

110TH CONGRESS
1ST SESSION

S. 1021

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

IN THE SENATE OF THE UNITED STATES

MARCH 28, 2007

Ms. STABENOW introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

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

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Japan Currency Ma-
5 nipulation Act”.

6 **SEC. 2. FINDINGS.**

7 Congress finds the following:

8 (1) The Japanese yen is, by any measure, in
9 fundamental misalignment with every major cur-
10 rency and, according to the Bank of Japan, is now

1 trading at the lowest trade-weighted average in the
2 last 20 years.

3 (2) The Board of Governors of the Federal Re-
4 serve System reported, in a January 2004 working
5 paper, “Since the early 1990s, the monetary au-
6 thorities of the major industrialized countries, with
7 one notable exception, have greatly curtailed their
8 foreign exchange interventions. That exception has
9 been Japan, where the Ministry of Finance has con-
10 tinued to intervene frequently—and at times mas-
11 sively—in foreign exchange markets.”.

12 (3) The fundamental cause of Japan’s ex-
13 change-rate misalignment is a set of deliberate pol-
14 icy decisions by the Government of Japan designed
15 to artificially suppress the world market value of the
16 yen in order to increase Japanese exports substan-
17 tially.

18 (4) Japan’s \$875,000,000,000 in foreign cur-
19 rency reserve holdings are the second largest in the
20 world, far exceeding any reasonable economic jus-
21 tification and extremely disproportionate to the for-
22 eign currency reserves held by other industrialized
23 nations.

24 (5) The United States trade deficit with Japan
25 is the second highest—\$88,000,000,000 in 2006—

1 and trade in automobiles and automobile parts
2 makes up two-thirds of the trade deficit.

3 (6) Japan has maintained a massive and con-
4 sistently large current account trade deficit with the
5 United States for more than 25 years, with the ma-
6 jority of that deficit attributable to automobiles and
7 automobile parts.

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

16 (8) The exchange-rate misalignment of the Jap-
17 anese yen with respect to the United States dollar
18 effectively provides a subsidy to Japanese exporters
19 and an unfair competitive advantage for Japanese
20 automobile manufacturers over United States auto-
21 mobile manufacturers.

22 **SEC. 3. DEFINITIONS.**

23 In this Act:

24 (1) CURRENCY INTERVENTION.—The term
25 “currency intervention” means—

1 (A) direct currency intervention, such as
2 purchases of United States dollars and sales of
3 Japanese yen that are greater than such pur-
4 chases and sales for the preceding 3-year period
5 with a correlating effect of countering the ap-
6 preciation of the Japanese yen; and

7 (B) indirect currency intervention, such as
8 comments by officials of the Government of
9 Japan on the value of the Japanese yen that
10 are accompanied by a correlated change in the
11 rate of exchange of the Japanese yen with re-
12 spect to the United States dollar and other cur-
13 rencies.

14 (2) EXCHANGE-RATE MISALIGNMENT.—

15 (A) IN GENERAL.—The term “exchange-
16 rate misalignment” means an undervaluation of
17 the Japanese yen as a result of protracted
18 large-scale currency intervention by or at the
19 direction of the Government of Japan in the ex-
20 change market. An undervaluation exists if the
21 observed exchange rate for the Japanese yen is
22 below the rate of exchange that could reason-
23 ably be expected for the Japanese yen absent
24 the intervention.

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

5 (i) shall consider Japan's—

6 (I) bilateral balance-of-trade sur-
7 plus or deficit with the United States;

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

11 (III) foreign direct investment in
12 its territory;

13 (IV) currency-specific and aggre-
14 gate amounts of foreign currency re-
15 serve holdings; and

16 (V) mechanisms employed to
17 maintain the Japanese yen at an un-
18 dervalued rate of exchange with re-
19 spect to the United States dollar and
20 other currencies and, particularly, the
21 nature, duration, and monetary ex-
22 penditures of those mechanisms;

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

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

11 (C) COMPUTATION.—In quantifying ex-
12 change-rate misalignment, the Secretary shall
13 develop and apply an objective methodology
14 that is consistent with widely recognized macro-
15 economic theory and shall rely upon govern-
16 mentally published and other publicly available
17 and reliable data.

18 (3) SECRETARY.—The term “Secretary” means
19 the Secretary of the Treasury.

