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INCREASING THE COMPETITIVENESS OF U.S. MANUFACTURERS IN PENNSYLVANIA

FIELD HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

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HEARING ON INCREASING THE COMPETITIVENESS OF U.S. MANUFACTURERS IN PENNSYLVANIA

MONDAY, DECEMBER 1, 2003

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS
Altoona, PA

The Committee met, pursuant to call, at 10:20 a.m., in Blair County Convention Center, Altoona, Pennsylvania, Hon. Donald Manzullo [Chairman of the Committee] presiding.

Present: Representatives Manzullo and Shuster.

Chairman MANZULLO. Well, good morning and welcome. I want to start by saying how glad I am to be here with Congressman Bill Shuster. The people of the 9th District of Pennsylvania are blessed to have him representing them. He is a tremendous advocate for small businesses, for manufacturers. He has always been a great asset in the fight to bring to the importance of the policy people in Washington how necessary manufacturing is.

You know why we are here. It is because despite our best efforts, manufacturers in the U.S. are in rough shape. Unless we do something about it, the effects of this will be irreversible. You can ask any of the 2.8 million workers involved in manufacturing that have lost their jobs in the past three years, and they can share that with you. The problem goes far deeper than the loss of jobs alone. It is crucial that this Congress foster an environment that keeps Americans working, and our continued prosperity depends upon not only keeping Americans working but working with our colleagues in Washington to make sure they understand how important it is to have manufacturing. If you don't have manufacturing, agriculture, and mining, you end up becoming a third rate country, and this Country has a manufacturing base that continues to erode even in light of the addition of several hundred thousand jobs. In the past month, we lost 24,000 manufacturing jobs. That makes the 39th month in a row where we have lost an average of about 75,000 manufacturing jobs each month.

And Bill, I want to thank you for making possible today's hearing. This is the 52nd hearing that the Small Business Committee has had in the past two-and-a-half years just in the issue of manufacturing, to give you an idea of how intense we study this issue. And Bill, thank you for inviting me to your—this is windy hill here. Isn't it?

Mr. SHUSTER. Today it is.

Chairman MANZULLO. Today it is, and I just appreciate what a beautiful area you have. It is very much like the area I represent. I have got nine counties, heavy agriculture and heavy manufacturing, and that is you. Isn't it?

Mr. SHUSTER. Absolutely. Not as much manufacturing as we have had in the past, but that is one of the reasons we are here today is to try to——.

Chairman MANZULLO. There you are. And here is the gavel, and you can conduct the hearing.

[Chairman Manzullo's statement may be found in the appendix.]

Mr. SHUSTER. Thank you. Mr. Chairman, first, let me begin by thanking you for being here today. It is truly a privilege to welcome you to the 9th Congressional District of Pennsylvania. We are pleased you joined us here today, which I believe will be a very informative hearing, and I want to thank you for leading the fight to help our manufacturers restore a strong manufacturing sector in this country and to lead the fight against unfair trade practices around the world.

I would also like to extend a warm welcome to those of you that are here today to testify. This is really the best way, short of talking one on one with you, to really get a perspective on your businesses, and what is affecting you, and what you would like to see the Federal Government do to strengthen your position in the world, manufacturing in the world. We are fortunate here in Blair County to have strong businesses and an active economic development community. I know Betty Slayton is here this morning. Welcome to her, and Marty and his team are here. And they are very strong and they do a great job, as well as Ed and his folks at Southern Allegheny. I thank you all for being here.

We know that a strong and viable manufacturing sector is a critical aspect of our nation's economy. Manufacturing accounts for a little less than 20 percent of GDP now and it contributes one-third of the economy's productivity growth. In Pennsylvania, the manufacturing sector contributed $68 billion to the State's economy in 2001. Additionally, we know that manufacturing was responsible for increasing business activity and jobs in other sectors. It is not hard to see what an important role manufacturing plays and why it is essential that we work to keep our manufacturing base here in the United States competitive in this global market.

Unfortunately, in recent years our manufacturing sector has suffered. The National Association of Manufacturers estimates that since July of 2000, we have lost 2.8 million manufacturing jobs in this country. Here in Blair County and central Pennsylvania there is a long list of companies that have closed and moved to other places or just shut their doors and gone away. This lost has been felt significantly. Here in Pennsylvania, 143 manufacturing jobs were lost in that three-year period. The economy of the State has clearly felt—143,400—correct. That is why we must work together to end this hemorrhaging of America's manufacturing jobs and create an economic environment that is going to foster growth in that sector of our economy.

The good news is that the foundations for an economic recovery have been laid and are beginning to take hold. The economic indicators from the last few months show a changing tide. In October

alone, we have seen 126,000 jobs have been created. This is good news and a step in the right direction, but there is more work to do. We must continue to reduce the tax burden on our manufacturers so they have some—they know what the long-term tax implications are going to be on their companies, and ensure that our businesses are competing on a level playing field by enforcing nation's trade agreements. And today, I hear a lot of talk in Washington and around the country about free trade. There is no free trade in the world today. I think the best we could hope for is fair trade, and that is what we have to continue to work for, those of us in the United States Congress, to make sure that the playing field is level and that there is fair trade in the world, because we know there are nations out there that are intentionally undervaluing their currency in an effort to obtain an competitive advantage, among other things.

