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GOOD LUCK COMPETING AGAINST CHINESE LABOR COSTS

Mfg. Job Growth In China Is Headed Up, Not Down; 109 Million Mfg. Workers

Job growth in China's manufacturing sector is not declining, as was widely reported by the Conference Board last June.

If manufacturing jobs were declining in China, where manufacturing is growing, then it would not be so bad if they were also declining in the United States, economists and policy people have repeatedly argued. But that is not the case, according to a report commissioned by the U.S. Bureau of Labor Statistics.

"The renewed increase in China's manufacturing employment that began in 2002 or before is fueled by private corporations and businesses, both foreign funded and domestically own," writes Judith Banister. Manufacturing employment did take a dip in the late 1990s, due mostly to the downsizing of so many unproductive state-owned enterprises.

The number of people working in the manufacturing sector in China is also far higher than most analysts have estimated, according to Banister, a consultant working with Javelin Investments in Beijing, China. At least 109 million Chinese are working in the manufacturing sector, far more than the 83 million reported last year. Banister says 109 million is a conservative number.

By comparison, there are 14 million manufacturing workers in the United States and 53 million in the G-7 countries combined.

might not be reporting millions of other workers as a means to avoid paying taxes.

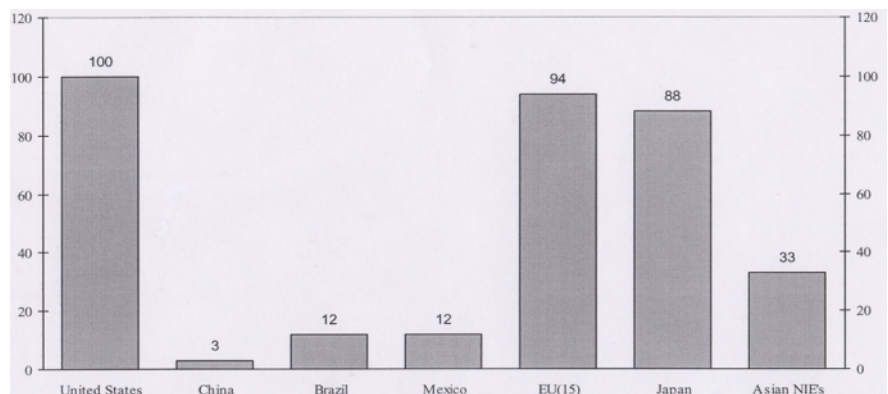
"Both foreign and domestic employers who are eager to keep down their labor costs and statistical reporting requirements may prefer that their export-processing factories be classified as rural or TVE (village and town enterprises)," writes Banister in a report titled: "Manufacturing Employment and Compensation in China." When classified as such, they fall under the jurisdiction of the Chinese Ministry of Agriculture, as opposed to its Ministry of Labor. "Under such classification, they need meet few, if any, requirements to pay social insurance and other welfare obligations for their hundreds or thousands of production and hand

(Continued on page four)

BY RICHARD McCORMACK

Millions of migrant Chinese workers are not counted as part of 109 million manufacturing workers. Moreover, companies in China

Average Hourly Compensation Costs Of Manufacturing Workers In Selected Economies and Regions, 2002; U.S.=100 (\$21.11)



(EU 15 are the European Union member countries prior to the expansion to 25 countries on May 1, 2004; Asian NIE's are the newly industrialized economies of Hong Kong, Korea, Singapore and Taiwan. Source: Judith Banister, Beijing Javelin Investment Consulting Co. for the U.S. Bureau of Labor Statistics.)

Don't Expect Boost In R&D, Frist's Budget Chief Tells AAAS

BY KEN JACOBSON

The chief budget adviser to Senate Majority Leader Bill Frist (R-Tenn.) has warned that next year's funding for President Bush's American Competitiveness Initiative (ACI) is in doubt amid the current "standoff in the Congress over the 2007 budget."

According to William Hoagland, director for budget and appropriations in Frist's office, additional financing for basic research in the physical sciences and engineering and an extension of the recently expired research & experimentation (R&E) tax credit might not occur during this "extremely difficult political year."

Included in the \$137.2 billion in federal R&D funding proposed by the administration for Fiscal Year 2007 was to be a combined boost of \$910 million, or 9.3 percent, for three agencies: the National Science Foundation (NSF), the National Institute of Standards and Technology (NIST) and the Office of Science of the Department of Energy (DOE). "I would like to [be able to] assure you that the president's increased R&D request for NSF, NIST and DOE-Science will materialize," Hoagland told those attending the American Association for the Advancement of Science's annual Science & Technology Policy Forum in Washington, D.C., on April 20.

But "in this environment it is unlikely, if it means that the restraints and reductions assumed in the other areas of the non-defense budget are to be followed," he stated.

With only 54 legislative days left before the October recess, a dark cloud looms on the horizon. Should the two houses of Congress fail to agree on a budget resolution for 2007, then the Senate's rules will place its appropriators under enormous constraint. The Senate has passed its version of a budget resolution (S.Con.Res. 83), but contentious debate on the House's (H.Con.Res. 376) continues.

Without agreement, next year's budget will face a ceiling of \$866 billion for discretionary spending — \$7 billion below the president's request for 2007 and \$20-plus billion below the level adopted by the Senate in its own resolution. The \$866 billion figure is "very, very tight," said Hoagland.

Meanwhile, though the extension of the R&E tax credit initially "was to be a component" of the 2006 Tax Reconciliation bill (H.R. 4297, S. 2020) — which Hoagland expects will emerge from a House-Senate conference later this month — "nuances of the budget process" have kept it out of that legislation.

So if the R&E tax credit, which lapsed in December 2005, is to be extended this year, "it will have to be extended as a free-standing bill," Hoagland explained. Considering the rapid

approach of the mid-term elections, he rated this proposition as "risky." Whether it comes through this year or not, renewal of the R&E tax credit is critical to ACI's success in

the long run: The administration projects it will provide \$86.4 billion of the initiative's 10-year total resources of \$136.4 billion (*MTN*, Feb. 17, p.1).

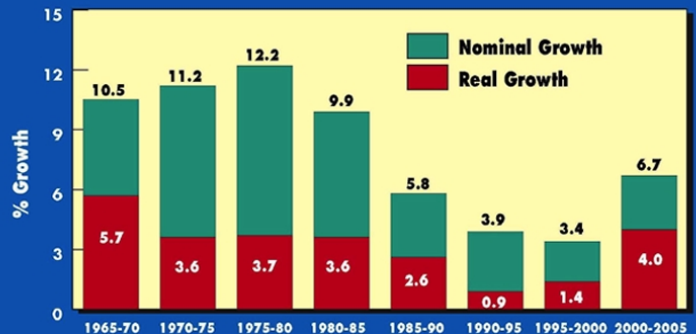
Bigger budgets for NSF, NIST and DOE's Office of Science, to account for the other \$50 billion attributed to ACI, are hardly less important to the initiative's viability — and Hoagland doesn't see the requisite funds becoming any easier to obtain as the years go by.

This year's budget faces exceptional hurdles. For one thing, the departure of the top two officials at the Office of Management and Budget, Hoagland pointed out, has left "a completely new lead administration budget team — individuals who were not there at the launch back in February — to defend the president's 2007 request."

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Growth in Total Outlays

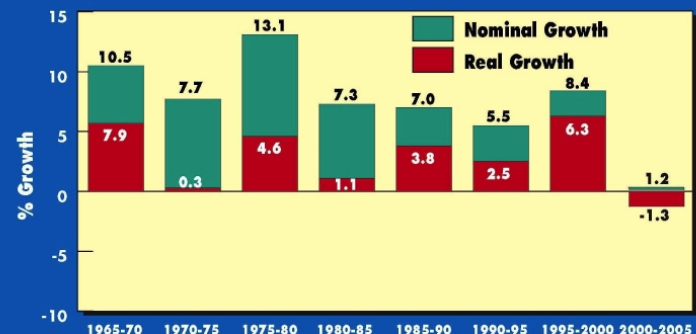
Avg. Annual Growth, 5-year periods (1965 - 2005)



Prepared by: Office of the Majority Leader, January 2006.

