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Bush Decision On Chinese Imports Leads To Loss Of 500 Very Good Jobs

Thank you, President Bush, for killing 500 good-paying American jobs — the ones that earn between $50,000 and $60,000 a year — and allowing the United States to become dependent on China for many of the components used to transport fresh water into people's homes and businesses. That's the message from McWane Inc., of Birmingham, Ala., the country's largest provider of ductile waterworks fittings with 7,000 employees.

The company has recently closed its U.S. factories that made water equipment fittings and has shifted its production to a 400,000-square-foot plant on a 50-acre site in China to produce the same products. Why? Because President Bush on March 3, 2004, overruled a six-to-zero vote by the International Trade Commission that determined Chinese producers were dumping waterworks fittings into the U.S. market. McWane brought the case before the ITC under Section 421 of the Trade Act and spent $1.5 million pursuing it. The ITC determined the industry was worthy of import relief consisting of duties of up to 50 percent on ductile iron waterworks fittings from China. But President Bush didn't agree with the decision, claiming that U.S. consumers were more important than U.S. producers.

"I find that the import relief would have an adverse impact on the United States economy clearly greater than the benefits of such action," Bush wrote in his memorandum denying relief. "I find that import relief would have an adverse impact on the United States economy clearly greater than the benefit of such action." Bush has vetoed every affirmative 421 case that has reached his desk on similar grounds.

The result of his decision with regards to McWane: "We have been forced to build facilities in China and import that product back into the United States

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If Paul Revere Were Alive Today He'd Be Yelling: 'The Chinese Are Coming!'

The oldest manufacturing company in the United States, created by the legendary Paul Revere in 1801, is in trouble. Revere Copper has announced plans to close its New Bedford, Mass., copper plate and sheet mill, laying off 85 workers at a facility that has been fabricating copper continuously since 1862.

"Revere deeply regrets the impact that this decision will have on its employees, their families and the community it has been a part of for so long," says the company in a refrain that has been repeated perhaps thousands of times by other manufacturing companies over the past five years.

The company produces copper and brass products used in dozens of applications and by companies such as Schlage Lock, Kwikset Locks, Carrier, Price Pfister and other major companies.

But since 2000, about 30 percent of the manufacturing plants that Revere supplied have either closed down or moved offshore. Companies like Rome Cable, Carrier, Oneida Ltd., Union Fork & Hoe, General Electric, Spargo, Smith Corona, Ethan Allen and Chicago Pneumatic have all closed U.S manufacturing plants. "No one knows how many factories have shut down recently because of foreign competition," the company notes. "Ethan Allen announced it

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U.S. Steel CEO Scolds NAM Over Trade Issue; NAM Says, 'We're Listening'

John Surma, the chairman and CEO of United States Steel Corp., isn't pleased with the way the National Association of Manufacturers is promoting its policy position on trade issues. In a March 19 letter to NAM president John Engler, a copy of which was obtained by *Manufacturing & Technology News*, Surma says that NAM is focusing too much on free trade and not enough on fair trade. By doing so, NAM risks becoming "irrelevant" in the growing Washington debate over trade.

Surma, who declined to comment on the letter, writes that a recent NAM brochure entitled "Leveling the International Playing Field" seems to set the right tone of stressing the importance of "stemming the loss of American jobs due to unfair trade practices." But when he started reading, there was little mention of the need to "eliminate trade-distorting subsidies and defend, preserve and enhance the effectiveness of WTO-consistent U.S. trade laws." Some members of NAM, including U.S. Steel, worked hard to have that specific language adopted by NAM's trade policy group, yet there was no mention of it in the policy document.

"While the brochure dwells heavily on the trade expansion fronts, it barely mentions the part of our trade policy that has to do with fairness and rules," Surma writes. "As you know well, having a rules-based fair trade message as an integral part of the NAM trade policy is very important to many NAM members. I was disappointed to find only glancing reference to it and in terms not discussed or approved by the membership."

Surma scolded Engler for allowing the NAM staff to draft the brochure without consultation with the members, especially given the highly sensitive nature of the issue. NAM staff "certainly did not check with U.S. Steel" or the American Iron and Steel Institute in creating the policy brochure, Surma notes.

Given the change in political leadership in Washington, NAM's focus on free trade agreements "puts the Association in danger of becoming irrelevant in the eyes of those who understand why popular support for liberalized trade has eroded in this country," Surma writes. "[W]e need to spend more time listening to those who were sent to Washington to effect a different — and fairer — deal and then use what we learn to present a balanced message that people can hear."

NAM says the brochure wasn't intended to be a comprehensive document but "a quick, light read — using brief statements and easy language," says Frank Vargo, NAM vice president of international economic affairs. The association will soon have a more comprehensive "white paper" on the issue, and will have the "very words in it that Mr. Surma pointed out in his letter."

(Continued on page four)

FREE TRADE AGREEMENT STATUS

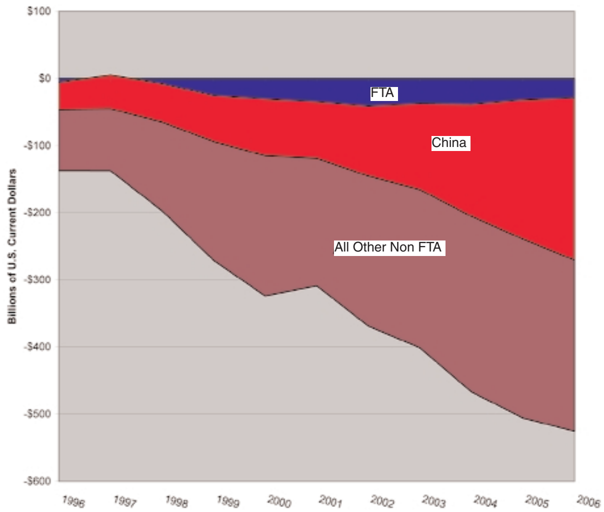
In Force:
- Israel (September 1985)
- Canada (January 1989)
- Mexico (January 1994)
- Jordan (December 2002)
- Chile (January 2001)
- Singapore (January 2004)
- Australia (January 2005)
- Morocco (January 2006)
- El Salvador (March 2006)
- Honduras (April 2006)
- Nicaragua (April 2006)
- Guatemala (July 2006)
- Bahrain (August 2006)
- Dominican Republic (March 2007)

