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British Create A 'Department For Innovation'

Britain has unveiled an "Innovation Nation" agenda aimed at re-invigorating its economy. The newly created Department for Innovation, Universities and Skills (DIUS) has proposed changes in Britain's procurement rules, research funding and regulations to "shape the market for innovative solutions," says a policy document issued by the department in March.

"The Government's aim is to make the UK the leading place in the world in which to be an innovative business, public service or third sector organization," says the plan. "We aim to build an Innovation Nation in which innovation thrives at all levels — individuals, communities and regions."

It will do this in large part by shifting the government's emphasis from "supplying" research funding to companies and universities to putting in place government agency "demand" for innovative products and services. "Government has a role in creating markets where they may not exist or demonstrating the viability of innovations that others will not necessarily adopt," says the strategy document. "Organizations are increasingly reaching outside their walls to find ideas — to universities, other companies, suppliers and even competitors," says the plan. "Government policy needs to recognize these new sources of innovation and, in particular, develop new instruments that drive demand for innovation as well as its supply."

To drive increased demand for innovative products and services, the Department for Innovation is requiring that UK government agencies issue "Innovation Procurement Plans" that describe how they will "drive innovation through procurement and use innovative procurement practices," says the department.

The Department for Innovation is also in the process of reforming the country's Small Business Research Initiative (SBRI). The country spent about 2.3 billion pounds on its SBRI program in 2006 and 2007. "However, the scheme has not managed to reproduce the kind of success attributed to the Small Business

(Continued on page six)

District Court Rules Against NAM: It Must Disclose Its Big Corporate Members & Their Policy Interests

The National Association of Manufacturers' constitutional challenge of the lobbying reform bill passed by Congress last year was rejected "in its entirety" by the United States District Court for the District of Columbia on April 11. NAM claimed the new law's requirement that its members paying $5,000 or more per quarter on specific lobbying campaigns be disclosed under section 207 of the Honest Leadership and Open Government Act violated its First Amendment rights of allowing its members to petition the government.

After considering NAM's suit, the court flatly rebuked every one of NAM's challenges to the law. "The NAM has not made a factual showing of potential harm to its members," says one section of the decision.

The new law "is narrowly tailored to serve compelling government interests and is neither vague on its face nor as applied to the NAM," says the decision. "The Court shall DENY the NAM's motion for judgment on the pleadings."

The new law states that NAM and others will have to disclose the names of companies or organizations providing it with $5,000 per quarter that "actively participate in the planning, supervision or control of...lobbying

(Continued on page eight)

Letter To The Editor

I was stunned by a number of statements made by United Steelworkers' President Leo Gerard and Lori Wallach of Public Citizen in your recent article on NAFTA, "USTR's U.S. Production Claim Riles Union Boss Leo Gerard," (*Manufacturing & Technology News*, March 14, 2008).

Both Mr. Gerard and Ms. Wallach took issue with the USTR claim that "U.S. manufacturing output rose by 58 percent between 1993 and 2006, as compared to 42 percent between 1980 and 1993." In other words, during the 13 years after NAFTA was enacted, manufacturing output grew faster than during the 13 years before NAFTA.

In attempting to refute this statement, Mr. Gerard is quoted in the article saying, "We're not producing more steel. We're not producing more glass. We're not producing more cement. We're not producing more tires. We're not producing more of these products either as a percentage of the economy or in real terms, and I can tell you that unequivocally."

U.S. manufacturers aren't producing more of these products? Really? According to Federal Reserve industrial production statistics, output of all of these products increased in real terms between 1993 and 2006: glass production rose 11 percent; iron and steel production rose 21 percent; cement production rose 51 percent; and tire production rose 4.5 percent. If Mr. Gerard does not believe the Federal Reserve's production statistics accurately measure the output of these industries and has other data that show these sectors have declined since 1993, he should share them with your readers. Otherwise, I think a retraction is in order.

The article goes on to say that Ms. Wallach "has looked into the USTR fact sheet and says, 'trick number one' is that it is not in inflation-controlled dollars. When you control for inflation, you cut the growth by 40 percent."

Someone should tell Ms. Wallach to look again. The USTR bases its fact sheet on Real Value Added by Industry from the Bureau of Economic Analysis (BEA) which is adjusted for inflation. According to the BEA data, after adjusting for inflation, manufacturing output did, in fact, rise by 58 percent between 1993 and 2006. This is more than one-third faster than the 42 percent rise between 1980 and 1993. Why Ms. Wallach is cited as an expert on statistics is beyond me.

NAFTA is a very important issue, and it would be a disservice to your readers to allow false statements to stand uncorrected. I hope that in the future, inaccurate statements can be avoided.

— *David Huether*
Chief Economist
National Association of Manufacturers

Container Shipments Down For Seventh Consecutive Month

The shipment of containers at the country's major ports has fallen compared to last year, according to the National Retail Federation. "Monthly port volumes are building slowly following the slow season but import container traffic is forecast to be quite weak through August due to the underlying weakness in demand in the U.S. economy," says Paul Bingham, an economist with Global Insight.

U.S. ports handled 1.24 million, twenty-foot-equivalent units (TEUs) of containers in February, a decrease of 5.4 percent from February 2007. It is the seventh month in a row of year-to-year declines.

The retail industry is also preparing for a new contract with longshoreman on the West Coast ports. The current contract negotiated in 2002 with the International Longshore and Warehouse Union and Pacific Maritime Association is set to expire on July 1. "Those who follow West Coast labor relations believe things will not be so bad this time around," said Jonathan Gold, vice president for supply chain and customs policy at the National Retail Federation. In 2002, the union went on strike for 10 days, shutting down ports and impacting shipments for almost 10 months.

"Talks have begun earlier than usual and with the Panama Canal being expanded, more ships using the Suez Canal and East Coast ports being expanded, both labor and management realize this year that the dominance of West Coast ports is not guaranteed," says Gold. If talks break down as they did in 2002, it would "hasten the move to the East Coast and would prove costly for those on both sides of the negotiating table," Gold added. "Terminal operators don't want to lose volume and union negotiators don't want to lose the jobs that go with that volume. This should provide a strong incentive for both sides to conclude a new contract before July."

