

Congress of the United States
House of Representatives
Washington, D.C. 20515

January 31, 2007

The Honorable Henry M. Paulson
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Ave, N.W.
Washington, DC 20220

Dear Mr. Secretary:

As you well know, there has been growing alarm both on Capitol Hill and in the business community concerning the continued manipulation of international currency markets by the government of China. China, however, is not the only transgressor unfairly manipulating the values of international currency.

For much of the last decade Japan has intentionally weakened the value of the yen to support its exports to other nations and, more specifically, to gain an advantage within the U.S. market. Nowhere has this strategy showed dividends for Japan than in our domestic auto market.

The surge in sales of Japanese automobiles coincides with the lowest effective exchange rate for the yen in 21 years, according to an October 4, 2006, report by Nikkei News Service. This weakness awards an astounding average cost savings of \$4,000 per vehicle to Japanese producers. In the past 18 months, Toyota, Honda, and Nissan report in their own financial filings and statements that they have earned \$7.5 billion in windfall profits solely from the weakened yen.

This increased profit did not come from expanded manufacturing facilities of Japanese companies in the United States. In fact, with it becoming cheaper to export from Japan rather than build in the United States, these profits have come at the expense of their American employees. Production at U.S. facilities remained flat but a surge of Japanese exports flooded the domestic market. In the first 11 months of 2006 there was a 362,000 unit increase of Japanese vehicle exports to the United States. This auto trade deficit accounts for \$50 billion of our total trade deficit. Deficits of this amount are unsustainable, and create the risk of a steep decline in the value of the dollar and the credit worthiness of the United States- imperiling our economic future.

While it is important to bring attention to the undervalued yuan, there has been no action from the Administration on the undervalued yen. An analysis by the Economist magazine concluded that the yen is undervalued by 12 percent against the dollar compared with a 7 percent rate by yuan. While 12 percent might not seem much, it amounts to a \$2,400 advantage on a \$20,000 automobile.

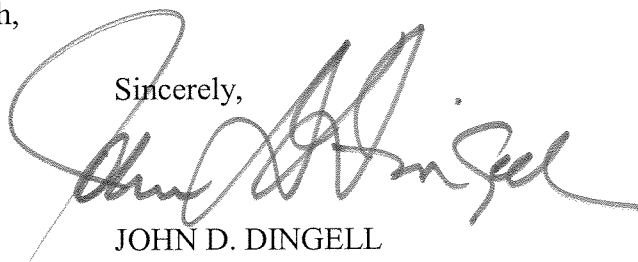
Maintaining the health and competitiveness of the American marketplace along with opening international markets to American goods are two goals that all members of the Committee on Energy and Commerce share. To help me and my colleagues understand the Administration's position, I would appreciate your responses to the following questions by no later than Thursday, March 1, 2007:

1. How does the Administration define currency manipulation? What is the current policy towards currency manipulation?
2. Does the Administration differentiate between active intervention in currency markets and using policies and statements to drive market outcomes without direct intervention?
3. Former Treasury Under Secretary for International Affairs John Taylor asserts in a new book "Global Financial Warriors" that our Government acquiesced to Japan's manipulation of the value of its currency. Under what circumstances should our Government aid and abet currency manipulation?
4. Are there any policies or guidelines, written or other, that apply to the sanctioning of manipulation? If so, please provide them.
5. What steps has the Administration taken to promote market-based currency values? What steps should the Congress take to provide the Administration with needed to counteract currency manipulation?

Your assistance with this request is appreciated. If you have further questions, please contact me or have your staff contact Jonathan Cordone with the Committee staff at (202) 225-2927.

With every good wish,

Sincerely,



JOHN D. DINGELL
CHAIRMAN
COMMITTEE ON ENERGY AND COMMERCE