Growth in Total Revenues

Avg. Annual Growth, 5-year periods (1965 - 2005)



Prepared by: Office of the Majority Leader, January 2006.

Hundreds Of Defense Contractors Are Using Illegal Foreign Metals In Weapons Systems

Hundreds of contractors are supplying the Department of Defense with products that are made with specialty metals from foreign producers, breaking a "Buy American" law that has been on the books for 65 years.

As of April 27, 274 companies have reported to the Defense Department that they are or could be providing parts, components and systems that are not in compliance with the so-called "Specialty Metals" provision of the 1941 "Berry Amendment," according to a document provided by the Defense Contract Management Agency (DCMA) to *Manufacturing & Technology News* through the Freedom of Information Act.

The requirement that contractors use only U.S.-made metals, which became part of the Berry Amendment in 1972, was reinforced in a recent interim guidance from DCMA. It is stirring a heated controversy within the defense contracting community, due to the globalization of their supply chains, and DOD's decision to strictly uphold the law.

The 274 suppliers have reported thousands of non-complying parts, ranging from basic fasteners to semiconductors, light emitting diodes, capacitors, valves, piston rings, actuators and bearings, among others. The number of companies is rising every week.

"While we suspect that 274 suppliers represents only a sample of a larger population, [the number is] significant in that every non-compliance requires remedial action," writes a DCMA spokesman in an e-mail response to questions submitted by *MTN*. "Consider this number of suppliers in the context of about 16,000 total contractors that DCMA oversees; this represents a significant workload for our agency."

Under its "Interim Instruction: Non Compliance with the Preference for Domestic Specialty Metals Clause" issued earlier this year, DCMA's 11,000 contracting officers must determine what type of remedial action it should take

BY RICHARD McCORMACK

against non-complying suppliers. They can require that companies replace the non-conforming parts with those made by U.S. producers, or they can withhold payments for the delivered value of the parts in question.

"Upon receipt of a contractor's notification of non-compliance, DCMA will cease acceptance of the non-conforming product until such time as conditions enumerated in the DCMA Interim Instruction are met," says the statement from DCMA. Some contractors have reported that withholds can be as much as 20,000 times the original price of the raw specialty steel used in the non-complying parts.

The issue continues to reverberate through the defense contracting community.

The Department of Defense has sent proposed legislation to the Senate and House Armed Services Committees to help ameliorate the situation. But, as usual with anything related to the Berry Amendment, a legislative fix is controversial, with specialty steel suppliers defending their turf. Any changes in the Berry Amendment could ignite the wrath of other industrial sectors that could be adversely impacted, especially textiles.

Proposed changes to the law have

touched a nerve in the specialty steel industry. The reporting by so many companies to DCMA of so many non-complying parts is seen by some as a means to overwhelm DOD, thereby forcing it to allow companies to start supplying more products made with cheaper and, contractors argue, more available and higher quality, foreign content. Defense contractors are "trying to get a foot in the door to overhaul the Berry Amendment, which has been debated and upheld for decades," says one metals industry executive.

DOD's proposal, entitled "Clarification of Domestic Source and Content Requirements," would enable a new era of "civil-military integration in the manufacturing processes of the Department's suppliers," according to a DOD analysis accompanying the bill language. "It would allow suppliers of missiles and space systems, ships, tank-automotive items, weapons and ammunition or components thereof, at the prime and subcontractor levels, to use commingled foreign and domestic specialty metals supplies so long as the contractor...procures an equivalent amount (in terms of quantity and quality) of domestically melted specialty steel."

The new law would allow suppliers to do away with separate production lines for military and commercial items. "As a result, the provision would eliminate the administrative and costly burden that suppliers face in ensuring that items and components designed for the Department's procurements include only specialty metal melted in the United States, while ensuring that the domestic industry is protected by requiring the purchase of an equivalent amount of domestically produced specialty metals. Eliminating the need for separate production lines for commercial and military products

(Continued on page six)

China's Mfg. Employment... (From page one)

assembly workers," writes Banister.

The collection of employment data is also concentrated on the rapidly declining state-owned enterprises, "giving short shrift to the not-yet adequately collected or published statistics on the thriving, growing, dynamic private manufacturing sector."

There is no shortage of workers in China and a steady stream of people from the countryside means the country will have a low-cost labor force for decades to come. There are as many as 200 million "surplus" workers who are jobless in China's agricultural sector, says Banister's report. "As agriculture modernizes in China during the coming decades, hundreds of millions of agricultural workers will need other kinds of employment....Up to 500 million peasants are expected to migrate to cities in search of factory work over the next two decades."

Moreover, there are plenty of unemployed workers in the cities seeking better jobs. The unemployment rate in China's rust belt in the northeast is 40 percent. Some estimate the true unemployment rate in China is 25 percent.

As a result, Chinese workers remain among the lowest paid in the world. The average total labor compensation for a Chinese manufacturing worker is ~~57 cents per hour~~, with many making far less than that, benefits included.

An average Chinese wage of \$0.57 per hour — or \$104 per month — is about 3 percent of the average U.S. manufacturing worker's wage, according to data collected by Banister. "Equally as striking, regional competitors in the newly industrialized economies of Asia had, on average, manufacturing labor costs more than 10 times those for China's manufacturing workers, and Mexico and Brazil had manufacturing labor costs about four times those for China's manufacturing employees."

The average hourly wage for a worker in a rural setting was \$0.41 per hour, and migrant workers are making even less than that.

The average annual earnings for manufacturing workers in cities were \$1,347 (11,152 yuan at the

official exchange rate) for the year 2002. Manufacturing workers in the countryside averaged \$837 (6,927 yuan) for the year. Urban manufacturing workers average 45.4 hours of work per week, "and it is...reasonable to assume that [rural] manufacturing workers average 50 hours of work per week in 2002," writes Banister.

There is a wide variation of pay among industries: textile industry workers averaged about 40 cents per hour (7,268 yuan per year), and garment workers outside of the cities "are paid less than that," according to Banister.

Medical costs are not included in the figures.

"By the end of 2002, the number of rural and small town workers with any social pension insurance was miniscule," according to Banister. "China's urban towns and rural areas have very weak or nonexistent social benefit systems for pensions, medical insurance, unemployment insurance, workers' compensation and the like. Pension and medical insurance systems paid into by employers and employees essentially do not exist in China outside of cities today."

Moreover, taxes are rarely paid, in part because of the legacy of the Maoist period from 1949 to 1978, during which time taxes were not collected. "Today, during the post Mao economic reform era, employers appear to have developed a culture of tax avoidance," writes Banister. "For example, when foreign and multinational companies come to China and attempt to acquire or set up a joint venture or merger with a (usually state-owned) Chinese company, the foreign company insists on engaging in a due diligence process to determine whether the joint venture, merger or acquisition is in the interest of its owners and shareholders. The auditors and accounting companies frequently discover that the target

company has two sets of books...The 'tax ledger' is a set of employee and financial data reported to the tax and other authorities and the 'administrative ledger' records a more accurate picture of the number of employees, their actual earnings, the true costs and income of the company, its actual profit, and more. The tax ledger is designed to

"Many domestic manufacturing concerns in China never had to buy the land for their factories."

minimize tax exposure, particularly corporate income taxes, value-added taxes, personal income taxes for employer and employees and required social benefit payments. It is believed that non-public-sector domestic Chinese enterprises avoid taxation and social benefit payments to an even greater extent than the state-owned and collective-owned enterprises."

All of this makes for a highly competitive manufacturing enterprise that has turned China into a global juggernaut, Banister argues. Low-cost workers and tax avoidance are only a few of the advantages Chinese firms have over foreign rivals. The huge size of China's market is also driving growth. The country has a thriving middle class and people want to buy manufactured goods. China also has convenient logistics located in its coastal regions, and land prices are low.

"Many domestic manufacturing concerns in China never had to buy the land for their factories," writes Banister. Land prices are reported to have declined by 70 percent in major urban areas since 1993.

