Manufacturing & Technology News

Covering Innovation, Globalization and Industrial Competitiveness

Publishers & Producers, P.O. Box 36, Annandale, VA 22003
Phone: 703-750-2664 Fax: 703-750-0064 URL: www.manufacturingnews.com

Friday, July 7, 2006 Volume 13, No. 13

Reverse Auctions Are Found To Be Unethical

Large manufacturing companies are using "coercion" to force their incumbent suppliers to participate in reverse auctions, according to research conducted by Bob Emiliani of the Central Connecticut State University. Reverse auctions "are fundamentally coercive, with coercion being essential for achieving the outcomes that buyers seek," says Emiliani in a research paper on the use of the 10-year-old buying technique. "Reverse auctions, as currently used, are inconsistent with corporate codes of ethics or codes of conduct with respect to supplier relationships — e.g. fairness, honesty, and integrity."

Emiliani asked 24 suppliers if corporations, "by use of pressure, threats or intimidation," required them to participate in reverse auctions. Eighty-seven percent said yes. Seventy-nine percent of these said that the customer used coercion to get them to participate in the reverse auction, while 21 percent said they were coerced by the "market maker" — companies that provide reverse auction services such as SAP, Oracle, A.T.Kearney, Ariba, Procuri, Orbis Online and Iasta. Ninety-two percent said that reverse auctions do not promote positive supplier relationships.

Suppliers said they were required

(Continued on page eight)

Domestic Manufacturers Force NAM's Big Members To Take A Stand On China

BY RICHARD McCORMACK

The simmering conflict within the National Association of Manufacturers between smaller domestic manufacturers and large multinational companies with production throughout the world and especially in China came to a head during a two-hour meeting of representatives from the two groups on June 27. On that day, NAM's International Economic Policy Committee (IEPC) held a vote on whether NAM should endorse legislation that would allow U.S. companies to petition the U.S. government for relief under trade laws due to foreign governments subsidizing their currencies. NAM president Gov. John Engler tried to avert a showdown by offering a compromise, but the domestic manufacturers were well organized and ready to vote. Ironically, it was the multinationals who, perhaps overestimating their own strength, called for a vote and thereby ended the possibility of a compromise, according to those in attendance.

Manufacturers with most of their production in the United States strongly support the measure (HR 1498) sponsored by Reps. Duncan Hunter (R-Calif.) and Tim Ryan (D-Ohio). Those with production in China — mostly the big multinationals — were strongly opposed. The domestic manufacturers won, 75 to 46 with five abstentions. The majority of companies voting against the measure were large multinational firms.

The vote "is a good wakeup call that this is still a problem and a wakeup call for the administration and China that this is a still a problem that needs to be addressed," said Pat Mears, NAM's director of international commercial affairs.

Among those who were in attendance from both large and small companies, the vote has raised fundamental issues about whether NAM can play an effective role in policy debates over trade. It has left some of the larger members feeling uncertain about the future of NAM and its governance. There are also questions about the process by which NAM's Executive Committee and Board of Directors will ratify — or not ratify — the vote of the

(Continued on page four)

Foreign Investment Is On Steady Rise

Foreign direct investment (FDI) into OECD countries jumped 27 percent last year to reach $622 billion, up from $491 billion in 2004 and $465 billion in 2003, according to OECD. "These are the highest inflows since 2001 and the near-term outlook for FDI remains strong, with OECD economies forecast to stay buoyant for the rest of 2006," says the OECD.

The United Kingdom was the world's largest recipient of inward FDI in 2005, attracting $165 billion from OECD countries, according to "Trends and Recent Developments in Foreign Direct Investment," a new OECD report. This is the largest inward direct investment ever recorded in the UK, and triple the $56 billion received in 2004. The rise in FDI in the UK was due in part to the restructuring of multinational firms, such as Royal Dutch Shell, and in part due to several large cross-border mergers and acquisitions, such as the takeover of Peninsular & Oriental Steam Navigation Company by Dubai Ports World of the United Arab Emirates for $8.2 billion.

Concerns over security and other strategic interests have arisen in some countries as new major players become outward investors, prompting a number of countries to review their FDI regulations. Governments have in some cases sought to discourage foreign takeovers, triggering accusations of protectionism. "The challenge for governments is to find ways to safeguard essential interests while keeping their investment regimes transparent and non-discriminatory," says OECD. "At a national level, countries that have introduced tougher regulations or are perceived to have become less open to foreign investment could put off potential investors and so miss out on investment opportunities. At a global level, this in turn could have larger implications on investment and economic growth."

France was the world's most active outward investor in 2005, with aggregate flows totaling $116 billion. China continues to hit new records. In 2005 its total FDI inflows reached $72 billion, their highest level ever, and exceeded only by the United Kingdom and United States. Outward investment from China is also rising. Chinese official figures estimate the 2005 outflows at close to $7 billion. Outward investors appear to have broadened their interests, from previously targeting the resource and raw materials sectors to investing in a range of high-tech activities. The report is available at http://www.oecd.org/dataoecd /54/58/370 10986.pdf.

Slowdown Of SUV Sales Hurts Metal Powder Industry

The U.S. metal powder industry has stopped growing and is headed backward, according to the Metal Powder Industries Federation. Last year, the North American industry experienced a decline in sales, due in large part to the Big Three's loss of market share and depressed sales of sport utility vehicles. North American shipments of iron powder metallurgy parts declined by almost 8 percent last year to 396,667 short tons, the first decline in the sector since 2001. So far through April of this year, iron powder shipments have fallen by another 7.4 percent to 143,548 short tons.

