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Revival Of Atomic Energy Will Occur Without Many U.S. Manufacturers

The United States is on the verge of seeing a revival of nuclear power, but there is only one company left in the country able to provide certified industrial equipment for use in a new generation of reactors. The Nuclear Regulatory Commission (NRC) expects to receive seven license applications this year to build and operate new nuclear plants. Eleven additional applications are expected in 2008.

"To date, we have received letters of interest from several potential applicants, which indicate that the NRC may expect that first plant completion to be followed by as many as 30 others," NRC commissioner Peter Lyons told the International Conference on Structural Mechanics in Reactor Technology on Aug. 13. "We have even received part of the first combined operating license to be filed." It is the first time in 30 years the NRC has received an application to operate a new nuclear unit.

The NRC has reviewed early site permits at four locations and has issued early site permits for the Clinton and Grand Gulf nuclear plants. It is working on an early site permit for the North Anna station. It has certified four reactor designs, and three more are in various stages of consideration.

But the U.S. manufacturing and industrial capacity to support new construction "has been significantly diminished since the 1970s and 1980s," said Lyons. The number of U.S. companies certified by the American Society of Mechanical Engineers to produce nuclear accredited — or "N-stamped" — parts has dropped by almost a factor of five since 1980. The sole remaining manufacturer of large, heavy nuclear components that has received "N-stamp" certification is BWX Technology for its plants in Barberton, Ohio, and Mount Vernon, Ind.

"We face a challenge in ensuring the quality of the thousands of smaller parts and materials that are manufactured in other parts of the world" —

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U.S. Is World's Biggest Loser In WTO Disputes

The United States is losing the vast majority of trade cases brought against it by other nations in the World Trade Organization, even though the United States ran a trade deficit last year in goods totaling $838 billion, the highest of any country in the history of the world.

No matter. The World Trade Organization has ruled against the United States in 40 of 47 cases. The United States has lost an additional 30 of 33 WTO cases brought against it in the trade remedies area. That number is "astounding," according to Robert Lighthizer, a partner in charge the international trade group at the law firm of Skadden Arps Slate Meagher & Flom. The United States "has suffered disproportionately from the problems with the WTO dispute settlement system, having been named as a defendant in far more cases than any other WTO members."

Some of the cases lost by the United States required major changes of U.S. laws and administrative rules. "Rogue WTO panel and Appellate Body decisions have consistently exceeded their mandate by inventing new legal obligations that were never agreed to

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by the United States," Lighthizer told an Aug. 2 hearing of the House Ways and Means Committee's trade subcommittee. "As a result of this judicial activism, our trading partners have been able to achieve through litigation what they could never achieve through negotiation," he said. "The consequent loss of sovereignty for the United States in its ability to enact and enforce laws for the benefit of the American people has been staggering. The WTO has increasingly seen fit to sit in judgment of sovereign acts running the gamut from U.S. tax policy to environmental measures to public morals."

In the trade remedies area — in which the U.S. government proposes duties provided to industries materially hurt by unfairly dumped imports — the U.S. has lost almost every one of the cases brought against it. "Our negotiators in the Uruguay Round established specific rules in this area and made clear that WTO dispute settlement panels should defer to national authorities like the U.S. Department of Commerce and the U.S. International Trade Commission where possible," Lighthizer said. "However, the WTO has ignored this mandate and has instead engaged in an all-out assault on trade remedy measures." The United States has been shut down on the Commerce Department's use of "zeroing" to calculate a company's dumping margin. The Bush administration has called that ruling "devoid of legal merit." The WTO has ruled against the United States in its use of the Byrd Amendment to distribute duties to companies impacted by dumping.

"I am not alone in this stark assessment of the WTO dispute settlement system," said Lighthizer, former deputy USTR with the rank of Ambassador during the Reagan administration. "Even ardent supporters of the WTO and legal experts hostile to the trade remedy laws have expressed amazement at the level to which WTO panels and the Appellate Body are creating new WTO obligations out of whole cloth. The threat that this poses to the trade remedy laws and, in fact, the entire world trading system, is immeasurable."

The U.S. federal government has not helped U.S. industry much in its fight against illegal trade, either. It has not applied CVD laws to non-market economies, despite the fact that such countries provide vast subsidies to their industries. It has not enforced the so-called "421 Safeguard" against China, even though four cases have been decided in favor of U.S. industry, only to have the Bush administration refuse to grant remedies.

> *"The consequent loss of sovereignty for the United States in its ability to enact and enforce laws for the benefit of the American people has been staggering."*

The Import Administration at the Commerce Department has seen its budget cut by appropriators in Congress. The agency, which pursues trade remedies for adversely impacted U.S. industries, had a budget in 2007 of $60 million, down from $68 million in 2004, a decline of 12 percent. "Similarly, the number of employees at IA fell from 388 in fiscal year 2005 to only 319 in 2007, a decline of 17.8 percent," said Lighthizer. "In my view, cutting funding for trade enforcement is exactly the wrong policy at a time when we are facing increasing challenges from unfair trade."