The country also offers financial and tax incentives, tax holidays and a favorable currency for export. Its political and economic systems are relatively stable compared to other developing nations.

The 98-page report is located at <http://www.bls.gov/fls/chinareport.pdf>.

Report To Congress: A New Structure Is Needed To Create A 'Grand Strategy'

A broad new approach to governance and industry — a “grand strategy” — is necessary for the United States to remain a viable military and economic superpower, according to a report commissioned by Rep. Don Manzullo (D-Ill.), chairman of the House Small Business Committee. The ability of the United States to shape world events and maintain its national security is dependent upon a strong industrial base. But that base is eroding, directly impacting the military industrial base, and there is little acknowledgment of the change.

“The only way to influence a system is to understand its unique characteristics and capabilities and then to act on that knowledge by learning and adapting faster than competing systems,” according to the report entitled “2006 Industrial Base Study,” prepared by Sheila Ronis, president of The University Group and director of the MBA program at Walsh College in Troy, Mich. “Those that adapt the fastest will win in the end.”

To strengthen the industrial base, the report recommends that Congress create a new “super committee populated with senior members of all committees of Congress” to develop solutions that require coordination from all of the agencies of the federal government. This committee would take “a comprehensive look at all of [the] strategic issues as a whole,” writes Ronis, a systems scientist, which she describes as somebody trained “to look across the entire spectrum of issues and identify their interdependence and interactions to better understand the whole and its behavior.”

Each of the strategic issues impacting U.S. security “is significant by itself, but represents only one piece of a much larger puzzle,” she writes. “Taken in a vacuum, one can only see a partial reason for America’s slowly eroding lead in key industries and the inevitable vulnerabilities this causes.”

Congress should also establish an independent, nonpartisan National Strategy Center housed within the National Defense University at the Department of Defense. “The center will annually produce a National Strategic Plan to help senior government and congressional policymakers plan for the future by integrating the economic, diplomatic and military elements of national power and the role the U.S. will play in the future (including how we will remain a superpower).” This plan will be developed “within the context of a visioning center that will continuously develop 360-degree scenarios of the future. This allows policymakers to plan for an integrated future across the entire government spectrum, including Congress.”

The center would have only two responsibilities: to develop the National Strategic Plan and to “educate policy leaders on integration techniques to develop a National Grand Strategy.”

Other recommendations include:

- Funding of programs at the Commerce and Defense Departments aimed at regaining U.S. manufacturing

pro prowess, including the creation of an Advanced Manufacturing/Distributed Manufacturing Initiative at the National Institute of Standards and Technology.

- Making robust investments in research and development, manufacturing and alternative energy.
- Analyzing the Defense Department’s industrial supply chains “down to the very bottom to ensure knowledge of where their supplies are coming from.”
- Commissioning a study by the National Academies of Sciences to benchmark international, states’ and regions’ science and technology best practices and economic development.

- Redirecting funding from the national laboratory system to support higher education and U.S. industry. New mechanisms should be created to encourage labs to work with industry. “It’s imperative to make the use of Cooperative Research and Development Agreements much easier,” says the study.

- Strengthening the Small Business Innovation Research Phase III program aimed at commercializing new technologies.

- Providing additional funding for the education of scientists, engineers, linguists and diplomats.

- Rethinking issues regarding trade, defense offsets, and the Committee on Foreign Investment in the United States run by the Dept. of Treasury. There needs to be a better understanding of policies “that encourage offshoring of jobs and technologies,” says the study. “Develop a grand strategy for China.”

- Developing new strategies to deal with health care costs, including the creation of a “Manufacturing Extension Partnership” type of program aimed at transferring commercial best cost practices to health care providers, including TQM, lean Six Sigma and the effective use of information technologies.

Industry also has to change. Quarterly earnings statements should come to an end. “Wall Street must understand the need to invest in the future even when the payback will be years in the making,” says the strategy document. “The current situation encourages no investments in the future, providing no returns in innovation. This is leading many publicly traded companies in the wrong direction, as well as encouraging the offshoring of many jobs, including high-value-added jobs.”

For a copy of the 25-page report, send an e-mail to sronis@walshcollege.edu.

Funds should be redirected from the national labs to support higher education and U.S. industry.

Illegal Metals... (Continued from page three)

may encourage additional suppliers to participate in the Department's procurements and ultimately, result in lower costs to the Department."

The proposal would change the law so that items made with a small amount of foreign specialty steel can be provided to DOD without penalty.

The DOD proposal also calls for the elimination of the requirement that it buy only U.S.-made stainless steel flatware because it is a "commercial commodity little produced in the United States after Oneida Ltd. ceased its domestic manufacturing operations," says DOD.

In the food category, DOD's proposal would change the Berry

Amendment to cover only meals ready to eat, so that it can provide its troops "with the expected assortment of fresh food products to comply with this law."

Virtually everything about the defense contracting business has changed since the Buy American laws were enacted, say defense industry executives. Congress has told DOD to purchase dual-use and commercial off-the-shelf technologies. Supply chains have become more global and many of these items are no longer made in the United States.

National Semiconductor and Texas Instruments have told DOD that their products may not be in

compliance with the Berry Amendment and that there is little they can or will do about it. DOD is considering issuing a blanket "domestic non-availability determination" waiver for various product categories, according to industry sources.

Manufacturing companies that use specialty steel are girding for battle with their domestic steel suppliers. They think the time has come for them to take the upper hand against domestic producers of steel, at a time when, they say, those producers are making record profits. If manufacturers can spur a debate on the Specialty Steel provision, they believe they now have the political power to win the battle in Congress.

Suppliers Disclosing To DCMA Actual Or Potential Noncompliance With The Specialty Steel Provision Of The Berry Amendment (As Of April 27, 2006)

Abscoa Industries Inc.: Ball bearing, bolt, bushing, cap screw, cotter pin, fitting, piston ring, scrapper screw, washer.

Accurate Precision Fasteners Inc.: Metal piece parts utilizing raw materials from various sources including foreign suppliers for pins, screws, washers, setscrews, nuts, inserts and standoffs.

Ace Tube Bending: Reducer.

Aero Bending: TBD.

Aero Controlex: Valve Assembly.

Aero Mfg.: TBD.

Aero Spring Co.: Reinforcing screen, spring.

Aerodyne Precision: Rotor.

Aero-Glenn, Inc.: MS/NAS screws, MS/NAS washers, nuts, inserts, misc. hardware, special manufactured part numbers, stainless and high-strength steel components.

Aero-Space Southwest: TBD.

Aerospace Supply: Swage Pin.

Aerospace Systems: TBD.

Agilent Technologies, Inc.: Test equipment and support hardware — pulse generator, power meter, power sensor, calibration kit, noise source, attenuator.

Akro Fireguard: TBD.

Alcoa Fastening Systems: TBD.

Alcoa Global Fasteners Inc.: TBD.

Allen Aircraft Products, Inc.: TBD.

America II Electronics, Inc.: TBD.

Analog Devices: TBD.

Anixter Pentacon: Aerospace fasteners and hardware; fasteners and hardware — screws, lugs, standoffs, terminals, jackscrews, helicoils, inserts, rivets, nuts, bolts.

Anwright: Locking swage pin, retainer.

Applied Engineering Products: TBD.

ARCO TECH-Honeywell: F100 pump.

Argo-Tech: Wire mesh.

Arrow Electronics: Electronic components (ICs, microcircuits, electromechanical, connectors, passive) and computer products (board and system level). Categories include: ICs, switches, LCD displays, LEDs, diodes, wire, power supplies, capacitors, resistors, inducers, ASICs, etc.

Arrow Zues: Microswitch.

Arrowhead Products: Various parts supplied to Boeing rotorcraft for V-22.

Associated Spring: TBD.

Astrolab, Inc.: TBD.

Asturies Mfg.: Retainer ring.

Ausco Inc.: TBD.

Avnet Electronics Marketing: Electronic components (microcircuits, capacitors, resistors, connectors, semiconductors, passives, interconnect and electromechanical).

Avnet BTC, Laguna Spacecraft: TBD.

