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Oldest U.S. Industry On Brink Of Extinction

The once healthy U.S. glassware industry, America's oldest industrial sector, is down to one remaining company. All of the major companies are either out of business or in bankruptcy, due to unfair foreign competition, according to John Meier, CEO of Libbey Glass Inc. of Toledo, Ohio, the last remaining U.S. maker of tumblers, stemware, mugs and household glass. The industry started shortly after the creation of the Jamestown Colony in Virginia in 1607.

Libbey, the world's second largest glassware manufacturer, has stayed in business by opening plants in Mexico, China, Netherlands and Portugal, in addition to plants in Ohio, Louisiana, New York and Wisconsin. But the company is facing "enormous challenges from companies often supported by their governments," says Meier.

"During my career with Libbey, which now spans 37 years, every major domestic competitor that I have faced is either out of business, in Chapter 11 or up for sale," he told a recent hearing of the House Ways and Means Committee. Corning Consumer Products, now called World Kitchen, has gone through Chapter 11; Oneida is in Chapter 11; Anchor Hocking is in Chapter 11; Wheaton Glass has gone through Chapter 7 "shut down and gone," says Meier. Federal Glass is in Chapter 7, "shut down and gone." And Indiana Glass is up for sale. "Talk about an industry facing a challenge," he says.

The problem facing the industry is simple: unfair trade — not the ideology of free trade "but the reality of trade," says Meier. "The reality of trade today is far

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Natural Gas R&D Funding Is Drying Up

The U.S. natural gas transmission and distribution industry has experienced a dramatic reduction in spending on research and development. "R&D funding in the transmission and distribution sector has declined about $25 million and is roughly half of what it was three years ago," according to study from the American Gas Foundation and the Interstate Natural Gas Association of America. The industry's once vibrant Gas Research Institute, which had a budget of $200 million in 1996, is now gone. "A troubling outcome of the recent funding cuts is the virtual elimination of long-term basic research," says Robert Best, chairman of the foundation and CEO of Atmos Energy Corp. of Dallas.

R&D spending on gas projects has been declining since the early 1990s, due primarily to a drop in federal funding and the unwillingness of industry to fill the gap. This is happening despite the fact that natural gas prices have almost quadrupled since 1995. The Gas Research Institute closed

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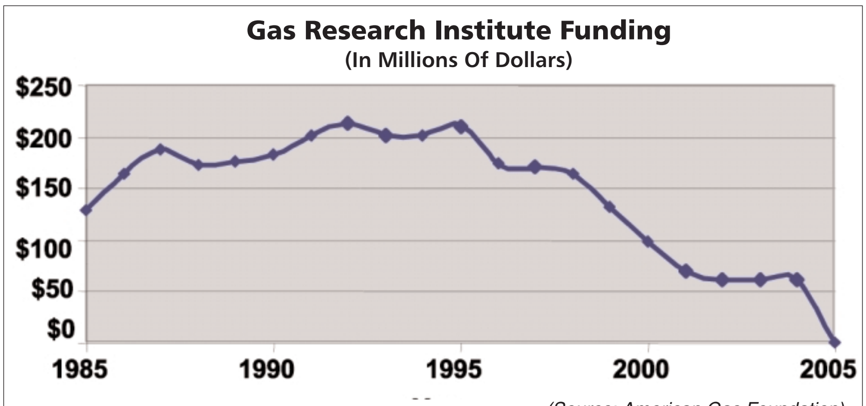

(Source: American Gas Foundation)

No Money For Gas R&D...

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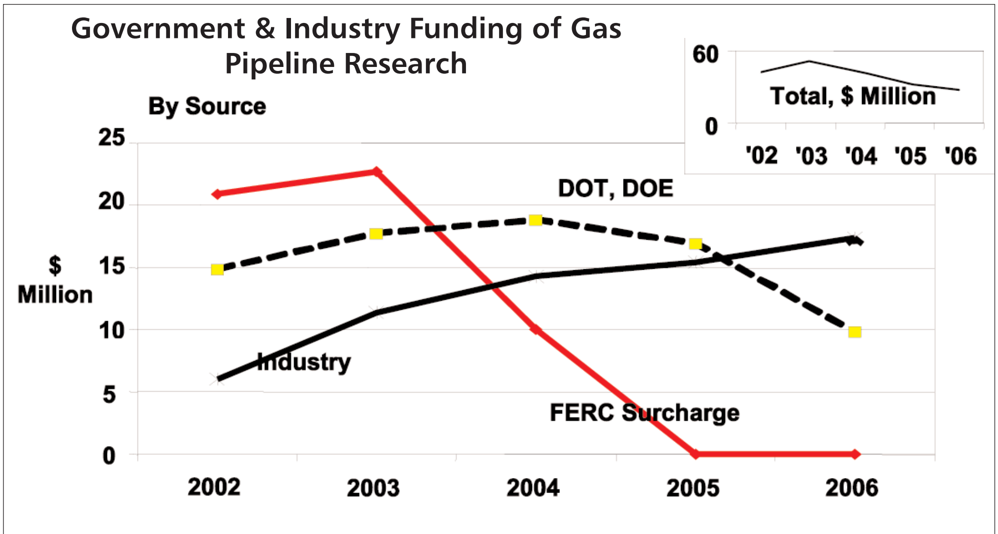
after the Federal Energy Regulatory Commission eliminated its R&D surcharge on gas. Another major pipeline R&D program funded by the Department of Energy's National Energy Technology Laboratory was also recently discontinued.

The government is still funding safety related research programs for the airline, railroad and trucking industries, which, like gas, have been de-regulated since the 1980s, but very little is now available for gas pipeline safety. "Further investigation is needed to determine what actions may be necessary to address the impact of this downward trend in R&D funding on the development of new and innovative products to meet the future needs of the natural gas industry," says the American Gas Foundation. "The trends should be a concern for all sectors of the industry and should lead to use of collaborative models and long-term planning to ensure that products and services come to the market that address the priorities of the industry and expectations of all stakeholders (including government and customers)."