And we need to work to help reduce healthcare costs, and as I said, the tax and regulatory burden on our businesses. The small steps that we have taken in the House is to pass Associated Health Plans, which is one way to help businesses be able to band together to reduce those costs on healthcare. Tort reform, its time has come. It doesn't matter what product you are producing or what business you are in. I think many of us in small business can tell a story. I, myself, can tell a story about being sued, and going through the process, and at the end, doing an out-of-court settlement. If someone came by without the evidence to prove, or really, the ability to prove that somebody has had something wrong, and we face this all the time in our court system, time after time, trial lawyers taking our businesses. And I think that the number that I have is, on average, the average American citizen is paying about $700 a year in increased costs just for insurance to cover businesses' liability claims.

But I look forward to working with my colleagues in Congress. Those—I know that State Representative Stern is here today, focused at the State level and here at the local level, to make sure that we can further this economic recovery not only throughout the United States, but right here in the 9th Congressional District of Central Pennsylvania. And with that, I will start to go down through the list. Normally, we are very formal at our Committee hearings. I have to call people Mister, or Secretary, so if you hear me call you Mr. Sissler, that is protocol, but I think I know everybody here at these tables. So with that, Tim, if you would like to lead off?

[Mr. Shuster's statement may be found in the appendix.]

Chairman MANZULLO. There is one housekeeping issue—try to keep your testimony to five minutes. That is the purpose of the gavel, and so if it gets near five minutes, you may hear—and if it goes way over that, the gavel may end up out there.

Mr. SHUSTER. I think I read most of their testimony and I think most of them are probably right around five minutes.

Chairman MANZULLO. Very good, so we have plenty of time for questions and interaction.

Mr. SHUSTER. And you told me I had the gavel, so I am not going to gavel you down.

Chairman MANZULLO. Your complete statements are made part of the record. If anybody wants to—in the audience wants to add anything to the record, you can do so. Get it to Congressman Shuster within the next three weeks. You must keep it to two pages, typed. The print cannot be less than elite type. Okay. That is so you can't turn in a book and have it printed up.

Mr. SHUSTER. Mr. Sissler.

STATEMENT OF TIMOTHY SISSLER, ALTOONA BLAIR COUNTY DEVELOPMENT CORPORATION AND RELIANCE SAVINGS BANK

Mr. SISSLER. Good morning, everyone. Thank you. My name is Tim Sissler. I am Vice Chairman of the Altoona Blair County Development Corporation, affectionately known as ABCD Corp. We are a private nonprofit certified industrial and economic development corporation. For more than 55 years, we have served as a catalyst for comprehensive economic development in Blair County with an emphasis on a broader vision encompassing the entire I–99 Innovative Corridor. Through our business retention, attraction, and expansion efforts, our overall goals remains the development of enhanced quality of life through greater employment opportunities for Blair County and throughout our region.

I will not use this time to list the many statistics that prove the critical role the manufacturing industry plays in our local, state, and national economy. We all know what those economic contributions are, especially, when they are lost.

Blair County, like many parts of Pennsylvania and the Nation, has a rich and valued history in manufacturing. The manufacturing industry has served as the backbone for wealth generation. However, this growth engine is losing steam and America's manufacturers face more monumental challenges, both domestic and international, than ever before. The sustainability of our manufacturing process and our future prosperity are threatened. Just a few short years ago, more than half of Blair County's economy was represented by the manufacturing sector. In 2002, only 18 percent of our economy is attributed to manufacturing. Nationally, the number is even less.

Our primary message this morning is a simple one. In order for our regional and national economy to be competitive at a global level, it is essential that the production of goods and services remain a fundamental part of the overall economic equation. While organizations like ABCD Corp play a role in helping to facilitate economic expansion, the most important organizations are those firms that produce, manufacture, and directly add to the economy through family sustaining job creation. Those firms represented here today know best the challenges facing their operations. Their message and those of other manufacturing sector industries must be heard to help shape a modern policy environment reflective of a technologically advanced and global marketplace.

U.S. manufacturing has been the heart of a significant process that has generated economic growth and produced the highest standards of living in history. Today, this complex process faces substantial challenges, which if not overcome will ultimately lead to a decline in the living standards for future generations of Americans. We do not expect to hold onto the past nor do we encourage

others to do so. We recognize that the nature of manufacturing is changing. It has transformed from a heavy, labor intensive industrial base to an increasingly automated, safe, and efficient environment.

We produce more with fewer employees and the skill sets of a modern factory worker are much more different today than they were just a few short years ago. The term "jobless recovery" may fuel the GNP and corporate stock prices, but the phrase sounds viciously unsympathetic to those individuals displaced by this fundamental change in operations.

As manufacturers planned for and invested in capital equipment to increase efficiencies and output, low skilled production jobs were the first to move overseas. Watching this transformation take place, the experts said the new industrial segments would develop to fill the void. Profits made from this evolution would be put back into research and development. This research would create new and better products and entire new industries would likely develop.

While fewer employees would be needed in a particular company, the modern manufacturing employee would earn much more and require advanced degrees and certifications. A new class of worker would be created. No longer defined as a blue collar or white collar, the modern worker will wear a gold collar, symbolizing their ability to manage and operate the production operation.

In many cases, this has proven to be the case. Those manufacturers that remain and those developing have firmly adopted this new operational paradigm, and their employees now wear a gold collar. But what we fear most is that the next phase of offshore emphasis will quickly transplant the higher skilled, more specialized employment sector that directly and indirectly supports the manufacturing industry.