B&B Spring Co.: Springs (helical, pilot and ball).

B&E: Tie rod fan casting.

B.T. Crellin Machine Co.: Spacer.

Babcock Inc.: TBD.

BAL Seal Engineering Co.: Seal.

Bell Helicopter Textron Inc.: Various components from their suppliers used in helicopters.

Bisco: Fasteners and hardware (screws, lugs, standoffs, terminals, jackscrews, helicoils, inserts); military hardware and components.

Boeing IDS-Huntsville: 22 fasteners and one bolt on the thermal valve control units in the boost vehicle on GMD program and screws and fasteners on the EKV on GMD program.

Boeing Rotorcraft - Philadelphia: Various parts contained on MH-47G aircraft from Parker Aerospace and WESCO.

Bora Engineering: Body, washer.

Brack Mfg. Co.: Actuator, spring retainer, wire orifice arm.

BT Crellin: Rivet.

BTC Electronics: Connector.

Busak & Shambam: Piston ring.

C&H Machine: Screw, pin, plug.

C&S Machine Products: Spool.

Cable Specialties: Lock wire.

Cal-Draulics: Check valve.

Calmark Inc.: TBD.

Canfield Electronics: TBD.

Captor Corp.: TBD.

(Continued on page seven)

Noncompliance... (From page six)

- Cardon Mfg.:** Pin and seat spring.
Castle Metals: TBD.
CDL Springs: Auto pilot rudder actuator, elevator actuator.
CDP Fastener Group: Fasteners and hardware (screws, lugs, standoffs, terminals, jackscrews, helicoils, inserts); Military/aerospace fasteners — nuts, bolts, screws, etc.
Century Fastener: Bearing balls, screws.
Chanlar Wire Products: Wire.
Cherry Textron: MS90353 and MS90354 blind bolt series; obtained wire that was melted in Asia.
Chrissair: Aircraft fluid control components.
Circle Seal Controls: TBD.
Clipper J.M. Corp.: Shaft seal.
Collins: Auto pilot rudder actuator.
Comptronics: TBD.
Control Motion: Seal (thread).
Corbell Enterprises: Fitting flanged D Port P/N 3921414-108.
Corland: Fasteners and hardware: screws, springs, washers, lugs, standoffs, terminals, jackscrews, etc.
Corland Co.: TBD.
Cres: Nut.
Crescent Manufacturing: TBD.
Crestview Aerospace: Hardware used on Boeing P/N 114S2623-8 for H-47.
Crissair Inc.: TBD.
Crissair Products: Valves, restrictors.
Crown Valley: Bushing.
D.B. Roberts Company: Fasteners and Hardware: grade 8 steel, 300M, 4130, 4140, 4340; all types of stainless.
David Byrnes: Feedback spring, feedback wand.
Digi-Key: TBD.
EDO Corp.: TBD.
Ejay Filtration: Filter.
Endicott Precision Inc.: TBD.
ETA Global: Auto pilot rudder actuator, elevator actuator; bolt, lockwire, rivet, screw, pin, washer.
Excel Mfg. Inc.: Swage pin.
Falcon Electronics: TBD.
Fastener Tool: Cap screw nut.
Ferco Tech: Block clamp bracket.
Floorstock: Locking nut, cotter pin.
Formsprag LLC: Clutch components.
Garrett Precision: Transfer tube.
GDAIS Twin Cities: Various parts supplied to Boeing rotorcraft for V-22.
GE Supply Logistics, LLC: Shipping cover, elbow connector, insert, nut, spring pin, dowel pin, retaining pin, rivet, screw, washer, wire.
GE-Aviation: Various parts supplied by vendors.
GKN Westland Aerospace: Various ship-set components for HH-60L, MH-60R, UH-60L, MH-60S, UH-60M aircraft.
Goodrich: Aircraft.
Goodrich Corp. Actuation Systems: Procures subcomponent hardware-metal piece parts from Accurate Precision Fasteners Inc.: pins, screws, washers, setscrews, nuts, inserts, standoffs utilizing raw materials from various sources including foreign suppliers.
Hamilton Sundstrand Corp.: Purchased components used in filter and clutch assemblies.
Hardware Specialty Co.: Fasteners and hardware — screws, lugs, standoffs, terminals, jackscrews, helicoils, inserts.
Hartzell Propeller: TBD.
Heim: Bearings.
Hemphill Spring: Spring, washer.
Hexcel Corp.: Non-compliance relates to certain bolts and their constituent wire supplied to Hexcel by Wesco that impact the UH-60L aircraft.
Hi-Rel: Pin connector.
Honeywell: Fuel Control.
Honeywell Defense and Space Surface Systems: Wire mesh used to make a filter (P/N 2540333) used in the fuel control assembly on the AGT 1500 engine.
Honeywell ES&SP: Fasteners.
Honeywell ESA Tempe: Fuel filters and screens.
Honeywell Hardware Products Group: Bolts used in the OH-58D Transmission.
Honeywell International: TBD.
Honeywell Tucson: Various parts supplied to Boeing rotorcraft for V-22.
Honeywell-Phoenix: TBD.
Hoosier Spring Co: TBD.
HR Textron: Various parts supplied to MDHC (Boeing) (retainer orifice, tube filter); valve.
Huck Manufacturing, a division of Alcoa: MS90353 and MS90354 blind bolt series; obtained wire that was melted in Asia.
IMC Magnetics: Filter, plate, seat, spacer.
Industrial Engineering Co.: TBD.
Industrial Tectonic, a division of Roller Bearing Co.: TBD.
Integrity Fasteners: All types of commercial grade and mil-spec type fasteners.
Interconnect Devices: TBD.
Jacon Fasteners: TBD.
Jade Manufacturing: TBD.
Jaimaica Bearing: TBD.
Jay Cee Fasteners Inc.: Fasteners and hardware.
Jaycon Fasteners: Screw, cap, socket head.
John Evans Sons Inc.: Return spring.
Johnson Precision: TBD.
JT Manufacturing Inc: TBD.
Kavlico: Transducer.
Kaydon Bearing Division: Foreign source material used in spares and repair parts.
Keith Products LP: TBD.
Keithley: Unknown at this time. (Continued on page eight)

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Noncompliance... (From page seven)