The industry is facing mounting challenges. Its infrastructure is aging, which will require a new infusion of capital investment; its workforce is aging, requiring a new generation of engineers and technically trained workers; environmental and efficiency standards are becoming more stringent, requiring a new era of innovation; tight supplies and high prices are forcing companies to focus on developing new gas supplies; there is a growing need to improve monitoring of gas pipeline throughput and system integrity and to assess subsurface damage to pipelines. There is also a growing need to improve data quality and analysis.

"Since the industry continues to face such challenges as aging infrastructure, growing demand and the constant need to maintain a high level of reliability and safety, a closer look may need to be taken to make sure this downward trend in R&D investment does not point to future problems in bringing products and services to market that address the challenges and satisfy customer expectations" says Gary Gardner, executive director of the American Gas Foundation.

The 83-page report is located at http://www.gasfoundation.org.



(Source: The Steering Committee On Energy Pipelines and Research)

Bureau Of Economic Analysis Responds To Business Week

The Bureau of Economic Analysis, smarting over a cover story in the June 18 issue of *Business Week* entitled "The Real Cost of Outsourcing" stating the agency's productivity and GDP statistics are "flawed" due to the effects of outsourcing, says there is little indication that its work is, in fact, flawed. In a rebuttal posted on its Web site, the agency said that its statisticians are "continuously updating" their estimates to reflect the impact of globalization and "do not think that there is a significant bias on measured GDP or productivity growth."

"The argument made in the articles hinges on the fact that the import price data — published by the Bureau of Labor Statistics and used by BEA to 'deflate' or convert nominal imports to real imports — do not reflect the full cost saving when foreign suppliers are substituting for domestic suppliers," says the BEA. "However, import price indexes are designed to measure the change over time in the prices paid by U.S. residents for imported goods and services; they do not directly compare the prices of imported goods (and services) to their counterparts produced in the United States."

The BEA defends the integrity of its calculations by delving deep into economic syntax: "This is a manifestation of an old and difficult problem in price measurement. The argument fails to recognize that an offset occurs when domestic goods and services are purchased in the United States. That is, if real imports are understated because shifts in foreign suppliers are not being adequately captured in the price data, it is also

(Continued on page four)

Analyst Cliff Ransom: Don't Give Up Yet On Good Industrial (Lean) Companies

The U.S. economy and stock market are experiencing a massive industrial up-cycle, which in all likelihood will continue, says independent institutional financial analyst Cliff Ransom. This long-term trend requires investors to stay active in the market with companies that have embraced lean production and management techniques in the "mundane" areas of aerospace, defense, chemical, industrial equipment infrastructure, mining, oil and gas, non residential commercial construction and water, according to Ransom.

After extensive travel to conferences, companies and investor presentations throughout the world, Ransom believes the gains that well-run industrial companies have achieved in the past three years are sustainable for the foreseeable future. "My strong sense is that it is not yet time to pull the plug on any number of sectors that have been so very strong for the last three years," he writes in his June 13 report entitled "Ransom's Ruminations." "I know that this stance puts me at odds with many of my peers, but I am not yet prepared to accept the forecasts of doom and gloom that proliferate, even as the overall stock market hits new, all-time highs."

Recent trips to Germany, France, Singapore, China, Hong Kong and Malaysia and discussions with companies in those locations including General Electric, Siemens, Techtronic Industries and United Technologies — along with four days at the Electrical Products Group in Florida, a day with Terex and two days at the JP Morgan Basics and Industrials conference in New York City, solidified Ransom's thesis entitled, "*Still* Thinking Cycles? *Still* Think *Long*!"

The United States is surviving the correction in the residential real estate market; the economy continues to grow. China's industrial economy is growing by 15 percent per year. Germany's jobless rate dropped below 10 percent. Japan is perking up. Overseas earnings "have been huge boons to a wide variety of companies, from the biggest (GE, United Technologies and Boeing) on down to tiny enterprises," he writes.

"I continue to believe that my sorts of companies are headed for record years in profits and cash flows and those two elements are what determine multiples in my universe. In addition, I don't have one company in my closely-followed universe that could not improve on margins, even those enterprises that are already at peak numbers....My sorts of companies have been producing earnings well in excess of forecasts and I think this trend is going to continue perhaps for years and years to come."

Driving this growth is the unprecedented global investment in infrastructure and the rapid urbanization taking place in China. Investments in roads, bridges, ports, airports, energy development and production, schools, hospitals and hotels "remain profound," he writes. In China, 20 million people per year are moving to the cities, and in the words of UTC chairman George David, as quoted by Ransom: "They are all going vertical."

"Remember the ramifications of urbanization, which are pervasive: with its demand for buildings, for lift, for air conditioning (where replacement and upgrade markets are largely non-cyclical and probably non-discretionary), for plumbing, for security, for food, for, well, I think you are getting the drift."

India, Africa and the Middle East are also experiencing building booms, with Terex telling Ransom that the current value of construction projects in the Middle East exceeds $1 trillion.

Companies that have achieved "huge scale" are the direct recipients of this investment boom, including General Electric and United Technologies. "Investors should not overlook GE's astounding presence in almost all these markets. Yes, it is hard to move the financial needle at GE, but its chairman calls his enterprise, '*The* infrastructure company,' and he contends that the game is still 'in early innings.' I would also love to talk to any investors about the push that GE has undertaken in the past two years to fuse lean manufacturing and lean processing techniques with its prior focus on Six Sigma as

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Government Steps In To Save Defunct Mfg. Co. Pensioners

The federal government's Pension Benefit Guaranty Corp. has been busy picking up unfunded pension liabilities of ailing manufacturing companies. On July 13, the PBGC assumed responsibility for the unfunded portion of Louisville, Ky.-based Keller Manufacturing Company's pension program for 477 workers. The PBGC assumed responsibility for $4.6 million of the company's $13.5 million in pension liabilities, due to the company's failure to compete in the U.S. furniture industry.

PBGC has also assumed responsibility for the unfunded pension plan for 464 former employees of Oklahoma Fixture Co., a manufacturer of retail store fixtures and architectural woodwork, based in Tulsa, Oklahoma. The company's pension plan is about 63 percent funded, with little more than $4 million in assets to cover nearly $7 million in benefit liabilities. The PBGC expects to be liable for the entire $2.5-million shortfall.