DARPA's Wearable Power Prize Attracts 169 Competitors

The Defense Advanced Research Projects Agency (DARPA) has selected 107 teams to continue in its competition to produce a light-weight system capable of providing 20 watts of electrical power for 96 hours and weigh less than 4 kilograms. A total of 169 teams entered the competition for the $1-million first prize. "Based on their fuel plans, we will see a wide variety of technologies participating this fall," says John Hopkins, the wearable power prize program manager at the U.S. Army Research Lab.

The competition aims at reducing the weight soldiers are carrying to power their equipment and it marks the first time "any organization has simultaneously tested such a large number of prototype warfighter power systems," says Hopkins. The Wearable Power Prize final competition will be held at the Marine Corps Air Ground Combat Center in Twentynine Palms, Calif., starting on Monday Sept. 29 with a 92-hour bench load test. Those surviving the initial test will enter the final competition on Oct. 4. A list of the 107 teams along with their points of contact is located at http://www.dod.mil/ddre/prize/teams.html.

Record Year For Mergers In Global Metals Industries

The U.S. metals industry experienced record levels of mergers and acquisitions last year, accounting for $77 billion in value, or more than 50 percent of the world total. There were 115 deals in the United States, a majority of which were in the steel industry, "with North American companies serving as targets for three of the top six deals," says PricewaterhouseCoopers. "The credit crisis in the U.S. has not hindered industry growth."

There were 411 deals in the metals sector globally last year worth $145 billion, up 67 percent from the previous year's total of $86 billion.

The shift of deals last year away from Europe to the United States was caused by the declining value of the dollar, which is now making the United States "an attractive region for steelmakers from emerging and industrialized markets alike," says Douglas Dean, U.S. metals leader of PricewaterhouseCoopers. "It does not appear that steel consumption will taper off any time soon, and, in North America specifically, consumption is likely to outpace production over the next couple of years."

There were 71 deals in the North American market for steel companies, worth $30 billion. In aluminum, there were 18 deals worth $47 billion.

"While deal-making in the global metals industry soared to unprecedented levels during 2007, the sector was not completely unaffected by the credit crisis," explains PricewaterhouseCoopers in its annual report on M&A activity in the metals industries. "Historically, financial buyers account for a significant portion of the total deal value of transactions (20 percent in 2006); however, they only accounted for 4 percent in 2007. The fallout from the credit crunch has been particularly evident in the steel sector, where financial buyers only accounted for $3.9 billion of deal value in 2007, compared to $14.2 billion in 2006."

Last year represented an era of "mega-mergers," with the $38 billion acquisition of Alcan by Anglo-Australian mining giant Rio Tinto. "Russian aluminum producer RUSAL followed hard on its heels, when it joined forces with SUAL and Swiss commodities group Glencore International, creating a company with a market capitalization of $30 billion," says PricewaterhouseCoopers. "But this may be a prelude to even bigger things. In early 2008, BHP Billton put in a $147-billion bid for Rio Tinto — and though Rio Tinto's board rejected the proposal, it has signaled that it may be prepared to talk at a higher price. If BHP Billton succeeds in its ambitions, the deal would be the biggest in the industry's history."

Last year, 143 of the 411 global deals were cross border, representing $98 billion worth of investment. Companies in emerging economies are now buying

(Continued on page four)

Top 10 Mergers & Acquisitions In Global Metals Industry, 2007

No.	Value of transaction (US$ millions)	Date completed	% of ownership	Target name	Target nation	Acquirer name	Acquirer nation	Sector
1	38,100.00	14 Nov 07	100	Alcan	Canada	Rio Tinto	UK	Aluminium
2	30,000.00	27 Mar 07	100	SUAL & Glencore International	Russia & Switzerland	RUSAL	Russia	Aluminium
3	14,748.80	2 Apr 07	100	Corus	UK	Tata Steel	India	Steel
4	7,571.76	18 Jul 07	100	IPSCO	Canada	SSAB	Sweden	Steel
5	5,788.60	15 May 07	100	Novelis	Canada	Hindalco Industries	India	Aluminium
6	5,626.58	19 Jun 07	34	Arcelor Brasil	Brazil	Arcelor-Mittal	Netherlands	Steel
7	4,138.33	14 Sep 07	100	Chaparral Steel	US	Gerdau Ameristeel	Canada	Steel
8	2,500.00	24 Jan 07	N/A	Handan Iron & Steel	China	Baosteel	China	Steel
9	2,451.00	16 Jul 07	49	Sistema Minas-Rio	Brazil	Anglo American	UK	Other Metals
10	2,098.63	14 Jun 07	100	Lone Star Technologies	US	US Steel	US	Steel

(Source: PricewaterhouseCoopers' "Forging Ahead: Mergers and Acquisitions Activity in the Global Metals Industry 2007.")

General Electric: A Brilliant Contrarian Indicator

"Brilliant" is a multi-hued adjective. Just as a sharp sword is both an offensive weapon and a defensive tool, it's probably time to remind investors that the culture at GE has both defensive and offensive characteristics. If there were ever a time to be a contrarian about General Electric, it's the beginning of the week after the shares were whacked by the company's worst one-day stock market collapse in 11 years.

BY CLIFF RANSOM

It can be disconcerting that the work I do for my institutional clients is probably most valuable when I am suspicious and cynical, except when I am capable of looking through bad news that plague the short term and see long-term value. In my opinion, GE's first quarter report and conference call puts me in that latter camp.

When Wall Street feels "betrayed," such an emotion often signals a great buy signal. And betrayed the Street felt last Friday, as accusations flew: "How could GE not have known that earnings would be down? How can the company not have pre-announced the shortfall?"

Well, I would never suggest that I expected the news, but it's hard to see how anyone could have been surprised, given the severity of the financial collapse triggered by the bursting of the housing and credit bubble. We all own the stock. We all got damaged. I have been recommending buying the shares, and I own them myself, so I definitely feel the pain, but I have been taught that we investors get marked to the market each day at 4:00 p.m., and that's essentially what happened to GE. I can't quite say, "Get a life; get over it," without infuriating at least a couple of valued clients, but I am darned close.