- Kimberly and NTW Machine:** TBD.
Kimberly Machine Inc.: Pin.
L3-Interstate Electronics: TBD.
Laguna Components: Connector.
Lee Co.: TBD.
Lee Spring: Springs.
Linear Technology: TBD.
Lockheed Martin: Subsystems for E-2D Advanced Hawkeye.
Lockheed Martin Missiles and Fire Control, Orlando:
 Fasteners and electronics to be incorporated into missiles.
Lockheed Martin: MS-2 Moorestown, N.J.: Fasteners used in subassemblies.
Lord Corporation: Russian titanium used in components for the V-22 CF bearing, hub spring bearing, friction damper assemblies.
M&M Aerospace Hardware: TBD.
M/A-COM: TBD.
Magtrol Onc.: TBD.
McDonnell Douglas Helicopter Co.: Various parts supplied by vendors for incorporation into aircraft parts.
McMaster Carr: TBD.
Mech-Tronics Corp.: TBD.
Metco: Plunger and sleeve.
Metco Engineering: TBD.
MGI (Metalgraphics Inc.): Mechanical structures/parts for various programs; miscellaneous (carrier, cathode).
Microtech: Bleeder valve.
Middle River: TR synchronization kit.
Millipart Inc.: Shaft pin.
Millitech: Electro-mechanical assemblies for Navy programs, which include submarine antenna and pedestal assembly, NESP antenna and pedestal assembly, WSC-6 antenna and pedestal assembly, HDR systems. Various major sub-assemblies, attenuator.
MPD Components Inc.: TBD.
MS Inserts and Fasteners: Fasteners and hardware.
National Precision Bearing: Bearings.
National Semiconductor: TBD.
Nevron Plastics: TBD.
Newark InOne: TBD.
NGC Electronic Systems: TBD.
NGES - Litton, Woodland Hills Calif.: TBD.
Northrop Grumman AEW/EW System: Various hardware for E-2C, EA-6B, EA-18G systems.
Northrop Grumman Electronic Systems: Subsystem for EA-6B ICAP III; Subsystem for EA-18G; retainer, PWB.
Northrop Grumman ES Baltimore: Various hardware.
Northrop Grumman Integrated Systems: Various components from their suppliers.
Northrop Grumman Navigation Systems Div.: Unknown.
New York Fasteners Corp.: Fasteners and hardware: screws, lugs, standoffs, terminals, jackscrews, helicoils, inserts.
Ohmega Solenoid: Solenoid assy, screws, tube.
Orbit International: TBD.
Orbital Sciences Corporation: Suspected smelting of specialty metals in a qualifying country.
Orlando Spring: TBD.
Orlando Spring Corp.: Torsion spring, retainer ring.
Pacific Forge: Forging.
Pacific Western Technology: Fasteners and supporting hardware, stampings, custom products machined from bar.
Pall Aerospace Corporation: Stainless steel mesh; fasteners and hardware (filter element, cartridge dehydrator; filter and filtration assemblies; multiple lower assembly parts using the following higher assemblies: in-line fuel filters, pressure indicators, oil filter cover assemblies, oil filter elements, various parts supplied to Boeing rotorcraft for V-22.
Parker Aerospace: Known H-1 upgrade parts: MS15795-805 washer used in the 449-380-006-101 hydraulic pump; NAS1130-06L20D insert also used in the 449-380-006-101 hydraulic pump; various parts supplied to MDHC (Boeing), bearings, shims, springs, bolts, screws, filters,
Parker Air and Fuel Division: Valves for E-2C.
Parker Control Systems: Various parts supplied to Boeing rotorcraft for V-22: bearings, shims, springs, bolts, screws, filters, etc.
Parker CSD: Actuators for E-2C.
Parker Hannifan: Valves for outer wing panels.
Parker Hannifin Corporation: Manufacturer of motion and control components and systems; fuel valve's for EA-6B; various parts supplied to Boeing Rotorcraft for H-47. P/N 2870013-1003, 360-061-002, etc.
Parker Nichols: Aircraft engine pump.
Parker Nichols Airborne Division: TBD.
Parker Stratoflex: TBD.
PB Fasteners: Bolt Assemblies for E-2C.
PCC Schlosser: Missile fins and random rings.
Peerless Electronics: TBD.
Pentacon Aerospace: Cap screw, insert, helical coil.
Perkin-Elmer: Accumulator-J Steel.
PIC Wire and Cable: TBD.
Polymer Sealing: Spring.
Positronics: TBD.
Powell Electronics: Insulator, roller.
Pratt and Whitney: Subcontracted items purchased.
Pratt and Whitney Military Aftermarket Services: Fuel nozzles; part number 4086442.
Precision Sensors: TBD.
Premier Metal Products: TBD.
PTI: Various parts supplied to MDHC (Boeing) — screens, mesh packs, lockwires.
PTI Tech: Filter, filter assembly, filter element.
QP Semiconductor: Lead frames, metal cans, ICs.
Quality Nameplate: Nameplate.
Questron: Washer.
R&R Spring Manufacturing: TBD.
Ram Company: Coil assembly.
RAM Meter Inc: TBD.
Raytheon: CCS receivers for EA-18G.
Raytheon, Tucson: Screw.
Raytheon Corp. Electronic Warfare Systems: Vendors provided: screws, fasteners, washers, circuit cards.
Raytheon El Segundo: Various parts supplied to Boeing rotorcraft for V-22.
Raytheon IDS: TBD.
Raytheon McKinney, Texas: Various parts supplied to Boeing rotorcraft for V-22.
Raytheon Missile Systems: Suspected smelting of specialty metals in a qualifying country.
Raytheon Space and Airborne: TBD.
Raytheon Systems Ltd., Harlow: Vendors may have provided noncompliant parts: screws, pins and washers.
Raytheon Technical Services: Fasteners, screws, nuts, washers incorporated into end item assays.
Raytheon, Ft. Wayne: Suspect helicoils supplied by Kato Products.
RBC Aerospace Bearings: Rolling elements (ball, needle or roller) part of the bearings.
RBC Aircraft: TBD.
RBC Aircraft Products: TBD.
RBC Bearings: Bearing.
Richard Manno and Co.: Screw, washer, spring.
Rochester Electronics: TBD.
Rocker Industries: TBD.
Roger Ind.: Seitch assembly, magnetic seitch, crimp ring.
Roller Bearing Company: Bearings.
Rolls-Royce Corporation: Potential and actual noncompliance of subcontractor purchased components

(Continued on next page)

Most Industries Are Losing Market Share To Imports

Almost every major industrial sector in the United States has lost market share to imports over the past seven years, according to an analysis of Census Bureau data done by Alan Tonelson of the United States Business and Industry Council (USBIC). "This is the strongest evidence we've had to date that U.S. domestic manufacturing has been significantly hollowed out in dozens of industries — low tech, high tech, medium tech, whatever these labels mean," he says. "The loss of market share is up and down the manufacturing ladder."

Tonelson's analysis shows a decline of U.S. manufacturing that is "shockingly advanced," he says. Between 1997 and 2004, more than 100 major industries lost significant portions of their U.S. market share to imports. "Just as no publicly listed company is ever happy when it loses market share, that kind of news is coming to us from more than 100 industries," says Tonelson. "If more of your home market is being seized by foreign competition, that indicates that your particular industry is anything but fundamentally strong. It's a glaring sign of weakness."

Tonelson says that his analysis is the first of its kind, and is a better measure of domestic industries' health than the trade deficit figures. His numbers "compare apples to apples: the performance of products made in the United States versus products made overseas in the same U.S. market," he explains. "This is the market that domestic manufacturers should know best."

But how does Tonelson account for the fact that the Federal Reserve's industrial production numbers show that U.S. production has now exceeded the pre-recession levels of 2001? His response:

Demand for manufactured goods has been rising rapidly due to the continuing stimulus of low interest rates, skyrocketing home equity and tax cuts. The growing demand for manufactured products is being satisfied by foreign producers.

Increasing import penetration "is the sign of very seriously faltering economic competitiveness, just as it has been with the U.S. automobile industry," he argues. "It contradicts the argument that the strong dollar is the biggest trade-related problem facing domestic manufacturers" because most industries lost market share when the dollar was rising (from 1997 to 2002) and when it was falling (from 2003 - 2004).

Tonelson found that only four of the 112 industries he analyzed increased market share in the United States over foreign producers between 1997 and 2004: semiconductors, semiconductor manufacturing equipment, heavy trucks and synthetic dies. (The data sets start in 1997 because that is when the NAICS codes were first used.)

Nineteen of the 112 industries lost 50 percent or more of their market

(Continued on next page)

Noncompliance... (From page eight)

used in the production of aircraft engines and spare parts.

Saft America Inc.: ITAS Lithium Battery Box (LBB), P/N 3167564-0001.

Santa Ana Metal Stamping: Guide.

Sargent Controls and Aerospace: Part Number 901-311-108-101 bushings.

SCD: IC.

Scotia: Tube — Japanese steel.

Scotia Technologies: Tube Assemblies P/N 3921393-101 and 3921393-102.

Scott Machine: TBD.

Scott Precision: TBD.

Screwmatic: Bushing.

Serra Mfg. Corp.: Bracket, spacer.

Services and Sales Inc.: TBD.

SEY TEC: Purchased rivets currently produced by Huck Manufacturing, a division of Alcoa, and Cherry Textron; both obtained wire that was melted in Asia.

Shim-it Corp.: Shim.

Sirolox: Ring.

Smiths Rockford: Various parts supplied to Boeing rotorcraft for V-22.

Smiths Yakima: Various parts supplied to Boeing rotorcraft for V-22.

South Bend Precision: TBD.

Space Spring & Stamping Co.: Anti-ratchet spring.

Space-Lok: Bolts supplied to MDHC (Boeing).

Spartan Electronics of Florida: TBD.

Sperry Marine: Purchase of nuts, bolts, and assorted hardware from Jaycee Fasteners.