On June 28, the PBGC picked up the unfunded pension plan for 1,500 workers of the bankrupt textile maker Malden Mills Industries of Lawrence, Mass. The company developed the "Polartec" synthetic material for insulating cold weather apparel, but was unable to stay in business. "The PBGC stepped in because Malden Mills, now in liquidation, missed $1.7 million in required pension contributions and the pension plan will be abandoned as a result of the sale of substantially all of the

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Middle Managers Biggest Barrier To Implementing A Lean System

Middle managers are the biggest roadblock to implementing a lean production and management system, according to a survey of 2,500 business people conducted by the Lean Enterprise Institute. Middle management resistance was cited by 36 percent of the respondents to this year's LEI survey, followed by lack of implementation know-how (31 percent) and employee resistance (28 percent). Last year, "backsliding" was cited as being the leading obstacle to implementing lean management principles.

"The application of lean management principles exposes problems by traditional business systems, which often is threatening to middle managers in problem areas," says LEI chairman and lean pioneer James Womack. "To get middle managers on board with lean transformation, organizations must transform the metrics and behaviors for judging their performance."

Traditional financial measures often must be removed from management decisions made under a lean system. Managers must replace those metrics with a system that helps employees look for waste and remove it. If they do this, "the financial numbers will be positive," says Womack.

Other obstacles to lean implementation include supervisor resistance, lack of a crisis, backsliding, lean being viewed as the "flavor of the month," its financial value is not recognized, a failure to overcome opposition, and the failure of past lean projects.

The survey found that 11 percent of respondents were in the planning stage of a lean implementation, 48 percent were in the early stage, 34 percent described their progress as "extensive" and only 7 percent were "advanced."

Six Sigma Pays Off For Cummins

Cummins Inc. is experiencing a big payoff due to its embrace of the Six Sigma quality management system. The company saved $340 million last year and completed 2,200 Six Sigma projects, according to Cummins CEO Tim Solso. "Since the inception of the program in September 1999, we've saved or avoided spending a total of $1.4 billion, completed 7,500 projects and trained 6,000 belts with almost a million hours of training," he said at the company's annual meeting in May. The Columbus, Ind.-based firm had record revenues last year, ($11.4 billion), record profits ($715 million) and record cash flow. Solso has been at Cummins since 1971 and was one of the first Six Sigma belt trainees.

AIA CEO John Douglass To Retire

John Douglass, president and CEO of the Aerospace Industries Association, has decided to retire from his post at the end of the year. Douglass, 66, helped build AIA into a trade association powerhouse, increasing its regular membership from 52 to 104 companies, and associate members from 24 to 176 companies. "He is only the seventh full-time chief executive of the association, which was founded in 1919 and counts pioneers Orville Wright and Glen Curtiss as early members," says AIA in its June/July member newsletter.

Malaysia Attracts Mfg. Capital

The Malaysian manufacturing sector attracted 244 new manufacturing plants during the first five months of the year and another 135 major expansions, worth a total of $7.4 billion, according to Malaysia's Minister for International Trade and Industry Datuk Seri Rafidah Aziz. Last year, total investment in new and expanded manufacturing plants totaled $13.3 billion.

"Most of the approved projects were for petroleum, and electrical and electronic products," said Aziz upon release of the "2006 Malaysia International Trade and Industry Report."

Major sources of foreign investments were the Netherlands ($665 million), Japan ($521 million), Singapore ($377 million) and the United States ($290 million).

Malaysia has set a goal of $119 billion in investment over a 15-year period. Last year's investments accounted for 11 percent of the total. The country has put in place incentives to promote exports, including $735 million in investments aimed at "distributive trade," said Aziz.

BEA Defends Itself...

(Continued from page two)

likely that domestic production is understated because of shifts to more efficient domestic suppliers. Furthermore, BEA uses chain-type measures that are designed to account for much of this substitution. Any remaining measurement errors should be offsetting because researchers have not demonstrated that errors in measuring imports are larger than offsetting errors in measuring domestic production.

"There is no clear 'fix' for the price measurement problem beyond the adoption of chained-dollar estimates to measure real GDP, which BEA adopted in 1996. Nominal, or current-dollar, GDP is not affected because the amount deducted from nominal GDP for imports represents the actual amount spent for imports. Further, there are no distortions in the nominal trade balance, or other nominal measures, such as corporate profits and wages and

Congress Gives Science & Technology Agencies A Healthy Budget Boost

The agencies funding and conducting civilian research into the physical sciences will receive substantial increases in their budgets next year. The Senate has finished work on its 2008 appropriations bill for the National Science Foundation, NASA and NIST, and all will benefit from concern about the competitiveness of the U.S. economy.

The Senate Appropriations Committee has increased funding for the National Science Foundation by almost 11 percent, while appropriators in the House of Representatives approved an increase of 10 percent. Both the House and Senate appropriations committees provided an increase above the $6.43 billion requested by the Bush administration, which was an 8.7 percent jump ($512 million) from the agency's 2007 budget of $5.9 billion. The Senate committee said its increase was "fully supportive of the American Competitiveness Initiative."

NASA's budget also gets a decent boost, a 7.2 percent increase over 2007 to $17.5 billion, according to the funding legislation (S-1745). The amount is higher than the Bush request of $17.3 billion and is up from $16.28 billion that NASA received for 2007.

NIST's budget would jump by 27.5 percent in 2008 in the Senate bill. The Bush administration requested $641 million for NIST for 2008, a decrease of 5.4 percent from the $677 million the agency received in 2007. But Senate appropriators approved a budget of $863 million, including $502 million for science and technical research, up 15.6 percent from $434 million approved in 2007 and an increase from the Bush request of $500 million.

NIST's Manufacturing Extension Partnership (MEP) program would receive $110 million under the Senate plan, up from the $46 million request made by the Bush administration and $104 million approved for the program for 2007. The $110 million figure is also up from the $104 million approved by House appropriators. The Senate version includes $4 million for a pilot program aimed at helping small manufacturing companies deploy new technologies developed by government agencies and universities.

"The pilot will include: development of techniques and tools for translating innovative technologies into business opportunities and commercialized products, assessment of the market opportunities of new technologies, including the forecast of sales potential for product concepts, and matching manufacturer's needs with technology solutions," says the report language (SR 110-124) accompanying the Senate bill.

