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U.S. Trade Deficit Might Be Substantially Higher

Does U.S. Government Have The Courage To Determine The Real Value Of Imports?

The U.S. trade deficit in manufactured goods might be 10 to 15 percent higher than the federal government has been reporting for the past 20 years. By allowing importers, retailers and foreign manufacturers to use the so-called "first-sale rule" for declaring the value of imports, the Department of Homeland Security's Customs and Border Protection has allowed them to substantially undervalue the true cost of imports.

BY RICHARD McCORMACK

CBP proposed earlier this year to change the way in which import values were determined, breaking with a 20-year-old first-sale legal ruling. The first-sale rule allows importers to declare the value of imported merchandize based on the price when it first leaves a manufacturing plant in a foreign country — the so-called "first sale." This value is the absolute lowest possible amount for an imported product. It does not include the costs of logistics, third-party contract manufacturers, middle-men, transportation or any other intermediate costs in the foreign country prior to shipment to the United States. Importers say the rule has allowed them to substantially reduce duties paid to the U.S. federal government. It has given importers and foreign producers yet another advantage over U.S. manufacturers and has helped lead to record trade deficits.

But when CBP proposed in January to change the rule to the "last sale" price, making it easier for CBP import specialists at ports of entry to determine the value of merchandise, importers, retailers, foreign manufactures and their legal and lobbying representatives went ballistic. Led by Sandler and Travis, the law firm that originally litigated the adoption of the first-sale rule in 1988, the "Save First-Sale Coalition" upended the rulemaking process by successfully lobbying Congress to include a provision (Sec. 15422) in the Farm Bill to effectively scuttle the proposal.

But the game is not entirely up. Within that "Sense of Congress" provision is a requirement that CBP start collecting information from importers to determine "the basis of the price paid by the buyer in the first or earlier sale occurring prior to introduction of the merchandise

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Foreign 'Power Brokers' Bail Out Ailing U.S. Financial Institutions

The financial power in the world is moving away from traditional Western financial institutions and toward a new set of "global power brokers" that are helping "rescue" the United States from its financial crisis, according to McKinsey Global Institute. Asian countries with record trade surpluses, oil exporting countries swimming in oil dollars, private equity firms and hedge funds are adding to their wealth at a record pace.

During 2007, the combined financial assets of the "new power brokers" increased by 22 percent to $11.5 trillion. McKinsey expects total assets held by these new institutions to continue growing and reach at least $21 trillion and perhaps as much as $31 trillion by 2013.

The central bank of China, The Bank of Japan and the Abu Dhabi Investment Authority (AIDA) are among the most financially powerful institutions in the world. These groups are now bailing out American investment banks and equity houses that have tumbled with the American

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U.S. Companies Face Another Foreign Blockade: Antitrust Laws

Foreign countries are using anti-trust laws to "crush" U.S. technology companies in their home markets, according to the Pacific Research Institute. Rival companies "have abused antitrust laws to gain advantage over competitors," says a study from the free-market think tank that dislikes even U.S. antitrust laws. "Rival companies have teamed up with foreign governments to target American companies."

China is becoming especially aggressive in pursuing its own economic agenda. On August 1, the country's first antitrust law took effect, providing regulators with "unprecedented power to lock America's innovators out of one of the world's most dynamic markets," says the center. China's Ministry of Commerce "can extort foreign firms with exorbitant fines and the National Development and Reform Commission can set prices," explains a new study from the Pacific Research Institute entitled "Tech Titans or Political Pinatas: How Global Antitrust Laws Spring Up, Beat Down and Hold Back America's leading Innovators."

Antitrust laws throughout the world are being used to punish companies like Microsoft, Intel, Apple and Qualcomm and provide competitors the ability to "foist inferior products on consumers," says the study. The laws "have evolved so that governments now have virtually unlimited authority to manipulate dominant firms based on the complaints of competitors," says report author Daniel Ballon. He recommends that Congress enact legislation "requiring that any foreign antitrust actions against a company based in the United States must receive the cooperation or at least the permission of American authorities."

The U.S. Trade Representative should also start bringing cases to the World Trade Organization against countries that are unfairly using antitrust laws to protect domestic companies. "If policy makers do not act to stem the rise of global antitrust abuse, it threatens to dismantle the high-tech pioneers of today and drive away the most innovative entrepreneurs of tomorrow."

'Another Product Back Home'

Turning The Outsourcing Tide, From The Eyes Of Bremen Castings

BY JB BROWN

Over the last 10 years, Bremen Castings has seen a continuous flow of manufactured products purchased by U.S. companies and products produced overseas being imported into the country because of the low cost of making these items outside the United States.

It's no shocker that foreign competitors don't have to spend money on environmental or safety issues or that they have low hourly pay rates. One of the biggest advantages for low-cost producers is the 40 percent under-valuation of China's currency, which is down-right cheating. Some companies look at total costs when purchasing these imported products, and some look only at the price per piece. The companies that look just at the price itself will continue to do extra work and their overheads will steadily increase. They push their problems and financial burdens down to their suppliers. We have already seen this and we don't want to be part of it.

Companies that look at the total cost of purchasing products from overseas are coming back to the USA! I applaud these companies for having common sense and making the correct business decisions. What does it cost to have an 18-week lead time? What does it cost to have an extra warehouse? What does it cost to have your container lost? What does it cost to have your assembly line shut down? The biggest question companies are asking themselves is: What is the cost of quality?

Bremen Castings has successfully had another customer come back to the United States this month. With the increase in shipping costs and the cost of quality, we kick China's butt! Our customer that has been purchasing products in China for the last couple of years is taking a deep breath filled with relief. Their lead time is now cut by 80 percent. They can stop renting a warehouse. They can stop wondering where their products are or if the parts will even make it to their plant so their assembly lines don't shut down. What they are really pleased with is that they are getting repeated quality products manufactured here in the United States.

Buying manufactured products overseas might seem like a great short-term solution to lower a manufacturing company's cost, but with the rise of oil prices and the undisputed waste of money related to doing business overseas, no good business can justify not having products made in the USA. BCI will chalk up another great business coming back to the USA. By the way, did I mention customer service? Put a price on that!