North American copper and copper-base powder shipments declined by 4.5 percent to 24,064 short tons. Nickel powder shipments dropped by more than 11 percent to an estimated 9,000 short tons, due mainly to the decline in the chemicals market. "However, powder metallurgy applications of nickel powder, mostly for stainless steel, increased," says the federation. There was some other positive news. Tungsten carbide powder shipments increased 13 percent to 6,689 short tons, due to gains in cutting tools and wear applications in mining and oil and gas drilling.

"It is estimated that powder metallurgy parts content in North American light vehicles has stabilized at an average of 43 pounds," says the trade group. "However, new automotive transmissions and engines offer positive signs for the PM industry in the years ahead." The market should increase in 2007 and 2008 when new six-speed automatic transmissions from GM and Ford ramp up to full production. The new transmissions contain 14 pounds of PM parts. Within four years, the total powder metallurgy parts in vehicles should increase to 45 pounds.

Growth of the Asian market is strong. Powder metallurgical parts production in Asia last year increased 7.7 percent to 302,971 short tons of iron and copper-based parts. For a copy of the report, send an e-mail to Dora Schember at dschember@mpif.org.

China Seeks Self Sufficiency In Heavy Machinery

China wants to become self sufficient in heavy manufacturing equipment, according to the country's Vice Premier, Zeng Peiyan. China will launch a "major equipment manufacturing" program aimed at improving the country's ability to design, manufacture and operate advanced numerically controlled machine tools that can build power generators, ships, high-speed trains and integrated circuits and can be used in the petrochemical and coal mining industries, according to a report from the Xinhau News Agency.

Peiyan announced a new program aimed at supporting R&D, reducing regulations and fostering a market for greater levels of competition among machine tool builders. "The government has attached great importance to invigorating the equipment manufacturing sector with policies for its revival," states the Xinhau News Agency.

India Sees Manufacturing As A 'Sponge' To Absorb People From Agriculture

The Indian government, proclaiming 2006-2015 to be the country's "Decade of Manufacturing," has outlined a strategy for speeding up the sector's growth to an average yearly rate of 12-14 percent over the period, nearly double the 7 percent per annum it averaged between 1995 and 2004.

Among the industrial sectors singled out as "ideal candidates" for the government's attention under the plan are auto components, IT hardware, pharmaceuticals, and textiles and garments. These sectors, along with food processing and leather and leather products, are described in India's "National Strategy for Manufacturing" as having "obvious competitive advantages on the world markets."

BY KEN JACOBSON

As such, they are seen as offering "unique opportunities" to help realize India's ambition to boost manufacturing's share of the nation's GDP to 23 percent by 2015. Its current contribution, 17 percent, is marginally higher than the 15.8 percent achieved in 1991 but still far behind the levels reached elsewhere in Asia. Manufacturing accounted for 35 percent of China's GDP and 31 percent of Malaysia's in 2002. Last year in the United States, manufacturing accounted for 12 percent of GDP.

While the growth rate of India's manufacturing sector improved in the country's recently concluded fiscal year — reaching 9 percent in 2005-06, up from 8.4 percent in 2004-05 — the sector's contribution to the national economy has been steady, as indicated by the fact that its growth exceeded overall GDP growth by an identical 0.6 percent in both years.

In a letter released with the National Strategy earlier this year, Indian Prime Minister Manmohan Singh called manufacturing "essential" to "ensur[ing] sustainable growth of the economy" in general, and for "employment generation" and "development of [India's] scientific and technical base" in particular.

Growth in the sector is considered critical, as the share of the Indian workforce engaged in agriculture — which currently accounts for 21 percent of the country's GDP — is expected to drop over the next 20 years from the current 56 percent to 40 percent.

"Manufacturing has to be the sponge which absorbs people who need to move out of agriculture in pursuit of higher incomes," the prime minister said. "I do not accept the proposition that India can skip the manufacturing stage of development and go from being an agrarian society directly to becoming a services and knowledge-based society."

The National Strategy, "the first exercise of [its] type in India," is intended to function as the core of the ten-year National Manufacturing Initiative announced by Singh. It was drafted by the National Manufacturing Competitiveness Council (NMCC), a high-level, 26-member "inter-disciplinary and autonomous body" that first met in January 2005 and, as a "forum for credible and coherent policy initiatives," has assumed the following roles:

• "Identification of manufacturing sectors having potential for global competitiveness, and problems and constraints in such sectors with respect to structure and size of industry, technology gaps, modernization needs, etc.

• "Evolving sector-specific strategies for enhancing competitiveness of manufacturing sectors.

• "Recommending measures to create common infrastructure and facilities such as testing, quality, design, HRD, skills, training institutes, etc.

• "Providing a forum for dialogue between the public and private sectors, labor and academic sectors."

An NMCC member and the chairman of Confederation of Indian Industry's (CII) Mission for Innovation in Manufacturing, Surinder Kapur, told *MTN* that behind the founding of the council — itself a sign of the nation's "commitment" to manufacturing — was the desire "to have a cohesive strategy rather than just silos of industries making their own decisions."