Balance, Please, The Good With The Bad

I will not re-hash all the reasons for the shortfalls; GE has given us all the detail we need. The rapidity of the quarter-end collapse of Bear Stearns, of a wide variety of collateral financial instruments, and of deal-making in general made for a very unpleasant exit from the quarter in financial services such as GE Money, Real Estate (which may yet be mostly a timing issue), and Commercial Finance and in consumer-centric businesses.

There are a couple of realities I might stress, humbly:

1. How many companies would have identified these sorts of body blows as rapidly as GE did? How many companies would have instituted counter-measures as swiftly as GE did? My answer comes in two words: very few! Yes, the rapidity of events may appear to have overwhelmed GE, but the point to stress is that this organization is self-righting, self-regulating, and self-correcting.

2. Most important, please don't fixate on the issues related to credit markets; the bulk of GE is still aligned to my over-arching investment thesis that focuses on the current global infrastructure super-cycle. Read the bloody transcript carefully and heed what these skillful managers are telling their shareholders about power, about energy, about wind, about water, about aviation (in deliveries, in spares, and in services), indeed, about services across virtually all segments, about so many other very positive long-term growth initiatives. These sectors remain the core of GE and its remarkable culture, which is not just intact, but thriving. Let me just offer a couple of quotes from GE managers, who are not given to hyperbole:

"We continue to have very strong absolute orders."

"...energy had another great quarter...."

"...tremendous performance in our infrastructure segments...."

"(Aviation) product backlog continues to grow."

"Energy is just extremely strong."

"Oil and gas and transportation both had very strong performances and the asset quality in the verticals continues to be excellent."

"Our miss in healthcare was driven by the challenging U.S.

(Continued on next page)

Record Year For Metals M&A...(From three)

companies in the United States and Europe. Tata Steel's purchase of Corus "gives the Indian steelmaker much better access to the markets of Europe and North America, where its presence was previously limited," according to PricewaterhouseCoopers. "Fellow Indian manufacturer Essar Steel also bought two North American steel producers, Algoma Steel and Minnesota Steel, and the Russian Evraz Group acquired Oregon Steel Mills."

In the United States, U.S. Steel bought Stelco and Lone Star Technologies. Nucor purchased Harris Steel, making it North America's largest rebar producer. Swedish steelmaker SSAB Svenskt Stal AB purchased Canadian steel maker IPSCO for $7.6 billion in the year's second biggest steel deal.

"Yet, despite all the M&A activity of the past few years, the top five steelmakers still command only 18 percent of the world's overall steel supplies — substantially less than the market share their peers in the iron ore and aluminum sectors enjoy. We therefore believe that the largest steel producers will continue to consolidate and expand, both upstream and down, to control a bigger share of the steel value chain."

The transaction value per tonne ranged from $533 to $2,313, with an average of $1,404 per tonne, up from $1,035 in 2006.

The 32-page report "Forging Ahead: Mergers and Acquisitions Activity in the Global Metals Industry 2007" is located at http://www.pwc.com/metals.

GE Contrarian...

(Continued from page four)

environment, partially offset by continued global growth."

"NBC delivered their sixth quarter in a row of positive earnings growth."

"Infrastructure is incredibly strong."

"The last two weeks of March were a different world, particularly in financial services."

I simply elect to not get caught up in the quarter-end shortfalls that become delicate in terms of disclosure timing. I want to focus on the reality that GE is just in the initial years of what I view as multi-year cycles, cycles that will propel both cash and earnings for a long time to come. And I am not going to get worked up over short-term mix shifts, wherein new equipment sales come with reduced margins but also feed into long-term, annuity-like, very profitable, high-cash, asset-like service streams.

Frankly, the biggest blow to GE's credibility, to my way of thinking, is the length of time that it has taken this management team to get a major medical plant back up and running after an FDA-mandated shutdown. (A change in accounting treatment also did not help the healthcare comps, but that's life.) Both the plant shutdown and the slow return to ops are very un-GE-like, but I remain confident that the situation will be rectified.

Valuation Always Rules

At the end of the investment day, my mantra of "consistency, sustainability, and predictability" will drive valuation. GE's cash flow, dividend payout and yield, realistic capital structure, high credit standards, and stock repurchases are what we want and need as investors. Add to that list GE's demonstrated abilities to make acquisitions and integrate them into meaningful operating platforms, and you have a vision of the skill sets that differentiate this enterprise. Where else but GE can investors find a portfolio this strong, a culture this engrained, and a set of processes this powerful? It would be a short list. General Electric stays on the Ransom Research list of "Super-Achievers," a select community in my industrial research universe that centers on less-than-a-handful of enterprises, including Danaher, United Technologies, and Illinois Tool Works. I might, on a calm day, also cite my "Next-Generation-Danaher" candidates, which include Actuant, AMETEK, Parker Hannifin, Roper, and one or two other names, but they are the stocks we should all own. And the time to buy any of them is on shortfalls and pull-backs. None of this dialogue will calm those on the Street who cut ratings, who asked childish questions, who went through what me might call, when charitable, a "reasonable over-reaction."

I don't often close with a quote from the Book the John, but it seems appropriate to cite the line, "He that is without sin among you, let him first cast a stone at her." I somehow think that the analysts who were "shocked, shocked" at GE's announcement deserve to wind up in the same camp as Claude Rains in the classic Bogart/Bergman movie, "Casablanca." And, instead of calling for massive government regulation, let's just re-institute the "up-tick" rule for short-sellers and see if that helps. What lunacy pertained when that time-honored rule was abolished!

— Cliff Ransom
Ransom Research, Inc.
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U.S. Export Growth Is Not Leading To U.S. Manufacturing Job Growth

U.S. exports might be robust, thanks in part to the tanking dollar, but they are not leading to any growth in manufacturing jobs.

Exports of goods have increased by about 20 percent in the past year, from $88 billion in February 2007 to $107 billion in February 2008. Yet manufacturing jobs dropped by another 48,000 in March of this year and have fallen by 310,000 over the past year, according to the Bureau of Labor Statistics.