Pending Entry Into Force:
- Oman (pending final action by Oman)

Pending Legislative Action:
- Colombia (Pending ratification by both countries)
- Costa Rica (Pending ratification by Costa Rica)
- Peru (Pending U.S. ratification)

Active Negotiations:
- Panama (completed but subject to further discussions)
- Korea
- Malaysia

Manufactured Goods Trade Balance: "FTA Partners Are A Tiny Portion of Our Manufactured Goods Deficit," Says NAM



"There is a lot of rhetoric about trade agreements being the cause of our trade deficit," says NAM in its "Leveling the International Playing Field" brochure. "But that's not just false — it's exactly backwards. The truth is our FTAs account for nearly one-half of our manufactured goods exports, but only 6 percent of the trade deficit. Only $30 billion of our $530-billion deficit is with FTA partners."

DUKE UNIVERSITY: NO ENGINEER SHORTAGE IN THE UNITED STATES

China And India Are Not Attracting U.S. Companies Because Of Better Engineers

There are no shortages of engineers in the United States, according to a study by the Duke University's Pratt School of Engineering. "Graduating more engineers just because India and China graduate more than the United States does is likely to create unemployment and erode engineering salaries," says the study entitled "Seeing Through Preconceptions: A Deeper Look at China and India."

In putting together what it believes is the world's best data set on the number of engineers graduating in the United States, China and India, the Duke researchers found that India and China might be the places suffering from shortages.

The study found that companies are not moving their engineering operations to India and China because of a deficiency in the number or the poor quality of engineers graduating in the United States. Rather, companies "are doing what gives them economic and competitive advantage," says the study. "It is cheaper for them to move certain engineering jobs overseas and to locate their R&D operations closer to growth markets. There are serious deficiencies in engineering graduates from Indian and Chinese schools. Yet the [offshoring] trend is building momentum despite these weaknesses."

A national strategy of improving the United States' educational system is not a panacea for the country's competitiveness woes, says the study. It would be better for the government and industry "to identify ways to strengthen U.S. industry while also taking advantage of the benefits offered by globalization," the study concludes.

The Duke engineering school researchers contacted more than 200 universities in both China and India and found that they did a poor job of tracking the number of their own engineering graduates. "What we learned is that no one was comparing apples to apples" with the U.S. numbers, says the study. "In China, the word 'engineer' does not translate well into different dialects and has no standard definition." A mechanic or a technician might be counted as an "engineer" by China's Ministry of Education.

China considers anyone receiving a degree in information technology or specialized areas of study such as shipbuilding to be an engineer "regardless of the degree's field or associated academic rigor," says the Duke study. Nearly half of China's "engineers" received what would be considered a two-year associate degree in the United States. Most of these degrees were received through military training.

Similar specious accounting methods were found in India, where the definition of an engineer "includes a wide variety of jobs in computer science and fields related to information technology, and no breakdown is available that precisely matches the U.S. definition of engineer, which generally requires at least four years of undergraduate education," says the study.

In a tally of four-year degrees in engineering, computer science and information technology, the Duke researchers found there to be 137,500 graduates in the United States in 2004; 139,000 in India; and anywhere between 361,000 to 442,000 in China, depending on who's counting. Even the low number is suspect, however.

While there has been a dramatic increase in the number of engineering graduates in China since 1999, it's come about through a consolidation of engineering schools (from 4,098 to 2,884) and professors, the number of which declined by 24 percent between 1999 and 2004. "Graduate rate increases have been achieved by dramatically increasing class size," says the study.

"Our interviews with representatives of multinational and local technology companies revealed that they felt comfortable hiring graduates from only 10 to 15 universities across" China, the researchers found. "The list of schools varied slightly from company to company, but all the people we talked to agreed that the quality of engineering education dropped off drastically beyond those on the list. Demand for engineers from China's top-tier universities is high, but employers complained that supply is limited."

Sixty percent of China's engineering graduates in 2006 were not able to find a job, according to China's National Development and Reform Commission.

India has similar problems with quality engineering institutions, the best of which are privately owned. The country had 974 private engineering centers and 291 public or government institutions. The system is hampered by a debate over caste-based quotas for more than half the available seats in public institutions. In India, "representatives of local companies and multinationals told us that they felt comfortable hiring the top graduates from most universities in India, unlike the situation in China," says the study. "Even though the quality of graduates across all universities was inconsistent, corporate officials felt that with additional training, most graduates could become productive in a reasonable period."

Economists: Align Currencies Or Face Meltdown

In order to avoid a global financial collapse caused by unsustainable U.S. trade deficits, governments throughout the world must work together immediately to start a "major" re-adjustment of currencies against the dollar, according to a recommendation made by economic research institutions in South Korea, Europe and the United States.

"A key question is whether [currency] adjustment will be initiated by financial markets or policy actions," says the report from BRUEGEL, the new European think tank in Brussels, the Korea Institute for International Economic Policy in Seoul and the Peterson Institute for International Economics in Washington. "A market-led adjustment might involve global recession, abrupt and excessive changes in key exchange rates and assets prices, and, as a consequence, aggravated trade friction. The recent volatility in global financial markets is a reminder of the dangers of failing to act promptly."

The group recommends an immediate decline in the value of the dollar by 10 to 20 percent, with a strengthening of the Chinese renminbi to about 6:1 against the dollar — a 30 percent readjustment. The group says that there needs to be a "step revaluation" of 10 percent in the renminbi in the near term followed by further appreciation over three to four years leading to the complete cessation of official intervention to prevent a stronger renminbi.

The Japanese yen needs to strengthen against the dollar from its current rate of 118:1 to 90:1, a 25 to 30 percent adjustment. The euro needs to rise from its current $1.33 rate against the dollar to $1.45 to $1.50. Exchange rates with other countries running large external surpluses also need to readjust including those for Hong Kong, Malaysia, Norway, Russia, Singapore, Sweden, Switzerland and Taiwan.