Evidence of this happening is already clear. Support centers, research, and advanced material development are increasingly finding a home in other countries. Our Nation and region alike are training many people from all parts of the globe, providing them with skills needed to ultimately help contribute to their home country's overall competitive advantage.

Our Nation must then compete in that global marketplace. This cycle has been continuing now for a number of years, and based on university enrollment statistics, the trend shows signs of increasing in the years to come.

While we believe in free trade, we also believe in a level and fair global playing field. Our country insists on the highest standards for workplace safety, environmental protection, human rights, and we demand wages that reflect an employee's worth, skill, and ability to sustain a family. Along with those standards go the costs associated with them, including continuously escalating healthcare expense. The U.S. manufacturing sector is increasingly required to compete against countries that do not share those beliefs and standards. So if you agree with our primary message that the production of goods and services must remain a fundamental part of our Nation's overall equation, we must then also look at creating policies that help level this global playing field.

Such policies should not be punitive in nature but, rather, provide incentives to raise the standards for all businesses in all in-

dustry sectors in all countries. Those policies should serve to protect the environment where there are abuses, protect the worker where they are exploited. They should help monitor global business practices and enforce the highest standards of production possible that, in turn, will product the best quality product possible. The consumer then can feel confident that the price paid for the product reflects the highest standards of production possible.

ABCD Corp will continue to work with our existing businesses across all sectors in economic development as we move forward. Ensuring that these businesses remain competitive and can do business on a global basis is an operational priority, but we need strong partners in the State and, especially, at the Federal level. We need firm policies to support and open but also fair global marketplace.

Again, thank you for the time this morning. Before finishing, also, on behalf of Dan Hoover, President and CEO of Roaring Spring Blank Book, I would like to have his written testimony made part of this record, in addition.

Mr. SHUSTER. Sure.

Mr. SISSLER. Thank you, Congressman.

[Mr. Sissler's statement may be found in the appendix.]

[Mr. Hoover's statement may be found in the appendix.]

Mr. SHUSTER. Thank you, Tim, and I didn't give you a proper introduction as the First Vice Chair of the Altoona/Blair County Development Corporation, and also, CEO of Reliance Bank, and also, the guy that was responsible for putting me into business 14 years ago. So I don't know if you——.

Mr. SISSLER. Thank you for remembering that, Congressman. And thank you for paying me back, Congressman.

Mr. SHUSTER. Thank you for your testimony and that will be—Dan Hoover's testimony or written statement will be submitted to the record. Next, Ed Silvetti, who is the Director—is that the correct——.

Mr. SILVETTI. Executive Director.

Mr. SHUSTER. Executive Director of the Southern Alleghenies Planning and Development Commission. Ed, welcome, and go ahead and proceed. Thank you for being here.

STATEMENT OF ED SILVETTI, SOUTHERN ALLEGHENIES PLANNING AND DEVELOPMENT COMMISSION

Mr. SILVETTI. Thank you. Chairman Manzullo, I appreciate the opportunity to testify today before the Small Business Committee and I do offer a special note of appreciation for the invitation to do so by Congressman Shuster, who representing the 9th Congressional District, which along with the 12th Congressional District, encompasses the six-county region of the Southern Alleghenies Planning and Development Commission.

I appreciate also the timeliness of this invitation, because those of us involved in economic development have become increasingly frustrated with the loss of jobs, particularly, manufacturing jobs. And I know this loss of jobs is not unique to our area, because even as I travel across the Commonwealth in some of our neighboring states, I am almost embarrassed to admit relief that other areas are also suffering job losses because working in economic develop-

ment, it becomes very, very frustrating to see this continued erosion of jobs. It seems that for every economic step forward in helping to create jobs, we nevertheless suffer two steps backwards, and so continue to lose jobs so important to the economic vitality of our regional economy.

This may be best typified by a small article that appeared over this past holiday weekend in the local newspaper, the Altoona Mirror, making note that SKF, the world's largest bearing manufacturer, recently opened yet another plant in China; this one in Shanghai to produce deep groove ball bearings. While this company is Swedish based, it has a local connection with an SKF plant located in Altoona that is scheduled to close in 2004. The result will be a layoff of 250 manufacturing jobs, and high paying manufacturing jobs at that. The fact that this is SKF's fifth venture in China since 1995, in my opinion, speaks directly to the issue before this Committee today. Unfortunately, the impending SKF plant closing in Altoona is only the most recent job loss in the regional economy, unfortunately.

Since 2000, as we are all aware, there has been a severe net loss of manufacturing and related jobs in the Southern Alleghenies Region. The Commonwealth of Pennsylvania economic analysts project that job losses will continue in nearly all manufacturing sectors. This is a frightening thought, given the loss of thousands of jobs already.

Retraining of dislocated workers is preferred but, frankly, many simply want to find another job that pays a family sustaining wage. The continued loss of manufacturing jobs makes this doubly difficult. Within the six-county Southern Alleghenies workforce investment area, and we do administer the Federal Work Force Investment Act fund at Southern Alleghenies Commission, over 430 dislocated workers have received vouchers to attend training programs in the last three years. That is only the tip of the necessity for job retraining. Job training is vitally important to economic competitiveness within this country and around the world.