The primary reason for the loss of manufacturing jobs despite growing exports is productivity improvements and continued weakness in domestic demand, say two economists looking at the issue. "Real exports are not growing enough that total (domestic and foreign demand) is keeping pace with productivity," says Charles McMillion president and chief economist at MBG Information Services in Washington, D.C.

Although exports are growing and are adding to the U.S. GDP for the first time since 1995, imports are also up by about 15 percent. In February, imports of goods surged to an all-time record high of $214 billion, up from $183 billion in February 2007. The United States is being forced to borrow $2.145 billion every day in order to pay for the differential between imports and exports. "Even as these unimaginable future repayment obligations rocket higher, the globally competitive strength of once-unparalleled U.S. producers continues its long, rapid erosion," according to McMillion.

Much of the growth in real goods exports "was not manufacturing although it's hard to tell because prices rose so much for agricultural and mineral oil products," according to McMillion. The nominal export value of U.S. agricultural products increased by 27 percent last year and the value of mineral fuels was up 19 percent.

Frank Vargo, vice president of international economic affairs at the National Association of Manufacturers, says that trade is a factor in jobs "but not the biggest one." The manufactured goods deficit fell by $27 billion last year, but the domestic market was weak, especially in housing and autos, "and that weakness appears to have overwhelmed the trade balance gain."

(Continued on page eleven)

In Emerging Markets 'Local Dynamos' Are Challenging Big Multinationals

Major multinational companies are going to be hard pressed to stay competitive in emerging markets because of the development of a new breed of highly successfully fast growing local competitors in the rapidly growing economies of China, Russia, Mexico, Brazil and India, according to the Boston Consulting Group. The new "dynamo companies" in these markets have business plans that "are defying the traditional competitive advantage of global players," says BCG. "Many are David vs. Goliath scenarios involving upstart companies that were not even on the radar until recently, and are suddenly setting the pace in their own markets."

These companies are no longer behind the multinationals in terms of their development. Many of the best local companies are outperforming the S&P 500 and the Fortune Global 100. "They also have better operating margins and have created far more shareholder value in the last four years," says BCG.

The 50 best local "dynamos" are now generating $60 billion in revenues and their average year-on-year growth rate is greater than 50 percent. "Thirty seven of the 50 have become clear market leaders in their segments, often at the expense of bigger, global rivals," says BCG.

"Too many multinational companies base their rapidly developing economies strategies on outmoded assumptions," adds analyst Arindam Bhattacharya of BCG. "Central to the success of the local dynamos has been an unwavering focus on their local markets and an ability to create and execute business models entirely attuned to the local environment."

Multinationals are going to be facing head-to-head battles with the local dynamos that are opting to focus solely on their home markets. "In doing so, they are adding another dimension to the level of competition that multinationals face," says Bhattacharya.

Examples of these local companies abound throughout the world. In India, a company called CavinKare is selling shampoo in cheap pouches to rural customers and has captured 16 percent of the market. "It is giving market leaders Hindustran Unilever and P&G a run for their money," says BCG. Another Indian company, Titan Industries, is producing seven million cheap watches a year with a one-year warranty

In Mexico, Grupo Elektra is selling washing machines, refrigerators, televisions and other items on credit to people making less than $10 a day. "Having developed a relationship with its customers — and having developed competencies in credit vetting, risk control and debtor book management — Grupo Elektra very quickly added banking to its list of services," says BCG. "Now the company's vast network of stores doubles as bank branches, where people can withdraw, deposit and transmit cash, as well as get loans."

In China, the video gaming industry is being revolutionized not by Sony or Microsoft but by a company called Shanda, which has created multi-player online role-

(Continued on page eight)

Dept. For Innovation...

(Continued from page one)

Innovation Research (SBIR) program in the United States," says the strategy document. "Specifically, there remains concern that the introduction of targets have not hard-wired innovative procurement practices into routine Departmental behavior and that tenders for research remain focussed on policy development rather than the strengthening of research in scientific and technical areas." A new version of the program will be initiated in the Ministry of Defense and the Department of Health and then be extended to all government departments by April 2009.

The Department for Innovation will also start hiring innovation experts from the private sector "for the purpose of mentoring in pro-innovation procurement," says the department. It plans on working closely with business groups on streamlining regulations to foster innovation and it will publish a "Science and Society Strategy" this fall aimed at implementing its recommendations.

"DIUS will sponsor New Partnerships for Innovation that will bring together venture capital, universities, business and regional government to align efforts and develop innovative solutions to local and regional challenges," says the innovation strategy. The Department for Innovation "will publish a prospectus for New Partnerships in autumn 2008."

An "Innovation Platforms" program funded at 180 million pounds will be run by Britain's Technology Strategy Board. "Over the English regions, at least 500 businesses will be given an innovation voucher to work with a knowledge base institution of their choice, with the aspiration that this would increase to at least 1,000 per year by 2011, as the vouchers were demonstrated to be effective for businesses," says the strategy document. "This is expected to mean an investment of at least 3 million pounds to initiate collaborations between SMEs and the knowledge base."

The Department for Innovation will create a new Innovation Research Center "to ensure a steady supply of high quality innovation research into the UK innovation policy community." It will also develop an Innovation Index to measure the country's performance.

For a copy of the plan "Innovation Nation: Department for Innovation, Universities & Skills," go to http://www.dius.gov/uk/docs/home/ScienceInnovation.pdf.

GUEST EDITORIAL: JOE MUCKERMAN

Without A Robust Industrial Base DOD Will Lose Future Wars

Joe Stalin said that World War II was not won on the battlefields of Europe but in Detroit. Had Stalin lived until the end of the Cold War, he probably would have arrived at a similar conclusion. The U.S. won the Cold War because it maintained technologically superior strategic weapons at a level that deterred the Soviet Union from attacking our vital interests. The United States was able to sustain this force for half a century during which the U.S. economy prospered while that of the USSR collapsed.