Governments throughout the world must "initiate a policy-induced adjustment in the near future" and a good place for that to occur is at the spring meeting of the IMF, say the three international economic research institutes.

There are "unprecedented" current account imbalances, including the $857 billion U.S. deficit last year; China's surplus of $240 billion, with its trade surplus tripling over the first two months of 2007 from a year ago; Japan's surplus of $171 billion; and the Middle East's oil-generated surplus of $300 billion.

"Persistent external deficits and surpluses of this scale imply an implausible accumulation of foreign liabilities on the U.S. side (rising to more than 50 percent of its GDP by 2011) and an implausible accumulation of assets on the Chinese and Japanese sides (whose foreign exchange reserves already exceed $1 trillion and $850 billion, respectively,)" says the study.

U.S. Steel Vs. NAM... (From page two)

Vargo says there is no way that NAM is or will become "irrelevant" in the trade policy debate. "We have very close relations with the key staffs and members of the Democratic side on trade," he says. "They come to us for our opinion and value our opinion. There is no way we're going to become irrelevant."

Vargo says that NAM is pleased with the new trade agenda developed by Democrats on the House Committee on Ways and Means. "We want to find a way to make [free trade agreements] work on the labor side because we understand that if labor provisions aren't in there in some fashion, then we're not going to get these trade agreements through," he says.

There are problems with adding labor provisions because the United States does not comport to all the International Labor Organization standards. "It's a legitimate question to ask how we are going prevent this from turning around and biting us — having other countries put trade sanctions on us —because our strikebreaker laws and some state right-to-work laws are inconsistent with the ILO requirements," he says. "This is not a theoretical question."

In his letter to Engler, the U.S. Steel chief also criticized the way in which NAM presented the benefits of pursuing the Doha Round of trade negotiations. "As you reaffirmed to me personally in your letter of November 30, 2005, NAM policy is that the effectiveness of U.S. trade laws should not be diminished in the Doha Round. Yet any reader of the 'Leveling' brochure will be left totally unaware of that. I was also disappointed that only one point of view was highlighted — Caterpillar's 'no deal is a bad deal' — when clearly other members have a perspective in direct variance. While Caterpillar is a fine company and they are, of course, welcome to their opinion, we can easily imagine a deal that is, in fact, a bad one, but our opinion was neither sought nor presented."

NAM says that it is actively seeking fairness in the U.S. trade regime and that it has recently achieved a "major success" in pressuring China to end an egregious export subsidy. The Central Bank of China is no longer providing discounted loans to large exporters that allowed them to export products "for far less than they otherwise would have had to charge," says NAM. As much as 60 percent of Chinese exports received the subsidy.

"The NAM applauds this action and hopes the termination of this subsidy indicates China's willingness to withdraw other subsidy programs identified in the recent WTO case" brought against it by the United States, writes Jeff Noah, NAM's director of small and medium manufacturers. "However, if China does not follow its obligations, the NAM has told the administration it wants quick handling of the WTO case to compel their termination....The NAM has been relentless in pressing for a more level trade relationship with China," Noah writes.

Business Is Big Spender In Washington

Lobbying Washington policymakers was a $2.45-billion industry in 2006, according to an analysis of public disclosure forms done by the Center for Responsive Politics. "We can't even guess at how much these disclosure reports underestimate the true size and scope of the influence industry," says Tim La Pire, who does research on lobbying with the Center. The biggest lobbying organization by far was the U.S. Chamber of Commerce, which increased spending on lobbying from $40 million in 2005 to $73 million in 2006, far more than the $13 million reported by the National Association of Manufacturers.

"Most lobbyists — nearly 4,000 of them — worked on issues related to the federal budget and appropriations," says the center. "That in itself is nothing new, but the growth of this specialty in the last two years has been remarkable." Lobbyists have been busy tucking earmarks into congressional legislation and seeking tax cuts and import tariff reductions.

Below is a list of companies and organizations and their 2006 lobbying expenditures. The database is available for viewing at http://www.opensecrets.org.