—JB Brown is president of Bremen Castings, Inc., in Bremen, Ind., a manufacturer of machined complete gray and ductile iron components, http://www.bremencastings.com. His e-mail address is jb@bcimail.com.

Polyurethane Industry Complains About Foreign Competitors' Illegal Production Practices

Countless U.S. industries are competing against Chinese companies that would not be allowed to operate in the United States, and whose products would be considered illegal. Companies making polyurethane foam used in upholstered furniture and mattresses are the latest suffering from what would be an illegally manufactured product in the United States.

The manual "bucket" foam pouring technique used by Chinese companies to make flexible polyurethane foam contains banned ozone depleting chemicals and methylene chloride, a potential human carcinogen, says the Polyurethane Foam Association (PFA) in testimony submitted to the House Committee on Foreign Affairs in July. Use of banned chlorofluorocarbons (CFCs) as a blowing agent or methylene chloride "would provide a significant cost advantage for Chinese manufacturers," writes the trade group. "CFCs have not been used in U.S. flexible polyurethane foam production for almost two decades. Methylene chloride is also no longer used in U.S. foam production, and its use is highly restricted in all U.S. manufacturing. Importers of Chinese upholstered furniture and mattress products containing flexible polyurethane foam that could have been manufactured with CFCs should be directed to comply with the Ozone Depleting Chemicals Excise Tax Requirements."

China's use of the "bucket" pouring technique "requires the use of either CFCs or methylene chloride, depending on the foam type," writes the Knoxville, Tenn.-based trade association. "Adopting safer alternative methods would require the use of continuous pouring equipment and technology."

PFA, a trade association of small businesses producing flexible foam, asks that Congress direct the Internal Revenue Service to review the monitoring and enforcement of the Ozone Depleting Chemicals Excise Tax to imports of bulk flexible polyurethane foam and finished goods containing the foam.

The industry is also suffering from other problems that need to be addressed, says PFA. Five major chemical companies that produce the raw material (toluene diisocyanate) used for polyurethane foam have recently closed down their U.S. plants. There are now only four chemical manufacturing plants left in the United States producing the raw materials for polyurethane foam, and these remaining facilities are old and unreliable. As U.S. production capacity continues to decline, other chemical companies are breaking ground on high-volume production plants in China. "The picture is clear: the lure of a growing Chinese economy, combined with older U.S. facilities and the lack of competitive production efficiency are driving the U.S. flexible polyurethane foam industry offshore," writes PFA.

The United States government needs to address this problem. "Creation of tax incentives rewarding research and development achievements particularly in the areas of renewable resources and energy reductions in the production process would...help motivate global chemical suppliers to reinvest in America, upgrading production facilities and ramping up product research activities," writes PFA.

From 2005 to 2007, U.S. production of flexible polyurethane foam has declined substantially, from 1.7 billion pounds to 1.3 billion pounds. Meanwhile, imports of Chinese upholstered residential furniture increased from $1.1 billion to $1.7 billion.

Looking To Federal Spending To Generate Economic Growth

A $100-billion, two-year program aimed at creating a "green economic recovery" would create two million jobs in the United States and help "secure America's energy security and combat global warming," says a new report from the Center for American Progress. Such a program would initially be funded by the federal government through deficit spending, but eventually through the proceeds from auctions of carbon permits under a cap-and-trade program.

"Most of the federal spending would be in the form of public infrastructure investments in public building retrofits, public transportation and building smart grid systems because the money to support these activities can be delivered relatively quickly by the federal government," says the report.

A total of $50 billion would be used to provide tax credits for homeowners and private businesses to finance building retrofits and investments in renewable energy systems. Another $46 billion would be in the form of direct government spending to retrofit public buildings, expand mass transit, freight rail, electrical grids and renewable energy systems. And $4 billion would be used to underwrite private credit that is extended to finance building retrofits and investments in renewable energy.

Such a program would boost employment, increase construction and manufacturing work, lead to "self-financing" energy efficiency through lower energy bills, and perhaps lead to more stable oil prices, says the 42-page report, "Green Recovery: A Program to Create Good Jobs and Start Building a Low-Carbon Economy," located at http://www.americanprogress.org/issues/2008/09/pdf/green_recovery.pdf.

New Power Brokers... (Continued from page one)

economy. AIDA, which has $875-billion in assets, provided Citigroup with $7.5 billion to recapitalize its balance sheet. In all, Citigroup has received $17.4 billion from the new power brokers. Sovereign wealth funds in Kuwait and Korea have bailed out Merrill Lynch with investments totaling $8.4 billion. Asian sovereign wealth funds have pumped $9.7 billion into UBS; $5 billion into Morgan Stanley; and $1.9 billion into Standard Chartered.

"In these cases and others, the power brokers provided critical liquidity that recapitalized individual institutions, thereby helping...prevent more large-scale bank failures," says the study entitled: "The New Power Brokers: Gaining Clout in Turbulent Markets."

Asian sovereign wealth funds provided $36 billion to Western financial companies from March 2007 through June 2008. Oil-based sovereign wealth funds provided an additional $23 billion for a total of $59 billion.

"For investors long accustomed to operating behind the scenes, these actions marked bold steps into the limelight and a break from past practices of working through asset management firms and investing in publicly traded securities," according to McKinsey. "It is doubtful that Western governments could have provided taxpayer-funded financial assistance to the banks on the same scale without triggering a public uproar."

Over the short term, those investments haven't been very lucrative, having lost $14 billion in market value through June 2008.