Foreign countries with big trade surpluses with the United States are intent on making U.S. trade laws obsolete through their negotiations in the latest Doha Round of talks, Lighthizer argued. U.S. trade remedy laws "are subject to continuing assault...by countries that have been most active in the Doha round in trying to gut rules against unfair trade." These countries — the most frequent violators of fair trade rules — "have engaged in an all-out effort to weaken international disciplines on dumping and subsidies — and by extension, to require weakening changes to U.S. laws," he charged. "Given the pressure on the administration to bow to such demands, clear guidance from Congress will be critical if weakening of U.S. trade laws is to be avoided."

The U.S. Congress has a unique opportunity to address many of these issues. A variety of bills aimed at helping ameliorate the current crisis in U.S. manufacturing are now under consideration. Congress should pass laws to apply countervailing duties on non-market economies. It should send a clear message to the WTO on its "baseless decisions on zeroing," said Lighthizer, who represents heavy manufacturing, agricultural and high tech companies in antidumping and countervailing duty cases. "This will add impetus for a negotiated solution in the Doha talks and will prevent irreparable injury in terms of the application of our trade laws."

It should also pass legislation addressing foreign currency manipulation. "I would respectfully suggest that the school of thought advocating more 'dialogue' and talk on this issue has lost its credibility," he told the panel. "At the pace these discussions are going, we will not see meaningful change while it can still make a difference. To paraphrase the economic quip, in the long run we — or at least all

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our manufacturers — will all be dead."

Currency manipulation should be treated as an illegal subsidy for purposes of U.S. countervailing duty laws. "It undermines the very foundation of free trade," said Lighthizer.

Congress should consider proposals to reform the World Trade Organization and limit its judicial activism. It should create an expert body to advise it on WTO dispute settlement decisions that adversely impact the United States. Congress should allow private parties to participate in WTO dispute settlement proceedings. These individuals would bring "special knowledge to a case and be in a position to assist in the U.S. government's litigation efforts," said Lighthizer. "In this regard, foreign governments already frequently make use of private (often U.S.) lawyers in prosecuting WTO actions, and there is no reason the United States should not similarly bring all supportive resources to bear in this increasingly vital litigation."

Congressional approval should also be required on any proposed administrative action taken to comply with an adverse WTO decision against the United States. "In a number of instances, the administration has expressed strong disagreement with adverse WTO dispute settlement decisions, and yet felt the necessity to take administrative steps to comply with such judgments," said Lighthizer. "Given the importance of these decisions to the U.S. economy and U.S. citizens — and the obvious sovereignty concerns at stake — Congress should have a direct say in whether there will be a change in U.S. law or practice to comply with the rulings of foreign bureaucrats."

Congress should address the issue of foreign governments' rebates of value-added taxes to their producers and collection of the same taxes on imports from the United States. This is currently impacting the U.S. trade balance by $130 billion a year. "There is no economic justification for this practice: it is simply a gift to foreign producers," said Lighthizer. "The time has come to demand that our trading partners agree to a fairer system. Again, there are a number of good proposals. One approach would be to demand that this problem be rectified in negotiations by a set period (e.g. one to two years), after which period the United States would begin to treat foreign rebates of VAT taxes as a countervailable subsidy. (Just as rebates of incomes taxes are now treated.) The point again is that action is urgently needed.

"I truly believe that the economic future and opportunity for our children and grandchildren are at stake, not to mention the strength and capabilities of our entire economy," Lighthizer concluded.

Emission Caps Would Boost Price Of Coal

If a Senate bill aimed at capping U.S. gas emissions becomes law, it would lead to substantially higher prices for electricity generated from coal, and a boon for the nuclear power industry, according to the Energy Information Administration.

The Climate Stewardship and Innovation Act of 2007 (S-280), introduced by Sens. Joseph Lieberman (D-Conn.) and John McCain (R-Ariz.), would require emissions in 2012 to be equal to those of 2004. By 2029, emissions would have to be equal to those generated in 1990 and, by 2030, it would require a further reduction of 22 percent below 1990 levels. By 2050, the goal is to reduce emissions 60 percent below 1990 levels.

The price of coal to the electric power sector would skyrocket under these requirements, by 129 percent in 2020 and 245 percent above that in 2030. "Industrial coal users experience similar price impacts," says the EIA in its analysis of the legislation requested by Lieberman and McCain.

Natural gas prices would increase, but not by nearly the same amount as coal: 14 percent in 2020, and 16 percent to 25 percent in 2030, if the emissions levels were enforced. "The increase in the price of gasoline in 2030 is 34 cents per gallon in the S-280 core case," says EIA.

Nuclear power would be the main beneficiary of the legislation. "To reduce its CO_2 emissions, the power industry is expected to shift away from its historical reliance on coal generation," says EIA.