Kapur, who spoke at a June 16 conference of the National Academies' Board on Science, Technology & Economic Policy, also pointed to the formation in April — in fulfillment of one of the Strategy's recommendations — of a High-Level Committee on Manufacturing that is chaired by Prime Minister Singh and includes the NMCC's chairman, as well as India's ministers of Finance and of Commerce & Industry. It is

(Continued on page eight)

Energy Department Issues PV Solicitation

The Department of Energy has announced the solicitation for bids for research to reduce the cost of photovoltaics. The department will spend $170 million over three years for cost-shared, public-private partnerships as part of its "Solar America Initiative." The so-called "Photovoltaic Systems R&D Technology Partnerships Funding Opportunity Announcement" will focus on developing, testing and deploying new PV components, systems and manufacturing equipment. Bids have to be "industry-led" and may include one or more companies, universities, national labs and non-government organizations. Bidders must match the government investment. Information is located at http://www.eere.energy.gov/solar/solar_america.

NAM Vote..

(Continued from page one)

committee, and have it stand as an official NAM policy position.

Those who backed the measure are now circulating copies of NAM's constitution to determine whether there are procedures by which the vote can be overturned. Pat Mears says NAM's Executive Committee will decide on the policy when it meets in September. "If it is determined by the Executive Committee that this is what our policy is going to be, then that is what our policy is going to be," she says. "We really do stand by the fact that we're member driven."

The majority of NAM's membership is made up of smaller domestic manufacturers, some of whom have questioned whether NAM represents their interests when it comes to trade with China. Yet after the vote on the Hunter-Ryan resolution, those who seem most perplexed are the big companies. Some are questioning whether NAM as it is currently structured is an organization worthy of their participation.

The vote "runs a serious risk of hurting NAM," said one large company representative who voted against the resolution. "We have a split membership and it's hard for an organization where all the large members are on one side and the small members are on the other."

Other large members say they are considering quitting NAM if the vote stands. They say the process of voting on policy issues does not work in a trade association and is like the dysfunctionality that exists at the United Nations. "The big guys now have to reassess their own position in NAM," says another person who was in attendance and voted against endorsing Hunter-Ryan.

But those representing the smaller, domestic manufacturers say NAM faces no such challenge and that discord in a trade group is normal. The large companies' threat to leave NAM is a scare tactic and the vote "isn't going to blow up NAM," says one small company president involved in the June debate. "There is a group of people who disagree about an issue. Do you think you're going to have this many people in an association and agree on everything?"

The domestic manufacturers interviewed by *MTN* say they feel the vote was enlightening. It placed their interests starkly in contrast to those of global manufacturers who are seen as defending "protectionist" policies of China, at the demise of U.S. industry. At the same time, their ire is raised even more by the global corporations describing them as being "protectionist" for their support of legislation that could force China to allow its currency to be set by market forces. "Who are the protectionists here?" the domestic manufacturers ask. The global companies operating in China "are only getting sales because they can simply cheat on the system," says the president of one small company who helped write the resolution. "Why would the big companies defend that?" Added another representative for a small company: "You have a situation where Beijing has co-opted a number of [multinational] companies and turned them into their lobbyists in Washington."

The disagreement was in full view during the two-hour debate at NAM headquarters. Domestic manufacturers felt compelled to ask NAM's president John Engler to describe the mission statement of NAM. According to those in the room, John Hoskins of Curtis Screw, on speakerphone from his office in Buffalo — one person described him as having the "voice of God" — asked Engler if NAM was a "national" organization for manufacturers that work in the United States. Engler said that was correct.

This argument bothers the multinational companies. "It implies that only companies that manufacture in the United States should have standing in this debate," says one large company representative who spoke after the meeting. "So if you have a plant in Canada or Mexico, you don't have standing to be a NAM member? A lot of people found that offensive."

According to those in attendance, Devry Boughner of Cargill said that manufacturers need to stick together on tax, labor law and legal reform, and that the trade debate could fracture NAM. She said the small manufacturers should not be forcing this divisive issue on NAM and that those who favor the Hunter-Ryan bill should form their own coalition.

Other big companies agree with that assessment, saying that NAM was in a similar position in the late 1980s with regard to steel tariffs. The steel companies that were members of NAM were at odds with those members that used steel. With a divided membership, steel users created the Coalition of American Steel Using Manufacturers, and NAM did not take a position on the issue, according to those who were involved. The same should happen now, they argue.

The domestic manufacturers contend that they are in no position to form their own coalition. "We're not going to go off on our own," said one of the principals in the NAM debate. "The bottom line is if you have a disagreement with an organization the worst thing you can do is quit. So screw it. We'll fight from the inside." Besides, others note, a coalition already exists — the China Currency Coalition — but it has little firepower because it does not have a broad enough base of support. Thus the need to gain NAM's endorsement of the Hunter-Ryan bill.

Other large company representatives said that support for the Hunter-Ryan bill is mostly from the steel producing sector of NAM, and that steel companies are exceedingly healthy because of China's increased consumption. The Hunter-Ryan bill is a form of "procedural protectionism" supported by lawyers who "believe the road to prosperity is through litigation," argued one of the participants in the debate.

According to large company representatives, the loser in the fight was NAM president John Engler, who proposed a compromise that would keep the schism from unfolding in a public manner. But domestic manufacturers didn't see it that way. "We were deeply impressed with the fair way in which NAM conducted the meeting and the risk that Gov. Engler took in making his offer to raise possible solutions with the administration," said one participant. Another added: "Frankly, Engler did a very good job of putting this meeting together. I have been to a lot of these meetings.

(Continued on next page)

NAM Vote...(Continued from page four)

I've never been given as much background material prior to a meeting like this, especially when NAM is on the fence on an issue. It proves that democracy exists in the NAM and that's why it's a great organization."