I also wanted to provide today a brief overview of some of the business climate and entrepreneurial issues in our six-county region. As Congressman Shuster points out, our region is predominantly rural, but does include two small metropolitan statistical areas, these being centered in Altoona and Johnstown. The region has continued a modest recovery from a long period of economic restructuring that began in the 1970's, continued in the 1980's, and now has given way to some new manufacturing and emerging service and technical industry jobs. Just as a point of fact, coal and steel employment in this region is a mere 10 percent of what it was in 1960. The same is true of the railroad employment here in Blair County and the surrounding area.

The region's economy is more diversified than ever before. In fact, unemployment numbers are more aligned with Commonwealth of Pennsylvania averages than in earlier decades when declines were precipitous and recoveries slow. As with the Commonwealth of Pennsylvania as a whole, the demographic pool in this area is older than the average population of the Country and is increasing in the concentration of older citizens. This presents an-

other special set of economic issues to impact entrepreneurship levels and worker retraining.

Unfortunately, business formation rates in our six-county region are very low. The entrepreneurial business formation rate for the six-county region is only 55 percent of the Nation's average. This highlights a general weakness of the region in many of the Nation's fastest growing and most actively entrepreneurial focused industries, including business and professional services, computer related services, data process, and such. Not only is the region lagging in what are often considered new high tech industries, but there are also gaps among the wide range of business and professional service industries that require higher educational and technical, but not always highly specialized, skill sets.

Because of the region's cyclical history of economic decline and recovery, the reliance on manufacturing jobs has been great. Our workforce is generally skilled to meet the needs of the region's traditional industries. The result, however, is that when a manufacturing job is lost, the effect is more acute because the workforce is not skilled to meet the needs of new industries. And further, due to the low business startup rate, the new industry jobs are simply not available.

For the last two years, Southern Alleghenies Commission and partnership with other economic development agencies, including ABCD Corporation and the Bedford County Development Association, has spoken directly with over 750 chief executive officers of companies based in the region. This is what they have told us. Over 50 percent of the executives said that applying and financing new technology was of great concern to them if they were to remain competitive in a global marketplace. Half of the CEO's said that business taxes were the single greatest liability affecting their business' ability to operate competitively in Pennsylvania and the United States.

The greatest concern of CEO's relative to operating their businesses last year, in 2002, were issues related to their workforce. Healthcare costs were second. In 2003, during this past year, the top issue became healthcare costs, followed by workforce issues. There was a reversal. The issue of healthcare is only getting worse. Each new labor contract each new year requires employees—to require their employees—not to request, but to require their employees to share a greater burden of healthcare costs. This, in turn, erodes available disposable income of our workers, who already earn less per household in per capita than others in the Commonwealth.

The ability to pay competitive wages tops the reasons for employers' inability to retain employees. Paradoxically, in order for a manufacturer to compete with foreign competition, no more than 45 percent of their product cost can be labor cost, with the balance being raw materials and other inputs. On the other hand, to keep a well-trained, valuable employee, businesses must be able to pay competitive wages. I am at a loss, frankly, to suggest a middle ground for these business people.

I don't want to represent to the Committee that our area is without resources. Rather, I want to convey that we have similar issues impacting our economy that are not unlike those affecting the

country as a whole. Efforts by economic development agencies that work to create an atmosphere conducive to job growth have achieved a great deal of success and my written testimony highlights some of those positive results achieved by agencies working in the economic development arena.

I did want to conclude my testimony by offering some suggestions that again come from my agency's discussions with the region's business leaders. First, provide training funds for incumbent workers that do not have all the strings attached, such as new job creation or the increase in wage rates, but simply to help them remain competitive. The issue with much of the Federal job training funds available, in our opinion, is that they are so restrictive, and particularly, with regards to incumbent workers. It is almost impossible to use those funds to help workers attain new skill sets which, in turn, help their employers remain competitive, because the system works against us. I know that the Workforce Investment Act is up for reauthorization. I think it is a really good opportunity to address that in a very meaningful way.

Provide a basic level of healthcare coverage on a national level that can then be enhanced by employers. Foreign trade policies must be evaluated to determine the effects on domestic small businesses, not just large corporations. Offer better incentives for foreign business investment in the United States. Offer tax incentives for products 100 percent made in the United States.

Offer more technical and financial assistance to provide businesses with market development help in order to remain competitive. We provide a fairly wide range of business consulting services, export technical assistance, and similar activities. The fact is that we find our business clients are faring better than many businesses that do not receive the basic economic development services, again, such as assistance in exporting their products.

Chairman Manzullo, Congressman Shuster, I thank you for the opportunity to be here today. I will be more than happy when the testimony is concluded to answer any questions that you might have. Thank you.

[Mr. Silvetti's statement may be found in the appendix.]

Mr. SHUSTER. Thank you very much, Ed. Next, Michael McLanahan, President and General Manager of McLanahan Corporation. I won't give away the years, but you have been an historic company here located in Blair County for a lot of years, and one of the really rock solid companies in the area. So with that, do you want to proceed, Mike?

STATEMENT OF MICHAEL W. MCLANAHAN, MCLANAHAN CORPORATION, HOLLIDAYSBURG, PA

Mr. MCLANAHAN. Thank you. Good morning. My name is Mike McLanahan. I am President and CEO of McLanahan Corporation, a 168-year-old, family-owned small business, here today representing 165 loyal, hardworking American employees.