On September 11, 2001, a new world war began, but this war has two fronts and many dimensions. Islamic extremists located across the globe represent a multi-faceted enemy seeking to acquire weapons of mass destruction that can be hand delivered. This enemy cannot be deterred by the threat of mutually assured destruction. Their human weapon carriers are willing to die for their cause. Further, if American cities are attacked, it may take months or years to determine the sponsors of the attack. And if the United States is ill-prepared, it will take longer to recover from the effects of such attacks — remember Katrina.

The second front poses threats similar to those faced during the Cold War. China is fast becoming a military superpower, but China learned from the Soviet Union's defeat: become an economic and industrial superpower first and act reasonably on the world scene while building military might. Russia is following China's path but with less speed and grace.

What should the U.S. be doing in response to these threats?

• **Recognize the importance of the defense industrial base.** During the Cold War, the United States government was alert to every move and technological advance made by the Soviets. The country recognized that the foundation of its national security rested on a strong economy that could support and maintain technologically superior military forces. Today the U.S. industrial base is fast becoming global and the U.S. economy is in trouble. The latest example of this trend is the award of a contract for aircraft refueling tankers to EADS instead of Boeing. This loss represents a continuing reduction in U.S.-based defense production and the technological advances that are the offspring of manufacturing. There are hundreds of other examples of outsourcing for key components of defense weapon systems, but the problem is that no one in the U.S. government is minding the store. Air Force officials said that their decision to pick EADS over Boeing was based on five areas: "mission capability, proposed risk, past performance, cost price, and an integrated assessment on how the plane would perform in wartime."

These are legitimate criteria, but a vital factor was ignored: What does the decision to outsource the tanker aircraft have on U.S. ability to mobilize its defense industrial base, i.e., surge production capability, funds available for research and development, and a more productive modern base — not to mention the jobs that will be lost?

The Air Force cannot answer this question because it does not have the foggiest idea of what requirements might suddenly be generated in this troubled world.

• **Determine the technologies that must be monitored and supported with R&D funds**. Estimate a range of wartime requirements and match them against an increasingly global industrial base. For example, the U.S. needs to plan for potential disruptions. What if three U.S. cities are attacked with weapons of mass destruction causing over a million casualties? China can threaten Taiwan. Iran could disrupt western oil sources in the Middle East. In each of these very possible scenarios, what hardware and civilian recovery requirements would be required? How long would it take to fill those requirements?

• **Reconstitute the National Security Resources Board (NSRB).** The NSRB was created as the co-equal of the National Security Council (NSC). The NSC was formed to develop a national security strategy while the NSRB was responsible for assuring that the economy and industrial base were adequate to support that strategy. Together these two bodies were responsible for grand strategy.

The NSRB was dissolved by President Truman — probably because it competed with too many special interests. As a result, in today's world, there are too many cooks in the economic/industrial kitchen — Treasury, Commerce, Defense, Agriculture, Congress, free traders versus protectionists, etc. If the NSRB were resurrected, the next president would chair both this body and the NSC. This concentration of power and focus would go a long way toward assuring that the United States would remain a superpower and stand ready to fight and win a two-front war — defense of the homeland and vital overseas interests, not to mention the maintenance of a vibrant economy and high employment levels.

My first boss in the Pentagon had this motto: "It's never too early to start, but it could be too late." We did not mobilize for Gulf War II and, as a result, our ground forces are stretched thin and their equipment is sorely in need of repair and replacement. Hence, if the United States had to fight or defend on other fronts either at home or abroad or both, as my boss said, it would be "too late."

The next administration must make certain that the arsenal of democracy is equal to today's grave threats.

— Joseph Muckerman
Director, Emergency Planning and Mobilization. Office of the Secretary of Defense, 1986 - 1992: 703-299-0332.

NAM Loses Its Lobbying Case...(Continued from page one)

activities." The new requirements were created to "close a loophole that has allowed so-called 'stealth coalitions,' often with innocuous-sounding names, to operate without identifying the interests engaged in the lobbying activities," the court said, quoting the Senate sponsors of the bill.

NAM chief counsel Jan Amundson argued that NAM's having to disclose its members on specific issues could lead to "boycotts, political pressure, shareholder suits or other forms of harassment," and that its members could suffer other "adverse consequences" if their names were disclosed concerning lobbying activities on controversial issues that NAM is undertaking on their behalf.

The court said Amundson's citations of harassment don't hold up. "The newspaper articles and lawsuit to which Ms. Amundson points in her Declaration in no way indicate that any member of the NAM (or the NAM itself) has suffered harm or retaliation as a result of NAM's lobbying activities," according to the decision. "Although the NAM's website thus already discloses the membership of over 250 organizations in the NAM, the NAM proffers no evidence of any past incidents suggesting that public affiliation with the NAM leads to a substantial risk of 'threats, harassment, or reprisals from either Government officials or private parties.' "

NAM's numerous other arguments against the new law were methodically shot down by the court "upon further examination," the court decision states. NAM "offers only speculation" over the law's intended consequences.

In a statement issued on April 14, NAM President John Engler said NAM is "disappointed" with the decision and will "immediately ask the court for a temporary stay of the law's enforcement as we prepare an appeal." NAM is "convinced" that many of the law's "burdensome and intrusive disclosure requirements will have a serious chilling effect on the Constitutional rights of our members," Engler said. "Public debate is not served by undermining the rights of business — employers and employees alike — or when laws limit speech, association and the public's ability to petition the government." It was an argument the court flatly rejected.

The new law took effect on January 1, and the reporting requirements are due on April 21, 2008. The 57-page decision by U.S. District Judge Colleen Kollar-Kotelly is located at https://ecf.dcd.uscourts.gov/cgi-bin/show_public_doc?2008cv0208-19.

SBA: Small Manufacturers Are Hurt By International Trade

"International pressures — through exchange rate movements — continue to lead to greater" small manufacturing company failures, according to a report from the Small Business Administration. Manufacturing companies with fewer than 20 employees are especially hard hit if they are in industries with high import penetration rates. "Capital intensity no longer has any statistically significant effect on small firm exit," says the study. "For all size categories [of companies] R&D intensity reduces the sensitivity of exit rates to dollar appreciation."

