The Manufacturing Council

WASHINGTON, D.C. 20230

March 22, 2006

Dear Mr. Secretary,

On September 27, 2005, Deputy Secretary of Commerce David Sampson, tasked The Manufacturing Council to determine the "top action items" of the manufacturing community for the year ahead. Below are the Council's recommended items:

INNOVATION AND WORKFORCE DEVELOPMENT

In today's increasingly competitive global economy, the United States must continue to lead the world in support of research and development. A climate that fosters research and development innovation in all areas, including technology, process and advancement of knowledge, will be the key to maintaining a global competitive advantage for U.S. manufacturers and insuring our national security. The Federal Government role in scientific research is critical, supporting the development of new technologies that improve our standard of living and well-being. The President has recently announced The American Competitiveness Initiative to encourage innovation and strengthen U.S. competitiveness. The Council supports this initiative and recommends Congress and the administration take the following actions to create policies and incentives to encourage R&D, including innovation and technology applications.

As innovations are incorporated into the manufacturing workplace, production systems are becoming increasingly technology-intensive, there are fewer low-skilled jobs in manufacturing. The life cycle of technologies are shortening, requiring frequent training and skill upgrading. Continuous improvement and waste elimination are becoming required core disciplines. In addition, the separation of disciplines (e.g, mechanical engineering, electronics, etc.) requires cross training of employees. The turbulence of the market is also creating frequent career changes among workers. To support the development and continuous learning of a skilled workforce, the workforce development system must be adaptable, innovative and well connected to the manufacturing world.

Suggested Actions:

- Make permanent the federal R&D tax credit and enhance the level of credit for energy efficiency and energy security R&D initiatives. Develop complimentary R&D tax credits at the state level.
- Provide enhanced incentives for new and ongoing investment in advanced technologies to improve U.S. based manufacturers' global competitiveness and strengthen our national security.
- Enhance and expand worker training and retraining initiatives for both incumbent and emerging workers, particularly through public-private and federal, state and local partnerships.
- Improve and increase funding for displaced workers through retraining programs to provide them with the necessary skills for successful job transitions
- Provide federal and state redevelopment grants to help communities maintain manufacturing base and overall economic health in the event of a plant and industry closing
- Build on education initiatives, including a hands-on approach, to ensure successful preparation for placement in the high tech manufacturing workforce of today

TRADE AGENDA

As the United States pursues its agenda of multilateral trade liberalization (especially through the current WTO Doha Round negotiations), it is imperative that manufacturing now becomes the focus. The Doha Round through 2006 must achieve the broadest and deepest possible reductions in the tariff and non-tariff barriers currently impeding American manufacturing exports. In addition to Doha progress, the Administration must continue on its current path of actively encouraging China to further liberalize its currency policy rather than keeping it pegged to the US dollar. Additionally, progress on international protection of intellectual property for US companies has been disappointing, particularly with China. Secretary Gutierrez has made this a priority.

Suggested Actions:

- Aggressive tariff reductions through sectoral free trade agreements in chemicals and machinery
- Insistence on a reduction of non-tariff barriers focusing on customs clearances
- Improve IPR enforcement by increasing criminal prosecutions
- Enhance law enforcement cooperation between U.S. and Chinese authorities and reduce exports of goods that infringe those rights

TAX REFORM

As global competition continues to increase U.S. manufacturers must increase investment and contain increasing costs to maintain the U.S. manufacturing base. Rather than encourage manufacturing investment, the U.S. tax structure (federal and state), contributes to uncertainty and increases manufacturing's cost burden through capital restructurings and arbitrary restrictions on the use of legitimate losses, deductions, and credits.