Engler admitted that persistent currency undervaluation was a problem and that NAM has worked diligently with the Bush administration to convince China to float its currency. But he said Hunter-Ryan could potentially create a trade war and that even if it passes Congress there is no guarantee the administration will use it to take on the Chinese in the WTO. Engler said he wanted members of the committee to vote on language that would empower him to meet with recently confirmed Treasury Secretary Henry Paulson, the new USTR Susan Schwab and with Commerce Secretary Carlos Gutierrez. He would propose that they consider adopting new tools in the trade laws to address countries that manipulate their currency. Engler said he wanted to avoid a "penultimate fight" that could take place within NAM's Executive Committee and its board if there was an affirmative vote to support Hunter-Ryan, and that it's better to reach a compromise than risk getting nothing, according to people attending the meeting.

But those who were pushing the resolution felt that discussions with the Bush administration had run their course. Last March, they had withdrawn the resolution at NAM's Board of Directors meeting when they were asked to give it more time due to the fact that the Bush administration seemed to be on the verge of a breakthrough. At the time, Chinese Premier Hu was scheduled to come to Washington to meet with Bush; the U.S.-China Joint Commission on Commerce and Trade (JCCT) was preparing a meeting, and the Treasury Department was preparing its biannual report on currency manipulation. At the time, Treasury Department officials were floating the idea that China would be cited for manipulating its currency. NAM's board agreed to schedule a special meeting of the IEPC for June if these major events did not lead to progress.

Hu came on a buying mission, and left with no commitment to un-peg the currency, even though Bush raised the issue with him in private talks. The JCCT met, without much progress with regard to the currency; and the Treasury Department issued its report without citing China.

So a special meeting of the IEPC was scheduled. The small guys worked to organize their votes. NAM put together fact sheets on the pros and cons of various pieces of legislation that have been introduced to address countries manipulating their currency. Voting instructions were issued to those who signed up to attend, detailing specifically who could represent a company — "a retained lawyer or consultant or an employee of an affiliated trade association." A letter describing the event said that "NAM attempts to make policy decisions based on consensus and there is not a vote scheduled for this meeting, but in the event that a vote takes place, we have included voting instructions."

The debate ebbed and flowed, according to more than a dozen people in attendance. Bill Lane of Caterpillar said that the Hunter-Ryan bill would hurt U.S. manufacturers because China is a growth engine for the world economy. These are the best of times for manufacturers, he said, not the worst of times. Caterpillar hired 5,000 workers last year and the most pressing issue facing manufacturers isn't China but finding qualified workers. Forcing China to revalue its currency could result in a 40 percent tariff on imported goods. It is the wrong time for the wrong legislation, Lane argued.

Other large company members and trade association representatives did not favor the measure because they sought to maintain NAM unity. There was also a sense among those who voted against that even if NAM were to endorse the Hunter-Ryan bill, nothing would be done about it in Congress. The House leadership has not expressed any interest in taking up the legislation during the remainder of a lame-duck session. It would be better to wait until after the results of the November election to see who will be chairing the key congressional committees. There was also a sense that provoking China would create a trade war, which should be avoided.

Brian O'Shaughnessy of Revere Copper, a company he noted was created by Paul Revere, said during the IEPC meeting that the United States was already in a trade war. He said a delay would be costly to the U.S. manufacturing base, and that the Hunter-Ryan legislation could become an issue in the upcoming congressional election campaign. Republicans run the risk of losing Congress if they did not address the concerns raised by the legislation. He noted that Rep. Tom Reynolds (R-N.Y.), chairman of the National Republican Campaign Committee, is the latest co-sponsor of the Hunter-Ryan bill, which now includes 80 Republicans and 89 Democrats.

After almost two hours of discussion, Devry Boughner of Cargill made a motion to table the draft resolution, which was seconded by Doug Goudie of the Automotive Trade Policy Council. That motion, which was considered to be a tactical error, forced the committee to take a vote on whether it should be tabled. It failed 72 to 49. That forced a vote on whether NAM should approve the resolution to endorse HR 1498. Each voting member held up a placard with their company name on it. It passed by a margin of 75 to 46.

What surprised many of the domestic manufacturers in the room was the fact that the three domestic auto companies — GM, Ford and Chrysler — voted with Honda and Toyota in rejecting the resolution. The legislation would make Japan's undervaluation of the yen, something the Big Three have been complaining about for decades, an immediately countervailable offense.

Now the jockeying has started to see how NAM follows up on the vote. "I'm not sure what NAM's constitution says about all of this stuff," says one of the sponsors of the resolution. "And ordinary Robert's Rules of Order means that it eventually has to go to the membership. If it goes to the members, that's going to be huge."

Votes On NAM's International Economic Policy Committee's Draft Resolution On Hunter-Ryan Bill

"NAM reaffirms that persistently undervalued currency, due to government action, creates an unfair competitive advantage in international trade by effectively subsidizing exports to the United States and imposing a disguised tax on U.S. exports. As a first step to address this problem, NAM endorses H.R. 1498 and any equally effective legislation that defines persistent currency undervaluation by any trading partner to be a prohibited export subsidy actionable under countervailing duty law."

