

## **Manufacturing Council's Comments on the Administration's "Framework for Revitalizing American Manufacturing"**

**Background:** The Manufacturing Council is comprised of approximately a dozen private-sector executives who reflect a balance of U.S. manufacturing industry sectors, geographic locations, and business size. The Council advises the Secretary of Commerce on government policies and programs that affect U.S. manufacturing and provides a forum for proposing solutions to industry-related problems. The Council also works to ensure that the U.S. remains the preeminent destination for investment in manufacturing throughout the world.

In that regard the Council, in a letter to the Secretary dated December 15, 2009, ([http://www.manufacturing.gov/council/documents/12152009\\_Final\\_Letter.pdf](http://www.manufacturing.gov/council/documents/12152009_Final_Letter.pdf)) made formal recommendations regarding specific actions the Administration might take to create manufacturing jobs and revitalize U.S. Manufacturing. That letter is incorporated here by reference.

**Purpose of this Document:** The purpose of this document is to provide comments from the Manufacturing Council to the Secretary of Commerce regarding the Administration's paper entitled "A Framework for Revitalizing American Manufacturing". That paper (also incorporated here by reference) lays out the Administration's policies to support manufacturing which it states are:

1. Provide workers with the opportunity to obtain the skills necessary to be highly productive.
2. Invest in the creation of new technologies and business practices.
3. Develop stable and efficient capital markets for business investment.
4. Help communities and workers transition to a better future.
5. Invest in an advanced transportation infrastructure.
6. Ensure market access and a level playing field.
7. Improve the general business climate, especially for manufacturing.

### **Manufacturing Council Comments on the "Framework":**

- In general the Manufacturing Council agrees with all of the above points made in the "Framework".
- The Council applauds the administration's recognition of the importance of manufacturing to the U.S. economy and the creation of domestic jobs.
- However, the council believes that the above policies are not equally important, and more importantly the council thinks the most important policies are listed last.
- Specifically the Council believes **the single most important policy the administration addresses in its manufacturing framework is policy number six, "Ensure market access [to international markets] and a level playing field"**. The framework's elaboration of this policy includes several sub policies

of which the most important is to “Enforce our [Existing] trade agreements”. This single item overshadows all other actions the administration might take to enhance U.S. manufacturing. The Framework does not single out any particular country but the council believes there is a specific need to focus this enforcement on our trade relationship with China. The council believes that rebuilding manufacturing and jobs in the U.S. must also include 1) enforcing trade laws to eliminate the unfair competitive advantage that foreign competitors gain in the U.S. market through illegal trade practices, and 2) well-negotiated trade agreements that result in genuine reciprocal market access and effectively address trade distorting practices such as currency manipulation and border adjusted value added taxes.

- The Council agrees with the Framework’s recognition that the country needs a comprehensive energy policy. However, the Framework appears not to attach as much importance to this policy as the council does. The focus of the Framework is on advanced vehicle development (in framework policy #3), battery and electric drive components for transportation electrification (in policy #5), and clean energy development (in policy #7), and is relegated to supporting strategies in these three primary policies. **The Council advocates a comprehensive energy policy focused on providing U.S. energy independence (i.e. elimination of oil imports) as soon as possible**, and believes this should be a high priority major policy (as distinguished from a supporting strategy). Such a policy should support development of both traditional and alternative domestic energy sources, and be integrated with a transportation initiative which supports a transition to vehicles powered by alternative fuels.
- Behind trade and energy policy, the counsel strongly supports the framework’s [#3] policy to Develop stable and efficient capital markets for business investment. Small and medium sized manufacturers continue to struggle when trying to access timely and adequate credit. As the economy begins to grow, if credit is insufficient, manufacturers cannot purchase raw materials such as steel and plastic, cannot build inventory, and cannot demonstrate enough collateral to satisfy a lender’s requirements. Without stable capital, manufacturers will not be able to invest in their facilities and equipment, green technologies, or hire more employees.

