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Union Wins Tire Case As Chinese Tires Overwhelm U.S. Market

The U.S. International Trade Commission (ITC) has ruled that China is dumping tens of millions of subsidized automobile tires into the U.S. market, displacing U.S. production and American workers.

In a three-three ruling of the six commissioners in which a tie goes to the petitioner, the United Steelworkers (USW) won the first trade case submitted to the federal government solely by a union without any American companies formally participating. The three democrats on the Trade Commission (Pinkert, Williamson and Schmidtlein) voted in favor of the USW petition, while the three republicans (Broadbent, Johanson and Keiff) voted against. The republicans based their decision partly on the fact that the U.S. industry has been increasing its operating margins even though it is losing market share to Chinese imports. There was also reference to the fact that no U.S. tire producer joined the petition.

President Obama recently signed legislation (Leveling the Playing Field Act) as part of Trade Promotion Authority directing the USITC to consider factors other than an industry's profitability in determining harm by subsidized imports. Profitability should not be the only indicator of an industry's health since it can be increased by laying off workers, reducing U.S. production in favor of cheaper offshore locations, sourcing less expensive inputs, and slashing spending on capital equipment and R&D. The new law states that the USITC "shall not determine that there is no material injury or threat of ma-

(Continued on page six)

2013 U.S. Tire Consumption:	**295 Million**
2013 U.S. Tire Production:	**142 Million**
2013 Chinese Tire Production:	**400 Million**
2013 Chinese Tire Imports Into U.S.:	**51 Million**
2013 Chinese Tire Overcapacity:	**72 Million**

Pacific Trade Deal Will Put A Crimp In Reshoring Trend

If Congress approves the Trans-Pacific Partnership (TPP) free trade agreement being negotiated by the Obama administration and 11 foreign nations, then the nascent reshoring trend of manufacturing returning to the United States will run aground, according to the man who heads up the Reshoring Initiative.

With lower U.S. tariffs on imports from the 11 nations involved in the TPP (including Mexico, Canada and Japan), the amount of reshoring of manufacturing will decline by 20 to 25 percent, estimates Harry Moser, president of the Reshoring Initiative. "There will certainly be less reshoring because our duties will be lower, which makes foreign products more attractive."

Cheaper imports create less of a cost advantage for companies to produce in the United States.

Moreover, Moser argues, the sole focus the U.S. government has on increasing exports will not lead to a resurgence of American manufacturing, since U.S. goods are not competitive in overseas markets due to currency manipulation and value-added taxes that foreign governments levy on

(Continued on page eight)

Federal Funding For All Programs (Save Entitlements) Is Projected To Decline By 5 Percent In 2017

Federal agencies have been directed to reduce their budget requests for fiscal year 2017 by 5 percent below the amount that was provided to them in 2016. "This reduction applies equally to defense and non-defense programs," according to a "Memorandum for the Heads of Departments and Agencies for the 2017 Budget Guidance" issued by Office of Management and Budget Director Shaun Donovan.

Since Congress has not taken action to repeal sequestration, "both defense and non-defense discretionary funding in FY 2016 will be at the lowest levels in a decade, adjusted for inflation, even though the need for pro-growth investments in infrastructure, education and innovation has only increased," Donovan notes.

Federal agency heads are told not to shift the costs of any of their programs to other parts of the federal budget. They should not reclassify any discretionary accounts to "mandatory" spending. They are told not to make "across-the-board reductions," but to instead cut from programs that are no longer deemed essential. And they are told that they cannot enact any new user fees to offset existing spending.

All of the programs that are mandatory "should reflect the same rigorous review as you undertake for discretionary spending," the memo advises. Agencies should start looking at ways to reduce mandatory spending as part of the 2017 budget submissions. "In addition, if your budget request includes any new mandatory proposals that are not at least budget neutral, they should be accompanied by new mandatory savings proposals to offset those costs."

https://www.whitehouse.gov/sites/default/files/omb/memoranda/2015/m-15-11.pdf

For agencies that focus on science, engineering and technology, OMB says there must be a focus on "multi-agency research activities that cannot be addressed by a single agency." Priority for funding should be given to global climate change research, clean energy, earth observations, advanced manufacturing and industries of the future, innovation in life sciences, homeland security, information technology, high-performance computing, and ocean and Arctic issues.

"Commercialization of federal R&D is one of the core responsibilities of each R&D supporting agency," says the 2017 R&D budget directive. "Agency budget proposals should prioritize and highlight contributions to the Lab-to-Market Cross Agency Priority Goal, such as entrepreneurial personnel exchanges, commercialization training and other programs that have the potential to accelerate and improve the transfer of new technologies from the laboratory to the marketplace."

https://www.whitehouse.gov/sites/default/files/omb/memoranda/2015/m-15-16.pdf

EDA Selects 12 Regions For Special Federal Treatment

The U.S. Department of Commerce has selected 12 regions to be part of the Investing in Manufacturing Communities Partnership Program. The federal government will steer up to $1 billion in resources and grants into the designated areas.

The 12 winners provided the Commerce Department's Economic Development Administration with strategic plans on how they would take advantage specific sectors of manufacturing. Those plans addressed workforce and supply chain challenges, infrastructure, research and innovation, trade and investment, capital access and operational improvement for manufacturing companies. The communities will be provided with a dedicated federal liaison at 12 federal agencies to provide them with guidance in obtaining grants and funding.