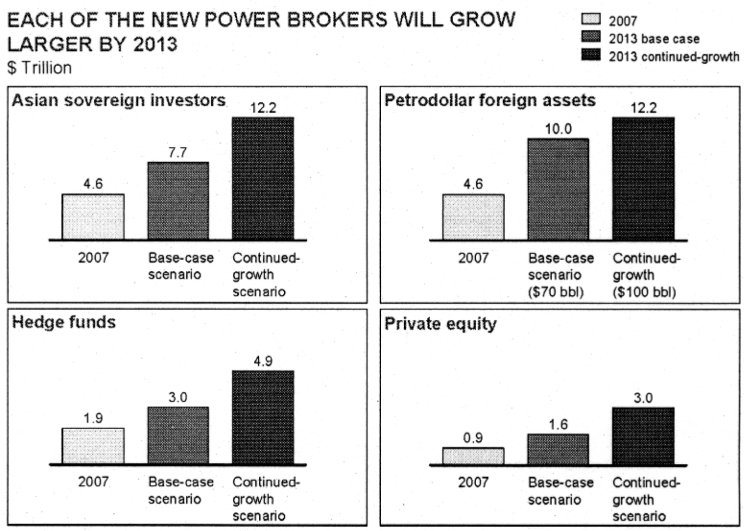
Russia has become a major financial powerhouse. The country increased its foreign assets by $105 billion in 2007, "securing its place as the world's third-largest holder of foreign reserves after Japan and China," notes the report. Russia's central bank held $320 billion in reserves. With high oil prices, Russia had net capital outflows in 2007 of $74 billion and holds $811 billion in foreign assets. If oil prices average $70 a barrel over the next five years, Russia's foreign assets could grow to $2.4 trillion by 2013.

Algeria, Iran, Libya, Nigeria and Venezuela are now among the largest investors in global capital markets. Combined, they increased their foreign investments in 2007 by $113 billion, and hold $608 billion in foreign assets. Saudi Arabia increased its 2007 capital outflows by $95 billion and holds $723 billion in foreign assets.

The oil-based power brokers held $4.6 trillion in foreign assets in 2007; Asian sovereign investors and central banks held $4 trillion. Private equity funds managed $900 billion in investors' assets; and hedge fund assets reached $1.9 trillion, while the value of their investments might be as high as $5 trillion.

"The rise of the power brokers has enabled many companies and other borrowers to raise funds from private sources...rather than by issuing publicly traded equities or debt," says McKinsey. "This trend has gained momentum during the crisis...Although some observers are uncomfortable with government investors taking stakes in private commercial entities, it is unlikely that the banks could have raised the capital necessary through public markets particularly while their share prices and credit ratings were falling....The power brokers should make the financial system more resilient and efficient."

The oil and Asian sovereign investors are now buying direct ownership in private equity and hedge fund companies such as Carlyle ($1.4 billion), Och-Ziff Capital ($1.3 billion), Apollo ($1.5 billion) and Blackstone ($3 billion). They will now be tapping into those companies' "lucrative income stream [and] are seeking to acquire new skills and build internal capabilities," says McKinsey.



(Source: McKinsey Global Institute)

ABB Glides On Global Growth

Things are going very well for ABB. The Zurich, Switzerland-based company increased orders by 31 percent during its second quarter, setting a single-quarter record of $11.3 billion. "It was also the first quarter in which orders from emerging markets exceeded orders from the mature economies, accounting for 51 percent of total orders received," said the company.

ABB is riding a global wave of investment in electricity power generation, oil, gas, marine and minerals and industrial efficiency.

The company's EBIT increased 42 percent from a year earlier to $1.4 billion, as a result of "greater sourcing of components from emerging economies," it said. Its cash flow from operations more than doubled to $978 billion. Net income reached $975 million on sales of $9 billion, an increase of 27 percent.

Trade Deficit Is Worse Than Reported...

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into the United States."

Congress told CBP to start a data collection effort within 90 days of the May 22, 2008, passage of the Farm Bill (HR-2419 ENR). After a year of collecting data, Congress then wants the International Trade Commission to write a report describing whether the value of imported merchandise is the price paid by the buyer "in the first or earlier sale occurring prior to introduction of the merchandise into the United States."

As it is right now, an importer can claim either first or last sale price. For some importers of commodities, it is beneficial to claim the last-sale price because it makes their products more expensive and reduces their tax burden more than it reduces their duty charge. But for many manufactured products, the duty is a bigger burden than taxes, so they report the lower first-sale value on their Customs' forms.

The CBP has issued a notice to the import community of its intent to comply with the provisions of the Farm Bill and require that they indicate when they are using the first-sale transactional value on imported merchandise. "This special indicator code will enable CBP to fulfill its information collection obligation under the Act," says CBP.

But the agency is running into problems. "Due to the complexity of the programming changes required, CBP is delaying the enforcement of the First Sale Declaration Requirement for 30 days," writes CBP spokeswoman Lynn Hollinger in response to questions submitted by *Manufacturing & Technology News*. "CBP will provide further guidance describing the amendments shortly."

CBP did not respond to questions concerning whether the use of the first-sale rule is undercounting the true value of imports into the United States. When the same inquiry was made to the Bureau of Economic Analysis at the Department of Commerce the director of BEA's international trade division said they get all of their data from CBP: all questions on data integrity need to be answered by CBP.

Those who are following the issue aren't sure about the quality of the data that CBP will be receiving during its year-long study. There are indications that CBP will be getting less information from the import community than is required to determine the difference between the first-sale and last-sale price. There is also skepticism about importers' unwillingness to disclose how they are determining values on every imported product, especially those that carry high tariffs.

The difference between the first-sale price and the last-sale price is the important number to calculate "if you are concerned that the process is being misused," explains trade lawyer Terence Stewart of Stewart and Stewart. "Because there is no data, you won't be able to know whether first sale has a value difference of 5 percent or 80 percent" of the last-sale value. The Farm Bill statute was not written in a clear manner requiring both pieces of information — first-sale and last-sale prices — to be reported. As a result, "people won't be able to make an honest appraisal," says Stewart.

By not requiring importers to declare both first sale and last sale data, there will be no way to determine how much imports are being under-stated, the revenue that CBP is losing on duty collection and the actual U.S. trade deficit.

The other problem with the process is importers can easily lie about the price they pay on the documentation they provide Customs, undervaluing merchandise so they pay less in duties. It is up to the importer or broker to submit invoices on the value of imported merchandise. Import specialists at ports of entry review the value based on their past experience and validate what the importers claim.

"For the most part, we think the importers are accurately reporting," says Sherri Hoffman, CBP's director of field operations for trade in the Long Beach/Los Angeles Port. But there are many times that importers mis-classify their merchandise in order to pay a lower duty rate. "If a product is made out of cotton, which has a higher duty rate, they classify it as being polyester," says Christina Gamez, public affairs officer for CBP at the Long Beach/Los Angeles Port.