Your invitation to present my opinions concerning issues impacting manufacturer's competitiveness is very much appreciated. The issue of competitiveness, as I see it, boils down to creation of jobs for small businesses in Pennsylvania and the rest of the Country. For too long, local, state, and federal governments have created a

landscape for manufacturing filled with obstacles that have caused us to lose jobs overseas. One of the main goals or objectives we have is to make a profit. Without profit, there is no reason to exist, no reason to face the financial risks we encounter in our journey across that landscape. Jobs will only be created if profit is made. Unfortunately, Congress has seen to it that businesses, especially, small business, has a great deal of difficulty making a profit; however, once made, high taxes take away that incentive to succeed. There are many potholes and landmines erected by government in that landscape that I described earlier, but I can only deal with one or two at a time in the allotted time.

McLanahan Corporation is a manufacturer of equipment used in the mining industry. One of the main markets for our business is the coal industry. The thrust of government regulations in the mining industry, and in coal specifically, seems to be aimed at destroying our ability to compete in the world market. McLanahan Corporation itself needs low cost energy to be competitive and it needs the coal mining industry to succeed because we need it as a customer for our products and services. It should be noted that we pay ten times the cost of wages and fringe benefits as compared to our Chinese competitors.

Currently, the coal industry provides over 50 percent of the electric energy generated in this Country. However, building a coal fired power plant takes more than a decade just to get through the government regulations, with no guarantee that final approval will be given even if all regulations are met. Coal mining is considered by the media to be a dirty, hazardous job, yet, in fact, is one of our safest industries. Coal can be mined economically, transported efficiently, burned cleanly, and delivered to customers at low cost. All of this creates hundreds of thousands of jobs, billions of dollars for the economy, and a broader tax base. Please note, one ton of eastern coal costs about $20 on average and has the same energy value as three barrels of imported oil costing $96. Strategically, we have more than 300 years of reserves of coal in the ground. This would ensure our energy independence if we were allowed to use it to the fullest advantage.

In contrast, the coal industry in Australia and China is booming because of significant government support. We, as a company, must go where our market potentially is greatest, therefore, we have opened an office in Australia and are considering our options in China. At the same time, our employment here has dropped nearly 10 percent mining, per se, is declining due to governmental roadblocks.

In talking about strategic energy needs, let us just take a minute or so to look at the strategic oil reserve. A few years back in a political move, President Clinton drew from the Strategic Oil Reserve. A little known fact is that because we have not built a refinery in this Country in 25 years, and because the few remaining refineries were running at 95 percent of capacity, that strategic oil had to be shipped offshore to be refined. Just how strategic is that? By the end of this decade, we will be importing more than 65 percent of our oil needs, much of it from politically unstable countries, many controlled by governments having the avowed intention of destroying us. Even a small hiccup would be a national disaster.

For a time, it appeared that the natural gas industry would supply the Nation's low cost energy needs. However, because users were chasing a limited resource, the law of supply and demand kicked in, more than doubling the price of natural gas in just one year. With more gas fired power plants being built or about to come on line, the cost of this energy source will be driven higher and availability will be reduced. Increasing natural gas supplies in this Country is severely restricted by government regulation, affecting exploration, drilling, and pipeline construction.

Gentlemen, in conclusion, let me urge you to pass a national energy policy as soon as possible, to be followed by a national mineral policy. Without both, this Country will continue to export jobs. There are many other issues that I would have liked to have addressed, such as taxation, healthcare costs, legal reform, education; however, my time is limited. Thank you for your consideration.

[Mr. McLanahan's statement may be found in the appendix.]

Mr. SHUSTER. Thank you for your testimony, and on the Energy Bill, if you have been following the news, we passed it out of the House, the Congress report, and it is stalled in the Senate once again. That is the latest on that.

Chairman MANZULLO. New clean coal technology.

Mr. MCLANAHAN. New clean coal technology is being promoted by Government, and that is certainly appreciated, but that is ten, fifteen years down the line. We need to start now with a national energy policy, make use of what we have.

Mr. SHUSTER. Absolutely. Thank you. Next, Mr. Ben Stapelfeld. He is the Chairman of the Board of New Pig Corporation and one of the great companies of Blair County, just about 20 years old, something like that, an idea that they had and have been very successful with it. So with that, Ben, would you go ahead and proceed?

STATEMENT OF BEN STAPELFELD, NEW PIG CORPORATION, TIPTON, PA

Mr. STAPELFELD. Good morning. My name is Ben Stapelfeld and I am the Chairman of the Board of New Pig Corporation. We manufacture and distribute industrial maintenance and environmental cleaning products. Our commitment to the manufacturing base of the United States is multifaceted, and its health is of a primary importance to us. We are manufacturers, we buy from manufacturers, but most importantly, the largest segment of our customer base is manufacturing.

In 2003, New Pig Corporation will sell to over 50,000 sites, domestically. In addition, we will sell in 70 foreign countries to approximately 7,500 end user customers. Since our inception in 1985, our domestic manufacturing base has been shrinking and shifting. In our early years, this fact was merely a statistic to read on the back pages of the Economist. We were small, the size of the market was huge, our products were new, and competition was nonexistent. Growth was not an issue.

Eighteen years later, the market is mature, competition is abundant, and the size of the market is smaller. To New Pig, the shrinking manufacturing base is no long an insignificant statistic in the back of a magazine. Over the last decade, we have seen over 78,000 sites in the U.S. close, including 28,944 of our active buying

customer sites, of which 7,945 of those sites had over 100 employees. Growth now means fighting for a larger piece of a smaller pie. Eventually, the pieces become smaller, also.

