

Currency Exchange Rate Oversight Reform Act of 2011

The Currency Exchange Rate Oversight Reform Act of 2011 was approved by the Senate on October 11, 2011 and is currently pending House approval. House members may be inclined to approve the bill as it would most likely reduce the unemployment rate, a pivotal political issue for the upcoming 2012 elections. Past action by the House also indicates a serious chance of approval, as a former edition of this bill was passed in 2010 with a vote of 348 to 79.

Ratification of the bill would result in a semi-annual check of real effective exchange rates for countries conducting trade with the United States. This check would establish whether countries had been heavily intervening in the currency exchange market by various means including sterilization and excessive accumulation of foreign reserves and assets. Upon failure of this check, a country's currency would be considered fundamentally misaligned and would be designated for priority action.

A country that has currency designated for priority action is given 90 days to adopt policies and take identifiable action to correct the fundamental misalignment. If the country was determined not to have taken appropriate corrective measures, the following actions would take place:

- As of 30 days after a currency is considered fundamentally misaligned and designated for priority action, price adjustments would occur on the country's exports to reflect the fundamental misalignment of the currency
- Federal Government Procurement would be prohibited for products and services from the country
- The Overseas Private Investment Corporation (OPIC) would deny all new financing for projects in the country
- The US Executive Director at each multilateral bank would be instructed to oppose approval of all financing for the country

This bill is currently targeted at China. The Chinese Yuan is considered significantly undervalued based on a purchasing power parity model within the International Monetary Fund's database with a value of 3.946 Yuan/Dollar for 2011. If compared with the current exchange rate of 6.3542 Yuan/Dollar (11/2/2011), you see a 37.9% disparity in currency valuation. The Yuan would most likely be considered a fundamentally misaligned currency and China would have to adhere to the US policy or be subject to the aforementioned sanctions of the US government.

If the bill were to pass, the costs for US importers of Chinese goods could rapidly rise anywhere up to the 37.9% valuation disparity. While the valuation used by the US would compose of some average of different valuation techniques to ensure validity, it's safe to say that the costs for US importers of Chinese goods would significantly and assuredly increase with the approval of this bill. This increase in costs of Chinese goods would substantially hurt China's US trade surplus and punitive retaliatory measures aimed at the US would most likely take place.

If you would like more information on this or any other Global Trade Compliance matter please contact Allyn International at (239) 489-9900 or you can email us at Dreckman.M@allynintl.com