NIST's Advanced Technology Program would receive $100 million under the Senate plan, up from $79 million it received in 2007 and from $0.00 the Bush administration requested for 2008. But the Senate prohibits large companies from applying for a single applicant award and says it approves of the program undergoing a major restructuring, as outlined in the recent House Science Committee NIST authorization bill (HR-1868, the Technology Innovation and Manufacturing Stimulation Act), which passed the House on May 3.

The 19-year old Advanced Technology Program would be given a new name: the Technology Innovation Program (TIP). The authorization would not allow any single company to receive any more than $3 million over three years (covering no more than 50 percent of the project's overall cost), and $9 million over five years to joint ventures. It would also allow universities to participate and requires that the program work with similar technology and economic development initiatives created by states.

The House Science Committee bill authorized $110 million for the TIP in 2008, $141.5 million in 2009 and $150.5 million in 2010. Shortly after the Advanced Technology Program was created in the late 1980s, President George Herbert Walker Bush's undersecretary for technology Bob White said he thought ATP should be a $1 billion enterprise, given the growing need to commercialize promising technology.

For more information on the NSF, NIST and NASA funding bill, go to www.congress.gov and type in the bill number (S-1745) and the accompanying report (110-124).

National Academies Of Sciences Seeks Feedback From State & Local Economic Development Agencies

The National Academies of Sciences (NAS) wants to find out what has happened as a result of its highly publicized report two years ago entitled "Rising Above the Gathering Storm." The report, along with a well-attended convocation discussing its implications, described a perilous position for the U.S. economy, given the stagnation in spending on research and the rise of overseas competitors.

The NAS wants local, state and regional organizations involved in implementing the recommendations to complete a survey describing what has been accomplished. "Your results and comments are critical in understanding the influence of the Report and Convocation, and we hope to use them to visibly highlight activities at the state, local and regional level for others to emulate," says the NAS. "Your results and comments will be used to understand how all of us can better facilitate regional, state, and local actions." The survey is located at http://www.surveymonkey.com/s.aspx?sm=2D1xaAYJR09GmrDcddkC5g_3d_3d.

Glassware Industry...*(From page one)*

different than that described by the theorists. Comparative advantage may exist for basic commodities, but in today's world where transportation speeds products to marketplaces all over the globe, where capital flows freely to the place where it can gain the highest return, where technology can be applied in virtually any environment, competition is not governed by theories in textbooks, but by profits and national interests."

The U.S. glassware industry is being inundated by imports. In 1996, imports from China and Turkey accounted for 12 percent of the U.S. market, but by 2006, that number had risen to 53 percent of the U.S. market. During that time, Turkey's average annual growth rate was 28 percent, and China's was 23 percent.

Libbey is determined to compete. The company invested $183 million in capital upgrades between 2002 and 2006, or 7.7 percent of total sales. But those investments may be for naught, given that the United States government is allowing foreign governments "to get away with subsidizing their producers and not enforcing their laws while turning to the remaining producers in the United States and saying: 'We need to make it easier for more imports to flood our markets,' " says Meier. "Effectively, many of us would tell you we have an eight-lane highway coming into Peoria, only to face a dirt road back to Rio, Jakarta or Istanbul."

> *"We have an eight-lane highway coming into Peoria, only to face a dirt road back to Rio, Jakarta or Istanbul."*

Unfair foreign trade subsidies are documented every year in the United States Trade Representative's annual "National Trade Estimate Report" and by other government agencies. Yet the U.S. government is not doing much about them.

Meier says his company can compete with companies with dramatically lower labor rates. "But the question of the enforcement of labor rights is not a theoretical or esoteric issue to producers like Libbey. I want other countries to enforce their laws across-the-board, and it has an impact on their cost structure and their ability to compete here and around the world." Those countries are providing their producers with subsidies for energy, natural gas and other inputs, allowing massive intellectual property rights violations, and rebating value-added taxes at the border on their exports and applying value-added taxes on imports.

"We've always been an advocate of free trade — in theory," says Meier. "Unfortunately, in reality, it just doesn't exist...And in the face of this, I have seen U.S.-taxpayer resources offered to help enhance the competitive posture of my competitors."

Capital and technology can move freely around the globe. American workers are able to move within the United States, but they can't move to China. The trade policies of the United States are causing "major disruptions in peoples' lives and in their communities," says Meier. "Unfortunately, the free trade theorists treat people simply as assets just like any other input in the production process. I don't view my workers that way. Every job matters. Every business leader faces the challenge of balancing his requirements, and in the face of these challenges I have shut factories in Canada, California and now Mexico. I do not relish those decisions, and I don't buy the approach that training and adjustment are the answer for those affected in the USA. Yes, those issues are part of the equation, but all too often, they are the primary approach offered by those who refuse to deal with the reality of today's global trading system and the tough competition we face.

"I have workers who hope to be able to keep their jobs and work a lifetime in Libbey's facilities. They work hard and play by the rules. They deserve my support as well as that of their government. Every three years, we sign a contract with our union. Among the topics covered have been pensions. It is a pension that gives them a set dollar amount based on each year of service. Our ability to maintain this feature in the face of already fierce import competition is problematic. And if they lose their job, they may jeopardize their dream of a safe and secure retirement. All too often, the job they may have to go to pays less and may have fewer if any, benefits. Their pensions are cut drastically, and their retirement, as they planned it, is gone forever. It is easy to say get rid of pensions or cut wages 30 percent to 40 percent, but reality isn't that simple. Of course, as the CEO I have to bargain for a contract that treats my workers fairly, but that will allow the company to survive and prosper. All we ask is for trade policies that permit us to go forward and do that hard bargaining. We can find a way. But trade politics that further open the floodgates take the equation out of our hands and dooms many companies and industries with the stroke of a pen. I find that unacceptable.

"Our first priority should be a trade policy that creates growth, jobs and equity. Leading with transition assistance sends the strong message that our policies are heading in the wrong direction. It sends a message that we are effectively ready to abandon companies and industries on a wholesale level. A part of the package, yes. A lead feature, hardly.