If you were to ask people on the street how the government determines the value of imports, many say it's the price of a product just prior to it being loaded onto a vessel in a foreign port, or after it is offloaded in a U.S. port. Others believe the calculation is done based on the price paid by a U.S. retailer or even the final price paid by an American customer. Few people would say it is the price of the product as it leaves a sweatshop someplace in China.

For those involved in the CBP first-sale data collection and analysis process, there is a sense that imports are being substantially undervalued, and that if the truth comes out, there will be an uproar when the BEA has to revise its trade statistics for the past 20 years and increase the actual size of the deficit in manufactured goods by upwards of 15 percent. There is a sense that CBP does not have the courage to either discover or to tell the truth.

Federal Budget Deficit Zooms Off The Map

The federal budget deficit surged to $486 billion for the first 11 months of 2008, more than $212 billion more than for the same period in 2007. But the feds are expected to have a good month in September of this year, when taxpayers start sending in their quarterly estimated income taxes. As a result, the total federal budget deficit for 2008 is projected to be $400 billion. "Corporate income tax receipts fell by about $43 billion or 15 percent through the first 11 months of fiscal year 2008," according to the Congressional Budget Office. "The drop reflects declining profits throughout the year." The Defense Department's budget for the first 11 months of this fiscal year is up by 12 percent. Defense spending so far this year totaled $543 billion, up from $486 billion for the same period in 2007. The CBO's "Monthly Budget Review" is located at http://www.cbo.gov/ftpdocs /97xx/doc9726/09-2008-MBR.pdf

BRITISH RELEASE MFG. REVIVAL STRATEGY FOCUSED ON GLOBAL SUPPLY CHAINS, GREEN TECH., INNOVATION & SKILLS

The British government is launching a new "manufacturing strategy" aimed at making sure the country retains a robust and healthy manufacturing sector. After consultations with the country's Ministerial Advisory Group on Manufacturing, the British government says that it is fully committed to the success of the country's manufacturing sector. Manufacturing "is central to our economic success," says a new 64-page strategy from the British government entitled "Manufacturing: New Challenges, New Opportunities."

The manufacturing sector in Britain is facing tough times and the government is "committed to helping manufacturers get through them," says the report. "Our vision is for a globally competitive manufacturing sector that leads the world in capturing higher value components of the global value chain, while consolidating areas of existing comparative advantage, including activities within high-technology manufacturing."

The country cannot ignore the importance of manufacturing, which accounts for 150 billion pounds in GDP, half of UK exports, and 75 percent of business R&D.

The government has introduced a National Skills Academy for Manufacturing and has created a National Strategy Board to invest in new technologies. It has recently created a Manufacturing Advisory Service program (similar to the Manufacturing Extension Partnership in the Untied States) and a manufacturing apprenticeship program. Britain has also introduced an innovation strategy directed at government procurement. It has recently reformed its Small Business Research Initiative; increased funding for research and development to 6 billion pounds per year; and has created a new Innovation Index.

With the emergence of global value chains, the government has created a program aimed at supporting 600 companies of all sizes to "identify manufacturing value chain opportunities in India and China, using newly recruited industry experts and will promote UK manufacturing excellence internationally through a range of major marketing campaigns," says the strategy document. "This is likely to include building a supply chain element into the proposed 'Advanced Passport' scheme; a more active focus on specific supply/value chains (such as the Chinese sustainable cities initiative); and improvements to our Portal to enhance matching of SMEs to global supply/value chain opportunities."

The country is going to encourage the development of industrial clusters, such as in plastics and chemicals, and has created a new regional "Cluster Mark" award "which will raise the profile of manufacturers involved in the best clusters and support international marketing of local strengths."

The country has also created a Design Council to promote the importance of design of manufactured goods.

"We need to improve fundamentally the image of manufacturing for future generations and demonstrate that choosing an engineering career will enable young people to tackle the key challenges facing the world and those that matter to them," says the strategy. Industry representatives will work in partnership with the government to create "Manufacturing Insight," an organization "tasked with making the public perception of manufacturing reflect the reality of a successful, modern and broad sector and ensuring young people are aware of the exciting career opportunities available," says the UK Strategy produced by the Department of Business Enterprise and Regulatory Reform, and the Department for Innovation, Universities & Skills.

The government will invest additional funds in science and engineering education; encourage closer links between manufacturers and universities; and expand its "Foundation Degrees" program aimed at increasing enrollment in manufacturing skills programs to 100,000 students.

In the area of the "green" movement, Britain will produce a "Low Carbon Industrial Strategy" by next year in consultation with industry. The plan will aim to place UK manufacturing "at the forefront of the new low carbon revolution," says the strategy. "It will bring together all levers of government activity such as regulation, procurement, education, standardization and investment, that will help manufacturers adapt to the low-carbon economy and to identify and respond to the growing market opportunities it will create."

The strategy will focus on supply chains for nuclear and renewable energy equipment and for low-carbon vehicles. The country expects to replace the nuclear reactors currently in operation with at least seven large plants costing 3 billion pounds each. With a projected backlog of 60 new nuclear plants worldwide, Britain wants to make sure its suppliers are part of the growing market. It has created an Office of Nuclear Development to work with suppliers and nuclear reactor vendors to support "a globally competitive supply chain." It is also creating a National Skills Academy for Nuclear" to assure the supply of skilled workers needed by the nuclear industry.

There's more. For a copy of the British government report "Manufacturing: New Challenges, New Opportunities," issued in September 2008, send an e-mail request to editor@manufacturingnews.com.

SBIR Funding Could Increase

The Senate Small Business Committee has approved a proposal to substantially increase funding for the Small Business Innovation Research (SBIR) program. The SBIR/STTR Reauthorization Act would increase the percentage of federal research and development budgets spent on SBIR projects from 2.5 percent to 3.5 percent. Small companies will receive an additional $800 million for R&D projects over the next 10 years. SBIR currently provides about $2 billion per year to 5,000 small high-tech businesses nationwide.