- 3M: $1,895,200
- Abbott Laboratories: $3,660,000
- Advanced Medical Tech. Association: $3,468,189
- Advanced Micro Devices: $1,060,000
- AFL-CIO: $3,625,000
- Alcoa: $800,000
- Alliance of Automobile Manufacturers: $13,028,508
- Amazon.com: $1,560,000
- American Apparel & Footwear Assn.: $400,000
- American Bioindustry Alliance: $190,000
- American Foundry Society: $160,000
- American Intl. Auto Dealers Assn.: $400,000
- American Nuclear Society: $100,000
- American Petroleum Institute: $3,380,000
- American Public Power Association: $1,656,000
- American Small Manufacturing Coalition: $759,289
- American Tort Reform Association: $160,000
- American Society for Quality Control: $120,000
- Apple Computer: $1,100,000
- Applied Materials: $620,000
- Assn. of Intl. Automobile Manufacturers: $340,000
- Assn. of Small Business Dev. Centers: $170,000
- Assn. for Manufacturing Technology: $540,000
- Autodesk: $400,000
- BAE Systems North America: $2,300,000
- Bayer Corp.: $2,992,969
- Becton, Dickinson & Co.: $1,190,861
- Biotechnology Industry Organization: $5,700,000
- Boston Scientific Corp.: $780,000
- Bristol-Myers Squibb: $5,740,000
- Business Roundtable: $8,820,000
- Business Software Alliance: $1,180,000
- Chevron Corp.: $7,480,000
- Cisco Systems: $1,220,000
- Coalition for Employment Through Exports: $100,000
- Coalition for U.S. Based Employment: $20,000
- Computer & Communications Industry Assn.: $220,000
- Confed. of Garment Exporters/Philippines: $340,000
- Consuming Industries Trade Action Cltn.: $100,000
- Cummins Inc.: $1,440,000
- DaimlerChrysler: $3,010,541
- Dallas NAFTA Trade Corridor Coalition: $40,000
- Dell Inc.: $1,560,000
- Delphi Corp.: $1,060,000
- Eastman Kodak: $420,000
- Edison Electric Institute: $11,000,000
- Edison Welding Institute: $20,000
- Electric Power Supply Association: $439,000
- Electricity Reliability Coordinating Council: $680,000
- Emergency Committee for American Trade: $820,000
- Energy Conversion Devices: $160,000
- Eli Lilly & Co.: $3,700,000
- Exxon Mobil: $14,500,000
- Federation of Electric Power Companies Japan: $230,000
- General Atomics: $2,080,000
- General Electric: $8,420,000
- General Motors: $8,700,000
- Google Inc.: $720,000
- Harvard University: $760,000
- Hewlett-Packard: $780,000
- Honda North America: $1,662,800
- Honeywell International: $4,420,000
- Hong Kong Trade Development Council: $760,000
- Hyundai Motor Co.: $420,000
- IBM Corp.: $7,540,000
- Industrial Fasteners Institute: $120,000
- Information Technology Assn. of America: $240,000
- Ingersoll-Rand: $100,000
- Innovation Competitiveness Coalition: $160,000
- Intel Corp.: $1,910,000
- IPC/Assn. Connecting Electronics Industries: $320,000
- Johns Hopkins University: $1,080,000
- Johnson & Johnson: $5,380,000
- Lockheed Martin: $4,240,000
- Massachusetts Institute of Technology: $191,964
- Materials Research Society: $120,000
- Medical Device Manufacturers Association: $100,000
- Medtronic: $1,360,000
- Merck & Co.: $4,050,000
- Michigan Biotechnology Institute: $295,000
- Michigan Manufacturing Tech Center: $60,000
- National Assn. of Manufacturers: $13,240,000
- National Center for Mfg. Sciences: $750,000
- National Fedn. of Independent Business: $3,153,000
- National Foreign Trade Council: $880,000
- National Rural Electric Cooperative Assn.: $4,355,562
- New Jersey Center for Biomaterials: $80,000
- Nike Inc.: $450,000
- Nissan North America: $2,000,000
- North American Die Casting Assn.: $80,000
- North America's Supercorridor Coalition: $80,000
- Northwestern University: $800,000
- Nuclear Energy Institute: $1,360,000
- Office Furniture Manufacturers Coalition: $180,000
- Pfizer Inc.: $12,220,000
- Pharmaceutical Research & Mfgrs. Assn.: $18,100,000
- Precision Metalforming Assn.: $132,000
- Public Citizen: $200,000
- R&D Credit Coalition: $420,000

(Continued on next page)

McWane...(Continued from page one)

because of governmental inaction here and the lack of any kind of protection for the investments we have made here to comply with U.S. environmental and safety laws and regulations," says David Green, executive vice president of McWane. "There has been an absolute surge of imports and it's gotten worse."

After the Bush decision, the company started reducing production at its ductile iron water works fittings plants in Alabama, Texas and Ohio. But it's not clear that consumers benefited from Bush's decision, as he said they would.

"You have one of our products per house in a subdivision — one fitting — and the consumer pays the same price because the only thing that happens is the contractor puts the savings in his back pocket," says Green. In fact, foreign imports might cost consumers money, given problems with quality, regulatory compliance and products being made overseas without there being any environmental controls.

There is a congressional effort to remove the president from being involved in 421 cases. A provision in the "Strengthening America's Trade Laws Act" (S-364), sponsored by Sen. Jay Rockefeller (D-W.V.), would place a "limitation on presidential discretion in addressing market disruption."

There is nothing wrong with the 421 provision of the 1974 Trade Act, say Washington lawyers involved in cases brought before the ITC. "The problem is the administration has been unwilling to save or protect domestic industries that are being hurt by unfair Chinese imports," says Paul Rosenthal of Kelley Drye Collier Shannon. "The rationale they have used to deny relief, even after the ITC has recommended relief, has been inexplicable."

Bush has stated that if Chinese imports were restricted, then imports would surge from other nations. The IPC has not agreed with that. Imports from other countries would not be as harmful as those coming from China because none of them are priced as low as Chinese imports, say those involved with the cases.

"All the arguments the administration uses are make-weights and don't justify their position," says Rosenthal. "I think they have just not had the political will to apply the statute."

In the case of ductile iron waterworks fittings, the ITC stated that imports from China "are a significant cause of market disruption to the domestic industry," and that despite an increase in domestic consumption U.S. production was in steady decline. Chinese prices were declining and there was clear evidence that the Chinese were engaged in "significant underselling of domestic products," said the ITC. "We find a direct and significant connection between the rapidly increasing imports of DIWF from China since 2000 and the recent and sharp decline in industry indicators."

A week after Bush decided against the ITC's recommendation, Green and his boss left for a tour of plants in India and China. They found the conditions to be "atrocious," says Green. "It's common knowledge but nobody wants to pay attention to it: environmentally, it's putrid."

In India, foundry workers don't wear shoes, socks, headgear, ear plugs or eye protection. They wear nothing other than flimsy boxer shorts, squatting on the floor next to burning-hot furnaces.

The next stop was China. "There are no U.S. environmental regulations in China," Green says. If there are any regulations, there is no enforcement whatsoever. If you took a U.S.-regulated, compliant facility and put it in China, "there is no way you could be competitive with all the other Chinese manufacturers," he says. If McWane has to invest hundreds of millions dollars in technology to meet the new EPA guidelines for new foundries in the United States "then there ought to be some support" for having to do so, says Green.

McWane's plant in China has emissions control devices that are six times more stringent than Chinese standards. "We laugh internally that the air leaving our emission control devices is cleaner than the air coming into our facility" three hours south of Beijing.

There are many thousands of foundries in China that use 40-foot-tall cupolas to light industrial grade coke, none of which have collection devices at the top of the stack. Black smoke belches out, creating a plume that stretches across the Pacific Ocean.