## **Manufacturing Council's Comments on Short Term Job Growth**

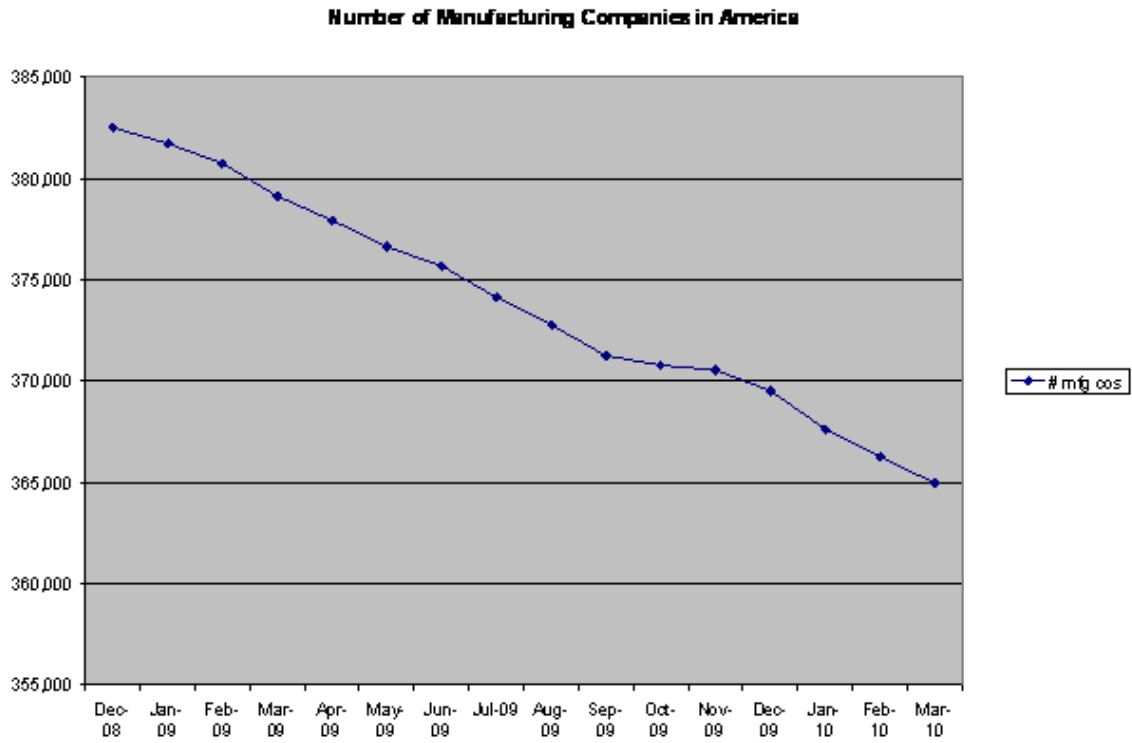
1. The real issue is sustainable jobs, not temporary/part-time jobs. To do that we must first significantly reduce the uncertainty facing all companies large and small which is really coming from our Government in the form of today's huge policy debates and potential actions on Healthcare, Cap and Trade, significantly increased taxes, bigger government, huge budget and trade deficits, national debt levels that seem to be ever increasing towards infinity, and finally and most importantly—no plan for medium and long term private sector job creation and economic growth.

- All of these strongly contribute to private sector CEO/Company insecurity and hence the lack of confidence that is necessary to drive private sector investment that will create the jobs that will drive the consumption here at home and our export engine abroad. The short term job creation will only come with a view that there will be long term consistency and stability and support of the private sector. We must find ways to build confidence NOT more insecurity---INSECURITY IN THE PRIVATE SECTOR IS A JOBS KILLER.
- A Council member stated: *My company employed more than 700 people prior to the subprime recession that started in 2008. We currently employ about 522 people, slightly more than we had after downsizing due to the recession. Several months ago, we noticed an increase in business activity indicating that perhaps we should expand one of our production facilities, potentially creating five or six new manufacturing jobs. Normally we quickly would have commenced the building project and could have been hiring new workers by Summer. We held off investing in this business opportunity, however, because uncertainty about healthcare, taxes, trade law enforcement, environmental regulations, and other government policies made it difficult to determine that we could be profitably competitive long enough to earn the necessary return on investment while absorbing potential increases in government imposed costs. This uncertainty delayed the process several months. Being an entrepreneurial enterprise, we have decided to take the investment risk and move forward with the project. We now hope to hire more manufacturing workers before the end of the year. Baring new government imposed costs, we anticipate that our production business may continue to grow, requiring more hiring next year. In addition to new manufacturing employees, the expansion of our production facility will create six or seven months of employment for new construction employees that will be hired by our contractor. Our expansion will also generate business for our manufacturing equipment vendors.*
- No \$5,000 tax credit to employers or short term forgiveness of the payroll tax will overcome the insecurity that is preventing the creation of permanent private sector

jobs in either the short or medium term, and certainly not the 25 plus million we need to generate over the next 5-7 years.