NAM Is Very Pleased With McCain's VP Pick

The National Association of Manufacturers is ecstatic about John McCain's selection of Alaska Gov. Sarah Palin to be his running mate. NAM executive vice president Jay Timmons, who worked for Republican Sen. George Allen before joining NAM, was one of the first people in Washington to comment on the selection, issuing a press release only minutes after the announcement was made on Aug. 29. Anyone on the NAM press release list probably heard of McCain's pick first from Timmons.

Timmons likes the woman: "In 2004, I sat down with her in a local restaurant near Wasilla, Alaska, to discuss her interest in running for the U.S. Senate against fellow Republican and incumbent Lisa Murkowski," said Timmons, former executive director of the National Republican Senatorial Committee. "Armed with polling information and precinct data, I was prepared to discuss her thoughts on whether she could win the race. She was only interested in talking about how she thought she could make an impact on national public policy — a focus on fiscal discipline, lower taxes on working Americans and strong support for the military and exporting freedom."

It was love at first sight: "I was thoroughly impressed," said Timmons, the number two man to NAM president John Engler, former Republican Gov. of Michigan. "Governor Palin is a trailblazer for women. She is a strong executive (the only candidate for President or Vice President this year who has such experience) and does not shy away from difficult decisions. And who could not be impressed that she returned to the job of Governor last year just three days after giving birth to her fifth child?"

Timmons was gloating even more after returning from the Republican National Convention in St. Paul, Minn. He said that Palin's speech electrified the convention and that she and McCain "create an impressive, history-making ticket." McCain's speech, he added, "outlined a strong vision for economic improvement in the country. He talked extensively about lower taxes and how that can spur the economy. He was a passionate advocate of opening new markets — international markets — to U.S. goods. Should the McCain-Palin team be elected, we will work with the new administration to keep U.S. manufacturing strong and growing so we can create more and better jobs in America," said Timmons. Those policies must also be approved by what will likely remain a Democratically controlled Congress.

Wisc. MEP Delivers The Bacon

The Wisconsin Manufacturing Extension Partnership center has helped keep Wisconsin's economy in good shape over the past five years. Services provided by the center have resulted in $931 million worth of business for Wisconsin manufactures, and 8,635 jobs. In its most recently fiscal year, the center had an economic impact worth $226 million, most of it in sales growth and business expansion of the companies that have been served, according to a survey of 185 companies that worked with the center.

"This year's impact sends a strong message about the substantial gains that can be realized by manufacturers who invest in change and transformation," said Michael Klonsinski, executive director of WMEP.

Over the past year, the center's work has helped create or retain 1,235 jobs, and resulted in $81 million in new investments in plant and equipment. Companies served by the center increased or retained $128 million in sales, and generated $17 million in cost savings. State tax revenues are projected to increase by $11 million as a result of the higher sales and job creation. The Wisconsin MEP used market research firm Synovate to conduct its survey. The center provided services to 531 manufacturers last year.

Best States For Manufacturing

Missouri, Utah, Florida, Alabama, North Dakota and Indiana are the best states in the country for manufacturing and logistics, according to the Ball State University's latest "National Manufacturing and Logistics Report Card." Those states all received an "A" rating when analyzing property taxes, sales taxes, unemployment insurance, corporate taxes, crime and percentage of the population with college degrees. At the bottom of the list with "Fs" were New York, Kentucky, New Jersey, Vermont, Rhode Island, Maine and West Virginia. The study is located at http://www.bsu.edu/news/article/0,1370,7273-850-59184,00.html.

~~Federal R&D Funding Stagnates~~

"Federal funding of academic science and engineering research and development failed to outpace inflation for the second year in a row," according to the National Science Foundation. Federally funded academic research increased by 1.1 percent to $30.4 billion in 2007, but after accounting for inflation, that amount represented a decline of 1.6 percent from 2006. This decline follows a 0.2 percent decline between 2005 and 2006. "A two-year decline in federal funding in constant dollars is unprecedented for this 35-year data series," notes the National Science Foundation in its Survey of Research and Development Expenditures at Universities and Colleges.

While the federal government's commitment to academic R&D is stagnant, the private sector is helping fill the gap, along with state and local governments. Industry funding of academic R&D declined for three years from 2001 to 2004, but started growing again after that. In 2007, industry increased its investment at universities by 11.2 percent to $2.7 billion. State and local government funding of R&D grew by 6.1 percent in 2007, to $3.1 billion. Funding from academic institutions also increased, by 6.6 percent to $9.7 billion.

Further Consolidation Of IT Trade Associations

The disappearance of high-volume electronics manufacturing from the United States is playing out in the trade association world of Washington, D.C. The AEA, which was once called the American Electronics Association but dropped the word "American" from its title, is in merger talks with the Information Technology Association of America (ITAA). The boards of directors from the two groups said a merged organization would "give rise to a stronger voice for the technology industry by bringing together the largest number of tech companies in the country and combining the two associations' highly complimentary offerings."

At one point 20 years ago, AEA was a public policy powerhouse, with its president Richard Iverson vociferously promoting the importance of maintaining a robust electronics manufacturing base in the United States. But its influence in Washington has waned. The organization was founded in 1943 by David Packard as the West Coast Electronics Manufacturers Association. Its current president of 10 months, Chris Hanson, was previously with the American Association of Retired Persons (AARP).

ITAA has been one of Washington, D.C.'s biggest promoters of policies that promote offshore outsourcing of information technology services, arguing successfully in policy circles that sending work offshore makes American companies more competitive and opens up foreign markets. Like AEA, it too has a fairly new president, Phil Bond, who was previously a Bush administration political appointee in charge of the Technology Administration within the Commerce Department. At the behest of the Bush administration, that office closed its doors shortly after Bond's departure.

It wasn't long ago that Washington was populated by electronics industry trade associations that looked to be indomitable. After being in business for 83 years, the Electronics Industries Alliance (EIS) quietly went defunct in 2007, even though it had assets of $50 million and an investment portfolio of $21 million. Most of those resources were bequeathed to the Consumer Electronics Association, which is currently engaged in a cross-country tour promoting free trade. Few consumer electronic products are manufactured in the United States.

