

**Statement of
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Thank you Chairmen Levin, Rush, and Gutierrez, Ranking Members Herger, Stearns, and Paul, and Members of the Subcommittees for inviting me to discuss the issue of currency manipulation and its effect on U.S. businesses and workers. I appreciate the opportunity to share with you the Department of Commerce’s views on this issue, particularly as they relate to the U.S. countervailing duty (CVD) law.

The statute charges the Department of Commerce with the enforcement of the U.S. trade remedy laws. These laws consist of the antidumping law, which remedies unfairly priced imports, and the countervailing duty law, which remedies foreign-government subsidized imports. As Import Administration’s Deputy Assistant Secretary for Antidumping and Countervailing Duty Operations, I am directly responsible for enforcing these laws.

China’s remarkable economic growth in recent years makes it one of the most important engines of the world economy outside of the United States. In trade terms, China is now the United States’ third largest goods trading partner. China represents one of the fastest-growing markets for U.S. goods and services. Our goods exports to China, which for the most part are high value-added products, totaled \$55 billion in 2006, growing at a rate of 32 percent from the previous year. That makes China our fourth largest export market. At the same time, China is our second largest source of imports. Goods imported from China into the United States totaled \$288 billion in 2006.

The tremendous growth in U.S.-China trade has benefited both countries, even though this growth has resulted in, quite naturally, an increase in trade frictions as well as our trade remedy activities involving China. Commerce currently has 62 antidumping orders against goods from China. Since 2001, we have issued 32 antidumping orders against goods from China, compared to the 24 orders put into place between 1993 and 2000.

The antidumping trade rules and countervailing duty trade rules are both tools sanctioned by the World Trade Organization (WTO) to deal, respectively, with unfair pricing and foreign government subsidization of imports. Government subsidies distort the free flow of goods and adversely affect American businesses in the global marketplace. American companies, workers and farmers can compete against anyone in the world. However, they should not be expected to compete against foreign governments providing subsidies to their own industries.

China's policies raise serious questions in this regard. The Chinese press is rife with examples of subsidies given to various industries and products across the spectrum, from agricultural products to steel. Unfair subsidies, whether they come from the central, provincial, and/or local governments to Chinese companies, all have the power to distort trade conditions for U.S. producers, both here in the U.S. market and abroad. These kinds of subsidies can create huge, unfair advantages to China's exports of a wide range of products to the United States. They can also harm U.S. producers hoping to export successfully to China or compete with Chinese exports to third-country markets.

Under the CVD law, foreign governments subsidize industries when they provide financial assistance to benefit the production, manufacture or exportation of goods. Subsidies can take many forms, such as direct cash payments, credits against taxes, and loans at terms that do not reflect market considerations. U.S. trade laws and Commerce's regulations establish standards for determining when an unfair subsidy has been conferred and for measuring the amount of the subsidy. The amount of subsidies the foreign producer receives from the government is the basis for the countervailing duty rate by which the subsidy is offset or "countervailed."

When a U.S. industry files a petition alleging unfair subsidies and seeking relief under the CVD law, Commerce looks at each of the alleged subsidies, consistent with our obligations under U.S. law, to determine whether the petition meets the statutory requirements for initiation. The basis for a countervailing duty petition is an allegation that foreign producers or exporters are receiving countervailable subsidies (as well as an allegation that those subsidies are causing material injury to a domestic industry). As a result, the subsidy allegation must include documentary evidence that such subsidies exist.

Under U.S. law, a countervailable subsidy exists where an authority provides a "financial contribution" to a company that confers a measurable "benefit." The subsidy must also be "specific," meaning that it must either be an export subsidy or import substitution subsidy (i.e., prohibited subsidies) or is only available to a limited number of industries or companies. Commerce must look to see whether the CVD petition addresses each of these elements for each subsidy that is alleged on the basis of "information that is reasonably available" to the petitioning U.S. industry. If an allegation meets this statutory requirement (and there is a sufficient allegation that the alleged subsidies are causing material injury to a domestic industry), Commerce will initiate a CVD investigation. During the subsequent investigation, Commerce then determines if, in fact, the alleged subsidy meets these criteria and, thus, is countervailable.

In summary, for Commerce to find a countervailable subsidy, it would need to determine that the three statutory criteria discussed above apply: 1) the subsidy involves a financial contribution from the government; 2) the subsidy confers a benefit; and 3) the subsidy is a prohibited subsidy or is otherwise specific. Whether a petition from a U.S. industry sufficiently alleges these criteria and whether Commerce determines that a subsidy indeed constitutes a countervailable subsidy will depend on the facts and arguments presented to Commerce in a particular case.

A related issue is applying the CVD law to subsidies provided by China. For more than 20 years, throughout four Administrations, Commerce maintained a policy of not applying our CVD law to countries that we have classified as non-market economies for antidumping purposes, such as China. This policy was upheld in the 1986 Georgetown Steel decision, in which the Court of Appeals for the Federal Circuit affirmed that Commerce has the discretion to decide whether to apply the countervailing duty law to non-market economy countries. Commerce reasoned that subsidies had no measurable economic impact in the 1980s Soviet-style economies that were then under consideration.

On March 30, 2007, Commerce revised this policy by announcing its preliminary decision to apply the CVD law to imports of glossy paper from China. After a careful analysis of the parties' arguments and information on the record of this case, Commerce determined that the current nature of China's economy does not create the obstacles to applying the CVD law that were present in the "Soviet-style economies" at issue in Georgetown Steel. For purposes of this preliminary determination, Commerce found that the nature of the Chinese economy today allows us to determine whether the Chinese Government has bestowed countervailable subsidies. Just as China has evolved, so has the range of tools available to make sure that China trades fairly. All interested parties will have ample opportunity to provide comments for the record on this investigation before Commerce makes its final determination later this year.

We are committed to identifying and addressing trade-distortive and injurious subsidies from all countries, including China. That is a top priority for us. Commerce will not hesitate to use the tools at our disposal to discipline China's use of unfair subsidies. Thank you for giving me this opportunity to testify on this important topic today and I am happy to take your questions.