Without S-280, coal is projected to account for 58 percent of total electricity generation in 2030, "but its share falls to between 11 percent and 35 percent in the main S-280 cases," says the EIA. "Coal generation in the S-280 core case is 26 percent below the reference case level in 2020 and 69 percent lower in 2030. Relative to the 2005 level, coal generation in the S-280 core case is 48 percent lower in 2030."

New nuclear power capacity would increase by 145 gigawatts, with generation of 1,909 billion kilowatthours in 2030. "Across the three main S-280 cases, nuclear generation in 2030 provides from 22 percent to 42 percent of total electricity generation, compared to 15 percent" without the legislation.

Renewable energy's share of power generation increases to between 22 and 28 percent. Wind generation grows from 15 billion kilowatthours in 2005 to 51 billion kilowatthours in 2020 and remains at that level through 2030.

The adoption of carbon capture and storage (CCS) technology for electric power plants is not expected to be cost-competitive with nuclear and biomass for base load generation "at the allowance prices in the S-280 core case," says the EIA.

For a copy of the analysis, "Energy Market and Economic Impacts of S-280, the Climate Stewardship and Innovation Act of 2007," go to http://www.eia.doe.gov/oiaf/servicerpt/csia/index.html.

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including pumps, valves, motors, fans, pipe "and even bolts," Lyons said. "The close scrutiny that regulatory agencies can enforce on major manufacturers to assure that quality components are produced is challenging to achieve for a vastly greater number of sub-vendors that supply parts and materials to the manufacturers."

Every part, component and system in a nuclear station needs to be assessed with regards the risks they pose if they fail in a harsh environment for which they are typically not designed. Most of these components are now made offshore, presenting an even greater challenge to regulators.

"It is particularly difficult to characterize failure modes of passive components that can experience beyond-design-basis conditions for which the failure data cannot be realistically obtained," said Lyons. "This community will play a significant role in establishing realistic assessments of passive component performance to enhance our progress toward risk-informed regulation."

New reactor designs such as high-temperature and liquid metal reactors will require new materials and different operational requirements. But many of these reactors are being developed in foreign countries with strong government-supported nuclear power research programs. It means U.S. regulators will have to develop codes and standards for foreign systems and materials "with an international perspective," said Lyons.

Further challenges remain with the current plants that are in operation. "Our experiences have shown

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Expected New Nuclear Power Plant Applications
Updated June 29, 2007

Company	Design Type	Site Under Consideration	State	Existing Plants
2007 Applications				
Duke	AP1000	William Lee Nuclear Station (2 units)	SC	N
NuStart Energy	AP1000	Bellefonte (2 units)	AL	N
Progress Energy	AP1000	Harris (2 units)	NC	Y
Dominion	ESBWR	North Anna (1 unit)	VA	Y
NuStart Energy	ESBWR	Grand Gulf (1 unit)	MS	Y
South Carolina Electric & Gas	AP1000	Summer (2 units)	SC	Y
NRG Energy	ABWR	South Texas Project (2 units)	TX	Y
2007 TOTAL NUMBER OF APPLICATIONS =7 TOTAL NUMBER OF UNITS = 12				
2008 Applications				
Progress Energy	AP1000	Levy County (2 units)	FL	N
Southern Nuclear Operating Co.	AP-1000	Vogtle (2 units)	GA	Y
Entergy	ESBWR	River Bend (1 unit)	LA	Y
UNISTAR	EPR	Calvert Cliffs (1 unit)	MD	Y
PPL Generation	EPR	Susquehanna (1 unit)	PA	Y
AmerenUE	EPR	Callaway (1 unit)	MO	Y
UNISTAR	EPR	Nine Mile Point (1 unit)	NY	Y
TXU Power	US APWR	Comanche Peak (2 units)	TX	Y
Exelon	TBD	TBD (1 unit)	TX	UNK
Detroit Edison	TBD	Fermi (1 unit)	MI	Y
Amarillo Power	EPR	Vicinity of Amarillo (2 units)	TX	UNK
2008 TOTAL NUMBER OF APPLICATIONS = 11 TOTAL NUMBER OF UNITS = 15				
2009 Applications				
Florida Power & Light	TBD	TBD (1 unit)	UNK	UNK
2009 TOTAL NUMBER OF APPLICATIONS = 1 TOTAL NUMBER OF UNITS = 1				
2007 – 2009 Total Number of Applications = 19 Total Number of Units = 28				

Substantial Growth Projected In Hybrid Vehicle Sales

Hybrid vehicle sales are expected to increase by 35 percent in 2007, reaching a record number of 345,000, up from 256,000 in 2006, according to J.D. Power and Associates. For the first six months of 2007, 187,000 hybrid vehicles were sold. The market for hybrids is being driven by high gas prices and lower sales prices for the cars themselves.

Toyota sold 94,503 Prius units through June 2007, representing 51 percent of all hybrid vehicles sold in the United States. Toyota boosted sales when it started offering incentives of $2,000 to entice customers.

"Toyota realized that they had to offer incentives for the Prius to offset the decrease in the federal tax break, which decreased from more than $3,000 in 2006 to less than $1,000 in 2007," says Mike Omotoso, manger of global powertrain forecasting for J.D. Power.