2. Small and medium sized businesses need access to capital at reasonable rates and costs.
3. The government should form a SWOT team(s) to work with every state and federal agency that has stimulus money allocated to it, but has not yet distributed it. Their mandate: the money must actually be assigned and released to specific, shovel ready projects within 60-90 days. A great deal of the stimulus funds are caught up in a bureaucratic maze on both the state and federal levels, and are, therefore, doing nothing to spur economic growth. This policy should be named **Use It or Lose It**. This should be able to be effected by executive order, thereby avoiding the pitfalls of congressional review and political procrastination. Best of all: the money is already appropriated.
4. The Administration and Department of Commerce have to show a commitment to fair "rules based" Free Trade Agreements (FTA). This would encourage companies to compete and focus on foreign markets.
  - Companies that export pay higher average wages than those that just sell domestic, on average 13%-18% according to the SBA. A signal for the Federal Government that exporting from USA manufacturers is vital to help not only regain confidence with manufacturing companies but will help reduce our trade imbalance. If the DOC or President would urge Congress to restart lingering FTAs (Korea and Panama) it would send a huge message to the manufacturing and business communities. This would help large, medium, and small companies and aid the local MEP and DOC that work with manufactures daily.
  - One Council member provided a personal anecdote about FTAs: *We have been heavily involved with Free Trade Agreements, since they mean increased business for us. Most of our new business has been found globally, and we are up against many tariffs that some of our competitors do not face. Since NAFTA we have seen business in Canada and Mexico rise by 2000%, and we have seen sales go from \$0 to 4% of sales from Singapore, and we have seen a dramatic increase since CAFTA-DR. This has led us to double our staffing, and maintain high level when our US business went down in 2009.*

5. Since 2004, America has lost 2.4 million manufacturing jobs<sup>1</sup>. In the last year alone, the U.S. has lost 1.5 million jobs<sup>2</sup> and over 14,000 manufacturing companies<sup>3</sup>.



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<sup>1</sup> International Trade Administration, U.S. Department of Commerce

<sup>2</sup> Ibid.

<sup>3</sup> *Manufacturers News*

## Manufacturing Council Comments on Research and Development

1. The government should incentivize larger defense contractors to subcontract R&D funding to small businesses, and make the R&D tax credit permanent.
  - The U.S. was the pioneer of the R&D tax credit, and now we're 17<sup>th</sup> among OECD countries in terms of R&D tax credit generosity [1].
  - Increasing the R&D tax credit from 12 to 20 percent would create 162,000 jobs, increase the GDP by \$90 billion, and generate \$17 billion in new tax revenues [1].
  - Prior to 2000, the U.S. ran a trade surplus with the rest of the world on advanced technology products. Since 2001, the U.S. has run a consistent trade deficit in advanced technology products overall. An increment to manufacturing production in the U.S. creates more economic activity both within and outside the sector than does a similar increment in any other major sector [2].
  - If we're going to continue to pioneer cutting-edge products or technologies, there's a real basis for promoting enhanced and strengthened R&D credit for manufacturers.
2. Further incentivize the Small Business Innovation Research (SBIR) grant program for small businesses.
  - Congress should increase funding for all research agencies, thereby increasing the total investment in SBIR and other projects [3]. Insufficient grant amounts stifle progress.
    - The SBIR process goes through Phases I, II, and III. In Phase I, the initial amount they give is \$70,000, but only after a company writes the proposal. It takes at least two engineers, accountant(s), technical writer(s), and project manager(s) in order to write a proposal. Companies spend a lot of money in the beginning just to win \$70,000. And then of course they get audited, so they have to deal with the IRS rules that apply (see second bullet below).
    - In Phase II agencies will give up to \$500,000. It's usually incremental, and they might even add an option that would bump it to \$750,000 if they think that the company is onto something. In Phase II the company builds a prototype. In Phase III they are supposed to commercialize. And that's where, in Williams-Pyro's instance, we have to go for what's called plus-up funding; we have to go and get funding through Congress. And it's really not productive.
  - Arduous and inefficient audits are a problem. Government accounting is often confusing and somewhat contradictory [4]. The audit process can seem overwhelming [4]. Each agency has its own rules, elaborate and arbitrary. For example, the DoD and NIH are big SBIR agencies, and both are very different. And the Defense Contract Audit Agency (DCAA) is telling us they're so backed up in their audits that they're only now auditing us for 2006.

3. Preserve private industry contracting, and require government to outsource certain % of R&D funds.
  - As budgets are cut, the government-owned labs are going to start keeping more of the money that's available for R&D activity. We're going to begin to see a shift where they take the money and use it to pay their own engineers to do the development rather than contracting it out to private industry.
  - Require that government labs outsource some percentage of R&D funds. For example, at least 25% of the money has to be subcontracted out to private industry. Otherwise the ideas get stale.
  - If you listen to the top best-in-class companies talk about their approach to innovation and R&D, more companies are contracting it out because they've learned from the iPhone example: when you open up to other people out there, you get other ideas that you would've never thought of.
4. Revise government's policy related to outsourced R&D IP protection.
  - Just because the government pays a small business to take an idea, manufacture the item, and sell it to the government, they immediately think they should own all the IP. How does that encourage companies to do more research and development?
  - We should look at some kind of a shared IP model where the contractors and the companies, whether they are large or small, can benefit outside of the US government programs using that technology.
  - In terms of IP, some companies put so much of their know-how into developing processes—how they're going to build parts—and in some cases, there's nothing that prohibits customers from taking that and sharing it.