The SBA finds that slightly bigger manufacturing companies with between 20 and 499 employees "are less sensitive to changing conditions in the international marketplace," and that "high tech industries are more insulated from international pressures than low-tech industries are."

Exit rates among the smallest manufacturers were about 14 percent between 1990 and 2004, and about half that (7 percent) for companies with 10 to 19 employees. Apparel firms with fewer than 10 employees had a failure rate of 22 percent.

The 23-page report, by Robert Feinberg of American University, entitled "The Impact of International Competition on Small-Firm Exit in U.S. Manufacturing," is located at http://www.sba.gov/advo.

Govt. Electronics & Info Tech. Assn. Is Gone

Washington, D.C., has one less trade association. The Government Electronics and Information Technology Association is now gone, having merged into the Information Technology Association of America (ITAA). The two groups have combined their 400 member companies, boards and executive committees. "Companies from all corners of the industries will come together at the new ITAA to move the industry forward," says ITAA president and CEO Phil Bond. "Whether those firms are focused on the government or commercial markets, IT or electronics, this is the place for them to find a louder voice in Washington and participate in a wide array of public policy, business development and standards programs."

Local Dynamos...(Continued from page six)

playing games that avoid issues of piracy. The company enables Chinese gamers to purchase prepaid gaming cards from local merchants, says BCG.

In Brazil, Gol, a budget airline, is operating a fleet of identical planes and is focusing on providing cheap service to customers whose primary consideration is price above convenience and speed. The company uses multiple-stop itineraries to extend service to previously unprofitable destinations. "To fully utilize planes, it schedules flights late at night and early in the morning, as well as throughout the day," says BCG.

The report "The BCG 50 Local Dynamos: How Dynamic RDE-Based Companies Are Mastering Their Home Markets—and What MNCs Need to Learn from Them" is located at http://www.bcg.com/impact_expertise/publications/publication_list.jsp?pubID=2590.

GUEST EDITORIAL
Free Trade: 'Why Don't We Call A Spade A Spade?'

BY BRIAN SULLIVAN
Tooling, Manufacturing & Technologies Association

We should rename "free trade" because it isn't free and it isn't fair. Since it's trade that's regulated in favor of multinational special interest groups, why don't we call it for what it is: How about "rigged market trade" or "turn your back on your fellow countrymen trade" or "throw American workers out on the street trade."

Why are we so afraid to call a spade a spade? There are 36,000 fewer U.S. factories than there were eight years ago. One in five manufacturing jobs has been lost in the last 10 years, and counting. If we don't stem the tide of multinationalism through trade law reform, then between 42 million and 56 million U.S. jobs could be moved offshore within 20 years: all 14 million current jobs in manufacturing and 28 million jobs in the service sector. The United States will be left without any manufacturing at all, which is at the core of our country's national security.

Members of our association, the Tooling, Manufacturing & Technologies Association (TMTA), wonder if things will change in time. They know that most of their woes emanate from disastrous trade laws written in Washington, D.C. Our members wonder if elected officials even care. It's clear that these elected officials trail their constituents on the critical issues of trade reform. What it boils down to is that government, at large, is unresponsive to what the electorate wants. How long can this go on?

When the concept of "free trade" was thought up, did the corporate-controlled multinationalists anticipate that America would cease to be a land of broadly shared prosperity? Did they know that the decimation of manufacturing was going to happen and decide to continue on this course anyway? The idea that the U.S. economy could regress to a pre-New Deal model where the rich claim all the wealth the nation creates while everyone else just gets by is...stunning. America wasn't supposed to be the land of "winner take all." What's happened to the concept of social morality?

It's been thrown out the window. The philosophy of corporate-controlled multinationalism has sold the middle class into a world where God is money and where people are viewed as a commodity to be used for profit. Greed is now virtue. The middle class is being destroyed and a new billionaire class is rapidly emerging.

Corporate greed feeds on itself, and U.S. manufacturing suffers. Multinationalists who drive the global economy have distanced themselves from the social contract, no longer relying on secure employment and rising standards of living to bolster consumer spending. Corporate greed has gotten so out of hand that there is no longer a philosophical agreement, even amongst themselves, that it is in their own self interest to promote a stable society by securing the safety net. How do they justify themselves?

Here's a passage from the book "Collapse: How Societies Choose to Succeed or Fail," by Jared Diamond, a social anthropologist. He describes an American society in which "corporate elites cocoon themselves in gated communities guarded by private security, fly in corporate aircraft, depend on golden parachutes and private pensions, and send their children to prohibitively expensive private schools. Gradually these corporate elites lose their motivation to support the police force, the municipal water supply, Social Security and public schools. Any society contains a built-in blueprint for failure if corporate elites insulate themselves from the consequences of their own actions."

I suppose there are some who are reading this who are thinking that this article is leaning a little to the left. Well, actually, it's not. Increasingly, trade policy and the effects of multinationalism are not partisan issues. The vast majority of Republicans now have serious concerns about our current trade policies because they see these trade policies as being harmful to the middle class and working families of this country, according to a recent Wall Street Journal/NBC News poll: "By a nearly two-to-one margin, Republican voters believe that free trade is bad for the U.S. economy, a shift in opinion that mirrors Democrat views and suggests new trade deals could face high hurdles under the next administration. The signs of broadening resistance to globalization and a fraying of Republican orthodoxy on the economy were also reported in this page-one news story in the WSJ."

> *"At the end of the day, there's only one way that there's going to be any relief for all of us in manufacturing and that's through Washington D.C."*

We desperately need trade reform relief out of Washington D.C., and we need it to come from both sides of the aisle. Trade laws that benefit multinational companies have been enacted by representatives who we hire, who we pay, who we expect to represent us, but they're destroying small manufacturers.

The morally shameful "I-don't-care-about-you-because-I've-got-mine" mentality exhibited by Congress and this administration is a national disgrace. Our representatives and legislators, collectively, have been responsible for trade policy that has resulted in a cave-in of the manufacturing industry. Where are these people who were elected by us to look out for our interests? Where are these people who were supposed to be our legislative champions?