The 12 winners are:

- The Greater Pittsburgh Metals Manufacturing Community, led by Catalyst Connection in Pittsburgh, Penn.
- The Alamo Manufacturing Partnership, led by the University of Texas at San Antonio.
- The Louisiana Chemical Corridor, led by Louisiana State University, stretching from New Orleans, La., to Baton Rouge, La.
- The Madison Regional Economic Partnership, Madison, Wisc.
- The Made in the Mid-South Manufacturing Alliance, led by the Greater Memphis Chamber spanning nine counties in surrounding Memphis, Tenn.
- The Greater Peoria Economic Development Council leading a five county region in central Illinois.
- The Minnesota Medical Manufacturing Partnership, led by GREATER MSP in Minneapolis, Minn.
- The South Central Idaho region, led by the Region IV Development Association in Twin Falls, Idaho.
- The Utah Advanced Materials and Manufacturing Initiative, led by the University of Utah in the Wasatch Front region.
- The Pacific Northwest Partnership Region, led by Business Oregon in Oregon and Southwest Washington.
- The Connecticut Advanced Manufacturing Communities Region, a four-county area centered in Hartford, Conn., led by the State of Connecticut Department of Economic and Community Development.
- The Central Valley AgPlus Food and Beverage Manufacturing Consortium led by California State University in Fresno and the Sacramento community.

Duties Are Not A Big Revenue Source For Federal Govt.

The U.S. Customs and Border Protection (CBP) agency collected $33.9 billion in duties on imports in 2014, up from $31.7 billion collected in 2013.

The $33.9 billion amounts to an average tariff of 1.43 percent on goods imports of $2.374 trillion in 2014, up from an average tariff of 1.38 percent on total goods imports of $2.294 trillion in 2013.

Including services, import duties collected by the U.S. government amounted to 1.2 percent on total imports of goods and services of $2.85 trillion in 2014 (up from 1.15 percent collected on $2.76 trillion of imported goods and services in 2013).

Foreign producers paid a lot less in taxes than did American consumers purchasing imported products in retail stores. In 2014, the 45 states with sales taxes grossed $271.3 billion in sales tax collections from American consumers, an increase of 4.8 percent from 2013. http://www2.census.gov/govs/statetax/G14-STC-Final.pdf

The total amount collected by the federal government from duties on foreign imports was also small compared to what it collected from American taxpayers. Duties represented 1.06 percent of total federal government revenues of $3.021 trillion in 2014.

In 2014, Customs and Border Protection collected $3.7 billion in excise taxes (up from $3.2 billion in 2013), and $57 million in fines and penalties (down from $61 million in 2013). User fees collected decreased to $1.56 billion (down from $1.57 billion in 2013).

Of its total collections of $39 billion, CBP sent $25.3 billion to the U.S. Treasury in 2014, up from $23.7 billion in 2013. It sent $10.3 billion to the U.S. Department of Agriculture (up from $9.7 billion in 2013); $1.5 billon to the Army Corp of Engineers; and $133 million to the government of Puerto Rico in 2014 (up from $72 million in 2013).

The $39 billion in fees collected by Customs and Border Protection in 2014 was enough to cover the agency's total expenses for the year of $15.7 billion, according to the agency's annual "Performance and Accountability Report" for fiscal year 2014:

http://www.cbp.gov/sites/default/files/documents/CBP_DHS_2014%20PAR_508C.PDF

Fewer Counterfeit Goods Are Seized By Customs Police

The amount of fake and counterfeit goods seized by U.S. Customs and Border Protection (CBP) took a drop in 2014. The total retail value of goods seized by the U.S. government at ports of entry in 2014 was $1.23 billion, down 30 percent from 2013. The number of seizures also decreased to 23,140, a 5 percent drop from 24,361 in 2013. The majority of counterfeit goods come from China, accounting for $772 million and 63 percent of all seizures. In second place was Hong Kong at $310 million.

CBP's work with the National Intellectual Property Rights (IPR) Coordination Center led to the arrest of 683 people involved in illegal imports. There were 454 indictments and 461 convictions, according to the agency.

The total amount of seizures of products that infringe on U.S. trademarks, copyrights and patents represented a small fraction (0.0431 percent) of U.S. imports, at $2.851 trillion. Last year, more than 24 million containers of imports arrived via seaports, rail and truck.

"In 2014, CBP analyzed intellectual property rights samples and found IPR violations in commercial products that included integrated circuits, networking devices, gaming devices and cell phones of trademarks such as Cisco, Xilinx, Toshiba, Free Scale, Lattice, Analog Devices, Nintendo, Blackberry and Apple," according to CBP's 2014 Performance and Accountability Report.

One of the biggest increases in product categories seized by CBP was counterfeit water filtration parts being sold to "unknowing American users," the agency says. It intercepted 32,000 fake water filtration systems.

There was an 83 percent increase in seizures of fake auto parts, from 118 in 2013 (worth $4.1 million) to 216 in 2014 (worth $6.8 million). "These additional seizures included a greater diversity of auto parts seized as compared to the previous fiscal year, e.g. fuel injectors, rearview mirrors, gauges, valves, motor oil and tachometers," according to CBP.