Spirit Electronics: Unknown at this time.

Spirol International Corp.: Shim, washer.

Spirolox (Division of Kaydon): TBD.

SS White Industrial: Flexible shaft.

Sypris Electronics LLC: TBD.

Talasco Inc.: Weight Support.

Technology Dynamics: TBD.

Texas Instruments Semiconductor Div.: TBD.

Texas Spectrum: TBD.

Thompson Industries Inc.: TBD.

Torrington Port Aileron: Actuator, bearing.

Triumph Gear Systems: Part number 42312-498 Delta "P" indicator.

Vishay: TBD.

Warman: Spring Guide.

Wayne Wire Cloth: Screen.

WESCO: Various parts supplied to MDHC (Boeing), washers, nuts, screws, grommets, bearings. Various parts supplied to Boeing rotorcraft for V-22: bolts, bearings.

Wesco Aircraft Hardware Corp.: Fasteners, hardware; DCMA Bell received notice via e-mail in late January of a possible Berry Amendment violation; electrical supplies, light bulbs, lamps, wire, cable ties, screws, washer, capital equipment, fasteners.

WESCO Electrical Supplies: Light bulbs, lamps, wire, cable ties, screws, washer, capital equipment.

Western: Pressure indicator, bowl, cond assembly, element housing, filter and element assemblies.

Western Filter Corp.: Filter assembly, strainer.

Wulfsberg Electronics: TBD.

Import Penetration... (From page nine)

share to exports during those seven years, with import penetration rates more than doubling, including in various areas of textiles, telecommunications hardware, computers, broadcasting and wireless communications equipment and environmental controls.

Fourteen of the 112 industries Tonelson studied lost nearly 50 percent of the U.S. market to imports, including petrochemicals, turbines and turbine generator sets, navigation and guidance instruments, relays and industrial controls and electricity measuring and test equipment.

In seven of the industries, imports now represent at least 70 percent of the U.S. market (metal forming machine tools, metal-cutting tools, computer storage devices and industrial process controls). In 14 other industries, imports captured between 50 and 69 percent of the U.S. market (autos, heavy duty trucks, broadcasting and wireless communications equipment, X-ray machines, aircraft engines and parts); and in 14 other sectors, imports will soon control at least half the market including such areas as telecommunications hardware and electricity measuring and test instruments, construction equipment and analytical laboratory instruments.

Tonelson did not analyze many industrial product categories such as shoes, jewelry, toys, games and sporting goods, because those are completely dominated by foreign producers "and it's not news," he says. He also left out about 50 six-digit industries in the food processing category, because they are still largely U.S. based, but even that is changing. Instead, he focused on high value-added technology and capital intensive

industries.

"Many members of Congress have been lulled into a sense of security by the conventional economic numbers that show manufacturing has now recovered from the last recession and therefore the problems that were attracting attention were cyclical and it's now over," adds Tonelson. "But these numbers say something different. They show that manufacturing is experiencing deep and structural weaknesses that have nothing to do with the ups and downs of the business cycle and that have nothing to do with the ups and downs of the U.S. dollar."

The data does not provide a means to distinguish between imports from U.S. companies producing offshore versus foreign companies producing in their home markets. Nevertheless, "It does give us very important evidence of the competitiveness of the United States as a location for manufacturing and the news is almost unbelievably grim," Tonelson notes.

This type of analysis is helping underpin Americans' gloomy attitude about the economy, despite strong growth in GDP. "Free traders run Washington and they're getting a good return on their investment," says Tonelson. But all of that can turn around in a moment. "Look at the outcome of the Dubai Ports issue," he explains. "What is fascinating about that is nobody paid any attention to what the multinational business lobby said: nobody. Nobody cared that the NAM, the Business Roundtable and the Chamber of Commerce all endorsed the deal. Nobody cared. Public opinion trumped them all. That is the most powerful weapon in the end, and it's up to us critics of trade policy and us advocates of domestic manufacturing to do a better job galvanizing public opinion — and these trade import penetration numbers might have some effect in that regard."

Import Penetration Rates Of The U.S. Market For The Years 1997 and 2004

313111 Spun yarns, 6.14% — 13.78%	325992 Photo. films, papers, plates, etc., 20.91% — 28.96%
313210 Broadwoven fabrics, 20.64% — 37.28%	326113 Unrfd. plastic plate and sheet, 12.65% — 18.44%
313230 Non-woven fabrics, 7.10% — 11.81%	326121 Unsupported plastics profile shapes 4.67% — 6.36%
313320 Coated fabrics, 18.70% — 32.89%	326160 Plastics bottles, 3.05% — 5.19%
314110 Carpets and rugs, 8.68% — 11.70%	326211 Tires, 21.96% — 35.02%
314129 Household furnishings, 23.18% — 51.68%	326299 Other rubber products, 11.92% — 24.57%
314992 Tire cord and fabrics, 15.13% — 22.64%	327910 Abrasives, 18.87% — 26.07%
314999 Miscellaneous textiles, 15.60% — 31.61%	331511 Iron foundries, 3.41% — 5.38%
32113 Sawmill products, 27.67% — 29.40%	332115 Crowns and closures, 12.38% — 32.40%
321918 Other millwork (flooring), 11.26% — 17.56%	332312 Fabricated structural metals, 2.88% — 6.76%
322110 Pulp mill products, 45.21% — 54.44%	332321 Metal doors and windows, 2.01% — 4.99%
322121 Paper, 9.89% — 14.91%	332322 Sheet metal work, 0.13% — 0.29%
322122 Newsprint mill products, 54.34% — 64.23%	332410 Pwr. boiler and heat exchangers, 12.08% — 22.90%
322130 Paperboard mill products, 0.39% — 0.53%	332431 Metal cans, 0.63% — 1.19%
322211 Corrugated and solid boxes, 0.60% — 0.91%	332618 Fabricated wire products, 14.26% — 18.83%
322222 Coated and laminated paper, 7.76% — 10.49%	332722 Bolts, nuts, screws, and rivets, 23.38% — 34.05%
325110 Petrochemicals, 10.11% — 18.52%	332911 Industrial valves, 34.38% — 52.03%
325120 Industrial gases, 2.00% — 2.35%	332912 Fluid power valves, 4.94% — 12.42%
325199 Basic organic chemicals, 25.86% — 31.37%	332913 Plumbing fixtures and trim, 8.50% — 23.72%
325211 Plastics and resins, 11.16% — 15.52%	332991 Ball and roller bearings, 22.65% — 26.58%
315222 Synthetic rubber, 14.98% — 21.62%	332997 Industrial patterns, 2.14% — 3.09%
325131 Inorganic dyes and pigments, 18.26% — 25.80%	332998 Enameled metal sanitary ware, 10.18% — 25.08%
325132 Synth. org. dyes and pigments, 33.73% — 33.49%	333111 Farm machinery and equipment, 24.30% — 33.75%
325188 All other basic inorganic chems., 27.38% — 42.53%	333120 Construction machinery, 29.15% — 44.73%
325411 Medicinals and botanicals, 49.49% — 84.76%	333131 Mining machinery and equip., 25.73% — 33.74%
325412 Pharmaceutical preparations, 9.48% — 22.27%	333220 Plastics and rubber ind. mach., 43.37% — 53.76%
325520 Paints and coatings, 2.45% — 3.24%	333295 Semiconductor mfg. equipment, 27.84% — 27.57%
325520 Adhesives and sealants, 2.88% — 5.27%	333298 Other industrial machinery, 2.63% — 5.80%
325613 Surface active agents, 7.04% — 9.75%	

(Continued on next page)

Don't Expect R&D Increase, Says Frist Aide...*(From page two)*

For another, with the popularity ratings of both the president and the Congress low, "we have the majority of the majority party in the House and Senate feeling that congressional Republicans must demonstrate real fiscal restraint to fire up their base going into the fall elections."

Compounding this, Hoagland observed, "my friends on the Democratic side of the aisle sense the opportunity to regain control of at least one if not both chambers of Congress this fall, making it even more difficult to find compromise and consensus on many issues."