Earlier this year, the Government Electronics and Information Technology Association (GEIA) also quietly disappeared, being consumed by ITAA. The Cyber Security Industry Alliance (CSIA) also merged with ITAA in April.

A combined ITAA and AEA would be "*the* national technology association, unrivaled in size and clout," said ITAA chairman Hank Steininger, managing partner at Grant Thornton, a UK-based company. ITAA vice chairman, Gene Glazer, vice president of business development for BAE Systems, another UK-based company, said the merger "would augment AEA's market-leading position in commercial programs with ITAA's commercial public policy team and programs."

BOOK REVIEW:

'Dangerous Business: The Risks Of Globalization For America'

BY EAMMON FINGLETON

Americans of a certain age know that something is profoundly wrong. Their nation is not what it used to be. But what exactly has gone wrong?

In his new book *Dangerous Business: The Risks of Globalization for America*, author Pat Choate provides a deeply researched and authoritative answer: the fashion for radical globalism of the last two decades has driven American society off a cliff.

Other writers have taken shots at globalism but few if any have come to the subject with a greater depth of experience or a more acute intellect than Choate. Add in the fact that Choate is a born writer with powers of explication that other policy analysts can only dream of and the result is a remarkable tour de force that is must reading for any American concerned about his or her nation's future.

Choate, an economist and best-selling author who was Ross Perot's vice presidential running mate in 1996, comes up with devastating facts that give the lie to the globalist chop logic that in recent years has suffused the editorial pages of America's great newspapers.

As he points out, a fundamental issue is the extent to which Washington has come to be run by lobbyists — and particularly lobbyists acting in various guises for foreign governments and industries. The activities of the K Street lobbying system have not only greatly speeded up the acceptance of globalism by America's largely economically illiterate elite but, in a pernicious self-feeding process, have been facilitated by such acceptance.

In showing how pervasive the lobbying system has become, Choate tells the story of Executive Order 13184, one of the last documents President Bill Clinton signed before he left office in January 2001. This order, which has so far gone almost entirely unpublicized, revoked a previous order Clinton had signed in 1993 which ostensibly debarred his officials from taking up lucrative lobbying opportunities when they left public service. The 1993 order had been widely hailed as a new, more ethical approach to government. Yet the effect of the 2001 order allowed, with a stroke, thousands of officials to head straight for K Street where they would sell their government-acquired contacts and knowhow to the highest bidder.

Perhaps even more tellingly, Clinton's 2001

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order cleared the way for the incoming administration of George W. Bush to revert to K Street's idea of "business as usual." Had the 1993 order been allowed to stand, it could not have been revoked by any subsequent administration without setting off a major — and probably unacceptably embarrassing — political uproar.

The picture that emerges from *Dangerous Business* is of a Washington rancid with "legal" corruption — a city where ambitious and ruthless young people routinely view public office merely as a stepping stone to a lucrative career on K Street. More and more, what matters to administration officials is not serving the American public but rather currying favor with future lobbying clients. In these days of radical globalism, that often means serving foreign corporations or governments whose interests are diametrically opposed to those of the United States.

Among countless other key points Choate makes, here are just a few:

• The Clinton administration's push to establish the World Trade Organization has proved farcically counterproductive. Not only has the United States renounced the right to deal directly with other nations in resolving trade disputes, but by agreeing that the WTO should adjudicate such disputes Washington has lost all control. The United States has just one vote in the WTO — the same as the island of Antigua, whose population is a mere 69,000 people! All WTO decisions moreover are made in secret by adjudicators who are completely unaccountable to any objective standards of fairness. Moreover most of the adjudicators come from Third World nations, many of which are notorious for exceptionally low standards of public ethics.

Where the story really gets Gilbertian is that the United States has been subjected to far more unfair trade suits than any other nation. Yet the American market is much more open than most others and America's trade deficits are by far the largest of any nation in world history. The basic problem is that the WTO is founded on the principle that American-style legal remedies are universally applicable around the world. In reality, they apply fully only in a few English-speaking countries. In other nations, most notably in China and other key nations in Confucian East Asia, the WTO's writ doesn't run, so there is usually no point in suing them for unfair trade practices. According to Robert Lighthizer, a former Deputy U.S. Trade Representative, WTO rules have been "gutting" American trade laws. As quoted by Choate, Lighthizer blames WTO judges for having "exceeded their mandate by inventing new legal obligations that were never agreed to by the United States ... allowing our trading partners to achieve through litigation what they could never achieve through negotiation."

• The U.S. government can no longer even vouch for the safety of America's food supplies. True to its ultra-globalist principles, the Bush administration has thrown the American market wide open to food imports, many of which come from places like China and Mexico where hygiene and chemical use standards are a lot lower than in the United States. Meanwhile, in the name of reducing government spending, it has drastically cut the number of health inspectors who check on food imports. On Choate's numbers fewer than 1 percent of America's food imports were inspected in 2007, compared to 4 percent in 1999. The real comparison is with Japan, which inspects 15 percent of its food imports. Moreover Japan greatly strengthens it food security by implementing a system of approved suppliers, whereas, in deference to the laissez-faire principles of radical globalism, the American market is open to all-comers.

The advantage of the Japanese system is that it strongly pressures designated suppliers to police themselves. The pressure is intensified by the fact that Japanese regulators not only check imports but often subject designated suppliers' plants in China and elsewhere to surprise visits. Suppliers live under a Damocles sword in that if they fail an inspection they stand to lose forever their access to one of the world's most lucrative food markets. Under the American system, there is often virtually no downside for a remiss supplier in shipping sub-standard food into the United States.

> *"Trying to be a first-rate reporter on the average American newspaper is like trying to play Bach's 'St. Matthew's Passion' on a ukulele."*

The problems are compounded by the rise of a new delicacy which Choate labels "Trans-Pacific Chicken," his term for chicken produced in places like Mexico which, in frozen form, is shipped across the Pacific for processing in China only to be shipped back across the Pacific to the American market. As Choate points out, this modus operandi greatly increases America's vulnerability to the potentially devastating avian flu that has broken out in China in recent years.