The Chinese aren't as efficient, either. At McWane's U.S. plants, it takes 15 man-hours-per-ton to produce ductile fittings, whereas in China, it takes 150-man-hours-per-ton. Moreover, there are no standards regulating arsenic in the coking coal used to make piping and components that carry fresh water, nor do the Chinese have certifiable radiation testing systems. The Chinese have also been found to be using asbestos to coat pipes and fittings in an attempt to minimize leakage.

The U.S. courts are also working against the interests of U.S. producers. In what is being described as a "stunning defeat" for the American foundry industry, the U.S. District Court in San Francisco recently ruled

(Continued on page seven)

Lobbying Expenditures...(From page five)

- Rochester Institute of Technology: $380,000
- Rockwell Collins Inc.: $530,718
- Rockwell Automation: $225,000
- Rutgers, the State University of N.J.: $380,000
- SAP America: $3,460,000
- Semiconductor Equipment & Materials Intl.: $400,000
- Semiconductor Industry Assn.: $750,000
- Southern Co.: $13,200,000
- Sun Microsystems: $34,000
- Texas Instruments: $2,305,408
- Thermo Electron: $236,900
- Toshiba Corp.: $1,400,000
- Toyota Motor Mfg. North America: $4,585,342
- United Technologies: $4,394,465
- University of California: $680,000
- U.S. Business & Industry Council: $80,000
- U.S. Chamber of Commerce: $72,740,000
- U.S.-China Business Council: $80,000
- U.S.-India Business Council: $120,000

421 Case...*(From page six)*

that Qiaoshan Casting Co. Ltd. and Hua Du City Pin An Foundry Ltd., both exporters of ductile fittings into the American market, "cannot be sued in American courts for quality lapses because those courts have no jurisdiction over them," according to the AB&I foundry in Oakland, Calif., a division of McWane.

AB&I sued the Chinese foundries for unfair business practices in the United States, but the court sided with the Chinese companies. "Contractors and others should consider the possible ramifications," states AB&I. "What, for example, would be the result of a case in which the claim was for injuries and damages, perhaps as a result of arsenic or asbestos, both proven to exist in some Chinese [products]? What if the product failed, resulting in losses to your customer? With the Chinese foundries' ability to claim lack of jurisdiction by American courts, who would be left to meet the claims of those damaged? Certainly the engineer, architect, owner and contractor would be involved and perhaps the importer (if they were still in business), but with the manufacturer out of the legal picture, the hit on the other parties to the transaction could be devastating."

Green believes the U.S. government's unwillingness to enforce its trade laws is leading to a potentially catastrophic loss of U.S. industrial capability and wealth. He says that BLS data show that only 400,000 new jobs over the last 10 years were created for men that paid more than the median wage. "There is such a thing as cutting your arm," says Green. "You can cut into the skin. You can cut into the fat. You can cut into the muscle and then you can cut through the bone. At this time, you're cutting into the bone. It's not that we're inefficient. That has nothing to do with it. It's because you're competing against a currency that is 40 percent undervalued, an unlimited amount of labor and lax regulatory control. I guess water is not important to this country."

U.S. TAX SYSTEM IS A MONUMENTAL BURDEN

U.S. Producers Are Paying For The Health Care Costs Of Foreign Rivals

Foreign countries' use of value added taxes (VAT) as their primary source of government revenue is helping put the United States out of business, according to Brian O'Shaughnessy, CEO of Revere Copper, one of the oldest companies in the United States. Value-added taxes that are rebated to exporters in overseas countries "are a legal form of tariffs (or tax preferences) approved by the World Trade Organization," writes O'Shaughnessy. Such taxes "discriminate in favor of domestic production of goods and services," compared to the U.S. system, which "taxes domestic jobs out of existence through payroll and other taxes on any entity that provides a job."

Value-added taxes are in place in 139 countries and are being used as an enticement to U.S. manufacturers to shift production offshore. "One province in India boasts of a VAT tax over 50 percent in promoting itself as a prime location," writes O'Shaughnessy.

But the value-added tax, which is applied only on the value added to all goods and services, is doing even more harm than is readily visible to most Americans. When a product made in the United States is exported, the foreign country collects a value-added tax on that product. That money is then used to fund that country's nationalized health care system. "We even help pay for their health care costs!" O'Shaughnessy exclaims.

In the United States those health care costs are borne by employers and their employees, which leads to a "double jeopardy," O'Shaughnessy notes. "The VAT taxes collected by foreign governments allow them to have reduced (fewer or no) taxes and health care costs on production of goods and services in their countries."

Regrettably for companies like Revere Copper, which is closing down manufacturing lines, the United States government does not recognize foreign countries' value-added tax systems as being a subsidy, and allows for their use in free trade agreements. Shortly after NAFTA was adopted, "Canada instituted VAT taxes while Mexico increased its VAT rates," writes O'Shaughnessy in a PowerPoint presentation on the Revere Copper Web site. Such tax preferences for exports were excluded under NAFTA, resulting in ballooning trade deficits.

The U.S. tax system is destroying the wealth-producing segment of the economy by taxing domestic jobs out of existence, O'Shaughnessy writes. "The higher the job skill, the higher the tax. Our current tax system discriminates in favor of lower value-added jobs such as flipping burgers rather than making semiconductors. The multiple taxation on income through the supply chain makes this even worse."

If the United States adopts a value-added tax, personal income taxes could be eliminated and the "regressive nature of this [would be] offset by providing health care for all," O'Shaughnessy proposes. The reduced tax burden would flow to "entities providing jobs in the United States, but not for imported goods, materials or services. This advantage is legal under the World Trade Organization. That's what every other trading nation does!"

A VAT would be rebated on goods and services that are exported. "When two countries have VAT taxes, the impact on trade is offset, but when one doesn't, the difference is HUGE," O'Shaughnessy notes. Germany raised its VAT rate to 19 percent effective January 1, 2007,

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ITA Chief: U.S. Needs To Get In Front Of Foreign Investment

Foreign direct investment into the United States took a giant leap last year, the biggest on record, growing by 67 percent, from $110 billion in 2005 to $184 billion in 2006, reports the Bureau of Economic Analysis. Reinvested earnings comprised the largest portion of investment, increasing 36 percent to $80 billion. Net equity capital inflows increased from $58 billion to $78.5 billion.