Nonetheless, he cautioned, what is happening this year may well be "a harbinger for the future." Urging his audience to add up current spending on Social Security, Medicare, Medicaid, defense, and net interest on public debt, he stated: "You basically can do away with the rest of the government and you might be able to balance the budget."

If left unchecked, the entitlements, which now account for about 53 percent of the federal budget, "will grow rapidly with an aging

population" to the point that, in 2035, "you would basically not be able to fund anything except Social Security, Medicare, Medicaid, and pay a small portion of your interest

federal budget, he pointed out — and especially since total federal outlays grew at 4 percent in real terms between 2000 and 2005, the highest real growth in overall federal expenditures for any five-year period since 1965-70, when the figure was 5.7 percent.

Non-defense discretionary spending showed real growth of 5.5 percent between 2000 and 2005, the highest since it hit 6.3 percent in 1975-80, while defense spending rose at 8.1 percent in real terms in the five years through 2005, faster than at any time since at least 1965.

Entitlements and other mandatory spending, meanwhile, grew at 4.4 percent in real terms between 2000 and 2005, the highest figure since 1970-75, when real growth of that part of the budget hit 10.4 percent.

"We have the majority of the majority party in the House and Senate feeling that congressional Republicans must demonstrate real fiscal restraint to fire up their base going into the fall election."

on the public debt."

This augurs ill for the non-defense discretionary spending that now makes up around 19 percent of the

Penetration Rates...*(From page ten)*

333319 Other svc. industry mach., 1.94% — 3.20%
 333415 Air-cond. and air heating equip., 8.95% — 17.83%
 333511 Industrial molds, 20.31% — 24.92%
 333512 Metal-cutting machine tools, 58.56% — 72.03%
 333513 Metal-forming machine tools, 62.72% — 88.97%
 333514 Special dies and tools, 7.70% — 12.53%
 333515 Cutting tools., 17.61% — 26.94%
 333611 Turbines and turbine gen. sets, 25.42% — 49.39%
 333612 High speed drives and gears, 38.53% — 63.10%
 333613 Mech. pwr. transmission equip., 24.77% — 42.66%
 333618 Other engine equipment, 25.42% — 36.32%
 333911 Pumps and pumping equipment, 17.63% — 22.67%
 333912 Air and gas compressors, 30.10% — 41.87%
 333922 Conveyors and conveying equip., 12.00% — 16.33%
 334111 Electric computers, 13.93% — 41.77%
 334112 Computer storage devices, 66.67% — 70.30%
 334210 Telecommunications hardware, 17.66% — 43.18%
 334220 Radio & TV broadcstg. & wireless., 16.12% — 51.28%
 334411 Electron tubes, 36.42% — 56.44%
 334412 Printed circuit boards, 23.57% — 35.06%
 334413 Semiconductors & related devices, 43.98% — 43.26%
 334414 Electric capacitors and parts, 69.08% — 98.61%
 334415 Electric resistors, 47.54% — 68.39%
 334416 Elec. coils and inductors, 49.00% — 49.61%
 334419 Other electric components, 56.90% — 60.73%
 334510 Electro-medical apparatus, 21.72% — 31.46%
 334511 Search, detection, nav., guidance instruments, 3.89% — 7.48%

334512 Environmental controls, 14.00% — 28.95%
 334513 Ind. process control instruments, 45.68% — 71.48%
 334514 Fluid meters and counting devices, 4.68% — 6.84%
 334515 Electricity measuring and test instruments, 23.57% — 41.27%
 334516 Analytical laboratory instruments, 29.88% — 44.67%
 334517 X-Ray machines and other irradiation devices, 30.48% — 56.66%
 334519 Other measuring & control devices, 22.86% — 30.29%
 334613 Magnetic & optical recording media 38.64% — 77.19%
 335222 Household refrig. and freezers, 10.60% — 23.12%
 335311 Specialty transformers, 19.09% — 33.19%
 335312 Motors and generators, 28.38% — 46.07%
 335313 Non-telecom. switch gear and switchboards, 15.01% — 25.75%
 335314 Relays and industrial controls, 24.07% — 46.00%
 336111 Autos, 50.43% — 67.02%
 336120 Heavy duty trucks and chassis, 62.53 — 61.21%
 336321 Vehicular lighting equipment, 19.62% — 39.91%
 336322 Motor vehicle electrical equip., 31.06% — 37.61%
 336330 Steering and suspension equip., 14.46% — 27.37%
 336340 Motor vehicle brakes, 18.33% — 25.35%
 336350 Transmission and power train parts, 12.81 — 24.54%
 336370 Motor vehicle stamping, 2.08 — 2.10%
 336391 Motor vehicle air-cond. equip., 16.78% — 27.92%
 336399 Motor vehicle parts, 38.29% — 49.90%
 336411 Aircraft, 15.24% — 24.51%
 336412 Aircraft engine and engine parts, 39.99% — 51.62%
 336413 Non-engine aircraft parts, 31.14% — 38.48%
 337121 Upholstered household furniture, 7.96% — 17.93%

George Allen Creates Senate Competitiveness Caucus

Sen. George Allen (R-Va.), who is facing a potentially tough election bid this year, is launching a Senate Economic Competitiveness Caucus aimed at providing what he describes as “a sprawling, unorganized coalition of Senators who support a pro-competitiveness agenda” with “direction and leadership.” But whether the road down which the planned caucus appears headed is one that both parties can travel together remains to be seen.

Soliciting sign-ups in a “Dear Colleague” letter, Allen puts the caucus forward as “a way of mobilizing our fellow Senators that want to take positive actions on behalf of American entrepreneurs, manufacturers and the tech sector, while improving America’s competitiveness.” Last week, a spokesman indicated that Allen was not yet ready to say how many senators have indicated their intention to join.

Allen’s letter offers “a variety of initiatives and legislative proposals” for the Competitiveness Caucus to promote, among which two in particular could prove hurdles to participation from the Democrats’ side of the aisle: “Improve the availability and benefits of Health Savings Accounts” and “permanent tax relief, including capital gains and the R&D tax credit.”

This list is, however, potentially less divisive than that contained in Allen’s initial announcement of the caucus, dated March 3, which advocated opening the Arctic National Wildlife Reserve to drilling and specified the tax relief to be made permanent as that “enacted since 2001, including individual tax rate cuts and reduced rates for dividends and capital gains, death tax repeal and depreciation reforms.”

Other goals of the caucus, Allen tells fellow senators, will be to:

- “Develop and support strong comprehensive energy security legislation;
- “Support free trade agreements that tear down

barriers to American workers, products and services, as well as vigorously enforce trade rules;

- “Support legislation to crack down on counterfeiting and theft of our intellectual property;
- “Improve math and science education from elementary school through all postgraduate studies;
- “Support increased funding for physical science programs; [and]

• “Encourage initiatives to provide for a more rapid domestic deployment of broadband.”

Disappearing between the March 3 press release and the Dear Colleague letter late in March was an endorsement of the Manufacturing Extension Partnership, linked in the former to “increased funding for federal science programs.”

Allen urges that colleagues help “make sure that the United States is the World Capital of Innovation,” to which end, he writes, the Competitiveness Caucus “will carefully examine the issues facing our ability to compete economically in the coming years.

“We will reach out to leaders in the private sector and academia to gather the best insight and analysis of the challenges we must address. We will focus Congressional efforts on removing the barriers to American economic competitiveness, and develop and articulate economic goals for the future and find clear paths to succeed.”

Allen is expected to face a tough electoral challenge this year. Harris Miller, former president of the Information Technology Association of America, and James Webb, former Sec. Of Navy during the Reagan Administration, are squaring off in the Virginia Democratic primary June 13 to face Allen in the November election. Webb is considered to be a top-notch competitor to Allen, a 2008 presidential hopeful.