• Although the United States spends more on defense than all other nations combined, its approach to globalization has massively undermined its military security. Not only have American regulators permitted critical American defense suppliers to be taken over by foreign interests, not least corporations based in China, but the Defense Department makes no serious attempt to map America's potential vulnerability to shortages of components and materials that, because of the shutdown of the American manufacturing base, are now available only from foreign suppliers (typically based in East Asia). In the case of imported high-tech components, the risk moreover is massively compounded by the fact that "Trojan horse" viruses can be embedded in them that are impossible to detect but can be activated by a hostile supplier nation in a military confrontation. As Choate points out, such so-called cyber warfare was a key to the speed with which the United States knocked out Saddam Hussein's defenses in 2003.

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Washington Manufacturing Group Takes Message To The States

The ~~Alliance for American Manufacturing (AAM)~~, a joint venture between the management of large steel companies and the United Steel Workers, is putting some manufacturing shoe leather into the upcoming election campaign. The group will hold a series of nine town hall meetings in the Northeast and Midwest under the banner of "Keep it Made in America."

The meetings, to be held in "key states and congressional districts," intend to publicize the "manufacturing crisis in America," says AAM. Speakers at the events will encourage voters to ask presidential and congressional candidates how they intend to "save American manufacturing jobs," and "what steps will you take to enforce our trade laws and hold cheating countries like China accountable?"

The meetings are intended to attract audiences of workers, small businessmen, small manufacturers, large domestic manufacturers, civic leaders and concerned citizens. For more information on specific meetings, go to www.americanmanufacturing.org. The meetings are scheduled for the following dates and cities.

Oct. 1, Rochester, N.Y.
Oct. 6, Columbus, Ohio
Oct. 13, Oakland County, Mich.
Oct. 14, Cincinnati, Ohio
Oct. 20, Greensburg, Penn.
Oct. 21, Aliquippa, Penn.
Oct. 22, Northampton, Penn.
Oct. 23, Wilkes-Barre, Penn.
Oct. 28, Green Bay, Wisc.

Competitiveness Council Makes Recommendations

The new American president in November should enact a 100-day energy action plan, says the Council on Competitiveness. The Council recommends a plan that has six "drivers":

• An executive order that mandates federal purchases of the highest energy efficient products;

• A $200-billon national "clean energy" bank to provide debt financing for sustainable energy projects and infrastructure.

• A regulatory plan for a seamless, national electrical grid that allows for the connection of alternative generating sources;

• Incentives for the development of sustainable, U.S. sources of energy including coal, nuclear, oil, gas and anything else;

• A commitment to workforce education "to win the clean energy race";

• An increase in funding for research and development and market commercialization to deliver secure and sustainable energy.

The plan is located at the council's Web site: http://www.compete.org.

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American suppliers in the 1980s had embedded Hussein's computers with viruses that were activated once the war started. Now the shoe is on the other foot, as East Asian nations, entirely overlooked by the American public, provide most of the highly miniaturized advanced components in American military hardware.

In his summing up, Choate provides a long list of things the United States must do to put its house in order. Perhaps the single most important is to improve the flow of information to the American public. Because American voters are being kept in the dark about key consequences of radical globalism, there is virtually no effective pressure on elected representatives to re-examine the nation's fundamental course.

Two decades ago the problem was merely that the establishment press was asleep at the switch. Today the problem is far worse: the press's upper reaches have become colonized by ambitious editors and commentators who realized long ago that the way to get ahead was to bow low to the gods of globalism. As Choate points out, part of the problem is that the rules about media concentration were greatly relaxed in 1996 and 2003. Thus these days most news reaching Americans is filtered by just a few giant transnational corporations — corporations moreover that under the doctrines of globalism regard as their highest "ethical" obligation the need to maximize profits

If that were the only problem it would be bad enough but the fact is that most of these corporations are blatantly compromised as well. They have large commercial interests in China, for instance, so they don't encourage their editors to take too searching a look at America's dependence on China for everything from defense components to the funding of the national debt.

Even America's most prestigious newspapers, which for the most part are free of the blatant commercial pressures that have dumbed down American television reporting, are shadows of their former selves in the courage and openness with which they approach key issues. Ben H. Bagdikian, a prominent Berkeley journalism professor quoted by Choate, accuses American newspapers of self-censorship in their reporting of globalization. Bagdikian observes: "Trying to be a first-rate reporter on the average American newspaper is like trying to play Bach's 'St. Matthew's Passion' on a ukulele."

That may be so but — at least for a while longer — books will continue to be published that pull no punches. No book has done a better job of explaining the full dimensions of the problem than *Dangerous Business*.

— Eamonn Fingleton is the author of "In the Jaws of the Dragon: America's Fate in the Coming Era of Chinese Hegemony" (New York: St. Martin's Press, 2008).

GUEST EDITORIAL:

JDA Acquires i2: Does The End Of An Era In Supply Chain Applications Signal The Beginning Of A New Landscape?

BY SIMON ELLIS
Manufacturing Insights

When I learned of the acquisition of i2 by JDA ($346M cash deal or 1.3 times trailing revenue/ 7.5 times trailing EBITDA) and I began to think about what to write, I couldn't help but take the tone of a newspaper obituary:

Supply Chain Pioneer, i2 Technologies, Dead At 20

DALLAS, TX — Born in 1988, i2 built sophisticated software that captured the potential of applying Eli Goldratt's Theory of Constraints (TOC) approach to planning and scheduling. The company enjoyed tremendous success, delivering huge productivity gains to A-list manufacturing customers. A decade after its founding, the company fell victim to hubris, a disease from which it never fully recovered. The company is survived by a loyal base of customers. Funeral arrangements are being provided by JDA software.

Forgive the sardonic tone, but this acquisition feels like the end of an era. The bigger question revolves around what the market landscape in supply chain applications looks like going forward and how should buyers approach their investment roadmap. For existing i2 customers the answer lies in whether JDA will satisfy the pent up needs of the installed base or ride out the maintenance stream until customers move on.

In a conference call to discuss the acquisition, JDA executives explained the drivers of the transaction like it was a piece of financial engineering and used the Manugistics acquisition of two years ago as an example. The path taken in absorbing that other high flyer of the independent supply chain application era was to integrate the modules into the JDA portfolio and then press on in the market. However, the financial discussion showed only modest license growth and emphasized recurring revenue (largely maintenance) and better than accretive cash flow. In fairness, this call included financial analysts who liked what they heard, but i2 manufacturing customers would not be encouraged by the capture maintenance/slash costs message.