"Like many other businessmen and women around the country, I have faith in the ingenuity and productivity of the people in my company. They make great products, but they do not leap tall buildings in a single bound; they do not run faster than a speeding bullet. They are not Superman. Idealism has its place; but so does reality. I simply want them to have a fair chance to compete. The American Dream should be available to anyone who works hard and plays by the rules. We need a trading system that respects and rewards hard work, and insures our ability to fight a fair fight. Not one that ties our hands behind our backs, while blindly worshipping at the alter of free trade. Thank you."

Circuit Board Industry Experiences Soaring Materials Costs

The costs of key metals used by the printed circuit board industry are skyrocketing and supplies are stressed, according to the IPC's Solder Product Value Council. "The cost of tin and silver have reached 19-year highs and it is important for our industry to understand the implications of this kind of cost increase on the supply of solder alloys," says the group in a recent white paper.

Global demand for tin will exceed production by 30,700 metric tons in 2007, due to a 30 percent reduction in tin exports from Indonesia. Global tin production has declined from 352,000 metric tons in 2006 to a projected 337,000 metric tons in 2007.

The price of tin is now almost $15,000 per ton, after having traded between $6,000 and $9,000 per metric ton between 2003 and 2006.

"The negative impact of this price volatility on the electronics assembly industry is particularly acute due to the increased consumption of tin by our industry due to the accelerating transition to high tin lead-free alloys," says the IPC. Lead-free solder paste contains more than 85 percent tin by weight.

The price has increased by more than 120 percent since the start of 2006. "This excludes the impact of the tremendous cost increase of silver in the same time period," says the IPC. "Additionally, it does not include any other inflationary cost increases associated with the conversion of alloy to powder, manufacturing solder paste, packaging or other overhead costs."

Silver prices are also on a fast upward trajectory, recently closing at almost $13 per ounce, up from $7.50 in 2005.

These costs represent "another market driver that our industry is going to have to learn to manage," says the IPC. "A key to our industry's growth will be how we address these dramatic cost increases without driving the assembly electronics supply chain to yet another dangerously low level of profitability. This is imperative as the marketplace continues to demand a pipeline of innovative and enabling technologies to meet the market's requirements."

Silver (U.S. Dollars Per Ounce, July 2002 - July 2007)

Tin (U.S. Dollars Per Metric Ton July 2002 - July 2007)

U.S. And Mexico File Complaint Against China With WTO

The United States and Mexico have asked the World Trade Organization to establish a dispute settlement panel to investigate illegal Chinese industrial subsidies. "Although our two rounds of WTO consultations with China have been constructive, they have not resolved our concerns about China's apparent use of trade-distorting subsidies that it pledged to eliminate upon joining the World Trade Organization," says Sean Spice, a spokesman for the United States Trade Representative. "Without assurance of complete corrective action by China, we must continue to pursue the WTO process to enforce our rights." The USTR says "China has not to date been able to assure the United States and Mexico that it will promptly eliminate all of the subsidy programs that remain of concern." Chinese income tax law is providing tax breaks for qualifying firms that should not be allowed.

Carbon Steel Pipe Industry Files Dumping Case Against China

The International Trade Commission has initiated an antidumping and countervailing duty investigation on circular welded carbon steel pipe imported from China to determine if the United States industry is being injured by unfair imports. Chinese imports have almost tripled in three years, rising from 243 million kilograms in 2004 to more than 589 million kilograms in 2006. The value of shipments has risen from $138 million to $332 million. Seven companies and the United Steelworkers union filed a petition on June 7. The ITC will provide a preliminary determination by July 23 and will issue a final order on March 28, 2008. The ITC investigation was requested by Allied Tube & Conduit of Illinois, IPSCO Tubulars of Kentucky, Norwest Pipe Co. of Oregon, Sharon Tube Co. of Penn., Western Tube & Conduit of California, Wheatland Tube of New Jersey, and the United Steelworkers of Pennsylvania.

Good Companies Benefit From Up-Cycle...

(Continued from page three)

an operating philosophy."

The global energy situation also points to profound growth, with forecasts of consumption growing by 70 percent by 2030. There will be huge demand for increased energy efficiency in many industries, including plastics, pulp, paper and steel, where energy consumption can be larger than EBIT percentages.

Within the aerospace/defense sector, Ransom is perplexed by the "doubting Thomases who have missed one of the greatest aerospace/defense reversals of all time, and [who] just cannot bring themselves to recommend stocks that have already run up markedly," he writes on July 7, shortly after his return from the Paris Air Show. "Unfortunately, many commentators in both camps are starting to worry that the best part of this cycle is past us. They seem to obsess on the likelihood that orders for aircraft in all important end markets — commercial, military, regional, business jet, helicopters and space related — may begin to moderate from today's record-high values. To them I would say: Revenues, profits and cash flow come from production, not orders, and I see robust spending patterns persisting well past 2012. And, to remind everyone, the best part of the aerospace business is the after market, which is itself a function of installed base. In sum, it is the wrong season to duck in aerospace and defense, because earnings and cash flow win over temporary valuation shifts every time."

The industry is buoyed by the fact that air travel is increasing rapidly. The airlines are once again profitable, which will enable them to replace their aging aircraft with new, quieter airplanes that are more fuel efficient, cheaper to maintain and less polluting.

Finally, Ransom continues to view investment opportunities through the prism of lean management and production techniques. He says that more companies are beginning to apply lean concepts (including waste elimination) to other areas of their enterprises, including finance, supply chain, sales, planning, marketing and new product development and launch. "There may be only a dozen truly expert practitioners of the black art of lean on this planet, but there are plenty of companies that are trying to achieve that status," writes Ransom, who can be reached at cliff@ransomresearch.com. He categorizes them as such:

The All-Time "Super-Achievers":
Danaher, General Electric, Illinois Tool Works, United Technologies

The Potential Next Generation of Super-Achievers:
Ametek, ITT, Pentair, Roper, Wabtec

"Get Rich Slow Schemes" (which, for those of you who don't get it, is a compliment):
Actuant, Aqua America, Harsco, Teleflex, Toro

"Works In Progress" (which includes some truly ancient companies!):
3M, American Standard, Belden, Home Depot, Idex, Ingersol Rand, Kennametal, Masco, McCormick, Newell Rubbermaid, Regal Beloit, Robbins & Myers, Rockwell Automation, SPX, Stanley Works, Textron, Trinity Industries, Tyco

Assorted Small Cap Growth Stocks (including some turnarounds):
3D Systems, Courier, Daktronics, Flowserve, Raven Industries, Watts Water

Major Infrastructure Plays:
Caterpillar, Manitowoc, Oshkosh Truck, Terex, United Rentals

Small Cap Energy Rebuild and Infrastructure Plays:
AZZ, Circor, GSE Systems, Lindsay, Team Inc., Titan International, Valmont

Emerging Mid Cap:
Crane, Esterline Technologies, NHI Corp.