PEOPLE:

Stephen Gold has left his post at the National Association of Manufacturers, where he was in charge of the Council of Manufacturing Associations. Gold has taken a job as senior vice president of operations for the National Electrical Manufacturers Association based in Rosslyn, Va. Assuming stewardship of the Manufacturing Associations Council, which represents more than 200 manufacturing associations affiliated with NAM, will be David Asselin, who served as executive director of the American Academy of Environmental Engineers located in Annapolis, Maryland. Prior to that, Asselin was executive director of the Independent Connecticut Petroleum Association in West Hartford, Connecticut.

Bradley Knox, the always ebullient chief counsel on the House Small Business Committee and one of the most involved people on Capitol Hill on manufacturing issues, is leaving his post. Knox is taking a job as director of government relations and policy for AFLAC, and will be working in the Ronald Reagan building in Washington, D.C. He says that Tom Delay was not involved in his appointment.

China Starts To Blame Multinationals For Its Dismal Environmental Record

The environmental situation in China is bad and is not expected to improve, due to rapid growth of manufacturing production and the rising demand for energy, according to experts testifying before the United States-China Economic and Security Review Commission (USCC).

While the United States Environmental Protection Agency employs 18,000 people, the similar agency in China has fewer than 500 employees. Environmental regulation and remediation are relegated to local government officials, many of whom work for the state-owned enterprises they oversee. Pollutants originating in China have become a health hazard in the United States. Moreover, said the experts, China is looking for an environmental scapegoat, and is beginning to blame its problems on multinational companies operating in its country.

"I was just at an international conference where there were a number of Chinese and we were discussing issues of energy and pollution," said Dr. Elizabeth Economy, director of Asia Studies at the Council of Foreign Relations. "The new line that's going to emerge from China...is that China's energy consumption and its pollution are basically the result of the international community's engagement in China, their high level of investment and how the Chinese are serving the international community by being the manufacturing sector of the world. Despite the fact that China has had this significant increase in oil and is planning to double its oil and coal consumption by 2020, somehow the international community will be brought to blame for that."

China's environmental problems run deep and the country is only starting to address them with additional resources. "Their challenges are enormous," said Jerry Clifford, deputy assistant administrator for the office of international affairs at the U.S. Environmental Protection Agency. "Their resources that are devoted to environmental protection are miniscule for a country of 1.3 billion." China is not spending its huge current accounts surplus on pollution controls.

Pollution abatement projects "have fallen significantly behind schedule," Economy told a USCC hearing held earlier this year. Between 2001 and 2005, there were 279 sulfur dioxide emission control projects at power plants that were expected to be completed. Only 61 are done and 72 remain under construction, this despite the fact that of the 10 most polluted cities in the world, seven are in China.

Between 2003 and 2004, SO₂ emissions jumped to their highest levels ever. Only 5 percent of China's coal-fired plants have adequate desulfurization facilities. Said Economy: "As Wang Jirong, vice minister of [China's] State Environmental Protection Administration [SEPA] stated: 'They would rather be fined than buy such expensive facilities.'"

"The future does not look promising," said Economy. "In spring 2004, SEPA announced that it fully expected the damage to the environment and human health from

acid rain and SO₂ pollution to increase for the foreseeable future. Coal consumption was forecast in late 2005 to exceed two billion tons for the first time

[up from 1.3 billion tons at the end of 2003], with SO₂ to jump an estimated six million tons. In Guangzhou, SO₂ emissions in the first quarter of 2005 increased by 49 percent over the previous year."

China's coal consumption is three times that of the United States and is projected to double between 2000 and 2020. It is estimated that as much as 75 percent of the mercury deposited in the United States is from sources outside of the United States, with China being the largest source, added Clifford.

The World Health Organization estimates that there are as many as 450,000 premature deaths per year in China due to indoor air pollution. Two-thirds of the country's urban residents live in cities with poor air quality. Chronic obstructive pulmonary disease is the leading cause of death. One-third of the country is experiencing severe acid rain.

The growth of China's economy does not bode well for the health of Chinese citizens. The country is in the middle of a building boom. It has been adding 400 million square meters of office space per year for the past 15 years, the equivalent of 1,000 Sears Towers every year, noted Clifford. "The increase in demand for new air conditioners in China in 2004 alone exceeded the entire generating capacity of the Three Gorges Dam." When completed in 2009, Three Gorges is projected to be the largest hydroelectric power facility in the world costing \$24 billion and with production capacity of 18,200 megawatts of electricity.

China is currently the world's largest emitter of methane and of coal mine methane. It is projected to overtake the United States as the world's largest emitter of greenhouse gases in the next 20 to 25 years, said Clifford. The fast-growing use of automobiles will add to China's air pollution woes, as will the country's desire to urbanize 300 million people by 2020. Per capita energy consumption of an urban dweller is 250 times greater than that of a rural resident.

Oil demand has doubled from three million barrels per day in 1993 to six million barrels today. Forty percent of the increase in global oil demand has come from China, said Flynt Leverett, senior fellow at the Brookings Institute. China is now the third largest market in the world for automobiles. There are 23 million cars in China, with conservative projections of 130 million cars in 25 years. China has become the world's third largest importer of oil, at three million barrels per day, but it is projected to need 10 million barrels per day in 2010, with 8 million of that coming from imports. The implications of this growth go well beyond the environment.

Air pollution is only one aspect of China's environmental problems. Water pollution is endemic, with 300 million Chinese drinking contaminated water. There are 190 million people who drink water that is so contaminated "it's making them sick," said Economy. About one-third of the water that flows through the

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country's seven major rivers "is not even suitable for agriculture or industry," she added.

In the Yangtze River delta, 50 percent of the sewage is discharged untreated and flows into the Pacific. It is now "the biggest cause of marine pollution in the Pacific Ocean," she noted. "Entire communities along China's major river systems report higher than normal rates of cancer, tumors, stunted growth, spontaneous abortion and diminished IQs due to the high level of contaminants in the soil and water." There was a 25 percent increase in birth defects between 2001 and 2003.

The November 2005 spill of nitrobenzene in the Songhau River following the explosion at the China National Petroleum Co. "provides a valuable lesson for all of us," added Clifford. The Chinese public was not alerted to the spill for more than a week. The Chinese government declined assistance from the U.S. government. A United Nations team was not allowed to visit the site of the accident, nor was it allowed to take water samples.

The United States doesn't really know what's happening with the environment in China, said Clifford of the EPA. "Our efforts are hindered by a Chinese government that controls information and access to that information." In many cases, there is no data.

But NASA, NOAA and EPA are now working together to monitor Chinese pollution using space satellites. In April, 2001, satellites were used to watch a dust cloud originating in the Gobi desert gather air pollutants as it moved over China, then over the Pacific Ocean and eventually reaching the East Coast of the United States.

"Our challenge here in the U.S. is that their pollution is ultimately affecting the lives and the public health of citizens in the United States," said Clifford. "That's what drives our interest in China and to that end, that's

where we hope to be able to help them make improvements."

Countered Economy: "The U.S. government is not very active" in environmental remediation issues in China "probably because it doesn't have much in the way of resources."

Other environmental challenges facing China include:

- The world's highest soil erosion rates occur in China in the Loess Plateau, where 1.6 billion tons of topsoil are washed into the Yellow River on an annual basis.

- Desertification in China is advancing by 1,300 square miles annually, affecting 400 million people. The country, which is the size of the United States, is now one-quarter desert. An estimated 30 million to 40 million farmers are expected to migrate over the coming decades due to the lack of arable land and water.

- China is the world's largest importer of illegally logged timber in the world. "In some cases, in Gabon and Myanmar, you're looking at rates of 90 percent of the timber that's being imported is illegally logged," said Economy. "About one-third of its illegal timber imports are subsequently processed and exported, primarily to G8 countries."

- With more than 50 percent of China's direct investment going to extractive industries such as mining, timber, coal and gas, Chinese labor and environmental practices are being exported abroad with this investment, said Economy. Africans "are very concerned about what's taking place there with regard to Chinese companies and environmental impact," she said. In Peru there have been protests against Chinese mining operations run by a Shougang group-owned mine. "Water is available for only four hours per day and environmental and safety records, as well as workers' incomes, have declined precipitously since Shougang assumed control a decade ago, even as profits for the mine have soared."

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