The resolution above passed NAM's International Economic Policy Committee by a vote of 75 to 46 with five abstentions. The following is a list of the 172 people who had signed up to be in attendance at NAM headquarters for the June 27 meeting, as well as those who were registered with NAM to participate by phone. The vote happened relatively quickly and the tally below is taken from conversations with people who were in attendance and wrote down the names of companies held up on placards voting for or against. This is not an official vote tally and cannot be considered accurate. According to people who were present, representatives from 34 companies or associations who were physically located at NAM headquarters voted against the resolution. The expected "yes" votes from those participating via phone are included. The likely "no" voters on the phone were: ABB, Bayer, Deere, Eaton, Johnson & Johnson, Hallmark, H.J. Heinz, Owens Illinois, The Coca-Cola Co., Unisys, Volvo and PPG Industries. If there are changes that need to be made to this list, please notify us via e-mail at editor@manufacturingnews.com or phone 703-750-2664.

Dow Chemical, Arnold Allemang, IEPC Chairman
3M, Mildred Haynes
Advanced Medical Tech. Association, Nancy Travis
Albemarle, Barbara Little
Yes: Allegheny Technologies, Laurence Lasoff
No: Altria, Leonard Condon
No: American Apparel & Footwear Assn., Nate Herman
Yes: American Brush Manufacturers Assn., Ted Bush
No: American Forest & Paper Assn., Jacob Handelsman
Yes: American Foundry Society, Stephanie Salmon
Yes: American Iron & Steel Institute, Barry Solarz
American Textile Machinery Assn., Charles Blum
No: AMT, Jonathan Kurrle
No: Applied Materials, Joe Pasetti
No: Arch Chemicals, Chuck Barnett
Yes: Architectural Testing, Kathryn Walsh
No: Automotive Trade Policy Council, Doug Goudie
Yes: Avon Broach & Production Co., Peter Morici
Baxter, Greg Polk
Yes: Bear Metallurgical, Barbara Burchett
Bridgestone Americas, Steven Akey
Yes: Campbell Fittings, Joe McGlynn
No: Campbell Soup, Kelly Johnston
No: Cargill, Devry Boughner
Yes: Carpenter Technology, Jeffrey Beckington
No: Case New Holland, Steven Nadherny
No: Caterpillar, Bill Lane
Celanese, Bob Carpenter
Yes: CGR Products, Peter Warren
Yes: Charlotte Pipe & Foundry, Brad Muller
Conoco Philips, Don Duncan, Kay Larcom
Yes: Copper and Brass Fab. Council, Joseph Mayer
Yes: Copper Development Association, John Arnett
Cummins, Steve May
No: DaimlerChrysler, Jeff Werner
DuPont, Sharee Calverley Lawler
Yes: Duraco Products, John Licht
Yes: E&E Manufacturing, John Guzik
Yes: East-Lind Heat Treat, Charles Capito
No: EDS, Randy Dove
No: Electronic Industries Alliance, Storme Street
No: Emerson, John Gentile
Yes: Fairmount Minerals, Alicia Oman
FC Brengman, George Feleyn
Yes: FESTO, John Dunn
Yes: Fisher Barton Inc., Richard Wilkey
No: FMC, Jerry Prout
No: Ford Motor Co., Simonetta Verdi
Yes: Forging Industry Association, Jennifer Baker
Yes: Fredon, Manesh Sharma
GAMA, Michael Blevins
No: General Motors, Shirley Zebroski
No: Grocery Manufacturers of America, Sarah Thorn
No: Halliburton, Bob Moran
Yes: Hand Tools Institute, Ruth Kemmish
Yes: Hialeah Metal Spinning, Adrida Tworeche
No: Honda, Toni Harrington
Yes: Industrial Fasteners Institute, Laurin Baker
Ingersoll-Rand, Dan Haley
No: Intel, Melika Carroll, Steve Harper
Yes: IPSCO Enterprises Inc., Martha Gibbons
Yes: Kason Industries, Randall Fenlon
Yes: Leonard Machine Tool Systems, Scott Nance
Master Products, Susanna Brown
Mattel, Tom St. Maxens
No: McGlaughlin Gromley King, Bill Gullickson

No: MeadWestvaco, Alex Stoddard
Abstained: MEMA, Brian Duggan
Yes: Met Plastics, Jennifer Diggins
Yes: Metals Service Center Inst., Jonathan Kalkwarf
Yes: Michigan Tooling Association, Robert Dumont
No: Milacron, Bob Branand
Yes: Mittal Steel, Dana Wood
Mitsui, Lawrence Bruser
Yes: Ntl. Council of Textile Organizations, Lloyd Wood
Yes: National Lime Association, Amanda Hemati
No: NEMA, John Meakem
Nordic Group of Companies, WR Sauey
Yes: North American Die Casting Assn., Corey Schott
Yes: NE PA Manufacturers Employers, Nick Peterson
Yes: Nucor, Bob Johns
Occidental Petroleum, Jace Hassett
No: PACCAR, Ken Stinger
No: Panasonic, Mary Alexander
PATRI, Roberta Telles
Yes: Penn. Manufacturers Assn., Alexander Menotti
Yes: Penn United Technology, Dave Frengel
No: Pernod Ricard USA, Mark Orr
Yes: Precision Metalforming Association, Bill Gaskin
No: Procter & Gamble, Scott Miller
Reebok, Peter Friedman
Reliable Metalcraft, Tom Thomson
Yes: Revere Copper, Brian O'Shaughnessy
Rockwell Automation, Ron Reimer
Rockwell Collins, Joe Mariani
Yes: Saegertown Manufacturing, Courtney Wilson
Shell, Tracey McMinn
Yes: SMC Business Councils, Charles Blum
Soc. of Glass and Ceramic Decorators, Matt Davison
Solectron, Anne Davidson
No: Sony, Christina Tellalian
Yes: Stamco Industries, Jeff Mrowka
Yes: Steel Manufacturers Association, Adam Parr
Stripmatic Products, Chris Wiumbush
Yes: Taylored Industries, Christopher Loeffler
The Aluminum Association, Steve Larkin
Yes: The Soc. of the Plastics Ind., Karen Bland Toliver
No: Toyota Motor North America, Yuri Unno
No: Tyco International, Susan Bunning
Unilever, David Vernon Lustig
Yes: Unitil, Heidi Bougeois
Yes: United States Steel Corp., Jennifer Lindsey
United Technologies, Sherry Grandjean
Walker, Paul Nathanson
Xerox, Alec Rogers
Whirlpool, Heather West
Yes: Wigwam Mills, James Schollaert
No: W.L. Gore & Associates, Mike Ratchford