These customers have good reason to be concerned. The independent i2 of the past four years has been transparent about its efforts to sell the company and, although there was some product rationalization and improvements to the platform, much of the effort was to stabilize revenue and minimize expenses. The customer base that remains (and 50 percent of its revenue comes from only 30 customers) will have to see aggressive commitment to improving a product that no longer enjoys a huge functional lead over other vendors in the market. Manufacturing Insights is not optimistic that JDA has the resources to make this happen.

There is some hope that the consolidation of one-time market leaders, Manugistics and i2, will provide a viable alternative to the SAP/Oracle duopoly, but JDA will have to show a conviction to spending development dollars to maintain functional advantages and marketing dollars to

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DENIAL — The 51st State

BY CHARLES BLUM

The 51st state of the Union can't be the District of Columbia nor Puerto Rico. No, we've already expanded the United States of America by the largest one yet — the State of Denial. It is a vast territory and includes American men and women of all parties, races, religions, sexual orientations and social classes. How else can one explain the steep descent of the political debate this year, the most crucial national election in 76 years?

Democrats have reverted to promising spending programs and targeted tax breaks for deserving folks, knowing all the while that they can't be paid for. They tell their base: watch out for Republicans; they don't care about folks like you.

Republicans have reverted to promising tax cuts for the wealthy and spewing out fierce rhetoric about cutting spending, knowing that only a small portion of which is discretionary. They tell their base: watch out for the Democrats; they tax you and spend the money on others.

Nowhere in this empty debate is there any concept of the national interest. Nowhere is there a recognition that we are engaged in a global competition with governments that have gobs of discretionary funds. China alone is sitting on piles of hard cash in the form of official reserves, sovereign wealth funds, social security investment funds and forced dollar holdings by commercial banks — in all, almost 2.5 trillion off-budget dollars that flowed into the country without the need to levy a tax on its citizens. They simply rig the price of their currency and let "the market" do the rest. The result is a slush fund large enough to cripple our producers for a long time.

How are we going to compete with that? How are we going to rebuild the productive capacity of this country? How are we going to start saving, investing and paying our own way in the world again? How can we be a strong, respected leader in the world with the rickety Ponzi-scheme economy that those geniuses on Wall Street have foisted on us? How can we hope to reverse our decline by denying it?

— Charles Blum in president of International Advisory Services in Washington, D.C. His blog is located at http://www.iasworldtrade.com.

JDA Buys i2 Technologies...

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stretch beyond its retail comfort zone. The avenue to success may be in presenting a complete collaborative decision environment for the supply chain domain — from strategic to tactical to operational decisions — all integrated for complete closed loop control of performance. The technology enabler may be in the combination of the product platforms — process mapping from i2, scalable data handling from Manugistics, and advanced analytics from the JDA legacy.

If you are a current i2 user, our advice is similar to what we have been telling Manugistics customers: have a replacement plan devised as soon as possible. There is no need to panic, but thinking through the alternatives and having contingency actions ready is wise. Once the plan is understood, watch for JDA to show progress toward the integrated decision environment. This progress must be faster than SAP improves its supply chain execution capabilities or Oracle unifies its collection of excellent applications. If not, the safer and more logical route would be to put your money with one of those ERP leaders. For those companies looking for industry specific capabilities, JDA will have to show it can improve the product along a number of vertical paths. If not, there are a number of good specialty applications:

- Adexa. The company claims to cover many verticals, but it shines in the semiconductor industry. Semi companies using i2 should put this company on its short list.
- Aspentech. A good choice for asset intensive industries especially chemicals.
- Kinaxis. This company is doing a great job in supplier intensive planning and execution in industries like consumer electronics and aerospace.
- Logility. A good alternative in demand intensive planning for consumer goods segments.

It would be hard to imagine that i2 founders Sanjiv Sidhu and the late Ken Sharma anticipated the company's early success and, by extension, its rapid decline. Don't spend too much time grieving i2's passing as the Darwinian nature of the software market has appropriately thinned the herd and created new opportunity for vendors that can take advantage of advancing technology to bring superior products to market.

— Simon Ellis currently leads the Supply Chain Strategies practice at Manufacturing Insights, an IDC company. Within the Supply Chain practice, Ellis specializes in advising clients on low-cost sourcing, RFID, data synchronization, lean, Six Sigma and more.

Department Of Commerce Names New Members To Manufacturing Council

The Commerce Department's Manufacturing Council has named a new set of members, and some of them are not the likely cast of multinational corporate characters typically appointed by the Bush administration. Among the new members are vocal opponents to the current policies promoting free trade.

Fred Keller, chairman and chief executive officer of Cascade Engineering, will serve as the new chairman of the Manufacturing Council. Kellie Johnson, president of ACE Clearwater Enterprises, will serve as the vice-chair. The 12 other new members of the Council are:

- Dean Bartles, Vice President and General Manager, General Dynamics
- John Cantlin, President, Lifoam Industries
- Daniel DiMicco, Chairman, President and CEO, Nucor Corp.
- Daniel W. Holmes Jr., Chairman, Morrison Products, Inc.
- William Jones, President, Penn United Technology, Inc.
- Peter Kamenstein, President, Kamenstein, a Division of Lifetime Brands
- James McGregor, President, Morgal Machine Tool and Ohio Stamping and Machine
- Michael Nowak, President and CEO, Coating Excellence International
- Jason Speer, Vice President and General Manager, Quality Float Works
- Harding Stowe, President and CEO, R.L. Stowe Mills, Inc.
- Edward Voboril, Chairman of the Board, Analogic
- Della Williams, President and CEO, Williams-Pyro, Inc.

Information on the Manufacturing Council is located at http://www.manufacturing.gov/council/index.asp?dName=council#.

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Editor & Publisher: Richard A. McCormack (richard@manufacturingnews.com)

Web Technical Coordinator: Krishna Shah (krishna@manufacturingnews.com)

Business Manager: Anne Anderson (anne@manufacturingnews.com)

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