The most seized counterfeit item were watches and jewelry (7,922 seizures) worth $376 million. Handbags and wallets (6,610 seizures) were next at $342 million, followed by battery seizures, which increased by 64 percent from 221 in 2013 to 362 in 2014. The top 10 counterfeit commodities seized are:

1. Apparel and accessories
2. Consumer electronics
3. Pharmaceuticals and personal care
4. Handbags/wallets
5. Footwear
6. Watches and jewelry
7. Optical media
8. Computers and accessories
9. Labels and tags
10. Toys

124 Companies And Organizations Join Effort To Create A National Photonics Mfg. Institute

The Department of Defense has selected the Research Foundation for the State University of New York (SUNY) in Rochester to be the contractor to run the Integrated Photonics Manufacturing Innovation Hub. It is the sixth major manufacturing research institute selected under the proposed National Network for Manufacturing Innovation (NNMI). The federal government will provide the institute with $110 million, while private industry is expected to fund an additional $500 million, "the largest public-private commitment to date for a manufacturing institute launched in the United States," says the White House. The new institute has commitments from 124 companies, nonprofits and universities. Here are the members of the new photonics consortium involved with the institute:

55 Companies: 4D Technologies, Acacia Communications, Analog Photonics, Aurrion, Boeing, Cadence Design, Chiral Photonics, Corning, Freedom Photonics, GE, Harris Corp., Hewlett Packard, Infinera, Intel, IQE, Juniper Networks, Keysight, Lockheed Martin, Mentor Graphics, Nistica, Northrop Grumman, Samtech, Synopsys, TE Connectivity, United Technologies, Adarza Biosystems, Advanced Glass Ind., ANSI, Axsun Technologies, FiconTEC, Honeywell, IBM, Imaging Solutions Grp., LGS Innovations, Lumerical, Micron, Morton Photonics, Navitar, New Scale Tech., Optimax, OptiPro, Patent Innovations, PhoeniX Software, Photon Gear, Promex Industries, Raytheon, Rockwell Collins, RPC Photonics, Seagate, SRI, Sydor Optics, Syntec Optics, TeraDiode, Texas Instruments, Vincent Associates.

20 Universities and Laboratories: Boston University, California Institute of Technology, Columbia University, MIT, Rochester Institute of Technology, Stanford, State University of New York, University of Arizona, University of California Berkeley, University of California Davis, University of California San Diego, University of California Santa Barbra, University of Colorado-Boulder, University of Delaware, University of Rochester, University of Virginia, Alfred University, Binghamton University, Drexel University, and Pennsylvania State University.

33 Community Colleges and Other Schools: *New York:* Adirondack Community College, Broome Community College, Cayuga Community College, Clinton Community College, Columbia-Greene Community College, Corning Community College, Dutchess Community College, Erie Community College, Fashion Institute of Technology, Finger Lakes Community College, Fulton-Montgomery Community College, Genesee Community College, Herkimer County Community College, Hudson Valley Community College, Jamestown Community College, Jefferson Community College, Mohawk Valley Community College, Monroe Community College, Nassau Community College, Niagara County Community College, North Country Community College, Onondaga Community College, Orange County Community College, Rockland Community College, Schenectady County Community College, Suffolk County Community College, Sullivan County Community College, Tompkins Cortland Community College, Ulster County Community College, Westchester Community College. *California:* Allan Hancock Community College, Santa Barbara Community College, and Ventura College. *Massachusetts:* Quinsigamond Community College.

16 Non-Profit Organizations: Catalyst Connection, Draper Laboratory, Institute for Energy Efficiency, The Manufacturing Institute, Massachusetts Manufacturing Extension Partnership, MESA, NEATECH, New York Photonics, Empire State Developments Division of Science, Technology and Innovation, OP-TECH, Optical Society of America, PSMC, SEMATECH, SEMI, SPIE, and the University of California Santa Barbara's Technology Management Program.

20 States: New York, California, Massachusetts, Arizona, New Jersey, Florida, Colorado, Maryland, Pennsylvania, Missouri, Indiana, Delaware, Virginia, Minnesota, Idaho, Texas, Washington, Iowa, Connecticut and Oregon.

Manufacturers Need To Prepare For A Change In Global Family Structures

Changing global demographics will soon be impacting manufacturing companies and the products they sell. The traditional family structure is changing quickly throughout the world, according to a study from the Manufacturers Alliance - MAPI Foundation. More people are less inclined to marry and have children. They are living alone in inner-city apartments rather than buying suburban or rural homes.

The result: "The two-car family will be dwindling," says Cliff Waldman, director of economic studies at the MAPI Foundation. "This could affect auto demand and its powerful supply chain. As apartment dwelling grows, there could be less demand for lawnmowers, yard equipment and snow blowers, to name a few examples."

Only 41 percent of married couples in most industrialized countries have children in their homes, down from 75 percent in 1980. More people are never marrying and those who do are marrying later. Many are divorced.

The shift away from traditional family structures and the decline in fertility could "negatively affect potential global economic growth," says the MAPI analysis. "We are just beginning to understand the social, cultural and political implications of the changing family structure. As the world economy struggles to push past the financial crisis, we must also worry about the economic impacts of such a dramatic change in the way humans live."

The paper is located at https://www.mapi.net/research/publications/manufacturing-impacts-global-family-change

High Dollar, Low Oil Prices Reduce U.S. Mfg. Cost Advantage

The high value of the dollar and lower energy costs throughout the world have reduced U.S. manufacturing competitiveness by between 6 percent and 12 percent over the past year, according to Boston Consulting Group. "Manufacturers in all regions have benefited from lower global oil prices," says BCG.

Oil prices are down by 50 percent over the past year, and natural gas prices are down not only in the United States but in Europe as well, with Russian gas prices declining by 29 percent, and Indonesian liquefied natural gas prices down 24 percent. "If prices remain low, and as longer-term price agreements expire, economies with high energy costs could see their competitiveness increase by 2-3 percentage points over time," says BCG.

In looking at the 25 countries that account for most global exports, BCG found that the dollar's strength against every currency was the biggest factor in improving foreign competitiveness versus the United States. The value of the euro versus the dollar dropped by 18.4 percent; the Canadian dollar was down by 14 percent; the Mexican peso fell by 11.4 percent; and the Japanese yen was down by 13 percent.