By Teleconference:
ABB, Lisa Schroeter
A-Brite Co., Frank Dunigan
ACE Clearwater Enterprises, Kellie Johnson
AdvaMed, Michelle DeMoor
Alcoa, Russell Wisor
Bayer, Karen Niedermeyer
Chesapeake Energy, Deby Snodgrass
Click Bond, Collie Hutter
Clow Stamping, Reggie Clow
Yes: Corus Group/Thomas Steel Strip, Stephen Wilkes
Yes: Curtis Screw, John Hoskins
Deere & Co, Robert Noth
Diamond Casting, Gerry Letendre
Yes: Dixie Industrial Finishing Co., Jim Jones
Eaton, Barry Doggett
EFCO Corp. Al Jennings
Yes: E.J. Basler, Dennis Basler
Eklind Tool Co., Earl Cunningham
Flowserve, Amy Callender
Yes: Fox Valley Molding, Don Haag
General Aviation Manufacturers. Assn., Edward Smith
Yes: Georgia Industry Association, Sherian Wilburn
H.J. Heinz, Cathy Caponi
Hallmark, Barbara Koirtyohann
Harley-Davidson, Wayne Curtin
Harsco, Russel Swanger
Hudapack Metal Treating, Gary Huss
Intermatic Inc., David Schroeder
ITT Industries, Wingate Lloyd
Johnson & Johnson, Tammy Boyd
Yes: KB Alloys, Richard Malliris
Yes: Mfrs. Assn. of Central N.Y., Randy Woken
Yes: Mfrs. Assn. of Northwest Penn., Sheila Sterrett
MeadWestvaco, Virginia McLain
Metal Products Co., Jim Dyer
Novelis, Brenda Pulley
Owens Illinois, Christopher Hatcher
Pine Hall Brick, Fletcher Steele
PPG Industries, Lynne Schmidt
Yes: Precision Machined Products Assn., Mike Duffin
Yes: Quality Float Works, Jason Speer
Yes: Saegertown Manufacturing, Courtney Wilson
Sealaska, June Koval
SSM Industries, Scott Hilleary
Yes: Stewart & Stewart, Alan Dunn
The Coca-Cola Co., Michael Goltzman
Yes: The Timken Co., Michael Haidet
Thuro Metal Products, Neil Walsh
Unisys, Dan Hoydysh
Yes: Universal Electric, Joel Ross
Yes: Varflex, Dan Burgdorf
Vermeer Manufacturing, Daryl Bouwkamp
Volvo Group North America, Geoffrey Merrill
Yes: Wood Machinery Manufacturers of America, Harold Zassenhaus

Reverse Auctions...(From page one)

to participate in the reverse auctions or lose the business. According to suppliers, a typical comment directed at them by their customer was: "If you want to keep this business you will participate and you need to be the low bidder." Another said: "If you do not participate you will be dropped as a supplier, as an approved source and will not be invited to provide proposals in [the] future."

Reverse auctions are used mainly by large U.S. companies, due to their focus on quarterly returns and their stock price, says Emiliani. "Market makers know this is one of management's principle interests, and so that is how they sell reverse auctions to prospective customers. Every dollar saved in a 20 percent gross margin business is equivalent to increasing sales by $5. So the bottom-line contribution of cost savings achieved through unit price reductions is enormous compared to the time and expense needed to significantly grow sales."

But there is no proof that users of reverse auctions like GM, Hewlett Packard, Dell Computer, General Electric and Motorola benefit from relationships built upon price coercion. Suppliers that win the business under-price everyone else in order to gain a foothold in a market. They do not collaborate with their customers to help them reduce costs.

"Worse yet, it can lead to retaliation among incumbent suppliers who retaliate for real or perceived injustices," according to Emiliani. "They do this by charging higher prices for new work, charging buyers for change orders, reducing investment for customers that use reverse auctions, withholding cost savings or relegating the buyer's order to a secondary status when production capacity is constrained. This perpetuates adversarial relationships, which in turn build-in unnecessary costs and inefficiencies in supply chains. Mutually assured opportunism can hardly be considered a good start to a long-term collaborative relationship, and it will in fact degrade the long-term competitiveness of both buyer and seller."

Those running reverse auctions use both psychological and price harassment as a means "for achieving the outcomes that buyers seek," says Emiliani. These practices run counter to many of the stated codes of conduct guidelines that most corporations issue to employees dealing with suppliers. The federal government, which also uses reverse auctions has its own standards of conduct that stress "integrity" and "trust." The Institute for Supply Management has its "Principles and Standards of Ethical Supply Management Conduct" that says companies need to "promote positive supplier relationships [and] enhance the stature of the supply management profession."

