

November 29, 2010

The Honorable Harry Reid
Majority Leader
U.S. Senate
Washington, D.C. 20510

The Honorable Mitch McConnell
Minority Leader
U.S. Senate
Washington, D.C. 20510

Dear Leaders Reid and McConnell:

We agree with Congress and the Administration that China needs an exchange rate for the yuan that responds to trade flows and that China should move rapidly towards a market-determined exchange rate. In addition to continuing U.S. government efforts, our organizations support strong, coordinated and enhanced multilateral pressure to achieve concrete progress on China's currency and exchange rate policies.

We do not agree, however, that H.R. 2378 as passed by the House of Representatives can help achieve that goal. To the contrary, we believe that passage of this legislation is counterproductive, not only to the objectives related to China's exchange rate that we all share, but also to our nation's broader goals of addressing the many and growing challenges in the U.S.-China economic relationship, including inadequate protection of intellectual property, restrictions on market access, financial services liberalization, export of commodities such as rare earths, discriminatory indigenous innovation and other industrial policies. Above all this legislation will do more harm than good to job creation and economic growth in the United States at a time when both are of utmost importance.

Unilateral legislation that seeks to increase tariffs on imports from China is simply the wrong tool to incentivize China to move expeditiously to modify its exchange policies. Rather, it would likely have the opposite effect and could unnecessarily invite retaliation against U.S. exports into the Chinese market, currently the fastest-growing market for U.S. exports. Our companies do not fear retaliation – if it were based on actions consistent with World Trade Organization (WTO) rules that would achieve the desired result, with benefits outweighing the costs. But counterproductive tariff legislation will not get us closer to the goal of a market-driven exchange rate and will shift the focus away from the core issue of China's currency and onto U.S. unilateral action. Such an action would embolden PRC retaliation and undermine U.S. government efforts to address more important priorities, such as the growing number of discriminatory Chinese policies, which weaken our economy by harming American exports of manufactured goods, farm products, and services.

Despite efforts to make H.R. 2378 consistent with the rules of the WTO, it appears that the legislation does not meet the WTO's standards for the application of countervailing duties (CVDs). The legislation would require the Commerce Department to estimate the "true" exchange rate, a process that will be highly subjective and potentially politicized. Since application of CVDs to imports from China on the basis of this legislation is of questionable WTO legality, China would almost certainly challenge this action as a violation of U.S. obligations under WTO rules, which would focus the world's attention on the United States and WTO technicalities, and away from China's exchange-rate policies. Were China to prevail in a WTO challenge, billions of dollars of U.S. exports and the jobs they support would be at risk.

We share Congress' desire to have China act more quickly to adopt a market-determined exchange rate. But the proposed unilateral measure is not going to achieve that result. Therefore, we urge the Senate to follow regular order and allow the Senate Finance Committee to exercise its jurisdiction and provide full consideration whether this bill is the best approach to address concerns with China. We also urge you to oppose hasty action on H.R. 2378 during the lame duck session. Instead, we urge you to work with and vigorously call on the Administration to develop a robust bilateral and multilateral approach to achieve

tangible results, not only on China's exchange-rate policies, but also on other Chinese policies that are harming American businesses, workers and farmers.

Sincerely,

Advanced Medical Technology Association (AdvaMed)
Aerospace Industries Association
American Chamber of Commerce in China
American Chamber of Commerce in Shanghai
American Chamber of Commerce in South China
American Apparel & Footwear Association (AAFA)
American Meat Institute
American Soybean Association
Business Roundtable
Coalition of New England Companies for Trade (CONNECT)
Coalition of Service Industries
Columbia River Customs Brokers and Freight Forwarders Association
Consumer Electronics Association
Corn Refiners Association
Customs Brokers and Forwarders Associations of Northern California
Distilled Spirits Council of the United States
Emergency Committee for American Trade (ECAT)
Fashion Accessories Shippers Association (FASA)
Financial Services Forum
Financial Services Roundtable
International Dairy Foods Association
Los Angeles Customs Brokers and Freight Forwarders Association
National Cattlemen's Beef Association
National Customs Brokers and Forwarders Association of America (NCBFAA)
National Fisheries Institute
National Foreign Trade Council
National Retail Federation
Pacific Coast Council of Customs Brokers and Freight Forwarders (PCC)
Retail Industry Leaders Association
Securities Industry and Financial Markets Association
Sporting Goods Manufacturers Association
TechAmerica
Toy Industry Association
Travel Goods Association (TGA)
United States Association of Importers of Textiles and Apparel (USA-ITA)
U.S. Chamber of Commerce
US-China Business Council
U.S. Council for International Business
USA Poultry & Egg Export Council
Washington State China Relations Council