Aerospace and Defense:
Alliant Technologies, Astronics, Boeing (which is also a "work in progress"), Circor, Esterline, Hawk, Heico, Moog, Precision Cast Parts (which is also important in power generation), Raytheon, Timken, Triumph Group

Water:
Aqua America (which clearly is also a "Get Rich Slow Scheme"), General Electric (which categories does it not fit?), Insituform Technologies (been a "Get Rich One Day Scheme" for too long?), Pentair (Hummmm...Ditto the Insituform line?), Roper (becoming a real force).

Mfg. Pensions...

(From page three)

company's assets," says the PBGC. "The PBGC expects to be liable for $12 million of the $15 million shortfall."

On June 19, the PBGC assumed responsibility for the pensions of more than 500 former employees of Specialty Filaments, a bankrupt manufacturer of materials used in brushes and brooms based in Middlebury, Vt. The company's pension plan has assets of only $4.2 million to cover $13.3 million in benefit liabilities. The agency will be responsible for $8.7 million of the $9.1-million shortfall.

The PBGC is a federal corporation created under the Employee Retirement Income Security Act of 1974. It currently guarantees payment of basic pension benefits earned by 44 million American workers and retirees participating in over 30,000 private-sector defined benefit pension plans. The agency receives no funds from general tax revenues. Operations are financed largely by insurance premiums paid by companies that sponsor pension plans and by investment returns.

CALENDAR OF UPCOMING EVENTS

July 22 - 24 2nd International Conference on Changeable, Agile, Reconfigurable and Virtual Production, Toronto, Canada. Sponsored by the Intelligent Manufacturing Systems Center at the University of Windsor, Canada and the Institute for Machine Tools and Industrial Management at the Technische Universitaet Muenchen, Germany: http://www.uwindsor.ca/carv2007/.

July 24 - 26 The Wright Patterson AFB Dialogue With Industry, WPAFB, Ohio: http://www.wrightdialogue.org.

July 24 - 26 Pharmaceutical Technology Annual Conference, Philadelphia: http://www.pharmtech event.com.

July 24 - 27 American Council for an Energy Efficient Economy 2007 Summer Study on Energy Efficiency in Industry, White Plains, N.Y., http://www.aceee.org.

July 25 - 28 Shanghai International Machine Tool Fair 2007, Shanghai New International Expo Center, Shanghai, China: http://www.eastpo.net.

August 2 - 4 Synthetic Yarn and Fiber Association Summer Conference, Myrtle Beach, S.C., http://www.ncto.org.

August 13 - 15 Shift Happens, Baltimore, Md. Sponsored by the National Center for Manufacturing Sciences and the Association for Manufacturing Technology: https://www.ncms.org/SSL/NCMS_AMT2007/NCMS_AMT_RegIntro.htm.

September 10 - 12 Gartner Manufacturing & Distribution Technology Summit, Las Vegas, Nev.: http://www.gartner.com/us/manufacturing.

September 11 - 13 Automotive Composites Conference & Expo: Detroit, Mich.: www.speautomotive.com/comp.htm.

September 11 - 12 Front End Innovation, San Diego, Calif.: www.marcusevansbb.com/fei.com

September 12 - 14 Lean Accounting, Lexington, Ky.: http://www.mfg.uky.edu/lean/accounting.html.

September 17 - 22 World of Machine Tools and Metalworking, Hannover, Germany: http://www.emo-hannover.de.

September 18 - 20 Great Lakes 2007 Exploring Manufacturing Innovations, Grand Rapids, Mich.: http://www.sme.org.

September 18 - 20 Space 2007 Conference and Expo, Long Beach, Calif.: http://www.aiaa.org.

September 19 - 20 PLM Road Map 2007, Plymouth, Mich.: http://cpd-associates.com/index.cfm?content=include_conference07.cfm.

September 23 - 28 IPC Midwest Conference & Exhibition, Schaumburg, Ill.: http://www.ipc.org.

September 24 - 28 Human Systems for Lean, Lexington, Ky.: http://www.mfg.uky.edu/lean/humansystems.html.

September 26 - 28 SAAT2007 at SME International Grinding Conference, Dearborn, Mich.: http://www.sme.org.

September 27 - 28 Transmission Planning and Development Forum, Washington, D.C., Sponsored by McGraw Hill, http://mcgrawhill-web.ungerboeck.com/reg/reg_p1_form.aspx?oc=10&ct=CONFREG&eventid=5059.

October 2 - 4 SOUTH-TEC 2007 Exposition & Conference, Charlotte, N.C.: http://www.sme.org.

October 3 - 4 Northeast Shingo Prize Conference, Boston Mass.: http://www.neshingoprize.org.

October 3 - 4 Advanced Materials and Manufacturing Technology for Naval Applications, Baltimore, Md. Sponsored by the Navy Metalworking Center: http://www.nmc.ctc.com.

October 4 - 5 European Manufacturing Strategies 2007, Swissotel Dusseldorf: www.ems-summit.com.

October 4 - 5 WTO Public Forum 2007: How Can The WTO Help Harness Globalization? http://www.wto.org/english/forums_e/public_forum2007_e/forum07_e.htm.

October 7 - 11 Surface Mount Technology Association International 2007, Orlando, Fla.: http://www.smta.org.

October 10 - 12 Supply Chain Council's European Conference: The Next Generation Supply Chain Proactive Management of Risk and Compliance, Brussels, Belgium: www.supply-chain.org.

October 13 - 14 W. Edwards Deming Institute's Fall Conference, Purdue University, West Lafayette, Ind.: http://www.deming.org.

October 15 - 16 IPCWorks Asia 2007, IPC - Association Connecting Electronics Industries, Shenzhen, China: www.ipc.org/ipcworksasia.