"Perhaps alone among the major economies, the United States does not have a federal government program to attract or retain inward foreign investment," says Franklin Lavin, undersecretary of Commerce for International Trade. "All other major economies have mechanisms such as investment boards and investment promotion activities to encourage FDI."

To counter this, Lavin's International Trade Administration has created a new office to promote foreign inward investment and work with companies that have opened facilities in the United States. Lavin notes that these companies have even formed their own trade association called the Organization for International Investment.

Many foreign entities continue to find the United States a good place to do business. Novartis, the Swiss pharmaceutical company recently decided to move its R&D headquarters from Switzerland to Cambridge Mass., pledging an investment of $2 billion. Toyota's recent decision to open a $1.3-billion assembly plant in Mississippi was made without any input from the federal government, Lavin notes.

"This historically passive role toward FDI is increasingly anachronistic for several reasons," he told the Peterson Institute for International Economics. "First is the surge in worldwide investment flows. Worldwide FDI flows have increased from $538 billion in 2003 to $916 billion in 2005. Second is the fact that we're facing more competition for FDI than ever."

In 2005, foreign investment into Britain stood at $164 billion, compared to the United States' figure of $110 billion. FDI into China including Hong Kong in 2005 reached $180 billion. "Over the long run one can conclude that those countries with the highest rate of foreign direct investment tend to be those with the highest rate of growth," said Lavin. "This correlation is no accident."

If the federal government does not start playing a more active role in attracting foreign investment then "we are at risk of having our investment climate perceived around the world only by the occasional difficulty" like that associated with the Dubai Ports fiasco. "Given the sizeable nature of FDI in the United States, there will occasionally be a controversial case that finds its way into the media, so we need to remind our investment partners that the overwhelming majority of investment activity in the U.S. takes place on a normal commercial basis."

Value-Added Tax...

(From page seven)

which means that when a product worth $100 is shipped from the United States to Germany it sells for $119 in Germany, whereas a $100 product shipped from Germany to the United States is sold for $81.

Implementing a VAT would increase skilled jobs, wages, the balance of trade, the standard of living and national security, O'Shaughnessy argues. But there is opposition to its adoption from foreign producers, some importers and multinationals and their trade associations, foreign governments, U.S. politicians who support those organizations and "naked free traders," writes O'Shaughnessy. "The USA must change."

O'Shaughnessy's PowerPoint presentation on the issue is on the Revere Copper Web site: http://www.reverecopper.com.

Some Countries Using The Value-Added Tax To Support Factory, Farm & Service Jobs:

- Australia
- Austria
- Belgium
- Brazil
- Belgium
- Canada
- China
- Czech Republic
- Denmark
- Finland
- France
- Germany
- Greece
- Hungary
- Iceland
- India
- Ireland
- Italy
- Japan
- Korea
- Luxembourg
- Mexico
- Netherlands
- New Zealand
- Norway
- Poland
- Portugal
- Russia
- Singapore
- Slovak Republic
- Spain
- Sweden
- Switzerland
- Thailand
- Turkey
- United Kingdom

Countries Not Using A Value-Added Tax To Support Factory, Farm & Service Jobs:

- USA

U.S. Falls To Seventh Place In Machine Tool Production

China's consumption of machine tools surged by 20 percent to almost $13 billion last year, more than double the consumption of U.S. industry. U.S. consumption of machine tools increased by almost 5 percent last year to $6.3 billion, according to the annual tally done by the *Metalworking Insiders' Report*.

"Throughout the 1990s, the United States had been far and away the world's leading purchaser of machine tools, but it saw a sharp decline in consumption during 2001, followed by another drop in 2002 and started to regain ground in 2003," says the publication.

Five nations in Asia (Japan, China, Taiwan, South Korea and India), now consume almost half of the world's total machine tool production at $29 billion.

On the production side, world output increased by 10.3 percent, from $54 billion in 2005 to $59 billion in 2006. Japan is the largest producer of machine tools, with shipments of $13.5 billion in 2006, followed by Germany at $10.3 billion. China's output surged from $5.1 billion to $7 billion last year.

Meanwhile, the United States is in seventh place in output at $3.4 billion, down from $3.6 billion in 2005. Italy, South Korea and Taiwan all out-produce U.S. machine tool makers.

The survey is located at http://www.gardnerweb.com/consump/survey.html.

Machine Tool Consumption

(In Billions of U.S. Dollars)

	Country	2006	2005	1996
1.	China	$12.94	$10.78	$4.01
2.	Japan	7.43	7.76	2.95
3.	United States	6.26	5.93	6.92
4.	Germany	5.18	5.49	4.47
5.	South Korea	5.04	4.42	2.61
6.	Italy	3.55	3.30	1.37
7.	Taiwan	2.54	2.25	1.14
8.	France	1.61	1.50	1.75
9.	Canada	1.60	1.44	1.37
10.	Mexico	1.15	1.16	--

Machine Tool Production

(In Billions of U.S. Dollars)

1.	Japan	$13.52	$13.19	$9.18
2.	Germany	10.28	9.80	7.56
3.	China	7.00	5.10	1.74
4.	Italy	5.45	4.86	3.76
5.	South Korea	4.14	3.51	1.21
6.	Taiwan	3.69	3.39	1.97
7.	United States	3.62	3.47	4.52
8.	Switzerland	2.84	2.66	2.10
9.	Spain	1.24	1.12	--
10.	France	1.15	.95	1.06

(Source:Metalworking Insiders' Report)

Democrats Release Principles Of A New Trade Agenda

The Democratic leaders of the House Committee on Ways and Means have released a "new trade policy for America," a plan they say "incorporates changes to strengthen pending free trade agreements and regain bipartisan consensus" on trade.

A one-page summary was posted on the committee's Web site. No additional information was available at press time. A 15-page paper is expected to be released shortly.