20 **SEC. 4. REPORT ON CURRENCY INTERVENTION AND EX-**
21 **CHANGE-RATE MISALIGNMENT.**

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

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

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

9 (b) CONTENTS OF REPORT.—

10 (1) CURRENCY INTERVENTION BY THE GOV-
11 ERNMENT OF JAPAN SINCE 2000.—The report re-
12 quired by subsection (a) shall include—

13 (A) a description of all known and re-
14 ported incidents of direct or indirect currency
15 intervention by the Government of Japan un-
16 dertaken to adjust the rate of exchange between
17 the Japanese yen and the United States dollar
18 and other currencies since 2000;

19 (B) a description of all other incidents of
20 currency intervention by the Government of
21 Japan that have not been reported but in which
22 the Secretary knew or suspected the Govern-
23 ment of Japan had participated; and

24 (C) for each incident of currency interven-
25 tion described in subparagraphs (A) and (B), a

1 justification for the reasons the United States
2 did not consider the incident of currency inter-
3 vention, or report or act upon the incident of
4 currency intervention, under—

5 (i) the Exchange Rates and Inter-
6 national Economic Policy Coordination Act
7 of 1988 (22 U.S.C. 5301 et seq.);

8 (ii) title III of the Trade Act of 1974
9 (19 U.S.C. 2411 et seq.); or

10 (iii) section 2102(c)(12) of the Bipar-
11 tisan Trade Promotion Authority Act of
12 2002 (19 U.S.C. 3802(c)(12)).

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

20 (A) statements made by officials of the
21 Government of Japan regarding the value or
22 movement of the Japanese yen that affect the
23 rate of exchange of the Japanese yen with re-
24 spect to the United States dollar and other cur-
25 rencies;

1 (B) covert exchange rate policies or at-
2 tempts to increase foreign currency reserve
3 holdings or attain material global current ac-
4 count surpluses;

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

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

13 **SEC. 5. PROPOSAL FOR JOINT UNITED STATES–EUROPEAN**
14 **UNION PLAN TO ADDRESS THE EXCHANGE-**
15 **RATE MISALIGNMENT OF THE JAPANESE**
16 **YEN.**

17 (a) IN GENERAL.—Not later than 60 days after the
18 date of the enactment of this Act, the Secretary shall sub-
19 mit to the Committee on Finance of the Senate and the
20 Committee on Ways and Means of the House of Rep-
21 resentatives a proposal for a comprehensive joint United
22 States–European Union plan to address the exchange-rate
23 misalignment of the Japanese yen with respect to the
24 United States dollar and other currencies.

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

4 (1) the Board of Governors of the Federal Re-
5 serve System;

6 (2) the Council of Economic Advisors;

7 (3) the Secretary of Commerce; and

8 (4) the Secretary of State.

9 (c) CONTENTS.—The proposal described in sub-
10 section (a) shall include a commitment to raise the issue
11 of the exchange-rate misalignment of the Japanese yen
12 with respect to the United States dollar and other cur-
13 rencies at each meeting of the G–7 Finance Ministers and
14 each meeting of the G–7 Leaders until the Japanese yen
15 is no longer in exchange-rate misalignment with respect
16 to the United States dollar and other currencies.

17 **SEC. 6. CONSULTATIONS WITH JAPAN.**

18 Not later than 30 days after the date of the enact-
19 ment of this Act, the Secretary, in consultation with the
20 Council of Economic Advisors, shall initiate consultations
21 with the Government of Japan for the purpose of decreas-
22 ing the foreign currency reserve holdings of the Govern-
23 ment of Japan to permit effective balance of payments ad-
24 justments and to eliminate the unfair competitive advan-
25 tage in international trade.

1 **SEC. 7. RESPONSE TO FUTURE CURRENCY INTERVENTION.**

2 In the case of a direct or indirect act of currency
3 intervention by the Government of Japan that has the ef-
4 fect of decreasing the rate of exchange of the Japanese
5 yen with respect to the United States dollar to prevent
6 effective balance of payments adjustments or to gain an
7 unfair competitive advantage in international trade, the
8 Secretary shall immediately take action unilaterally, bilat-
9 erally, or multilaterally, to dissuade, prevent, or object to
10 such action.

11 **SEC. 8. MEETING OF THE INTERNATIONAL MONETARY**
12 **FUND.**

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

16 (1) the exchange-rate misalignment of the Jap-
17 anese yen with respect to the United States dollar
18 and other currencies;

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

21 (3) the excessive foreign currency reserve hold-
22 ings of the Government of Japan.

23 **SEC. 9. REPORT ON PROGRESS.**

24 Not later than 180 days after the date of the enact-
25 ment of this Act, and every 180 days thereafter, the Sec-
26 retary shall report to the Committee on Finance of the

1 Senate and the Committee on Ways and Means of the
2 House of Representatives on—

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

6 (2) actions taken at meetings of the G–7 Lead-
7 ers, the G–7 Finance Ministers, and the Inter-
8 national Monetary Fund regarding the exchange-
9 rate misalignment of the Japanese yen with respect
10 to the United States dollar and other currencies; and

11 (3) the progress toward eliminating the ex-
12 change-rate misalignment of the Japanese yen with
13 respect to the United States dollar and other cur-
14 rencies.

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