(Continued on page 10)

Free Trade...

(Continued from page nine)

They're in Washington, alright. But a lot of the time they're not doing what they're supposed to be doing on our behalf. Instead of being at the Capitol, they're sitting in the donut shop, but they're not eating donuts: they're feeding on complacency — our complacency.

We let the people who we've elected sit in the donut shop of big business cronyism and collusion. We let them sit in the donut shop of the sweet deal. We let them sit in the donut shop of personal self-interest at our expense. We continue to re-elect them, and we never call them on it.

A recent Gallup poll asked Americans if they've ever contacted their elected representatives. Eight out of 10 said that they never had. Yet, it's never been easier to contact members of Congress. All anyone has to do is click on www.house.gov or www.senate.gov and type in a zip code and they're automatically directed to their representative. A window automatically pops up where you can type a message to them. It takes less than two minutes, on average. Yet people don't do it.

If people whose lives are affected by manufacturing or health care or any other social issues wrote their legislators and told them that they wanted trade reform or health care reform and would be watching to see how they voted, the results of that would be staggeringly effective.

At the end of the day, there's only one way that there's going to be any relief for all of us in manufacturing and that's through Washington D.C. Most of manufacturing's problems are as a result of bad trade laws. When the grassroots electorate of this country becomes engaged in this fight, we'll change bad "free" trade laws into good "fair" trade laws that will reflect the interests of small manufacturers who've been absent from trade policy deliberations far too long.

That is what the Tooling, Manufacturing & Technologies Association is all about. That's what we do. We very aggressively advocate, politically, on behalf of small manufacturers, in Washington D.C. The TMTA doesn't host lunches or dinners. We're not a social or networking association. We're very serious advocates for small manufacturers that need our association now more than ever. We confront government officials who have substantial authority, those who chair and sit on committees and sub-committees that influence trade law. And we let our members know how they vote. We educate grassroots citizens and local opinion leaders.

We need fair trade reform and we need it now. Congress must create a National Trade Commission. Congress must pass currency manipulation legislation. Congress must address the unfair advantage caused by the rebate of VAT taxes by passing a border equalization tax. Congress has to enact countervailing duty laws. Congress has to pass laws that standardize Rules of Origin. They have to pass laws that address infrastructure imbalances including regulatory standards and enforcement standards.

Listen to what Lee Iacocca has to say about all this in his recent book, "Where Have all the Leaders Gone?": "Am I the only guy in this country who's fed up with what's happening? Where is our outrage? We should be screaming bloody murder. We've got corporate gangsters stealing us blind. The most famous business leaders aren't the innovators but the guys in handcuffs. And, don't tell me it's all the fault of right wing Republicans or liberal Democrats. That's an intellectually lazy argument and it's part of the reason that we're in this stew. We're not just a nation of factions. We're a people and we rise and fall together. I have news for the gang in Congress. We didn't elect you to sit on your butts and do nothing and remain silent while our country is being hijacked and our greatness is being replaced with mediocrity. What is everybody so afraid of? Why don't you guys in Congress show some spine for a change?"

Since January 2007, when our association went national to answer the need for small manufacturers to be represented honestly in Washington D.C., we have grown from representing 21,000 member employees to now representing 50,500 member employees in 22 states. And counting. This remarkable growth shows that small manufacturers want, need and value advocacy at the federal level. The stronger our association becomes, the more clout we have in the halls of power in Washington D.C.

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President's Gas Emissions Plan

President Bush's controversial new greenhouse gas emissions program stresses the development of new technologies as being "the key to addressing climate change." A new incentive to foster the development and deployment of low-carbon emitting energy sources should be put in place over a long period of time, says the White House. "It should provide a positive and reliable market signal not only for new investment in a technology, but also for the investments in domestic manufacturing capacity and infrastructure that will help lower costs and increase availability." The investment "should be carbon-weighted to make lower emission power sources less expensive relative to higher emissions sources."

The fact sheet on the program is located at http://www.whitehouse.gov/news/releases/2008/04/20080416-7.html.

IRS Guide For Business Stimulus

The IRS has issued guidelines for companies wanting to take advantage of the depreciation allowance that is contained in the recently passed Economic Stimulus Act of 2008. That bill "provided a significant tax incentive for businesses to make capital investments by adding a special 50 percent depreciation allowance for qualifying purchases," says the IRS. "This special 'bonus depreciation' allowance is available to all businesses and applies to most types of tangible personal property and computer software acquired and placed in service in 2008. It allows taxpayers to deduct 50 percent of the cost of qualifying property in addition to the regular depreciation allowance that is normally available." An IRS description of the business provisions contained in the Economic Stimulus Act of 2008 is available at http://www.irs.gov/pub/irs-pdf/p553.pdf.

Mfgs. Spend $Bs On Abatement

U.S. manufacturers spent $5.9 billion in 2005 on pollution equipment, and another $20.7 billion on pollution prevention, according to the Census Bureau. Of the $20.7 billion spent on pollution prevention operating costs, $4 billion went to salaries and wages; $5.7 billion went to energy costs; $2.8 billion to materials and supplies; $5.2 billion to contract work and services; and $2.8 billion to depreciation.

"The industries with the highest capital expenditures in 2005 were petroleum and coal products manufacturing, ($1.74 billion) and chemical manufacturing ($1.27 billion)," according to the report "Pollution Abatement Costs and Expenditures (PACE)."

The states with the highest capital expenditures for pollution equipment were Texas with $1.17 billion and Louisiana with $489 million. The Census Bureau surveyed 20,000 manufacturing plants. The 104-page analysis is located at http://www.census.gov/prod/2008pubs/ma200-05.pdf.

Subsidies Double For Energy Cos.

Federal energy subsidies have more than doubled over the past decade, growing from $8 billion in 1999 to $16.6 billion in 2007, according to the Energy Information Administration (EIA). "Tax expenditures, one of four types of subsidies examined by EIA, have more than tripled since 1999, rising from $3.2 billion in 1999 to more than $10.4 billion in 2007," says the EIA in "Federal Financial Interventions and Subsidies in Energy Markets 2007" — www.eia.doe.gov/oiaf/servicerpt/subsidy2/index.html.