These are statistics that indicate why manufacturing is important to a little company in central Pennsylvania. We are far less qualified to expound on the larger question of importance to the overall U.S. economy. And really, we have no answers as to how to stem the shifting tide, but we do have some thoughts on the relationship of business and government in general. Business needs government to do for them what they cannot do and to stop doing for them what business is far better qualified to do for themselves. An example of the latter would be the Manufacturing Technology Competitiveness Act of 2003, recently introduced by Congressman Ehlers of Michigan. This Act establishes programs to build partnerships among higher education institutions, businesses, states, and other partners to the tune of $184 million.

Frankly, Congressman Manzullo and Congressman Shuster, New Pig wishes Congress would just save our money. We don't need federal help partnering with universities or other businesses. We don't need you to do our research. We don't need program upon program that funds fellowships and technology partnership centers. We don't need elaborate training programs. All of these things are our job. That is what business does. All we need is a profit motive and a level playing field.

I think I am the fourth person today to talk about a level playing field, and maybe we need a definition of what that is, and I am probably not qualified to do it. But I think a start to getting there would be by having you guys help get government off our backs. Do for us those things that only government can do to achieve that end. To promote growth, government needs to establish sound fiscal and monetary policies that foster commerce instead of competing with business for the same capital that would promote growth. We need government to approach tax policy in a manner which allows business to compete on a global level.

I will bore you with one more statistic. The United States makes up approximately 5 percent of the world's population, it transacts approximately 15 percent of the world's business, and it has 70 percent of the world's lawyers. It is time for Congress to stop running from tort reform, for if tort reform is not addressed, it will be more than just manufacturing leaving our shores.

Help do something about the over-regulated business climate that exists in our Country. Nations that are burdened by needless regulations and stymied by a growing bureaucracy are always less competitive in a global market. Instead of another federal program that cannot be measured, look to the local level and help efforts that have already stood the test of time. ABCD Corporation has half a century of helping manufacturers and businesses like New Pig. Literally, dozens of businesses in Blair County would not exist or would not be the size they are today if it were not for their assistance. Knock down the roadblocks that impede them from helping us. We need our government to represent us on the world stage. We need you to ensure what we cannot do, and that is make free trade, in fact, mean fair trade.

I would like to thank you for this opportunity, and remain confident that given this level playing field, American business will do its part in creating wealth for our society.

[Mr. Stapelfeld's statement may be found in the appendix.]

Mr. SHUSTER. Thank you very much. I think that reminds me from a Shakespeare play on your facts and figures about attorneys was I think—I don't know what Shakespeare play it was—there was a line in it that said the first thing we should do is kill all the lawyers. So I am not going to take that literally; my brother is a lawyer so—oh, that is right, the Chairman was a lawyer, but he saw—he had a clear vision on what a lawyer should be doing and shouldn't be doing. But thank you for your testimony. Next is John Showalter, Vice President of Operations?

Mr. SHOWALTER. I will be speaking for the Vice President of Operations.

Mr. SHUSTER. Okay. That is what I thought. You have entered into that world of consultants and semi-retired, but I know you well enough to know you really haven't retired; you just started a new career. So you will be speaking on behalf of the Vice President of Operations for Appleton Papers. So go ahead.

STATEMENT OF JOHN SHOWALTER, ON BEHALF OF RICK FANTINI, APPLETON PAPERS, ROARING SPRING, PA

Mr. SHOWALTER. Thank you. Mr. Chairman, Congressman Shuster, my name is John Showalter, and from 1989 until July 1 of this year, I was the mill manager of the Spring Mill of Appleton, which is in Roaring Spring. I will be speaking on behalf of the Vice President of Operations for Appleton, Rick Fantini.

I would echo a little bit of what Mike had mentioned earlier, as far as longevity. We have been manufacturing paper for 136 years in Roaring Spring, so it indeed has established a history of manufacturing there. While I will be—while Appleton, by definition, is not small business, in today's world of corporate giants, we are indeed small. And indeed, what I talk about, if it applies to us, it certainly has to impact those businesses that are small business. Also, while we will focus on the paper industry, because that is what we know very well, the conditions and situations that affect and impact us certainly impact all other businesses that manufacture goods here. I also would like to add that we are an employee owned company and have been so since November of 2001.

Appleton is a major producer of high value added paper grades and Appleton's annual sales are $850 million. Appleton has manufacturing operations in three states: Pennsylvania, Ohio, and Wisconsin; distribution centers in seven states; and sales offices across the Nation. We currently compete in four major businesses: carbonless papers, performance packaging, security papers, and thermal papers. We face competition from a myriad of competitors, domestic as well as foreign. My remarks will provide background on the paper industry to provide context for recommendations, address the impact of foreign competition on the paper industry, some personal observations of why a strong manufacturing base is critical to our Country, and recommend the policy changes that should be evaluated and addressed by Congress.

Before I begin my remarks, I would like to thank Chairman Manzullo and Congressman Shuster for holding these hearings on a very critical issue of U.S. manufacturing competitiveness in a global economy. Other than our war against terrorism, I cannot think of a more important issue that our Country needs to address. Failure to deal with the erosion of our manufacturing base will have dire implications for our future way of life.

The North American market in the paper industry accounts for one-third of the worldwide purchases of paper and paperboard products. Per capita use of paper products far exceeds that in other parts of the world. However, the North American market is also a mature market. Overall demand for paper products in North America has been described as stagnant. Other major markets include Western Europe and Asia. Demand increased in both areas, particularly, in Asia. In general, demand can be expected to increase most rapidly in developing countries and economies.