"Despite a strong dollar, the U.S. retains a big manufacturing cost advantage over Europe, Japan and other developed countries," states BCG. Currency swings have not been enough "to change the competitive balance among most major export economies."

Yet while BCG's calculations find that western European countries still have higher manufacturing costs than the United States, those countries continue to win in the American marketplace by a large and growing margin.

According to the Census Bureau, the U.S. trade deficit with the EU worsened in the first five months of 2015 to -$57.2 billion, from -$56.25 billion for the same period of 2014. The U.S. trade deficit with Japan increased to -$30.2 billion in the first five months of 2015, from -$28.5 billion for the same period of 2014. With Mexico, the U.S. trade deficit for the first five months of 2015 increased to -$21.6 billion, from -$20.4 billion in 2014. And with China, the U.S. trade deficit has skyrocketed in 2015, to -$154.4 billion for the first five months of the year, from -$138 billion for the same period of 2014.

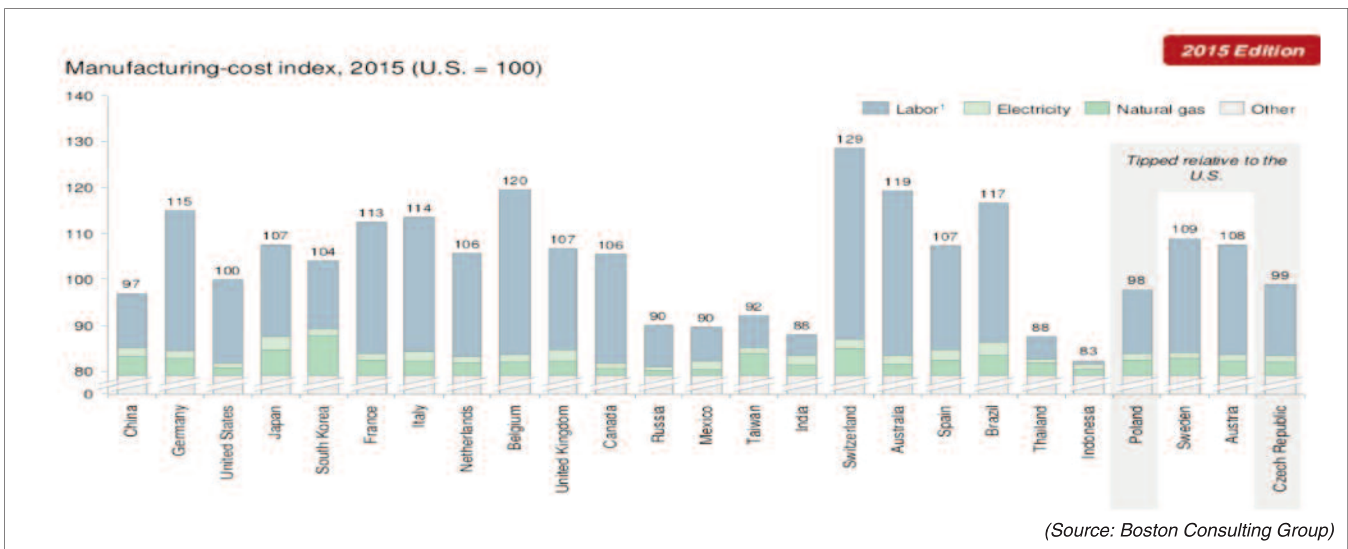
BCG says that productivity-adjusted manufacturing wages in both high-cost countries and low-cost countries have stopped increasing robustly. After having risen by 156 percent from 2004 through 2014, Chinese manufacturing wages rose by only 3 percent between 2014 and 2015 to $14.60 an hour. U.S. wages rose by 2 percent from 2014 to 2015 to $23.80 per hour; whereas they fell by 17 percent in the Netherlands (to $27.80 an hour); and in the United Kingdom they were down by 9 percent to $27.10 per hour. Manufacturing wages rose by 2 percent in Thailand (to $6.00 an hour), and by 4 percent in Indonesia (to $1.20 an hour).

With a manufacturing cost index based on a scale of the U.S. being 100 the major exporting economies that are cheaper than the United States are Indonesia (83), Thailand (88), India (88), Russia (90), Mexico (90), Taiwan (92), China (97), Poland (98), and Czech Republic (99).

"The U.S. still maintains a very significant cost advantage over Germany, France, Japan, Australia and Brazil, and therefore manufacturers are unlikely to shift production to other nations," says BCG. Most European countries remain 10 percent more expensive than U.S. manufacturing.

Viewgraphs for the BCG "Index Shows the Manufacturing-Cost Competitiveness of the Top 25 Export Economies Relative to the U.S." are located at:

http://www.slideshare.net/TheBostonConsultingGroup/the-shifting-economics-of-global-manufacturing



(Source: Boston Consulting Group)

USITC Rules On Tires...(From page one)

terial injury to a domestic industry from imports merely because that industry is profitable or its performance has recently improved."

On the favorable USITC tire ruling, USW President Leo Gerard said that "increasingly, the question of whether our trade laws are actually going to be enforced is being left to the workers, as companies and our government are either conflicted or have different priorities." Others involved in the case say American companies tacitly approved the filing, but felt compelled to protect their investments in China by not offending the Chinese government. The trade laws were specifically written decades ago to allow unions to file trade cases in anticipation of the current conflicts caused by globalization of American corporations.

But there was not a great sense of victory among the workers. "We're fighting rear-guard battles," said one union rep. "A high percentage of the work we're doing is rear-guard activity. There is a daunting realization that these victories are fewer and not as large as one would hope for them to be."