Nine new hybrid models will be introduced to the market this year. By 2010, there should be 65 hybrid models — 28 cars and 37 light trucks — on the market. By then, hybrid sales are expected to reach 775,000 units, or 4.6 percent of the total U.S. new light vehicle market.

NIST Director Announces His Resignation

The director of the National Institute of Standards and Technology has announced his resignation. William Jeffrey, appointed to his post in 2005 from a position in the White House Office of Science and Technology Policy, will leave the agency Sept. 3, 2007, for a job as director of the science and technology division at the Institute for Defense Analyses.

"I have worked there in the past, so in one sense I'm coming home," he writes in an e-mail response to questions. "I see a lot of parallels with NIST. These are both institutions that pride themselves on providing technically sound advice and on the technical integrity of their work."

Jeffrey says it is a good time to be leaving NIST because awareness of its programs aimed at innovation and industrial competitiveness have been elevated among policymakers. "We're set to expand our budget through the American Competitiveness Initiative and I fully expect NIST to continue to increase its impact in the future," he says. "I feel confident that NIST is on the right track. We have processes in place that have traction and we have a team of senior managers, including a very capable new deputy director, who can lead NIST forward. An opportunity presented itself that I felt would be very personally fulfilling."

An interim director has not been named. NIST deputy director Jim Turner will continue to manage NIST's daily operations. Turner joined NIST last April from his position as assistant deputy at the Department of Energy's National Nuclear Security Administration. He received his Ph.D. in physics from MIT.

Commerce Dept. Hires Manufacturing Man

The federal government has a new manufacturing leader. Retired Rear Admiral William Sutton has left his post as head of the Air Conditioning and Refrigeration Institute to become the Commerce Department's Assistant Secretary for Manufacturing and Services, the government's lead advocate for U.S. industry. Sutton's task, says the Commerce Department, is to ensure that "laws, policies and regulations are passed with an eye towards competitiveness." Sutton has served on the Boards of the American National Standards Institute and the National Association of Manufacturers' Council of Manufacturing Associations. He holds an MS degree in naval architecture and marine engineering from MIT and a BS in naval engineering from the Naval Academy.

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that the understanding of aging and degradation mechanisms, timely detection through inspection technologies and implementation of effective remedial measures are vital to maintain safety throughout the operating life" of reactors, Lyons said. "Operating beyond the current 60-year, license-renewal periods may also be sought and would challenge our knowledge of aging phenomena." Most reactors were originally designed for a 30-year life.

Other major issues will need to be dealt with by regulators in order for the next generation of reactor to be widely adopted. Reactor system designs must take into account the potential for airplane impact. There are concerns about the sabotage of designs through the illicit sharing of technical information with people who want to cause harm. Natural hazards, such as what could occur in the event of a large tsunami similar to the one in the Indian Ocean in 2005, must be taken into consideration.

There are also "critical shortages" of experienced workers trained in nuclear systems and safety, not only to work in the reactors themselves but also within regulatory agencies, said Lyons. "The global growth in nuclear power compels all of us to focus on training the next generation of construction workers, electricians, welders, engineers, operators, managers and regulators," he noted.

The NRC is trying to increase its staff by 600 people to handle the increased workload of new plant applications and the growing issues around maintaining the aging reactors in operation. "We cannot hire people off the street and send them out to be nuclear plant regulators the next day," said Lyons. "Even when hiring people with substantial experience in industry, we have found that it takes six months to a year of training before they begin thinking and acting like regulators. For recent university graduates, it takes one to two years."

Federal R&D Funds For Vehicle Improvement

The Department of Energy has awarded $21.5 million for 11 research contracts aimed at improving the efficiency of light-duty vehicle engines. The goal is to improve fuel utilization in ethanol-powered engines, develop advanced lubrication systems and explore efficient, clean combustion engines. Combined with industry investment, the eleven projects will total nearly $43 million. Winners include:

Delphi Automotive Systems, $2.2 million, to demonstrate a vehicle with an E-85 optimized engine, yielding up to 30 percent fuel efficiency improvement. Wayne State University will partner with Delphi.

Ford Motor, $3.2 million, to explore knock-suppression properties of ethanol with increased compression ratios for the development of smaller, more fuel efficient engines.

General Motors, $1.9 million, to develop a cooled exhaust gas recirculation combustion prototype, allowing for smaller engines without loss of engine power; possibly resulting in as much as a 15 percent fuel economy improvement. GM will partner with Ricardo Inc.

Robert Bosch, $1.5 million, to implement an integrated hardware-software system yielding gasoline-like fuel economy when operating on E-85. Robert Bosch will partner with Ricardo and the University of Michigan.

Siemens Government Services, $3 million, to investigate the potential of a turbocharged, direct-injection engine operating on E-85, and to improve combustion and fuel economy and lower exhaust emissions. Siemens will partner with AVL Engineering and Rousch Engineering.

