to be sufficiently accurate and trustworthy.

(C) COMPUTATION.—In quantifying exchange-rate misalignment, the Secretary shall develop and apply an objective methodology that is consistent with widely recognized macroeconomic theory and shall rely upon governmentally published and other publicly available and reliable data.

(3) SECRETARY.—The term ''Secretary'' means the Secretary of the Treasury.

SEC. 4. REPORT ON CURRENCY INTERVENTION AND EXCHANGE-RATE MISALIGNMENT.

(a) IN GENERAL.—Not later than 180 days after the date of the enactment of this Act, and every 180 days thereafter, the Secretary shall submit to Congress a report on—

(1) currency intervention by the Government of Japan with respect to the rate of exchange of the Japanese yen and the United States dollar and other currencies since 2000; and

(2) any effort by the Government of Japan to create an exchange-rate misalignment of the Japanese yen with respect to the United States dollar and other currencies since March 2004.

(b) CONTENTS OF REPORT.—

(1) CURRENCY INTERVENTION BY THE GOVERNMENT OF JAPAN SINCE 2000.—The report required by subsection (a) shall include—

(A) a description of all known and reported incidents of direct or indirect currency intervention by the Government of Japan undertaken to adjust the rate of exchange between the Japanese yen and the United States dollar and other currencies since 2000;

(B) a description of all other incidents of currency intervention by the Government of Japan that have not been reported but in which the Secretary knew or suspected the Government of Japan had participated; and

(C) for each incident of currency intervention described in subparagraphs (A) and (B), a justification for the reasons the United States did not consider the incident of currency intervention, or report or act upon the incident of currency intervention, under—

(i) the Exchange Rates and International Economic Policy Coordination Act of 1988 (22 U.S.C. 5301 et seq.);

(ii) title III of the Trade Act of 1974 (19 U.S.C. 2411 et seq.); or

(iii) section 2102(c)(12) of the Bipartisan Trade Promotion Authority Act of 2002 (19 U.S.C. 3802(c)(12)).

(2) EXCHANGE-RATE MISALIGNMENT SINCE MARCH 2004.—The report required by subsection (a) shall also include a description of any efforts by the Government of Japan since March 2004 to create or maintain the exchange-rate misalignment of the Japanese yen with respect to the United States dollar and other currencies, including through—

(A) statements made by officials of the Government of Japan regarding the value or movement of the Japanese yen that affect the rate of exchange of the Japanese yen with respect to the United States dollar and other currencies;

(B) covert exchange rate policies or attempts to increase foreign currency reserve holdings or attain material global current account surpluses;

(C) directives that alter investments of pensions plans and insurance companies in order to gain an unfair competitive advantage in international trade; and

(D) any other effort to prevent effective balance of payments adjustments or to gain an unfair competitive advantage in international trade.

SEC. 5. PROPOSAL FOR JOINT UNITED STATES-EUROPEAN UNION PLAN TO ADDRESS THE EXCHANGE-RATE MISALIGNMENT OF THE JAPANESE YEN.

(a) IN GENERAL.—Not later than 60 days after the date of the enactment of this Act, the Secretary shall submit to the Committee on Finance of the Senate and the Committee on Ways and Means of the House of Representatives a proposal for a comprehensive joint United States-European Union plan to address the exchange-rate misalignment of the Japanese yen with respect to the United States dollar and other currencies.

(b) CONSULTATIONS.—The Secretary shall develop the proposal described in subsection (a) in consultation with—

(1) the Board of Governors of the Federal Reserve System;

(2) the Council of Economic Advisors;

(3) the Secretary of Commerce; and

(4) the Secretary of State.

(c) CONTENTS.—The proposal described in subsection (a) shall include a commitment to raise the issue of the exchange-rate misalignment of the Japanese yen with respect to the United States dollar and other currencies at each meeting of the G–7 Finance Ministers and each meeting of the G–7 Leaders until the Japanese yen is no longer in exchange-rate misalignment with respect to the United States dollar and other currencies.

SEC. 6. CONSULTATIONS WITH JAPAN.

Not later than 30 days after the date of the enactment of this Act, the Secretary, in consultation with the Council of Economic Advisors, shall initiate consultations with the Government of Japan for the purpose of decreasing the foreign currency reserve holdings of the Government of Japan to permit effective balance of payments adjustments and to eliminate the unfair competitive advantage in international trade.

SEC. 7. RESPONSE TO FUTURE CURRENCY INTERVENTION.

In the case of a direct or indirect act of currency intervention by the Government of Japan that has the effect of decreasing the rate of exchange of the Japanese yen with respect to the United States dollar to prevent effective balance of payments adjustments or to gain an unfair competitive advantage in international trade, the Secretary shall immediately take action unilaterally, bilaterally, or multilaterally, to dissuade, prevent, or object to such action.

SEC. 8. MEETING OF THE INTERNATIONAL MONETARY FUND.

The United States shall call for the convening of a special meeting of the International Monetary Fund to reach a multilateral agreement addressing—

(1) the exchange-rate misalignment of the Japanese yen with respect to the United States dollar and other currencies;

(2) the destabilizing effects of the exchange-rate misalignment of the Japanese yen; and

(3) the excessive foreign currency reserve holdings of the Government of Japan.

SEC. 9. REPORT ON PROGRESS.

Not later than 180 days after the date of the enactment of this Act, and every 180 days thereafter, the Secretary shall report to the Committee on Finance of the Senate and the Committee on Ways and Means of the House of Representatives on—

(1) the progress made toward decreasing the foreign currency reserve holdings of the Government of Japan;

(2) actions taken at meetings of the G–7 Leaders, the G–7 Finance Ministers, and the International Monetary Fund regarding the exchange-rate misalignment of the Japanese yen with respect to the United States dollar and other currencies; and

(3) the progress toward eliminating the exchange-rate misalignment of the Japanese yen with respect to the United States dollar and other currencies.

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