October 16 - 18 The American Machine Tool Distributors' Association biennial Mid-Atlantic Machine Tool Show, King of Prussia, Penn.: http://www.toolingu.com/amtda.

October 18 - 21 Manufacturing in Mexico Summit, Saltillo, Coahuila, Mexico: www.offshoregroup.com.

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GUEST EDITORIAL:

U.S. Should Not Blame China For Its Own Problems

BY WILLIAM REINSCH

China is growing — fast. It is doing what Japan did in the 50s and 60s, what Korea and Taiwan did subsequently, and what Malaysia, the Philippines, Indonesia, Thailand, and a host of others are trying to do right now. But China is different because of its size and its politics. With 1.3 billion people, there are few limits on its capacity. It will become a true economic rival — not the proverbial 800-pound gorilla but the 800,000-pound gorilla.

While we had many of these same worries about Japan 20 years ago, at the end of the day it was still an ally and friend. China is not, which means its growth has strategic as well as economic implications. Japan's allied status, however, did not save it from rhetorical excesses, best exemplified by the episode where several members of Congress bashed a Toshiba product to pieces outside the Capitol Building.

Our experience over the next several years with China is likely to be very similar —rhetorical excess that is not matched by actual legislation enacted into law and certainly not by legislation likely to do anything about the problems that have been identified. Many are touted; few are chosen.

The reason for this is that the actions are in response to U.S. problems that require U.S., not Chinese solutions. The key economic dilemma we all face is dealing with globalization as a force for both stability and instability as it simultaneously pushes countries to conform to market principles and to Western norms of rule of law yet at the same time rides roughshod over deeply ingrained cultural values, exacerbates growing problems of income inequality, exploitation of workers, women, and children, and contributes to environmental degradation and resource depletion.

These are not really trade problems, but they end up being treated that way for two reasons. First, it's always easier to blame the foreigners than yourself for your problems, so most bad economic developments are blamed on trade and lead to demands for protection. The U.S. is no exception there. Second, the WTO is the

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Calendar...

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October 21 - 23 APICS International Conference & Expo, Denver, Colorado: www.apicsconference.org.

October 23 - 24 Midwest RFID Symposium, University of Kansas: http://www.continuinged.ku.edu /programs/rfid/rfid_symposium/index.php.

October 23 - 26 Global Six Sigma Summit & Industry Awards, Las Vegas, Nev.: www.gsssa.com

October 24 - 25 The 4th International Sematech Manufacturing Initiative Symposium on Manufacturing Effectiveness, Austin, Texas: http://www.Sematech.org.

October 29 - November 2 Lean Executive Leadership Institute, Lexington, Ky.: http://www.mfg.uky.edu/lean/ leadership.html.

October 29 - November 2 Association for Manufacturing Excellence, Chicago: http://wwwameconference.org.

November 7 - 9 Lean Accounting, Lexington, Ky.: http://www.mfg.uky.edu/lean/accounting.html.

November 11 - 14 FABTECH International & AWS Welding Show 2007, Chicago, Ill.: http://www.sme.org.

December 3 - 7 Defense Manufacturing Conference: Superiority and Affordability: How Do We Get Both? Las Vegas, Nev.: http://www.dmc.utcdayton.com.

December 4 - 7 CONEXPO Asia, the Chinese Export Commodities Fair, Guangzhou, China: http://www.conexpoasia.com.

December 11 - 13 International Symposium in Nanotechnology Environmental Protection & Pollution, Fort Lauderdale, Fla. http://www.isnepp.org.

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only multilateral organization that has an effective dispute resolution mechanism, so nations have an incentive to define their problems as trade grievances so they can take them there.

You can see both these trends in current Congressional activity on China — an effort to blame our problems on them, and, in part, to seek multinational solutions along with unilateral ones.

First, let's define the problems. The macro problems are enormous trade and current account deficits, the single largest element of which is China.

The micro problems are more politically sensitive — job loss, offshore outsourcing, erosion of the manufacturing base — "hollowing out" — fear and insecurity about the future. Even those who have jobs are not sure they're going to be able to keep them.

The Congressional response thus far has been to attack China on currency misalignment and to propose remedies that range from trade law changes to multilateral action to a variety of retaliatory steps. These are illustrated in what are probably the four most relevant pending bills.

S-1607 — Currency Exchange Rate Oversight Reform Act of 2007 (Baucus-Grassley).

1. Requires the Secretary of the Treasury to biannually list 'fundamentally misaligned currencies" and "fundamentally misaligned currencies for priority action."

2. Currencies that require priority action come from a country that is intervening in the exchange market on a large scale, accumulating reserves on a large scale, implementing excessive capital reserves, or doing other things deemed necessary for priority action by the Secretary.

3. Following bilateral consultations, if the currency is still misaligned after 180 days, The U.S. will adjust antidumping calculations to reflect the misalignment of the currency, prohibit federal procurement, request the IMF to consult with the offending country, prohibit OPIC financing or insurance, and instruct our representatives to oppose multilateral bank financing. It also obligates the U.S. to oppose changes in IMF or other institution governance that would advantage a country whose currency is misaligned.

4. After 360 days, if the problem still exists, the USTR would have to request WTO consultations and the Secretary would consult with the Federal Reserve Board of Governors to discuss taking remedial intervention in the currency markets. These remedial actions would be coordinated with the IMF and other monetary authorities.

5. Finally, the President can waive these steps if he determines that "taking such action would cause serious harm to the national security of the United States" or "taking such action would have an adverse impact on the United State economy substantially out of proportion to the benefits of such action," but there is also a process by which Congress can disapprove the waiver.

HR-2942 — Currency Reform for Fair Trade Act of 2007 (Ryan-Hunter)

1. This revised version of an earlier bill grafts the Baucus-Grassley antidumping concept onto the earlier version's subsidy concept to make it the toughest of the four bills. Like Baucus-Grassley, it calls for a biannual report outlining fundamentally misaligned currencies and those in need of priority action, and it provides for a similar antidumping remedy, but to both priority and non-priority misaligned currencies.

2. However, it also provides that CVD laws will apply to nonmarket economies, and that currency misalignment should be considered a subsidy in calculating the CVD duty.