TIAX, $1.2 million, to develop a high-efficiency engine system for an FFV that operates on any blend of ethanol up to E-85 and exceed the efficiency of a conventional gasoline engine when operated with the highest blends of ethanol. Partners include Monsanto and John Deere.

Visteon, $2.3 million, to achieve gasoline-like fuel economy when using E-85 by minimizing thermal, dynamic, volumetric and other system efficiency losses. Visteon will partner with the Argonne National Laboratory, Mahle Powertrain and Michigan State University.

Caterpillar, $491,000, to develop an environmentally friendly lubricant additive for enhancing an engine's fuel efficiency. Caterpillar will partner with the Argonne National Laboratory, NanoMech and the University of Arkansas.

Cummins Engine, $2.4 million, to improve fuel efficiency of a light-duty diesel engine by 10.5 percent. Partners include Daimler-Chrysler and BP.

Ford Motor, $1.3 million, to use diesel-boosting technologies to improve efficiency and performance of low-temperature combustion engines. Ford will partner with ConceptsNREC, Wayne State University and FEV Global.

Michigan State University, $2 million, to develop low-temperature combustion designs for diesel engines using biofuel blends optimized for engine performance. It will partner with Ford.

A Dirty Place Is China

China is projected to surpass the United States in carbon emissions by 2009, due to CO_2 emissions expanding at an average annual rate of 3.7 percent, according to the International Energy Agency. The discharge of sulfur dioxide in China has led to the country having seven of the 10 most polluted cities in the world. China leads the world in its emissions of organic water pollutants by more than three times the second worst polluting nation — the United States. More than 90 percent of China's urban rivers are polluted and 90 percent of its grassland has been degraded.

Environmental Degradation Ratings

Sulfur Dioxide (mcg per cubic meter)	
1. Guiyang, China	**424**
2. Chongquing, China	**340**
3. Taiyuan, China	**211**
4. Tehran, Iran	209
5. Zibo, China	**198**
6. Quingdao, China	**190**
7. Jihan, China	**132**
8. Rio de Janeiro, Brazil	129
9. Istanbul, Turkey	120
10. Anshow, China	**115**

Emissions of Organic Water Pollutants (kg per day, million units)	
1. China	**6.09**
2. US	1.90
3. Russia	1.52
4. India	1.52
5. Japan	1.28
6. Germany	1.02
7. Indonesia	0.72
8. Brazil	0.63
9. UK	0.61
10. Italy	0.50

White House R&D Guidance

The White House has directed the National Science Foundation, the Energy Department's Office of Science and the National Institute of Standards and Technology to request funding for fiscal year 2009 to keep them on a path to double their budgets by 2016. Thus far, these agencies have seen a 17 percent budget increase over the past two years. "We will evaluate the three requests together to determine final individual allocations," says an Aug. 14 directive to agency heads from John Marburger, director of the Office of Science and Technology Policy. "In addition to the doubling effort at these three agencies, real increases (above inflation) in the high-leverage basic research of the Department of Defense should be a significant priority." The seven-page guidance outlining interagency R&D priorities can be found at http://www.ostp.gov/html/FY2009 FINALOMB-OSTPRDPriorityMemo.pdf.

New National Manufacturing Association Finds A Niche With Free Trade Angst

When the Michigan Tooling Association decided earlier this year to become a national trade association aimed at tackling issues associated with free and fair trade, it knew it wasn't going to be easy attracting members and gaining a foothold in Washington. But the group, now known as the Tooling, Manufacturing & Technologies Association (TMTA), has had some success. In seven months, it has gone from representing members located only in Michigan with 22,000 employees, to having members in 21 states representing 49,000 employees.

A significant percentage of the new members have come from the National Association of Manufacturers' Domestic Manufacturing Group (DMG). This ad-hoc group of manufacturers formed within NAM in the hopes that it could persuade the organization to support legislation aimed at fair trade and to force China to stop manipulating its currency. Many members of the DMG believe their efforts have failed.

"We tried to work from within NAM and felt that we didn't get anywhere," says Brian Sullivan, TMTA's director of sales, marketing and communications. "Not only didn't we feel we got anywhere, but that we were met with hostility, and so we've decided to not renew our membership with NAM."

TMTA president Rob Dumont was active in the DMG and became acquainted with its members. But when NAM was incapable of backing the DMG's agenda, Dumont felt there was an opportunity for a national group to pursue the interests of small- and medium-sized manufacturers.

Many of the members of the DMG "have seen the value of joining our association, feeling that we are distinctive in that we are aggressive advocates for them," says Sullivan. "That's what we're doing. Rob Dumont continues to be very busy in Washington, D.C., and across the country at town hall meetings where presidential primaries are occurring."

TMTA, which is based in NAM president Gov. John Engler's home state of Michigan, feels it is on the cusp of affecting a change in U.S. trade policies, thanks in part to the recent publicity over a myriad of defective Chinese products. "It seems as though the grass roots populace is becoming all of a sudden quite aware of the issues of what is going on vis-a-vis multi-nationalism and globalism," says Sullivan.