The United States is being inundated with Chinese tires, according to an investigation completed by the USITC.

American consumers purchased a total of 295 million tires in 2013, but U.S.-based producers accounted for only 43 percent of the U.S. tire market, down from 50 percent market share in 2011 when the U.S. industry produced 156 million tires. In 2013, the industry produced 142 million tires.

Chinese tire imports into the United States rose from 24.6 million in 2011 (or 8.8 percent of the U.S. market) to 51 million tires in 2013 (17.2 percent of the U.S. market). Chinese tire imports increased by 107 percent during this period, "which was far greater than the 5.9 percent rise in apparent U.S. consumption during that time," says the USITC in a report on the tire industry from 2014. The Chinese share of the U.S. market, "came mostly at the expense of the domestic industry," USITC added. "The domestic industry was losing market share to [Chinese] imports in an expanding market."

From 2011 to 2013, U.S. tire production capacity decreased from 166.4 million tires to 162.7 million tires. Over that period, capacity utilization declined from 93.6 percent to 87.2 percent. The number of production workers fell from 33,390 in 2011 to 29,033 in 2013; and hours worked declined from 66.7 million in 2011 to 58.1 million in 2013. R&D declined slightly from $225 million in 2011 to $221.6 million in 2013.

Nevertheless, the industry's operating income increased by 33.4 percent between 2011 to 2013, from $1.07 billion in 2011 to $1.37 billion in 2012 and to $1.42 billion in 2013. Operating margins increased from 8 percent in 2011 to 10.4 percent in 2012 and to 11.2 percent in 2013.

Meanwhile, the Chinese industry increased its production of tires by 27.7 percent between 2011 and 2013, from 313 million to 400 million tires. "Production capacity in China is projected to be 421 million tires in 2014 and 444 million tires in 2015," notes the ITC.

In 2013, the Chinese tire industry had excess capacity of 72 million tires. The projected growth in the Chinese market "is not commensurate with their projected increase in capacity," which means that most Chinese producers have an "increasing focus on the U.S. market," said the ITC.

In 2013, the United States was the recipient of 31 percent of all Chinese tire exports. While Chinese exports to the United States doubled between 2011 and 2013, its exports to all other markets "increased only 10 percent during that time," says the ITC. During that period, Brazil, Turkey, India, Colombia and Egypt placed antidumping duty orders on Chinese tires.

The ITC said Chinese producers benefit from numerous government subsidy programs including:

- Preferential lending programs;
- Export buyers' credits from state-owned banks;
- Export sellers' credits from state-owned banks;
- Export credit insurance subsidies;
- Export credit guarantees;
- Provision of goods and services for less than adequate remuneration;
- Direct tax exemptions and reductions;
- Indirect tax exemptions and reductions; and
- Grants.

Machine-to-Machine Market To Double

The machine-to-machine (M2M) market in health care, automobiles, utilities and consumer electronics will start generating service revenues of more than $40 billion by 2019 "doubling the size of today's market," says market research firm Juniper Research.

By far the biggest market will be in the automotive sector. "Telematics is one of the cornerstones of the broader M2M industry and comprises a number of different activities in both the consumer and commercial sector ranging from in-vehicle infotainment for consumers to fleet management services for businesses," says Juniper. One-in-five passenger vehicles sold globally will have the capability to be connected. Telematics will also be adopted by insurance companies and stolen vehicle recovery service firms. "Telematics can also be used by commercial auto insurers for fleet products, driver data and vehicle monitoring."

The smart grid will be enabled by growing sales of smart meters, especially in India and China, which are experiencing a "rapid adoption of smart metering as new metering infrastructure is installed and smart cities are created," says Juniper Research analyst Anthony Cox. The smart grid will account for the second largest market for M2M products and services, allowing companies to provide real-time metering of electricity, gas and water.

Rapid adoption of interconnected devices will cause headaches for established companies not incorporating new technologies to their product offerings. But they are creating opportunities for new companies to grow, says Juniper in a research report titled "M2M In an IoT World."

CBO Warns Of Potential Financial Crisis As Politicians Fiddle Away Their Options

Lawmakers are running out of time to address America's fiscal imbalance and if they don't act soon, the country's future is in jeopardy, according to the Congressional Budget Office.

With growing debt, there will be little ability to finance anything other than the medical and retirement costs of old people and the interest on the debt, says CBO. Government spending on domestic and military programs will shrink to historic lows.

"The long-term outlook for the federal budget has worsened dramatically over the past several years," CBO states in the first sentence of its "2015 Long-Term Budget Outlook," released in June. "If current laws remain unchanged, federal debt held by the public would exceed 100 percent of GDP by 2040 and continue on an upward path relative to the size of the economy, a trend that could not be sustained indefinitely."

In the five years between 2008 and 2012, the United States added $5.6 trillion to its national debt as federal revenues declined sharply and spending increased to stave off a depression. During those five years, the federal debt almost doubled — and is now equivalent to 74 percent of the economy's annual output, "a higher percentage than at any point in U.S. history except a seven-year period around World War II," says CBO.

Over the next 10 years, budget deficits are expected to total $7.4 trillion.

As the U.S. population ages and health care costs increase, the U.S. federal budget deficit will grow from less than 3 percent of U.S. GDP this year to more than 6 percent in 2040. At some point, U.S. government creditors "would eventually begin to doubt its ability to cut spending or raise revenues by enough to pay its debt obligations, forcing the government to pay much higher interest rates to borrow money," writes CBO. "Such a fiscal crisis would present policymakers with extremely difficult choices and would probably have a substantial negative impact on the country. Unfortunately, there is no way to predict confidently whether or when such a fiscal crisis might occur in the United States. All else being equal, the larger a government's debt, the greater the risk of a fiscal crisis."