Pulp and paper manufacturing is a cyclical industry. New capacity is very expensive to add, takes several years to bring on line, and has tended to come on line in large blocks as several competitors attempt to be the first to meet growing demand. The result has been periods of good times, when demand caught up to supply, and periods of bad times, when capacity exceeded demand because of new mill or machine additions.

The two biggest issues facing the paper industry today is technology substitution and the flood of cheap imports. The combination of these two factors has resulted in prices well below levels necessary to make an adequate return on invested capital. Unfortunately, many paper companies have reported significant losses over the last three years. Significant fundamental economic changes have occurred in the past ten years which have negatively impacted the paper industry. Ten years ago, the U.S. paper industry had the following general characteristics. The U.S. economy was healthy; demand for paper products was increasing; capital spending was strong and increasing; and production and market share was fragmented among many companies; and more importantly, exports of paper and paperboard exceeded imports.

The situation has changed. The U.S. and world economies slumped, beginning in 2000. The global supply for demand imbalance became apparent in the 1990's. Demand was waning and competition from competing materials and media was increasing. Electronic media began to affect demand. Over capacity was being addressed through plant and machine shutdowns. Consolidations, mergers and acquisitions, became a driving factor as companies sought to gain market share and rationalize assets. Capital spending was significantly reduced and foreign competition, or globalization, became a major factor with imports of paper and paperboard exceeding exports. Imports have captured 90 percent of increased U.S. demand since 1997. The U.S. trade deficit with respect to paper, paperboard, and converted products has consistently expanded during recent years, climbing from 5.7 million tons in 1999 to 6.9 million tons in 2002, which is an increase of 20 percent.

The above factors have resulted in significant numbers of mill closures and corresponding job losses which are in the thousands. Since 1997, 72 mills have closed, and in the 2001–2002 time period,

a total of 40 mills and 104 paper or paperboard machines were permanently closed. Unless fundamental changes are made, this trend will continue.

As I stated, the paper industry is being negatively impacted by two major factors, technological substitution and the floor of cheap imports. Technological substitution must be addressed by the industry through innovation. I personally believe that government should not assist industry, which is our job, and which fails to be innovative to compete with the technological advances. However, the issue of cheap imports requires a cooperative solution between industry and government. I am not advocating a protectionist view of severely limiting imports through high tariffs; however, some fundamental changes need to be made if our industry is going to be competitive in a global market.

And this is the fifth time you have heard this now. The fact is free trade is not fair trade in the paper industry or any other industry for a number of reasons. The lack of a level playing field is demonstrated by one of our Asian competitors. We spend tens of millions of dollars to meet federal and state environmental regulations and the industry spends billions. Our Asian competition does not have to spend the same type of resources to meet environmental requirements. Obviously, this increases our cost base. And we are not advocating that we lower our environmental standards. This is not the answer.

We spend millions of dollars to ensure the health and safety of our workers. Our Asian competitor is not required to make such investments. Our Asian competitor enjoys lower fiber costs for many reasons; some natural and some unnatural. The seizure of land from private owners would not be tolerated in this Country. Many of these seizures involved human rights abuses. This company also receives hidden fiber subsidies through the free use of land. This Asian competitor enjoys the benefits of modern technology without having to pay for it. This company has defaulted on loans amounting to billions of dollars. This company would be operating today if it was located in the United States. This Asian competitor pays its works at rates that don't even come close to the minimum standards that have been established in the United States.

I want to talk now about the necessity of a strong manufacturing base. I do not think it is hyperbole to state that the erosion of the United States manufacturing base has important implications for the size and quality of middle class America, which will eventually impact the quality of life for all Americans. A significant and stable middle class has been crucial to the political stability of our Country. A significant middle class has also allowed for the enactment of pro-growth economic policies. The erosion of our manufacturing base will erode the size and quality of our middle class, which will ultimately erode our political stability. If you think I am overstating the issue, I would ask you to think about the democracies in Mexico and South America. I believe that the periods of political instability in those countries is a direct result of economic policy which failed to develop a substantial middle class. Many of these countries are now trying to correct this situation by increasing the size and diversity of their manufacturing base. We are now in a worldwide battle for manufacturing jobs, which we must win if we

are to preserve a way of life we cherish and the rest of the World strives to attain.

Recommendations. In order to address the above issues, I recommend that Congress evaluate the Act and act upon the following economic policies in order to enhance our manufacturing base. These policies are intended to spur new investment, provide incentives for retraining employees, and address the most egregious inequities caused by free trade. They are enact a lower tax rate for manufacturers; allow for full and immediate depreciation of capital investments that are made to meet environmental regulations; allow for accelerated depreciation at 25 percent per year for manufacturing capital investments; provide a tax credit for incremental hiring of manufacturing employees; provide a tax credit, dollar for dollar, for retraining manufacturing employees to operate new and rebuilt equipment; institute an environmental tariff for goods that are produced without meeting minimum environmental standards; institute a health and safety tariff for goods that are produced without meeting minimum health and safety standards; institute a buy American policy for Federal Government purchases through specifications which require products be produced in a manner that is consistent with public policy.

Thank you very much for giving me the time and opportunity to speak at this hearing. I hope you will find these remarks helpful in thinking through this very complex issue.

