AAPC
AMERICAN AUTOMOTIVE POLICY COUNCIL

March 2, 2015

The Honorable Janet Yellen
Chairwoman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Dear Chairwoman Yellen,

The American Automotive Policy Council (AAPC) representing our member companies−FCA US, Ford Motor Company and General Motors Company−noted with interest your comments at the February 24, 2015, hearing before the Senate Committee on Banking, where you stated that currency manipulation that is "…*undertaken in order to alter the competitive landscape and gives one country an advantage in international trade is inappropriate and needs to be addressed.*" On that point, we could not agree more.

You also noted concern that using sanctions in trade agreements like the Trans-Pacific Partnership (TPP) "*would hamper or even hobble monetary policy*." In response to that concern, we would like to bring to your attention an alternative approach that we believe would mitigate some of the damage that currency manipulators have inflicted on the American economy and its workers, without interfering with the Federal Reserve's ability to implement domestic monetary policy.

For decades, the United States, particularly the manufacturing sector, has shouldered the burden of other countries' currency manipulation (by weakening their currency vis-à-vis the U.S. dollar) to gain an unfair competitive advantage for their exports. With many of the worst offenders coming from the Asia-Pacific region, as soon as the TPP negotiations were launched, we began highlighting the need to include strong and enforceable currency disciplines in the TPP agreement.

The International Monetary Fund (IMF) has been tasked to enforce rules against currency manipulation to gain an unfair competitive advantage, and to that end consider the following obligations:[1]

[1] IMF Bilateral and Multilateral Executive Board Decision, para. 21 (July 18, 2012)

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- Protracted large-scale intervention in one direction in the exchange market;
- Excessive and prolonged official or quasi-official accumulation of foreign assets; and
- Large and prolonged current account deficits or surpluses.

Unfortunately, the IMF is unable to enforce those obligations, which has cost our economy and led to the loss of millions of American jobs. Our proposal, a copy of which is attached, addresses this loophole by compelling our trade partners not to intervene directly in the foreign exchange market.

We are proposing that a three-part test, based on the IMF principles, be included in U.S. free trade agreements. For a country to be considered a currency manipulator, each of the following three conditions must be met:

- Have foreign exchange reserves more than sufficient (i.e., greater than three months normal imports);
- Have a current account surplus over the six-month period in question; and
- Add to its foreign exchange reserves over that same six-month period.

If that test is met, a dispute settlement panel would be convened under the auspices of the TPP, with the potential penalty of losing the tariff benefits of the free trade agreement.

This simple test and penalty, which we developed with the help of international trade economists, narrowly focuses on countries that directly intervene in the foreign exchange markets, and not to affect countries' ability to use monetary policy tools, including quantitative easing.

While we acknowledge your concerns around the need for monetary policy flexibility, experts agree that the proposal outlined above would in no way impede the Federal Reserve from freely implementing flexible domestic monetary policies. Moreover, because the U.S. does not unilaterally intervene in the exchange markets to gain an advantage over its trade partners, it has not, and would not, meet the test.

If you have any questions, or if you wish to discuss the issues surrounding currency manipulation, we would welcome the dialogue.

Sincerely,

Matt Blunt

Matt Blunt

Enclosure