3. In contrast to Baucus-Grassley, the bill defines "fundamental and actionable misalignment," as cases where undervaluation is over 5 percent and has "consistently" been so for the past 18 months.

4. The bill does not include the presidential waiver like Baucus-Grassley does.

HR-1229 — Nonmarket Economy Trade Remedy Act of 2007 (Davis-English)

1. As in Ryan-Hunter, this bill provides for application of the CVD law to nonmarket economies and it provides that a country's status cannot be changed from NME without Congressional approval.

2. Because of the nonmarket status of the Chinese economy, the bill outlines a methodology for calculating the additions to the countervailing duties in the case of unfair trade from China.

3. There is no mention of currency or exchange rate policy or dumping.

S-1677 — Currency Reform and Financial Markets Access Act of 2007 (Dodd-Shelby)

1. This bill focuses on whether or not a country is manipulating its currency, intentionally or not, to create a trade advantage over the U.S. Unlike the others, it was carefully drafted to be referred to Banking rather than Finance. As a result, it lacks the trade law changes of the other bills.

2. After a foreign currency is deemed manipulated by the Secretary of the Treasury, the Secretary has 30 days to adopt a proposal to counter the manipulated currency, begin bilateral negotiations with the offending country, and use the U.S. voice at the IMF to request an effective balance of payments adjustment and to eliminate the unfair competitive advantage. If after 300 days the manipulated currency has not been adjusted, the Secretary shall pursue action under the WTO.

3. The bill also lets Congress to disapprove of the Secretary's designation (or not) of a currency as being manipulated.

Sometime soon we also expect Congressman Sander Levin (D-Mich.) to produce his own bill, which will no doubt be the one the Ways and Means Committee takes up. It will probably borrow liberally from the provisions just outlined.

From the standpoint of the bilateral relationship, while the Chinese will no doubt complain vociferously

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about whatever we do, these bills won't make much difference in the problems they intend to address, which unfortunately means that real solutions will be postponed even longer.

The main reason they won't make much difference is that fundamentally they rely on trade law changes that are particularlized. They only operate when someone files a specific case against a specific company or companies involving specific products and proves it's been injured by those imports. Only then are actual duties imposed, and only on the subject imports. But that is the same reason they won't have much of an impact — it will only be felt in the handful of sectors where cases are brought and won. For that same reason, they ought not to have an adverse impact on the trade relationship, although the Chinese will no doubt complain and retaliate. (They are not the Japanese!)

Will they achieve their intended purpose — acceleration of Chinese revaluation? Possible, but unlikely.

Treasury has had extensive conversations with the Chinese for three years on this. The bottom line is they know exactly what they need to do, which is exactly what we've told them they need to do, but they are reluctant to move as quickly as we would like. In essence, they are pursuing an exceptionally conservative monetary policy. Nearly 9 percent appreciation in two years is not nothing but not nearly enough.

Keep in mind, however, that even if re-valuation were faster, it's not entirely clear what the effect would be. Current estimates are that some 75 percent of the value of Chinese exports comes from components that have been imported, which would substantially mitigate the effect of a revaluation. Although it is changing, China is in many respects still an assembly platform, and it is hard to predict how currency fluctuations affect production costs except on a case by case basis.

Even if there is an effect that is substantial, conventional economics — the Phillips curve — suggests that it won't show up for 18 months, although there is some recent research that suggests that globalization is reducing that lag.

Ironically, if you want to focus on what might change the trade relationship most rapidly, it will be if they fail to do a better job on product safety. Far more than Congressional legislation, if the American consumer turns against Chinese products because it believes them to be unsafe or unhealthy, and begins seeking out other products in the marketplace, it could be devastating to many Chinese manufacturers.

What does this mean for us? Are our fears well grounded? Will the Chinese economic powerhouse overwhelm Western economies, hollow out our manufacturing base and cost us millions of jobs? I see three scenarios: 1. They address their problems and become an engine of growth for the global economy. The challenge for us in that case will be to adapt to an economic system where power is more diffuse and to ensure that economic rivals do not also become political or military rivals. The challenge for China will be to accept the increased responsibility for maintaining the trading system that comes with leadership. Unfortunately, there is no sign of that yet. If we collectively fail to meet those challenges, we will likely see a new bi-polar global system involving a United States-China rivalry.

2. They fail, either economically or politically, in which case they will be preoccupied with their internal problems for a long time to come. Depending on the severity of those problems and the extent to which they spill over into the international system, the United States might be drawn into them as well.

3. They muddle through just like us — continuing to grow but continuing to face the same challenges they have now, which, if nothing else, will significantly constrain the international role each of them can play. This is the least interesting outcome, but the most likely.

Regardless of which scenario is correct, however, the economic consequences for us are not that different because they are an inevitable consequence of globalization and growth elsewhere, not just in those countries: U.S. manufacturing will continue to lose jobs while improving productivity. We have been losing manufacturing jobs for 40 years, but mostly to technology — not China.

Like everyone else, the United States must deal with the psychological and economic consequences of globalization in terms of lost jobs and devastated communities. The economic gap between the top and bottom in our society is getting worse and our adjustment programs to deal with it do not work well. A study released last month by the Financial Services Forum has some innovative ideas in this area that deserve attention.

We should be wary of our increasingly precarious global financial position. We are deeply in debt to the Chinese, which increases their potential leverage over us, even though they could not exercise it without taking an enormous financial hit. For all of our economic might, I doubt that we can ignore economic fundamentals forever, and markets will one day decide that a declining dollar, massive debts and deficits, and low returns on T-bills are reason enough to flee the U.S. economy.

The issue will be hard landing or soft landing, and the longer we do nothing, the more likely it will be the former.

In spite of all these challenges, the good news is that doing something about many of them is under our control, not anyone else's. We can choose the right tax, trade and immigration policies that encourage foreign investment and make the United States a welcoming place to visit, live and work. We can choose to improve our educational system and can create a 21st Century workforce. We can choose to address the massive imbalances in our trade and current accounts.

The one thing we know for sure is that the rest of the world, particularly China and India, will continue to run faster, so it falls to us to pick up the pace if we want to retain our global position.

—William Reinsch is President of the National Foreign Trade Council and a member of the U.S.-China Economic and Security Review Commission.