Committee Democrats note in the policy document that the U.S. Constitution provides Congress with the "authority to regulate foreign commerce" under Article 1, Sec. 8. "Congress delegates this authority to the President under certain conditions," the paper notes. "This is a first effort to re-establish the authority of Congress and create the right conditions for U.S. trade policy whose benefits are broadly shared by all Americans."

Among the items described in the Democrats' "new" trade policy are:

• Ensure that U.S. free-trade agreements raise standards of living and create new markets for U.S. goods.

• Require countries to adopt, maintain and enforce basic international labor standards in their domestic laws and practices, not merely to "enforce their own laws."

• Promote sustainable development and combat global warming by requiring countries to implement and enforce common multilateral environmental agreements.

• Require Peru to adopt and enforce laws on logging Mahogany;

• Enforce trade agreements.

• Ensure that countries play by the rules so that trade is a two-way street.

• Take action to address massive Chinese subsidies and intellectual property rights violations.

• Defend and strengthen U.S. fair trade laws.

• Press for immediate administration action on China and Japan currency manipulation.

• Use a March 2, 2007, bi-partisan congressional proposal to open Korea's closed markets for automotive, industrial goods, agriculture and pharmaceuticals.

• Identify major new WTO actions and cases to break down foreign barriers.

• Establish a U.S. Trade Enforcer to prepare WTO cases.

• Create a U.S. Trade Prosecutor to file the cases.

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Paul Revere's Warning...

(Continued from page one)

was consolidating operations but didn't mention this because it was having more of its furniture built in China. This is typical, so no one really knows how many factories are moving offshore."

There are many reasons why U.S. manufacturers are no longer competitive, but being inefficient isn't one of them, notes Revere Copper chairman, president and CEO Brian O'Shaughnessy. Revere can no longer compete because of the burgeoning costs of health care and energy, currency manipulation mainly by the Chinese and value-added taxes adopted by virtually every one of America's competitors.

O'Shaughnessy, who is on the board of directors of the National Association of Manufacturers and has been instrumental in its Domestic Manufacturing Group (DMG), is considered to be a leader in the country in trying to save U.S. manufacturing. He has spent days in Washington, D.C., making the case, a tough — and rare — thing for the owner of a medium-sized company that is struggling to stay in business.

O'Shaughnessy spoke with *Manufacturing & Technology News* editor Richard McCormack about his company's situation. Here's what he had to say:

Question: If Paul Revere were making his midnight ride tonight, what would he say?

O'Shaughnessy: "The Chinese are coming!" He would say what I said to [Commerce] Secretary [Carlos] Gutierrez a couple of weeks ago: that China is waging a mercantile war on the world and the world is sleeping. I told Gutierrez that China is not about to stop manipulating its currency because its current policy serves its own best strategic interest. I told him these things on Friday, March 2.

On Tuesday of the following week, [Treasury] Secretary Henry Paulson was quoted in USA Today as saying that we are not in an economic war with China.

You can imagine that sometime between when I spoke with Gutierrez on Friday and when Paulson was quoted on Tuesday of the following week that they had a conversation. I think Secretary Gutierrez expressed to Secretary Paulson my expression that China is waging a mercantile war on the world.

Q: What was Gutierrez's response to your comment?

O'Shaughnessy: I first explained that I did not agree with the administration's policy regarding China's manipulation of its currency and that as a CEO I look for indictors of success. I said, "I have a serious question for you: What are your indicators of failure that will cause you to move away from your policy of trying to jawbone the Chinese to change their practice of currency manipulation?"

His response was to lay out numerous macroeconomic statistics that the United States is doing well. That was his response.

Having said that, just as an aside, I am not a protectionist. I don't come from that. I believe the Chinese are the greatest protectionist force the world has ever seen.

By the way, during the Revolutionary War, do you know who cast the cannons for the revolutionaries? Paul Revere. There are strategic issues here, yet according to Sec. Paulson, we're not even in a war.

Q: What is driving Paulson to say that?

O'Shaughnessy: There are two things at work. The Republicans are most supportive of the best interests of the large multinational corporations. The Democrats are more interested in some kind of class warfare between big business and the workers — between the owners and the people who work for owners. So instead of addressing issues that would benefit the production of goods of services in the United States, the Democrats pursue a class warfare approach.

I don't want to punish multinationals and big business. I just think as a nation we should not pay much attention to them when our country is trying to craft international trade and tax policies. We should

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Revere Copper.. (From previous page)

pay them little or no heed. Yet we want them to be headquartered in this country. We want them to have as many facilities in this country as possible, but the way to do that is to craft policies that favor investment in this country.

There is another group at work, both Republicans and Democrats: globalists who are attempting to raise the standard of living of the very poor people living in China.

Q: Do we need a modern-day Paul Revere?

O'Shaughnessy: We do. That is why I have been working on the [PowerPoint] presentation [on the Revere Copper Web site]. I started working on that presentation two years ago and it hasn't gone one month without improvement. When people heard Paul Revere, what did they do?

Q: We have heard a lot of discussion about China's currency. Why haven't we heard much about foreign countries' use of the VAT as an unfair trade advantage?

O'Shaughnessy: We're just now beginning to understand it. Three or four years ago, Revere looked at buying a company in England called Birmingham Battery. They produce the same product as our New Bedford plate mill. We received their income statements, balance sheet and all of their costs and financials. When we looked at them we were stunned by the tax structure that they had and the health care costs that they didn't have. You don't expect it in the UK. That is supposed to be a high tax area, but it's not. It just happens that the general manager and VP of New Bedford is British and he said, "Brian, that's the VAT tax and it affects us in other ways." That's when I started looking into VAT taxes and realized how extensive it was.

The surprising thing is that the benefit of VAT taxes extends to health care. The irony is that the American workers are not only carrying the burden of having their own medical costs embedded in the work they produce, but in other countries as well because part of the VAT tax goes to pay for the health care of the worker they're competing with. Think of the irony of that!

Q: Why has your company survived for more than 200 years, yet is currently in so much trouble?

