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HOUSE WAYS AND MEANS SUBCOMMITTEE ON TRADE; FINANCIAL SERVICES
SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL MONETARY POLICY, TRADE, AND
TECHNOLOGY; AND ENERGY AND COMMERCE SUBCOMMITTEE ON COMMERCE, TRADE
AND CONSUMER PROTECTION

May 9, 2007

“Currency Manipulation and its Effects on U.S. Businesses and Workers”

Introduction

Chairman Levin, Ranking Member Herger, Chairman Gutierrez, Ranking Member Paul, and Chairman Schakowsky and Ranking Member Stearns, and distinguished members of the Ways and Means Subcommittee on Trade, the Financial Services Subcommittee on Domestic and International Monetary Policy, Trade, and Technology, and the Energy and Commerce Subcommittee on Commerce, Trade and Consumer Protection, I am pleased to participate in today's hearing.

I understand that today's hearing is focused principally on issues related to China and Japan's currencies. As you know, within the Administration, the Treasury Department is charged with responsibility for currency and exchange rate matters, while the Office of the U.S. Trade Representative (USTR) is responsible for developing and coordinating U.S. international trade and direct investment policy. Our work aims at increasing exports by expanding market access for American goods and services abroad and securing a level playing field for American workers, farmers and businesses in overseas markets. USTR oversees negotiations with other countries on these matters. In addition, we seek to resolve trade problems using a wide variety of tools, including bilateral discussions, negotiations, and formal dispute settlement proceedings.

USTR's efforts to achieve market-driven, market opening trade policies abroad fit into a larger economic policy picture, of course. They support Treasury's efforts to get results on currency and other matters in the financial realm as well as the Commerce Department's work on global competitiveness, export promotion and its administration of domestic trade remedy laws. Taken together, the Administration's engagement in the international economic realm uses the best tools available to us to serve the American people's interest in building strong, mutually beneficial economic relations with our global trading partners, including Japan and China.

To provide more concrete perspective on our work, I will give you a brief overview of USTR's recent engagement with both China and Japan, touching on the mechanisms USTR uses to address key trade concerns.

Key China Trade Efforts

China's accession to the WTO marked a critical step forward toward China's integration into the international rules based system. Since acceding to the WTO five years ago, China has taken significant steps in an effort to bring its trading system into basic compliance with WTO rules. These steps have helped to deepen and strengthen economic reforms that China had begun 20 years earlier. U.S. businesses, workers, farmers, service providers and consumers have benefited significantly from these steps and continue to do so as U.S.-China trade grows. Indeed, last year, U.S. exports to China climbed

by 32 percent (while China's exports to the United States increased by 18 percent). These data suggest that the Chinese market is becoming more accessible for American companies, and that Chinese consumers are developing an appetite for America's highly competitive goods and services. China today has become our fourth largest export market, and the fastest growing major export market for the United States in the world. It is helping to support thousands of American jobs today and will support even more in the future.

Despite this progress, China's record in implementing its WTO obligations is mixed. While China has fully implemented many of its WTO obligations, there are a number of areas where it still has work to do, as it continues to transition from a centrally planned economy to a free-market economy governed by rule of law.

In our engagement with China, the United States follows a dual-track approach to resolving its WTO concerns – bilateral dialogue to try to achieve practical solutions where possible, together with a full willingness to use WTO dispute settlement where appropriate to resolve problems.

The United States remains committed to seeking cooperative and pragmatic resolutions through bilateral dialogue with China, and the United States has achieved some important successes. For example, through our recent bilateral dialogues, China made several commitments related to IPR protection and enforcement. It also committed to eliminate duplicative testing and certification requirements applicable to imported medical devices, to make adjustments to its registered capital requirements for telecommunications service providers, and to finalize a protocol allowing the resumption of trade in U.S. beef and beef products. China also reaffirmed past commitments to technology neutrality for 3G telecommunications standards and to ensuring that new rules in the postal area would not negatively affect foreign express couriers. In addition, China committed to commence, by no later than December 31, 2007, formal negotiations to join the WTO's Government Procurement Agreement. The United States has been working with China to make sure that it implements all of these commitments.