NAM Will Hire Firm To Search For A New VP Of Communications

The National Association of Manufacturers has hired a search firm to find a head of communications to replace Mike Hambrick, who is leaving the post to work full time on NAM's "America's Business" television show. "As you know, America's Business has been gaining in popularity since Mike Hambrick took over the show in 2006," according to NAM executive vice president Jay Timmons in a memo to NAM employees. "Mike worked tirelessly to take the show to new heights and was relentless in his pursuit of improvements. As a result of the show's popularity, NAM members and policy makers are increasingly requesting participation in the program. When Mike Hambrick took over as SVP of Communications he brought his same zeal to that post....But broadcast is Mike's true passion, and, indeed, it seems to be in his blood. Mike has requested, in order to ensure that America's Business reach its full potential, that he be permitted to focus primarily on the show. He wants to expand the reach of the program so that it has even more of an impact on our advocacy efforts. Therefore, next week Mike will become Executive Producer of America's Business and NAM Vice President."

Mfg. Jobs...

(From page five)

The U.S. manufacturing sector shed 2.8 million jobs during the three years between 2001 and 2003, yet imports grew by less than $20 billion over that three-year period — "essentially flat, since they had been growing $80 billion a year or so in the previous four years," says Vargo. "So there was no import surge that caused the loss of those 2.8 million jobs." It was the recession and the huge inventory run down that caused most of the job loss.

"Labor productivity was 33 percent higher" in 2007 than it was in 2000 — meaning in 2007, 75 workers could produce as much as 100 workers produced in 2000," says Vargo. "None of this is to say that the trade deficit hasn't been a contributor to our job loss. The run-up of the deficit has certainly had an effect on jobs, but when you look at the numbers it is pretty clear there are major forces at work as well. Nonetheless, we need to get that trade deficit down. It is not sustainable, and it is strongly in the interest of our manufacturing future and our standard of living that we reduce the deficit. The question is, what is the best way to do that?"

Big Industrial Companies Plan Increases In Spending On Research & Development

The biggest industrial companies in the United States are planning to substantially increase spending this year on research and development, according to the annual survey conducted of its members by the Industrial Research Institute (IRI). Total corporate R&D expenditures are forecast to have "robust growth," with 38 percent of the companies responding to the IRI survey saying they plan to increase R&D spending by at least 5 percent this year.

"The trend that began in 2005 of growth in total company R&D expenditures is forecast to accelerate sharply," says the IRI in its "Trends Forecast for 2008." "Unlike 2007, however, when no change in the R&D/sales ratio was forecast, it appears that this level of expenditure growth is increasing faster than sales growth."

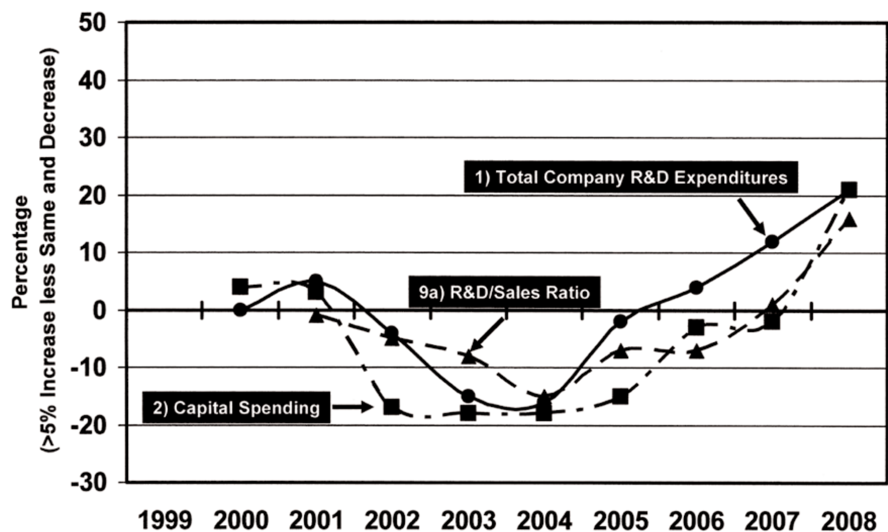
Large industrial companies are planning to increase funding for basic research, the first time this has happened this decade. They also expect to increase spending on outside resources — through outsourcing R&D, licensing technology from others, funding university research, entering contracts with federal laboratories and increasing participation in alliances and joint R&D ventures.

Growth in R&D spending is also leading to an increase in capital spending for R&D operations, with almost 94 percent of respondents saying they intend to increase spending on capital improvements, and only 5 percent projecting a decrease in spending in this category. Spending is also being directed into "new business projects," and away from "support of existing business."

"It appears that resources for new business research are being obtained mostly by reducing existing business support," says the IRI. "The reduction in support for existing businesses is a trend that has continued throughout this decade. This may be a result of planned cannibalization of existing products. While there is not a significant increase in directed basic research, it is noteworthy that this is the first time this decade that this category has not decreased. Perhaps companies are reaching what they believe is a required minimum level of this research."

One of the "biggest problems" plaguing large industrial companies is finding talent to conduct research. "This may be driven by the confluence of an aging workforce and the desire to expand research activities," says the IRI.

'Sea Change' Index For R&D Spending



(Source: Industrial Research Institute)

Washington Business Groups Rally Around A New Blog

A dozen of Washington's business trade associations have created a new Internet blog aimed at influencing Washington policymakers. As blogs broaden their base of readers beyond the fringes, the new www.bizcentral.org will allow the trade groups to participate in the growing medium for policy debates over trade, health care, environment and other current issues that impact business. The blog was organized by Fleishman Hillard's public affairs office in Washington. Its founding organizations are:

- Business Roundtable
- American Trucking Association
- American Petroleum Institute
- CTIA, the Wireless Association
- National Association of Drug Stores
- National Electrical Manufacturers Association
- Nuclear Energy Institute
- Organization for International Investment
- Personal Care Products Council
- Salt Institute
- U.S. Telecom Association