Even if the country does not suffer a financial crisis, things are going to get tough. The federal government's requirement to borrow enough to cover annual budget deficits will "draw money away from private investment in productive capital over the long term, because the portion of people's saving used to buy government securities would not be available to finance private investment," according to the CBO.

U.S. output and income will go down as federal spending on interest rises. Interest payments on the

(Continued on page nine)

CBO's Baseline Budget Projections To 2025

	Actual, 2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total 2016-2020	Total 2016-2025
							In Billions of Dollars							
Revenues														
Individual income taxes	1,395	1,506	1,652	1,757	1,843	1,928	2,027	2,133	2,244	2,362	2,485	2,614	9,207	21,046
Payroll taxes	1,023	1,056	1,097	1,138	1,181	1,230	1,284	1,340	1,393	1,451	1,510	1,574	5,929	13,197
Corporate income taxes	321	328	429	437	453	450	447	450	459	472	488	506	2,216	4,591
Other	283	302	293	270	250	266	277	288	299	311	323	336	1,357	2,913
Total	**3,021**	**3,191**	**3,470**	**3,601**	**3,728**	**3,874**	**4,034**	**4,211**	**4,395**	**4,596**	**4,806**	**5,030**	**18,709**	**41,747**
On-budget	2,286	2,428	2,677	2,776	2,870	2,982	3,107	3,247	3,393	3,554	3,724	3,906	14,411	32,235
Off-budget[a]	736	763	794	826	859	892	927	964	1,002	1,042	1,082	1,124	4,298	9,512
Outlays														
Mandatory	2,099	2,274	2,470	2,541	2,618	2,787	2,945	3,107	3,337	3,463	3,585	3,861	13,361	30,714
Discretionary	1,179	1,175	1,178	1,184	1,194	1,222	1,249	1,276	1,311	1,336	1,361	1,400	6,027	12,712
Net interest	229	229	277	331	405	472	537	590	647	704	759	808	2,022	5,530
Total	**3,506**	**3,677**	**3,925**	**4,056**	**4,217**	**4,481**	**4,730**	**4,974**	**5,295**	**5,503**	**5,705**	**6,069**	**21,410**	**48,956**
On-budget	2,800	2,936	3,143	3,227	3,331	3,537	3,720	3,895	4,143	4,272	4,390	4,665	16,959	38,325
Off-budget[a]	706	741	782	829	886	945	1,010	1,079	1,152	1,231	1,315	1,403	4,451	10,631
Deficit (-) or Surplus	**-485**	**-486**	**-455**	**-455**	**-489**	**-607**	**-696**	**-763**	**-900**	**-907**	**-899**	**-1,038**	**-2,701**	**-7,209**
On-budget	-514	-508	-467	-452	-462	-555	-613	-648	-751	-718	-667	-759	-2,548	-6,090
Off-budget[a]	30	22	12	-3	-27	-52	-83	-115	-150	-189	-233	-279	-153	-1,119
Debt Held by the Public	12,780	13,366	13,897	14,428	14,983	15,654	16,409	17,226	18,179	19,138	20,089	21,182	n.a.	n.a.
Memorandum:														
Gross Domestic Product	17,251	18,016	18,832	19,701	20,558	21,404	22,315	23,271	24,261	25,287	26,352	27,456	102,810	229,438

Reshoring & TPP...

(Continued from page one)

American-made products. These two major cost issues are not being addressed by U.S. government trade negotiators.

"It's pretty clear that when you go back and look at historical trade agreements, the trade deficit always gets worse with the countries with which we have trade agreements, and it gets worse faster than it does with countries with which we don't have trade agreements," says Moser. "The whole purpose of trade agreements is to increase trade in both directions so, unambiguously, imports are going to go up."

U.S. trade negotiators promote the idea that the Trans Pacific Partnership will induce foreign nations to adopt more strict labor and environmental standards. It is implied, though never stated, that such rules will increase the cost of foreign production, thereby making foreign imports more expensive. But that argument "is fluff," says Moser. Foreign nations do not impose burdensome and expensive new labor and environmental regulations on their exporters due to trade agreements with the United States. Few of the low-cost countries whose economies are based on exports have anything resembling an EPA or OSHA, and they have no intention of creating such organizations.

"Can you imagine that those countries by signing this piece of paper are really going to stop kids from working and are really going to stop factories from dumping chemicals into a ditch," Moser asks. "You know it's not going to happen. All of these are the things that [U.S. negotiators] think are going to make us relatively more competitive, but the real thing that they are going to do is cut duties, which is going to increase imports into the United Sates."

If TPP passes, there is a "100 percent chance" that imports will go up, Moser adds. "And I'm not convinced that exports are going to go up enough to make up for the imports going up more. Therefore the trade deficit could get worse and it could get a lot worse."

It is pretty easy to see that the U.S. government's focus on increasing exports is not working to help grow the U.S. economy. Real exports of goods and services decreased 5.9 percent in the first quarter of 2015 while imports surged by 7.1 percent. The net drag on the economy caused by the gaping trade deficit accounted for almost the entire decrease of U.S. GDP of 0.2 percent in the first quarter of 2015, according to the Bureau of Economic Analysis.

http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm

Moser notes that the federal government spends 60 times more on promoting exports than it does on promoting reshoring. Neither the program nor the logic of doing so works, he argues, citing analysis the Reshoring Initiative has conducted.