. However, we have been unable to resolve other important issues through bilateral discussions, despite extensive effort, and we have turned to formal WTO dispute settlement in five instances:

- In March 2004, we commenced a WTO dispute against China's discriminatory value-added tax on integrated circuits. We were able to work successfully with China to resolve this issue during the consultation phase, and China repealed the discriminatory treatment.
- In March 2006, the United States, acting in coordination with the European Communities and Canada, commenced a WTO dispute settlement case challenging Chinese discriminatory charges on imported auto parts. We are now pursuing this case in front of a WTO arbitral panel.
- In February 2007, the United States, later joined by Mexico, filed a WTO consultation request in a case challenging several subsidy programs that appear to be prohibited under WTO rules, either because they are contingent upon exportation or contingent upon the use of domestic over imported goods. The parties held a first round of consultations in March 2006.
- In April 2007, the United States requested WTO consultations regarding certain deficiencies in China's legal regime for protecting and enforcing intellectual property rights related to copyrights and trademarks that affect a wide range of products. The problems identified include high thresholds for criminal prosecution that create a

substantial “safe harbor” for wholesalers and retailers who distribute or sell pirated and counterfeit products in China, inadequate rules for disposal of IPR infringing goods seized by Chinese customs authorities, the Chinese copyright law’s apparent denial of copyright protection for works poised to enter the market but awaiting Chinese censorship approval, and a possible loophole in China’s criminal law that may only allow prosecution for unauthorized reproduction of a copyrighted work if it is accompanied by unauthorized distribution. China already has taken measures that may address this last U.S. concern. Under WTO rules, formal consultations will take place in this case before mid-June.

- In April 2007, on the same day as the filing of the IPR case, the United States requested WTO consultations regarding certain barriers to market access for U.S. copyright-intensive industries, including books, music, home videos and movies. Consultations in this case also are due before mid-June.

USTR provides a detailed discussion of the efforts the United States has made to address these and other areas of concern, using bilateral dialogue and WTO dispute settlement, in the “2006 USTR Report to Congress on China’s WTO Compliance,” issued on December 11, 2006. The report is available on the USTR website (www.ustr.gov).

Key Japan Trade Efforts

Non-tariff measures have long been an issue for U.S. companies in Japan’s market. As a result, much of USTR’s work with Japan continues to focus on removing these barriers. We use a variety of approaches to address specific issues, while also continuing to urge Japan to make more fundamental changes that significantly improve the business environment and further open its economy. While we continue to make progress in a number of areas, many challenges also remain.

Much of our detailed work with Japan takes place in our bilateral Regulatory Reform Initiative, which is chaired by USTR and includes the participation of several other U.S. agencies. The scope of that forum is comprehensive, including cross-cutting issues ranging from competition policy to intellectual property rights protections, as well as resolving industry-specific concerns. Progress achieved under this Initiative is equally broad in scope and is documented in an annual report. Our last report outlined 45 pages of steps that Japan is taking to address non-tariff issues, and we are currently on track to conclude our next report in the coming weeks that will outline new progress.

We also use other fora to raise our concerns with Japan’s practices where needed. USTR leads our bilateral Trade Forum, for example, which has been used as a flexible vehicle to address emerging as well as acute trade concerns. At the senior level, Ambassador Bhatia also participates in our bilateral Sub-Cabinet Economic Dialogue which addresses pressing economic issues while bringing overall direction to our bilateral economic relationship. USTR also of course remains engaged with Japan on a regular basis at all levels in other ways to address market access concerns.

We continue to see progress in some sectors. Recent improvements include heightened transparency of Japan’s regulatory process, the introduction of a program aimed at helping thwart illegal cartels and bid rigging, a more rational rate structure for telecommunications wire line interconnection that removes cost distortions that have limited wholesale network access, opening new opportunities for sales of insurance products through banks, and starting a one-stop service for motor vehicle registration.

Regular engagement enables us to carefully monitor progress and raise concerns before major decisions are made that would affect U.S. stakeholders. In the medical device and pharmaceutical sector, for example, we have recently seen Japan dedicate more staff resources to help speed reviews of product applications. With respect to Japan Post reform and privatization, we have successfully encouraged Japan to take measures to ensure the new postal insurance company meets the same licensing, disclosure, and supervisory requirements as private sector financial institutions.

Where we have not been able to work out our concerns directly with Japan, and where the WTO dispute settlement process offers an opportunity for effective resolution of a problem, we have not hesitated to use this process to secure changes in Japan's measures. Most recently, we were able to secure a clear conclusion to a long-standing WTO case involving Japan's unscientific requirements on U.S. apple exports. USTR will continue to evaluate Japan's practices using the WTO yardstick and bring WTO cases where appropriate.

One area where we have not yet reached a satisfactory conclusion, with either Japan or China, is in the area of beef trade. Working closely with the Department of Agriculture, we have been in contact with both countries to seek a full re-opening of the beef market consistent with international standards.

In summary, USTR is committed to ensuring that we are using the most effective tools at our disposal to pursue open and fair trade relationships with China and Japan. This effort ties into broader Administration engagement on international economic issues, including work by Treasury and Commerce, and work with Members of Congress to achieve our common goals: a more flexible, market-based exchange rate for China's currency and a level playing field for American businesses, workers, and farmers.

Thank you for the opportunity to testify. I will be happy to take your questions.