Manufacturing & Technology News editor Richard McCormack sat down with Dumont on one of his recent trips to Washington, D.C. Here's what he had to say.

Q: What are your goals as leader of a new national trade association?

Dumont: I hope that the efforts currently underway to counteract this phenomenon of the big multinationals are successful. We can't defeat them in terms of money. The root of most of the evil that we're experiencing is the absolute deplorable trade policies that the United States has, or the lack of trade policies. It's easy [for the multinationals] to take a head-long rush into the less industrialized countries where they can take advantage of low labor costs, but it's not done to supply that area of the world. It's done to supply America. They are taking advantage of that situation.

With our trade agreements, America-the-benevolent was hoping to raise the living standards of the underdeveloped countries of the world. The assumption was that these other countries function like we do. They don't. They don't have the same considerations for child labor, slave labor, prison labor. They don't have any standards. They don't have the media watchdog that at times we're fortunate to have and at times we're cursed to have. It's a deliberate yet subtle, willful blindness on the part of corporate executives who have recognized the opportunity to take advantage of a situation to create wealth without regard to the harm and ramifications that they create.

Q: What do your members say about the conflict that exists between the small- and medium-sized manufacturers and the big multinationals?

Dumont: These are very bright people, unfortunately so many of them are absolutely head-long in a desperate rush to stay in business. We send out a survey to our members each year asking them how much work they have compared to last year. Quite often you see that everybody is happy because they have a lot of work, but at the end the survey, they say that once their current job is finished, there is nothing in the pipeline. Ten years ago, this was an industry that always had work in the pipeline. Today, they get one job and then they scramble to find their next job.

Q: How do you expect to change the culture of the global capitalistic system?

Dumont: We can't beat them with bucks but we can sure beat them at the ballot box. That is the only answer. The reality is the guy who runs the largest American corporation gets exactly the same number of votes as the guy who sweeps the floor in one of his plants. There are lots more of them than there are CEOs.

Q: Yet the National Association of Manufacturers put together its own education program in the last election cycle so that its members could inform their workers of the importance of trade and their vote for the free-trade politicians. You might have one vote, but you have competing agendas in the manufacturing sector.

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Dumont: We have two different factions in manufacturing. The reality is that large corporations have a vested interest in continuing to profit from deplorable conditions in other countries and to take advantage of currency manipulation. They have a captive audience. It's not surprising that people listen to their employers.

But a lot of the employees at companies like Caterpillar probably have friends and relatives on the street because they work for some other company that doesn't take advantage of the things that Caterpillar takes advantage of, and they're not stupid. People sit down over a cold one on Saturday night or the barbecue on a Sunday afternoon and chat about the realities of what's going on.

One of my members who no longer is in business said to me one day, "If you go into Wal-Mart and want to buy something made in the USA, you better have three or four hours to look around. On the other hand, if you want to find something made in China, walk in, close your eyes and point."

Q: What's been the reaction from multinational manufacturers to your charges?

Dumont: I haven't heard anything. My sense is that if any inquiries have been made by multinationals they probably are made at NAM and I suspect that NAM still considers us to be insignificant. NAM has the potential to be an excellent organization but it's been co-opted. I'm not opposed to NAM in total. NAM does some good work and they deal with some great issues, but on critical matters, they take positions that are indefensible.

Q: They'd argue with you on that. They say they've pressed the administration on currency alignment more than any other group.

Dumont: We were an active part of NAM's Domestic Manufacturing Group — the DMG — and unless the DMG gets together again and revisits these issues and re-defines a strategy, it's going to go away.

Q: One of the things I hear repeatedly from economists is that the industries that are most negatively impacted by trade cry the loudest because they are losing jobs. These are the industries that you represent. They say that they are inefficient and uncompetitive and the United States should not be protecting them because it's inevitable that they will be lost.

Dumont: Aren't these the same economists who say the reason all of these jobs are being lost is because our productivity is so high and has increased so much?

Q: There is a lot of hubbub in the press when a plant closes, but they argue that, overall, the economy is better off, so don't pay much attention to the cries of the few.

Dumont: I have a problem with the idea that everyone is better off. There is something haywire here.

Q: The United States remains a manufacturing powerhouse. It has the largest manufacturing economy in the world. Industrial production is up. So what's your fuss?

Dumont: How accurate are all of these figures?

Q: They're from the U.S. Federal Reserve.

Dumont: That's small comfort. Oftentimes people use statistics the same way a drunk uses a lamppost: for support rather than illumination. Numbers can be skewed to support anyone's argument.

Q: What's been the reaction to your organization's decision to change its name and go national?

Dumont: It's been largely favorable. Between 94 percent and 96 percent of our members were in favor of it because of the recognition that we have to address these issues on a national basis. It's very easy to be critical of state politicians and state government, but the reality is there is very little state governments can do to address the issues manufacturers face. This is a federal problem.