Emiliani says "it is clear that reverse auctions do not support [such] statement because they damage supplier relationships and degrade the stature of the supply management profession by compelling buyers to remain strongly focused on unit prices, versus total cost....Therefore, the use of reverse auctions should be explicitly discouraged by ISM and similar organizations."

The 24-page study "Coercion and Reverse Auctions, is located at http://www.theclbm.com/papers /ra_%20coercion.pdf. Emiliani can be reached via e-mail at emilianibob@mail.ccsu.edu.

India Manufacturing...(From three)

intended, he said, to "cut across all the bureaucracy of India, from ministry to ministry," in case action at the level of the Prime Minister's Office is required.

The rationale for government involvement, as appears from the Strategy, is that "to improve [the] overall competitiveness of any product, it is essential to improve National-level competitiveness as well as firm-level competitiveness.

"The growth of [the] manufacturing sector," the document continues, "is dependent on government policies which influence the market environment in which the businesses operate as well as on the role played by the industry itself."

Among the areas of government involvement envisioned in the Strategy are:

Education and Training. "Isolation of education (even training) from the production sector is the basic flaw of the Indian system," the document states, as it has led to "a serious mismatch" between the manufacturing industry's needs and "the availability of skilled engineers and technicians" outside certain "popular engineering streams." It calls upon government, industry and academia to cooperate in "strengthening education & skill building."

Research Funding. The government should, according to the Strategy, "take steps to encourage better coordination of efforts with greater focus on innovation and productivity-enhancing technologies" — one step being to review existing policies relating to R&D funding, incentives for supporting generic technologies, engineering and physical sciences." India, it notes, has a "very small" share of the United States' $240 billion annual imports of Advanced Technology Products; "with its technical capabilities," however, "India should be able to manufacture and garner a sizable portion of this market."

Centers of Excellence. Should the government spur the creation — through public-private partnerships if necessary — of common testing facilities and centers of manufacturing-technology excellence, "management of these by the beneficiaries themselves would encourage the Indian manufacturing industry to invest in innovations." The Strategy also recommends that the government consider establishing "technology parks" near institutions of higher learning, naming Stanford Research Park as one example.

Technology management. "Government should consider setting up a 'Global Technology Acquisition Fund' to enable Indian industry to acquire very high technology intensive companies abroad," the Strategy states. "This would also incorporate a national knowledge management center with a technology-tracking cell. Attention is required to be paid to incentivisation of R&D in National R&D Laboratories and [to] provid[ing] greater market orientation to Government-funded R&D. The merger or consolidation of national technology institutions in similar areas of work also requires consideration in order to derive synergy and economies of scale."

India's National Strategy for Manufacturing is online at http://www.nmcc.nic.in/publications/strategy_ paper_0306.pdf.

COMMENTARY:

China: A Reagan - Russia Role Reversal

BY KEN JACOBSON

Many credit America's victory in the Cold War to the Reagan administration's military buildup: The United States raised the tempo of the arms race and the Soviet Union spent itself into bankruptcy trying to stay in the game.

Elements of the United States' current rivalry with China recall the dynamic that shaped the 1980s: the link between economic and military power and the consequences of spending beyond one's means. And, though still in the distance, outlines are forming of a new arms race with the potential to place a national economy under strain.

In the present instance, however, China's civilian and military programs fuel one another rather than competing for resources — while it is America's coffers that have started to be drained. If, again, one side ends up stretched to the limit, might it not this time be ours?

Economic and Military Power

The Pentagon has no doubts that, in China, the economy and the military are moving forward together. "China's impressive economic growth has enabled Beijing to make ever-higher investments in the defense sector," it states in a May 2006 report to Congress entitled "Military Power of the People's Republic of China 2006."

"Sources for [People's Liberation Army] force modernization include domestic defense expenditures, foreign acquisitions, and indigenous defense industrial developments — all of which are driven by the performance of the economy," the report points out.

Citing "double-digit [real] increases in China's official military budget every year since 1996," it adds that estimates by the Defense Intelligence Agency place the country's total military-related spending for this year at between $70 billion and $105 billion: "two to three times the announced budget."

Going hand in hand with the Chinese economy's success and helping form its link to military power is technology acquisition. Early this year, Chinese President Hu Jintao proclaimed China's "need to build an innovative system of defense science and technology," according to the Pentagon report. He envisions a "structure under which military and civilian high technologies are shared and mutually transferable."

The Pentagon sees this structure as already partially completed — thanks, in part, to outside help. "Foreign investment in physical plant, management, technical and marketing expertise in some basic manufacturing sectors has increased the prospect for spin-off with military and dual use industries," according to the report. "Joint ventures in China also now manufacture semiconductors and integrated circuits used in military computers, communications and electronic warfare equipment and missile guidance and radar systems."

Spending Beyond One's Means

So in two decades conditions have all but reversed. China, unlike the USSR as it tottered toward breakup, is nowhere near the economic brink, nor is America pursuing a strategy that could prod it in that direction. In fact, the contrary prevails: U.S. actions are contributing to China's upward momentum even as they imperil the future strength of America's national economy.

Anyone questioning this reversal would do well to reflect on some recently released data:

- As of the end of April 2006, China held $323.2 billion in U.S. Treasury securities. At 6 percent interest, that implies $19.4 billion in U.S. government payments to China in 2005, equivalent to around 6 percent of the $318 billion federal budget deficit.
- For 2005, the U.S. current account deficit with China was $220.1 billion. A $201.7 billion deficit in traded goods dwarfed the $1.1 billion U.S. interests received for all intellectual property royalties and fees; the total U.S. surplus in traded services, into which category royalties fall, was a scant $2.6 billion.
- Motorola has been identified by the Chinese government as China's top foreign-owned exporter, and its fourth-leading exporter overall, with exports worth $6.45 billion in 2005.
- The U.S. was China's fifth-largest source of foreign direct investment in 2005, according to the U.S.-China Business Council, accounting for $3.1 billion of a total of $60.3 billion. Ranked higher were Hong Kong, which some might consider part of China itself; the Virgin Islands, whose participation might be thought to include a U.S. component; Japan and South Korea.