Suggested Actions

- Corporate alternative minimum tax (AMT) and individual AMT as it applies to pass-throughs from Partnerships or LLCs should be repealed to eliminate elements that disproportionately burden manufacturing. Recommended changes include:
    - Allow for accelerated depreciation in AMT calculations.
    - Allow R&D credits to be used to offset a taxpayer's AMT liability.
    - Allow individual AMT deductions for state taxes paid on business income. Pass through entities are being taxed on tax by not allowing this deduction.
- Make permanent the federal R&D tax credit and enhance the level of credit for energy efficiency and energy security R&D initiatives. Develop complimentary R&D tax credits at the state level.
- In response to recent Supreme Court rulings, pass Federal legislation (Economic Development Act pending) that allows states to offer tax credits if they so choose and clarify that Congress does not view these credits as an inappropriate burden on interstate commerce.
- Make permanent the current capital gains tax rate and eliminate the "Death Tax". Both of these taxes place burdens on investment profits that cause uncertainty and unnecessary capital restructurings due to tax rate changes or investor deaths.
- Encourage states and local governments to eliminate taxes on machinery and equipment and other personal property. This tax disproportionally burdens manufacturers and acts as a disincentive to making investments.
- Congress should make the Subpart F active financing exception permanent. The Subpart F rules, in particular, put a U.S. company competing in a foreign country at a competitive disadvantage to a foreign company competing in the same foreign country.

REGULATORY AND STRUCTURAL COSTS

An onerous and uncertain regulatory environment can always impede on business growth, and add to the structural costs of doing business. Recently, a number of pending decisions were resolved concerning OSHA's Hexavalent Chromium Rule and National Ambient Air Quality Standards. However, Manufacturers regularly identify the Administration of the Family and Medical Act (FMLA) as the number one human resource challenge, especially in light of the Supreme Court's decision in Ragsdale v. Wolverine World Wide, Inc., where the Court invalidated the penalty provision found in Section 825.700(a) of the regulations. Additionally, as regulatory rules change, international harmonization is imperative to easing the burden of regulation and should be taken into account when promulgating or making changes to regulations.

Suggested Actions:

- Advocate the release revised Family & Medical Leave Act (FMLA) regulations
- Work to implement the commitment made at the June 2005 U.S.-EU Summit to establish a senior-level regulatory forum to take international harmonization into account when promulgating or making changes to regulations.

ENERGY COSTS

Manufacturers reliance on a reliable, reasonably-priced energy supply is as much a competitiveness issue as access to raw materials and the impact of labor and regulatory costs. Development of alternative energy resources – as outlined in the 2005 Energy Policy Act -- is critical to meeting long-term energy needs. As we consider and work to bring alternatives online, however, manufacturers still must have access to known energy resources to meet current needs. Currently, 85 percent of all federally controlled coastal waters are off-limits to energy production. Access to the energy-rich Outer Continental Shelf (OCS) was restricted by the federal government nearly half a century ago. With more than 420 trillion cubic feet of technically recoverable natural gas resources and 102 billion barrels of oil, the U.S. has just off its shores the capability to replace current Persian Gulf imports for nearly 60 years. Modern exploration and recovery methods offer greater assurance of accessing supplies with minimal environmental risk.

Manufacturers' need for increased availability of natural gas is approaching a critical stage. Not only is natural gas needed to produce electricity, it's a vital feedstock used in production of plastics, chemicals, fertilizer, pharmaceuticals and more. With demand continuing to increase, access to reasonably priced energy – primarily natural gas – is an increasingly critical factor in manufacturing operations.

Suggested Actions:

- Increase exploration of the Outer Continental Shelf by encouraging the Department of the Interior to open up the OCS to oil and natural gas exploration and development, and support legislation to allow expanded exploration in the Outer Continental Shelf.
- Encourage manufacturers to educate their employees on the critical need for new supplies of natural gas.

Sincerely,

Don Wainwright,
Chairman

Karen Buchwald Wright,
Vice Chair

Kellie Johnson

Fred Keller

Jim McGregor

Wayne W. Murdy

Michael R. Nowak

Jim Owens

Charlie P. Pizzi

Jim Padilla

D. Harding Stowe

Markos Tambakeras

Edward F. Voboril