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US Senate to vote on China tariffs

By Alan Beattie in Brussels



The US Senate is set to vote next week on legislation to punish China for manipulating its currency, as the renewed threat of global recession raises tension over exchange rates.

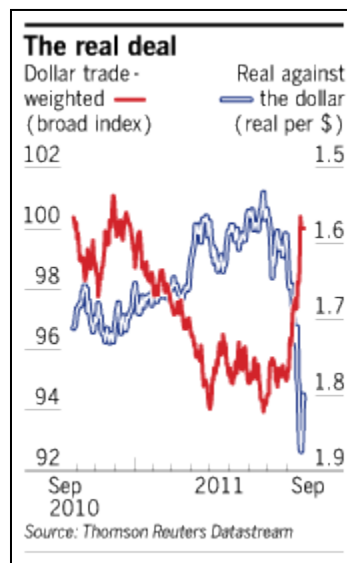
Harry Reid, Democratic leader of the Senate, said this week he would invoke “cloture” – a procedure to prevent delay – for senators to vote on a bill that would require the US to use estimates of currency undervaluation when calculating anti-subsidy import tariffs. The bill is subject to amendment, meaning that it could end up with so many additions it becomes in effect impossible to move forward, but experts in trade policy said it had a good chance of passing.

The issues of US currency legislation and the so-called “currency wars” – international tension over exchange rates had been in abeyance this year. However, that has reversed as safe-haven investment flows have strengthened the dollar, unemployment has remained high and the chances of a dip back into recession have increased sharply. Brazil recently suggested that World Trade Organisation law be changed to permit tariffs to be imposed against imports from countries with undervalued exchange rates, a measure similar to the unilateral actions in the proposed US bill.

“There seems to be a global trend developing towards currency-related trade measures, and legislation in the US looks more and more plausible,” said Ted Alden, senior fellow at the Council on Foreign Relations.

The main stumbling block to the measure is the House of Representatives, where senior Republicans have previously expressed scepticism about similar laws. Kevin Brady, chairman of the House sub-committee on trade, referring to Dave Camp, chairman of the full ways and means committee, this year told the Financial Times: “Mr Camp doesn’t see us moving that currency legislation and I certainly don’t either”.

But Mr Alden said a groundswell of support might force the House to follow suit. Mitt Romney, one of the leading candidates for the Republican nomination for president, has taken an aggressive anti-China stance, including support for action on exchange rates. “It will be hard for the Republican [congressional] leadership to oppose currency legislation with Mitt Romney out there stumping for it,” Mr Alden said.



The draft legislation is sponsored by a group of senators from both parties including Charles Schumer, Democratic senator from New York, and Lindsey Graham, Republican from South Carolina. The bill would require the commerce department to use estimates of currency undervaluation when calculating so-called “countervailing duties”, imposed against imports deemed to be state-subsidised. Although the proposed legislation has been much more tightly drawn than previous currency bills, which would simply have levied an across-the-board tariff on Chinese imports, many trade lawyers still think it would be vulnerable to legal challenge at the WTO.

Proposing the legislation, Mr Schumer said: “China’s history of half-truths and broken promises on currency makes passing this legislation an economic imperative. There will be a bipartisan push to send this bill to the president’s desk this year.”

The House backed similar legislation in a non-binding vote last year. The White House has so far declined to comment publicly on the current version of the legislation. Administration officials say that if any bill arrives on Barack Obama’s desk, it could well come with two-thirds majorities in the House and Senate that would override a White House veto in any case.

Business groups representing multinational companies have mobilised against the legislation, saying that China’s violations of intellectual property rights and rigged government procurement market are more important issues, but privately accept there is a good chance of the bill passing.