O'Shaughnessy: Because VAT taxes are a fairly recent phenomena along with the growth of medical costs. Following World War II, manufacturing companies had to compete to get workers in the booming economy. Some of them began to offer health care plans. They weren't a big burden, but now they are. As other countries have adopted VAT taxes, that has helped them to offset their healthcare costs. Their healthcare costs are not being paid by the producers of the products they're making.

When the World Trade Organization was established, France said, "We have this VAT tax system and we're not giving it up." So it was grandfathered in by the WTO. The rest of Europe caught on quickly and realized it was something good to do. This is the way taxes ought to be designed. So VAT taxes spread. Now you've got the cumulative impact of VAT taxes and currency manipulation working together against manufacturing in the United States. ~~The European countries are using the proceeds to lighten the burden on manufacturing in their own countries. They are able to gain market share from manufacturing companies in the United States. We see that in our industry as European nations are shipping copper and brass sheet strip and coil products into the United States, but we can't sell over there because the average VAT tax is 18 percent. We can't go over there and compete in their back yard.~~

"Because the Europeans are gaining market share at the expense of the United States it helps offset what they are losing to the Chinese. So what China is doing to the world is not as horrible to the world because of VAT taxes."

Because the Europeans are gaining market share at the expense of the United States it helps offset what they are losing to the Chinese. So what China is doing to the world is not as horrible to the world because of VAT taxes. The rest of the world isn't reacting to the Chinese manipulation of its currency the way it should be. We are the country that should be the leader on this issue.

Q: Do you see other Paul Reveres?

O'Shaughnessy: The people who devote a lot of their time to this who are with manufacturing companies are Dan DiMicco [CEO] of Nucor, Dave Frengel [of Penn United Technology] and Dick Wilke [CEO of Fisher-Barton Inc.].

Q: Have any politicians stood up in the same capacity?

O'Shaughnessy: Most of the new Democrats attribute their victories to trade issues. I think they're going to be a substantial help, but it's the backbenchers who support us. It's not the people heading the committees who are there longer term because on both sides of the aisle the leaders are closer to the multinationals. This whole policy on currency manipulation started with [Clinton's Treasury] Secretary [Robert] Rubin. You have to look at how

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Revere Copper...

(From previous page)

close the Clintons are to the Chinese. Then there is the CEO from Alcoa, Paul O'Neill, who came on [as President Bush's first Treasury Secretary]. He basically took Alcoa virtually out of the United States.

Q: What has it meant for you personally to have to close your New Bedford facility.

O'Shaughnessy: It is just sheer agony. Those people had done everything we asked them to do. The whole work ethic, camaraderie, desire to improve, get better — the American spirit — was all there. The people who worked there loved to work there.

Q: Did you try lean, six sigma and total quality approaches to your business?

O'Shaughnessy: We're way out in front on that.

Q: So even deploying those strategies, you couldn't stay competitive?

O'Shaughnessy: The Germans do it too, but they have the VAT advantage.

Q: I hear many economists say that the United States is losing its old-line, tired, inefficient industries, such as the ones represented by your company, and that the loss is just a painful but small price of international trade. Companies like Revere have to get used to the fact that somebody else can do what you do better and more efficiently.

O'Shaughnessy: They don't do it more efficiently. Dan DiMicco says that the labor cost in a coil of steel are less than the fright cost from China. There are many old-line industries that have been around a long time where labor is important but it's not a big issue. You have to realize that there is something else going on here.

If we're so inefficient, then why are we the only trading nation in the world that does not have a value-added tax? Why are they concerned about leveling the playing field? Leveling the playing field is not a code word for protectionism. Why are they so concerned about forcing the Chinese to adhere to the rules of fair trade, which have to do with market-driven currencies?

We have to work on illegal subsidies and the rampant theft of intellectual property, but let's get those things fixed and then if there are certain sectors that can't compete, okay. But we're nowhere near there.

If you look at currency manipulation and VAT taxes and add them together, you're over 60 percent. Imagine how many of these American factories would have shut down if they had the ability overnight to improve their costs by 60 percent?

> *"When people heard Paul Revere, what did they do?"*

They also like to talk about percentages — about the percentage growth of our exports to China. But the base is so low that the percentage gives you a false sense of what's going on.

Q: Why has there been such a tepid response to this trade war with China, especially since the evidence is so clear that the United States is broke and in debt?

O'Shaughnessy: Here is the problem: the economic data look good, but that data is misleading. It is like your neighbor and his wife who have the same income and live in the same house that you do. You've got a 10-year-old Jeep and an eight-year-old Ford and you have your mortgage pretty much paid down. But he's got a Cadillac and his wife drives a Mercedes. They've got the latest big-screen TV. They take vacations all over the place. They have a huge mortgage. They have a home equity loan and their debt is continuing to mount. They're headed toward the big bubble burst.

Any recitation of macroeconomic data about the United States that does not recognize the massive debt obligations being accumulated by the United States misses the whole point. That is the problem.

(O'Shaughnessy can be reached via e-mail at brian@reverecopper.com.)

Trade Agenda...

(From page nine)

• Open major markets to create new opportunities for U.S. workers, farmers and businesses — raise the standard of living at home and abroad.

• Reinvigorate the role of Congress, including, as a first step, full partnership in WTO "Doha" negotiations on agriculture (including eliminating barriers to U.S. exports, addressing tariffs and unjustifiable SPS barriers), manufacturing (including elimination of non-tariff barriers), services and dispute settlement. Strengthen rules on unfair trade.

• Create a Strategic Workers' Assistance and Training Initiative (SWAT) to promote education, training and portable health and pension benefits:

• Form public-private partnership to educate America's youth.

• Update and upgrade workers' skills on the job.

• Provide meaningful health and pension benefits and income support.

• Go beyond the current Trade Adjustment Assistance system to provide meaningful support, training and revitalization programs for communities hurt by the effects of trade and technology.

• Expand America's diplomacy and strengthen America's national security through an expanded program of trade and aid to foster development in the poorest countries in the world.

• Pass immediate extension of Andean program.

• Update and upgrade other trade-expanding programs and initiatives with developing countries