Say a product made in China is price competitive in the United States with the same product made in the U.S. at $100. "If we sell that item in China, you now have to add duty, freight, packaging, carrying costs of inventory and Chinese language costs, which makes the same product $115 over there. The same product the Chinese factory can sell in the United States for $100 can be sold in China for $85 because they don't have those shipping costs.

When you add the value-added tax China collects on top of the U.S. item, the cost advantage in China for the Chinese-made good soars to 30 percent. "This is going to be true on all products," says Moser. "Our factories are much more competitive on their home field than they are on the other guy's field — like in sports. So, is it easier to increase your exports or reduce your imports? Since our factories are 30 percent more competitive here — then the answer is simple: reduce your imports. It's black-and-white obvious."

Moser has shown his calculation to officials working on trade issues in the federal government, "and they go: 'Yeah, yeah, yeah,' and they keep right on promoting exports despite my best efforts," says Moser. "A trade agreement only makes sense if it achieves reshoring, but they say that it only makes sense if it increases exports because that is all they talk about. That is all they have ever talked about and that is all they think about."

U.S. Merchandise Trade With Countries Negotiating The Trans-Pacific Partnership (TPP)

	2012	2013	2014	% change 2013–14
	Million $			
Trade with TPP partners:				
U.S. total exports	689,155	699,140	726,988	4.0
U.S. general imports	843,604	852,726	881,906	3.4
Trade balance	-154,449	-153,586	-154,918	0.9
U.S. total exports:				
TPP partners with FTAs with U.S.	598,365	612,108	636,351	4.0
NAFTA only	508,558	527,689	552,451	4.7
TPP partners without FTAs with U.S.	90,791	87,032	90,636	4.1
Japan only	69,964	65,206	66,964	2.7
Share with FTAs (percent)	86.8	87.6	87.5	
U.S. general imports:				
TPP partners with FTAs with U.S.	647,442	658,703	682,923	3.7
NAFTA only	601,858	613,082	640,220	4.4
TPP partners without FTAs with U.S.	196,164	194,023	198,983	2.6
Japan only	146,438	138,573	133,939	-3.3
Share with FTAs (percent)	76.7	77.2	77.4	
Merchandise trade balance:				
TPP partners with FTAs with U.S.	-49,077	-46,596	-46,572	
NAFTA only	-93,300	-85,393	-87,768	
TPP partners without FTAs with U.S.	-105,373	-106,990	-108,346	
Japan only	-76,474	-73,368	-66,975	

(Source: U.S. International Trade Commission's report, "The Year In Trade, 2014, Operation of the Trade Agreements Program," July 2015 http://www.usitc.gov/publications/332/pub4543.pdf)

(Continued on next page)

CBO's Budget Projections...

(From page seven)

debt will lead to greater pressure to raise taxes on Americans, further reducing their income. In 2014, the U.S. government spent $229 billion on its debt payments to generally wealthy individuals and foreign nations that purchased the debt. Those payments are scheduled to increase to $277 billion in 2016 (an amount that is 39 times higher than the $7 billion spent on the National Science Foundation) and to $537 billion in 2020, or almost the same amount currently being spent on the Department of Defense. By 2025, the annual interest payment on the federal debt is projected to rise to $808 billion.

America's huge federal debt will make it difficult for lawmakers and the Federal Reserve to respond to a financial crisis or an economic downturn, the latter of which is inevitable. The federal debt "could also compromise national security by constraining defense spending in times of international crisis, or by limiting the country's ability to prepare for such a crisis," says CBO.

By 2040 federal spending on entitlement programs will account for 14.2 percent of GDP (up from 6.5 percent over the past 50 years); interest payments on the federal debt would be 4.3 percent of GDP (up from 2 percent); and all other non-interest spending would decline to 6.9 percent of GDP (well below the 11.6 percent over the past 50 years.)

Americans will be taxed more, with federal revenue equal to 19.4 percent of GDP (up from 17.4 percent in 2015).

Lawmakers don't have many options other than to increase revenue and decrease spending. If lawmakers address the problem by only increasing revenues so that the debt is equal to the 50-year average of 38 percent of GDP, it would require an annual increase in taxes of 14 percent every year from 2016 to 2040. That would mean an increase of $1,700 in federal tax payments for a middle-income family in 2016 alone, says the CBO.

If lawmakers choose to cut non-interest spending instead in order to reach the same goal of debt equal to 38 percent of GDP, they would have to cut the federal budget by 13 percent each year for the next 25 years. A 13 percent cut would lower initial Social Security benefits by an average of $2,400 for people in the middle fifth of the lifetime earnings distribution.

To reduce the debt burden to equal its current percentage of GDP — at 74 percent — revenue increases and cuts in non-interest spending would have to total 1.1 percent of GDP in every year beginning in 2016.

"Waiting for some time before reducing spending or increasing taxes would result in a greater accumulation of debt, which would represent a greater drag on output and income in the long term and increase the size of the policy changes needed to reach the chosen target for debt," says CBO in its analysis:

https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/50250-LongTermBudgetOutlook-3.pdf

New Leader At Aerospace Industries Assn.

The Aerospace Industries Association has a new president and CEO. David Melcher, recently the CEO and president of Exelis Inc., has assumed AIA's top job, succeeding Marion Blakely, who left after seven years to become the president and CEO of Rolls Royce North America. After a 32-year career in the U.S. Army, Melcher joined ITT Corp. as vice president of business development. He became president of ITT's Defense and Information Solutions division and was the inaugural chief executive when Exelis was split off from ITT. He led Exelis into a merger with Harris Corp. this past May.