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## **Manufacturing Council Comments on Supply Chain Concerns Among Manufacturers on the Council**

As production moves off shore, along with it go not only the engineering and also increasingly the design skills, but also the critical raw materials that are important to the manufacture of goods here in America. Since the Industrial Revolution, American manufacturing has always been increasingly improving our ability to supply vertically throughout the supply chain. In the last decade that ability has been severely eroded. While we have not done extensive research on the impact, the following stories from Council members illustrate the concern we have for not only our uninterrupted supply of materials so that we can continue to produce product, but illustrate the degree to which our final pricing is increasingly dependent on foreign sources of raw materials. Since materials are often 50% or more of the price of manufactured goods this development needs urgent evaluation by the Department of Commerce to determine the extent to which this condition could drive further price escalation forcing more loss of jobs. In addition this condition causes a strategic concern that for the first time in our industrial history we do not have the ability to vertically integrate the supply chain in the event of a national emergency.

- One Council member related: *We purchase a type of deep draw copper coil and sheet. Over the last 2 years we have gone from 3 suppliers (one primary and two secondary) to 1. Two have gone out of business, and in the last month our only supplier has given us a warning that they might be unable to procure our material. After a discussion we were told that the mills are running 16 weeks lead time due to shortage of employees and they might be able to get it, if we order a large quantity and can wait. As anyone in manufacturing will know, customers are running on a low inventory, and want items quick. We are desperately looking for alternate suppliers, but this seems to be a common problem, which we get the same response. We have been purchasing this type of Copper for 70+ years and now are having problems for no reason. One company refused to even quote until the dust settled from the earth quake in Chile!*
- Another Council member reported that in their area a manufacturer had the following problem: *We purchase 4 mil thick electrical steel. We are now down to 1 factory that produces this product; and they are located in Russia. The supply chain is now very long and unreliable. We also require heavy gauge copper extrusions that we used to have supplied from Canada, but that last North American factory just closed so our single source of this critical supply now comes only from China.*
- A Council member reports: *There used to be 5 North American suppliers of plastic injection molding machinery. This past year the last remaining supplier has just exited from bankruptcy.*
- A Council member related that: *Notices of interruption in supply of plastic raw materials have been received in the month of March, 2010, for the first time in years signaling a further disruption could be coming even in these soft economic times. This illustrates the need for a national debate on whether there should be a higher and better use of oil and natural gas than simply burning it for fuel. Rather if it is*



*being used for making a durable good that can be recycled and in the end burned for its BTU value, is this not more valuable than simply burning.*

- *A Council member explained that: With regards to scrap metal, [U.S.] yearly export trends are growing significantly while other countries (i.e. Korea, China, Russia, India, etc.) either restrict their own scrap or iron ore exports. Similar examples occur in coal where countries such as India, Russia and China restrict raw material exports of all kinds yet they come here and buy coal mines containing hard to find coking coal and steam coal.*
- *Another Council member stated: Tungsten carbide production accounts for approximately 20% of our business. Producing this amount of tungsten carbide product requires 500 kilograms per month of a specific grade of nickel powder. The grade and quality of nickel required to meet our finished product standards comes from the Vale-Inco company, which mines the nickel ore in Canada and processes it into powder in England. The workers at the Vale-Inco mine in Canada have been on strike since July 2009. In January 2010, our supplier informed us that he was out of the grade of Vale-Inco nickel powder we need. We quickly scoured the supplier network and bought all of our grade of Vale-Inco powder we could find. We now have a three-month supply on hand and are testing this grade of nickel powder produced by other suppliers to see if any of it meets our quality requirements. The Vale-Inco processing plant in Canada continues to process the large amount of nickel ore it has on hand, but the demand for the special grade of nickel powder used by our industry is very small compared to the demand for other grades used by the steel industry and others; so Vale-Inco is not producing the grade we need. The problem is one of supply; there is no more of the grade of Vale-Inco nickel powder we need available. We hope testing the product from other suppliers provides us with another acceptable source, though other suppliers do not provide the same high quality as Vale-Inco. Prices have not been affected yet, but a price increase is sure to occur. We expect to pass the increase on to our customers.*