Unfortunately, the current administration has ignored it and for some strange reason hasn't been able to understand it. If you look at HR-1498, the Hunter-Ryan bill on Chinese currency manipulation, it had 178 co-sponsors and they couldn't even bring it to a vote.

Q: What happens next for your trade association?

Dumont: Our immediate agenda is to continue to fight with regard to currency manipulation and to forestall and prevent renewal of trade promotion authority. We have a position we're working on relative to health care costs. We have to educate policymakers on the impact foreign VAT taxes are having on our manufacturing sector. We have to impress upon our legislators that it's well and good to create legislation for a perceived social benefit but they have to be mindful of the cost of implementing that legislation. For example, HIPAA was the most ridiculous piece of legislation that they've come up with in the last two decades. It achieves virtually nothing at huge cost. It created a whole new industry that arose to satisfy the regulatory requirements of a new bureaucracy in D.C. It's another example of government using a chain saw when a scalpel would have done the job.

Q: What immediate goals do you have for TMTA?

Dumont: We need to increase our numbers because numbers count tremendously. If I walk into a legislator's office and I say we have this many member companies in your district and they employ this many people, I get a better reception if those numbers are impressive. And one thing I will not do is fudge the numbers.

Washington is a big town. The halls of Congress are long and empty. I roam around there by my lonesome. It's rare I collide with someone else pushing these issues.

If individual companies are satisfied with what their association is doing, my advice is if it ain't broke, don't fix it. On the other hand, if you like what we're doing and nobody else is doing it for you then please join us because we need the support.

LETTER TO THE EDITOR

Your article in the July 31, 2007, issue on Apple's global iPod supply chain shows that Sloan's Irvine Computer Center lacks basic understanding of trade and economics.

You accurately quote their report as stating "...trade statistics can mislead as much as inform. For every $300 iPod sold in the U.S., the politically volatile U.S. trade deficit with China increased by about $150 (the factory cost). Yet, the value added to the product through assembly in China is probably a few dollars at most. While Apple's share of value capture is high for the industry, the iPod's overall pattern of value capture is fairly representative."

Putting these statements together may have some "politically volatile" meaning to defenders of offshoring but it is economic nonsense.

Apple and its suppliers could produce 80 percent of the iPod in Taiwan, ship to China for the last "few dollars" of assembly before shipment and $300 retail sale in the U.S. Indeed, Apple could also transfer its iPod patents to an offshore shell company assuring absolutely no value added (jobs, tax revenues, etc.) in the United States (other than transportation, wholesaling and retailing) and likely assure itself an even higher profit-share of value.

This is a new research finding!?

Yes, when Boeing sells a 777 to China the entire export price is attributed to the U.S. (usually to Washington State) even though each airplane includes component goods and services from around the world. The same is true when China exports an iPod. That is why economists examine both imports AND exports, global as well as bi-lateral trade.

In the iPod case, the researchers suggest that for every $300 that Americans spend about $150 of it goes to U.S. firms, their workers and investors. The Sloan researchers conclude that, "This is simply a fact of business in the 21st century, and the good news is that many American companies are winning this game and continuing to bring significant benefits to the U.S. economy."

Indeed, this type of earn-half-of-what-you-spend "winning" has helped credit markets add $6 Trillion to U.S. households' debt over the past six years, $3.2 Trillion to the Federal debt and $4 Trillion in new current account deficits/foreign borrowing.

We can only hope that Sloan's next report is on new financial innovations that will sustain this ocean of debt.

— *Charles W. McMillion*
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GUEST EDITORIAL

China Is Not The Problem

BY PAUL CRAIG ROBERTS

At a time when even the *Wall Street Journal* has disappeared into the maw of a huge media conglomerate, the *New York Times* remains an independent family-owned newspaper. But it doesn't show any independence in reporting or in thought.

The *Times* editorials serve as conduits for propaganda. On August 13, a *Times* editorial jumped on China for "irresponsible threats" that threaten free trade. The *Times'* editorialists do not understand that the offshoring of American jobs, which the *Times* mistakenly thinks is free trade, is a far greater threat to America than a reminder from the Chinese, who are tired of U.S. bullying, that China is America's banker.

Let's briefly review the "China threat" and then turn to the real problem.

The U.S. government believes that the Chinese currency is undervalued relative to the U.S. dollar and that this is the reason for America's large trade deficit with China. The U.S. government demands that China revalue its currency in order to reduce its trade advantage over goods made in the United States.

The fact of the matter is that the exchange rate is not the main cause of the U.S. trade deficit with China. The costs of labor, regulation and harassment are far lower in China, and U.S. corporations have offshored their production for U.S. markets to China. When a company shifts its production for U.S. markets to a foreign country, it transforms U.S. GDP into imports. Every time a U.S. company offshores goods and services, it adds to the U.S. trade deficit.

Clearly, it is a mistake for the U.S. government to think of the imbalance as if it were produced by Chinese companies underselling goods produced by U.S. companies in America. The imbalance is the result of U.S. companies producing their goods in China and selling them in America.