Reshoring & TPP...

(Continued from previous page)

What would a trade agreement entail in order to achieve a reduction of imports through reshoring? "Realistically, you would say that if our duties are 1 percent on their imports and their duties are 10 percent on our exports, then they are going to cut their duties to 5 percent and we are going to raise our duties to match them at 5 percent," Moser explains. "We are going to make them equal. That is a good place to start."

Something must be done to account for the value-added tax that is slapped on American exports, a tax that the U.S. does not have and cannot collect. If the United States imposes a duty on imports equal to the value-added tax collected by foreign governments on American exports, it is likely that the WTO would allow those countries to place a corresponding duty on American products going into their market because the WTO has decided that it does not consider a VAT to be a duty. Why? "Because it's an agreement by all these other countries who wanted to screw us," Moser opines. "Because we are suckers."

The United States could be belligerent, given that its trade deficit is currently skyrocketing, bleeding the country of its vitality and could lead to another global financial crisis. "We should look at all of the things that influence imports and exports and insist on equal treatment," says Moser. "If the WTO says, 'No, you can't put a value-added tax just on imports,' Then we have two choices: Convince Democrats and Republicans to adopt a value-added tax and eliminate the corporate income tax, or say forget you WTO, we're still the biggest market in the world and anybody who doesn't want to ship stuff here that's okay. We'll make it here and all of those other countries would be delighted to come here and make it here. Our Trade Rep and our President like to play nice to all of these people rather than really making things better."

Auto Firms Are Rushing To Mexico To Build Capacity

By Tom Krisher and Christopher Sherman
The Associated Press

Mexico has become the most attractive place in North America to build new automobile factories, a shift that has siphoned jobs from the United States and Canada, yet helped keep car and truck prices in check for consumers. In the past two years, eight automakers have opened or announced new plants or expansions in Mexico. In April alone, Toyota announced a new plant in Guanajuato to build the popular Corolla, work now done in Canada, while Ford unveiled plans for Mexican engine and transmission factories.

Low labor costs and fewer tariffs are the swing factors. A worker in Mexico costs car companies an average of $8 an hour, including wages and benefits. That compares with $58 in the United States for General Motors and $38 at Volkswagen's factory in Tennessee, the lowest hourly cost in the country, according to the Center for Automotive Research, an industry think tank in Ann Arbor, Mich. German auto workers cost about $52 an hour.

Mexico also trumps the United States on free trade. It has agreements with 45 countries, meaning low tariffs for exporting globally. That, along with low labor costs, convinced Audi to build an SUV factory in the state of Puebla. The German automaker will save $6,000 per vehicle in tariffs when it ships a Q5 to Europe, compared with building the same vehicle in this country, says Sean McAlinden, chief economist at the Center for Automotive Research.

Audi also sells the Q5 in the United States, where tariffs on cars built in Mexico were dropped under the North American Free Trade Agreement. The cost savings also should allow automakers to add expensive fuel-saving features to meet stricter U.S. government gas mileage requirements without raising car prices. Two-thirds of cars made in Mexico are shipped to the United States.

While Mexico's auto industry booms and workers welcome the above-average wages, they are speaking out more loudly about working conditions.

Mexican auto production more than doubled in the past 10 years. The consulting firm IHS Automotive expects it to rise another 50 percent to just under 5 million by 2022. U.S. production is expected to increase only 3 percent, to 12.2 million vehicles, in the next seven years.

Automakers now have 18 factories in Mexico, many built in the past 10 years. In four years, five more will be built, moving the country from the world's seventh-biggest auto producer to fifth.

The shift means jobs that could have gone to the U.S. or Canada went south. The number of auto-making jobs in Mexico has risen almost 40 percent since 2008, from 490,000 to 675,000 last year, according to government and industry statistics. During the same period, U.S. auto manufacturing employment grew 15 percent to nearly 903,000.

Toyota's new plant will create 2,000 new jobs, while Ford's $2.5 billion investment will add 3,800 jobs. For Mexican workers, the plants "originally appear like marvelous places because you can earn a salary in exchange for good work," says Huberto Juarez, a professor at the Center for the Study of Economic and Social Development at the Autonomous University of Puebla.

U.S. Corporate Taxes Are Highest

The average effective tax rate for American companies is the highest in the industrialized world, according to the latest PricewaterhouseCoopers (PwC) global tax benchmarking study. The three-year average effective tax rate for 143 U.S.-based industrial companies was 28.6 percent compared to 25.9 percent for 159 non-U.S.-based companies.

But things got worse in 2014, when the effective tax rate for American companies was 31 percent, the second highest among industrialized countries behind Japan at 34.2 percent. "The United Kingdom and Hong Kong had the lowest effective tax rates at 16.3 percent and 14.5 percent, respectively," says PwC.

The United States has the highest statutory corporate income tax rate at 39.1 percent, followed by Japan at 37 percent, France at 34.4 percent, Germany at 30 percent and Canada at 26.3 percent.

Global companies were able to lower their tax rates by using tax incentives and credits, domestic manufacturing deductions, R&D credits and general business credits.

"The sustained recovery in the global business climate has supported increased profitability and led to reduced losses among industrial products companies, which has resulted in more consistent tax rates," says Michael Burak, PwC's global industrial products tax leader. "Management teams continue to take advantage of tax incentives, which reduce effective tax rates compared to statutory corporate rates."

The study, "Assessing 2015 Tax Rate Benchmarking Study for Industrial Products and Automotive Sectors" is located at

http://www.pwc.com/us/en/industrial-products/publications/2015-tax-rate-benchmarking-study.jhtml

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