"Oh, you Americans! You are going to win the Cold War," a Soviet arms negotiator told the journalist Harrison Salisbury in 1981. "You are going to make us spend and spend to keep up, and our lousy standard of living will go down and down, and in the end you will win."

Our standard of living is far from lousy, and if we spend and spend, it's to keep up with the Joneses, not with the Chinese. Still, the very latest on the U.S. current account deficit with China is that it hit $53.2 billion in this year's first quarter, a figure 16.5 percent worse than that for the same quarter of 2005. In the current climate, the arms negotiator's words are not without resonance.

A New Arms Race

According to the Pentagon's 2006 Quadrennial Defense Review Report, "China has the greatest potential to compete militarily with the United States

(Continued on next page

GAO Says DOD Should Scale Back On F22A

The Department of Defense has not demonstrated "the need or value for making further investments" in the F-22A fighter aircraft, according to an audit by the Government Accountability Office (GAO). The Air Force says it needs 381 F-22As to satisfy its mission, but because of cost overruns and budget constraints, the Pentagon says it can only afford 183 aircraft, a reduction of 198.

"The Air Force is planning to invest about $4.4 billion through 2011 to add more robust ground attack and intelligence gathering capabilities for the F-22A," says GAO. "However, because of the large aircraft gap between stated Air Force requirements and current and future budget realities, it may not be prudent to make additional investments for these new missions and capabilities. Furthermore, alternatives such as the Joint Strike Fighter and F-15 might be able to execute ground attack more cost-effectively given the substantially fewer numbers of F-22As that OSD has committed to buy."

GAO says Congress should consider withholding any additional funds for procurement and modernization of the aircraft "until the Department completes a comprehensive business case that addresses the concerns we have raised."

A copy of the report, "Tactical Aircraft: DOD Should Present A New F-22A Business Case Before Making Further Investments" (GAO-06-455R), is available at http://www.gao.gov/new.items/d06455r.pdf.

Role Reversal...

(From page nine)

and field disruptive technologies that could over time offset traditional U.S. military advantages." The May report to Congress on China's military power adds: "China's leaders have yet to adequately explain the purposes or desired end-states of their military expansion." Can the explanation be that the Chinese have in mind for us what the Reagan administration had in mind for the Soviets?

In October 1981, President Reagan told a group of reporters: "[The Soviets] cannot vastly increase their military productivity because they've already got their people on a starvation diet as far as consumer products are concerned. But they know our potential capacity industrially, and they can't match it."

On that occasion, Reagan talked of facing the Soviets with a choice: "Do they want to meet us realistically on a program of disarmament or do they want to face a legitimate arms race in which we're racing?" To do this, the U.S. would have to "show them the will and determination to go forward with a military buildup in our own defense and the defense of our allies." In framing what was perhaps an early version of a strategy aimed ultimately at taking the USSR down, Reagan commented on America's economic strength: "So, we've got the chip this time."

More recently, it appears, the chips have been piling up on China's side of the table. Shouldn't we take account of this — and of how we have been helping to put them there?

New (And Old) Plants

Flextronics is investing heavily in India. The company plans on hiring between 1,500 and 2,000 employees at a new plant on 250 acres in Chennai. It will invest up to $100 million in the facility over the first five years, and expects annual revenues from the plant to reach $200 million. Flextronics will also expand its Bangalore design center in order to capitalize on India's electronic products market, which is projected to grow from $11.5 billion in 2004 to $40 billion in 2010.

Bristol-Myers Squibb has chosen the Fort Devens site 35 miles northwest of Boston to build a new $660-million biotechnology plant. The facility will employ at least 350 people and up to 550 people. Massachusetts has pledged to make $34 million worth of improvements to the site. The state was competing with a site in North Kingston, R.I., and other sites in South Carolina and New York. Construction on the 88-acre property is scheduled to start in September and be completed in 2009. The plant will be 750,000 square feet and produce biological compounds used in a variety of maladies including cancer, arthritis and organ transplants.

Sanmina-SCI has opened a new 32,237 square meter factory in Guadalajara, Mexico. The plant will make electronic enclosures to be sold to the company's nearby customers.

U.S. bathroom components manufacturer **Kohler** is opening a new plant in India that will provide employment to at least 4,000 people, according to a statement from the Indian government. The facility will make vitrified tiles in Jagadia, India. The plant will be the company's largest in Asia.

Pfizer has announced plans to stop manufacturing at its Groton, Conn., plant and lay off as many as 300 workers. "Given what's happened at Pfizer over the last few years with eliminating most of the manufacturing, it wasn't a great big shock," says Groton Mayor Dennis Popp. Pfizer has announced plans to cease all manufacturing by the end of 2008 and focus on research. The company has shut down 29 factories across the globe since 2003, according to Pfizer spokeswoman Liz Power.

St. Louis-based **Belden CTD** will close its cable manufacturing plant in Fort Hill, Ky., and move production to a new factory in Mexico. The plant will begin phasing out employees later this year and will close by the end of 2007.