The U.S. government believes the solution is to force China to revalue its currency, thereby driving up the prices of 70 percent of the goods on Wal-Mart shelves. Mysteriously, the U.S. government believes that it would help the U.S. consumer, who is as dependent on imported manufactured goods as he is on imported energy, to be charged higher prices.

China believes that the exchange rate is not the cause of U.S. offshoring and opposes any rapid change in its currency's value. In a message issued in order to tell the U.S. to ease off the public bullying, China reminded Washington that the U.S. doesn't hold all the cards.

The *New York Times* worries that China's "threat" will cause protectionist U.S. lawmakers to stick on tariffs and start a trade war. "Free trade, free market" economists rush to tell us how bad this would be for U.S. consumers: A tariff would raise the price of consumer goods.

The free market economists don't tell us that dollar depreciation would have the same effect. Goods made in China would go up 30 percent in price if a 30 percent tariff was placed on them, and the goods would go up 30 percent in price if the value of the Chinese currency rises 30 percent against the dollar.

So, why all the fuss about tariffs?

The fuss about tariffs makes even less sense once one realizes, as free trade economists and the *New York Times* are yet to realize, that the purpose of tariffs is to protect domestically produced

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Don't Blame China...*(from nine)*

goods from cheaper imports. However, U.S. tariffs today would be imposed on the offshored production of U.S. firms. In the era of offshoring, corporations are not a constituency for tariffs.

Tariffs would benefit American labor, something that the Chamber of Commerce, the National Association of Manufacturers and the Republican Party would strongly oppose. A wage equalization tariff would wipe out much of the advantage of offshoring. Profits would come down and with lower profits would come lower CEO compensation and shareholder returns.

Obviously, the corporate interests and Wall Street do not want any tariffs.

The *New York Times* and "free trade" economists haven't caught on, because they mistakenly think that offshoring is trade. In fact, offshoring is labor arbitrage. U.S. labor is simply removed from production functions that produce goods and services for U.S. markets and replaced with foreign labor. No trade is involved. Instead of being produced in America, U.S. brand names are produced in China.

It is not China's fault that American corporations have so little regard for their employees and fellow citizens that they destroy their economic opportunities and give them to foreigners instead.

It is paradoxical that everyone is blaming China for the behavior of American firms. What is China supposed to do, close its borders to foreign capital?

When free market economists align, as they have done, with foreigners against American citizens, they destroy their credibility and the future of economic freedom. Recently the Independent Institute, with which I am associated, stressed that free market associations "have defended completely open immigration and free markets in labor," emphasizing that 500 economists signed the Independent Institute's Open Letter on Immigration on behalf of open immigration.

Such a policy is satisfying to some in its ideological purity. But what it means in practice is that the Americans, who are displaced in their professional and manufacturing jobs by offshoring and work visas for foreigners, also cannot find work in the unskilled and semi-skilled jobs taken over by illegal immigrants. A free market policy that gives the bird to American labor is not going to win acceptance by the population. Such a policy serves only the owners of capital and its senior managers.

Free market economists will dispute this conclusion. They claim that offshoring and unrestricted immigration provide consumers with cheaper prices in the market place. What the free market economists do not say is that offshoring and unrestricted immigration also provide U.S. citizens with lower incomes and less satisfying jobs. There is no evidence that consumer prices fall by more than incomes so that U.S. citizens can be said to benefit materially. The psychological experience of a citizen losing his career to a foreigner is alienating.

The free market economists ignore that a country that offshores its production also offshores its jobs. It becomes dependent on goods and services made in foreign countries, but lacks sufficient export earnings with which to pay for them. A country whose workforce is being reallocated, under pressure of offshoring, to domestic services has nothing to trade for its imports. That is why the U.S. trade deficit has exploded to over $800 billion annually.

Among all the countries of the world, only the U.S. can get away with exploding trade deficits. The reason is that the U.S. inherited from Great Britain, exhausted by two world wars, the reserve currency role. To be the reserve currency means that your currency is the accepted means of payment to settle international accounts. Countries pay their oil import bills in dollars and settle the deficits in their trade accounts in dollars.

The enormous and continuing U.S. deficits are wearing out the U.S. dollar as reserve currency. A time will come when the U.S. cannot pay for the imports, on which it has become ever more dependent, by flooding the world with ever more dollars.

Offshoring and free market ideology are turning the U.S. into a third world country. According to the Bureau of Labor Statistics, one-quarter of all new U.S. jobs created between June 2006 and June 2007 were for waitresses and bartenders. Almost all of the net new U.S. jobs in the 21st century have been in domestic services.

Free market economists simply ignore the facts and proceed with their ideological justifications of open borders, a policy that is rapidly destroying the ladders of upward mobility for the U.S. population.

— Dr. Roberts held the William E. Simon Chair in Political Economy at the Center for Strategic and International Studies at Georgetown University and was Senior Research Fellow in the Hoover Institution at Stanford University. He served as Assistant Secretary of the U.S. Treasury in the Reagan administration.

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