[Mr. Showalter's statement on behalf of Mr. Fantini may be found in the appendix.]

Mr. SHUSTER. Thank you very much, John, and I think that your observation of political instability is absolutely right on the money, not only here if we don't maintain a strong middle class, but in the South American countries and all around the world, there is no middle class. It is tough to bring about democracy, so I think that is right on the mark. And finally, Bill Yankovich, who is the plant manager or general manager of the General Cable Industries facility here in Altoona. Go ahead and proceed.

STATEMENT OF WILLIAM YANKOVICH, GENERAL CABLE, ALTOONA, PA

Mr. YANKOVICH. Thank you. Good morning, Mr. Chairman and Congressman Shuster. My name is Bill Yankovich and I serve as General Cable's manager of our manufacturing facility in Altoona, Pennsylvania. We are a Fortune 1000 company that is a leading global developer and manufacturer in the wire and cable industry. Our industry is estimated to have had $58 billion in sales in 2002. We sell over 11,500 cooper, aluminum, and fiber optic wire and cable products. We believe this represents the most diversified product line of any U.S. manufacturer. We manufacture our product lines in 28 facilities and sell our products worldwide through operations in North America, Europe, and Oceania. We employ some 6,000 employees worldwide, most of whom are employed in the U.S., and approximately 75 percent of our sales are in North America.

Our operations are divided into three main segments: energy, industrial and specialty, and communications. Our energy cable products include low, medium, and high voltage power distribution and

power transmission products for overhead and buried applications. Our industrial and specialty wire and cable products conduct electrical current for industrial, commercial, and residential power and control applications. Our communications wire and cable products transmit low voltage signals for voice, data, video, and control applications.

I appreciate the opportunity to appear before you today to discuss issues impacting the competitiveness of U.S. manufacturers. I also appreciate, Mr. Chairman, your leadership in highlighting the need for a strong manufacturing base in the United States. We agree with you that we cannot have a prosperous economy and rising standards of living for all Americans without a vigorous manufacturing sector. U.S. manufacturers have and will continue to lead the way in innovation, productivity, and international trade. The current early stage of economic recovery is encouraging, although, our industry still has very substantial excess manufacturing capacity and pressures which constrain our growth and productivity. There is no question that we will still need policies that help reduce business costs in today's internationally competitive environment.

The areas I would like to focus on in my testimony today include: (1) The importance of certainty and permanence in the tax code; (2) The vital need for passage of the energy bill; and (3) The impact of steel tariffs on our industry.

First, the tax code. In 2001, and again in 2003, Congress recognized the importance of broad based tax relief to stimulate economic growth and job creation. The tax cuts of 2001 and 2003 have provided more certainty in tax policy as well as spurring an economic recovery that has the potential to stimulate business investment and job creation. We particularly appreciate the additional depreciation allowance in this years bill that will provide powerful incentives for business investment in all electrical products.

However, if tax cuts are temporary, as is the depreciation allowance, that may weaken the positive effect that changes could have on economic growth. It is just common sense. If Congress makes tax relief permanent, individuals and businesses are able to make long-term investments and spending plans that grow the economy and jobs

as well as our industry.

Temporary tax breaks can result in erratic investment cycles that are dependent upon government action rather than sound business calculations. For example, temporary tax breaks might cause firms to buy equipment sooner rather than later, but then such investment might dry up when the tax break ended. Companies, quite rationally, would delay buying equipment until the next economic downturn when they might expect another tax break. Instead of a reactive, constantly changing tax policy, we support the Administration's efforts to provide a more certain investment and job friendly tax environment. Locking in the lower tax rates will ensure that the economic benefit of the 2001 and 2003 tax changes is sustained.

Next, the energy bill. A national energy policy is essential to ensuring sustainable economic growth in manufacturing and our industry. After 39 months of job losses in the manufacturing sector,

the economy is finally starting to recover, but we still see soft conditions in our industry. In addition, high energy costs continue to be a drag on the economy and particularly on our industry. The failure to pass an energy bill prevents our company from contributing to a better energy transmission and distribution system and limits our ability to benefit from better energy policy.

The energy bill was perhaps the most important measure for our industry this year. According to a survey by the National Association of Manufacturers, 92 percent of small and medium sized manufacturers support passage of this comprehensive energy legislation.

One-third of our business is in energy cables that we sell to utilities. After last summer's significant power outages in the U.S., Canada, and Europe, we are all well aware of the need to upgrade the power transmission infrastructure used by electric utilities throughout the Country.

One of our largest customers serves the New York City area. The energy bill had essential provisions regarding electrical grid reliability designed to avoid the type of blackouts we experienced last summer. The energy bill included much needed mandatory and enforceable transmission reliability standards. Currently, compliance with reliability standards is voluntary and utilities may fail to make investments that are required to assure a robust electric grid.

In addition, since America's manufacturing sector uses about one-third of all energy consumed in the U.S., the manufacturing sector itself is vitally depending upon affordable and reliable energy. At a time when we are facing relentless global competition, we need to find ways to reduce domestic costs for business. Lower energy costs are essential for global competitiveness in our industry as well as our entire economy.

Every minute that Congress fails to pass this essential legislation is costing us jobs and revenue in the manufacturing sector, as well as costing your constituents. Mr. Chairman and Congressman Shuster, we appreciate your support for the energy bill. Any opportunity to pass this bill in your remaining days in session next week or early next session would provide our industry with the best tools to contribute to a continued economic recovery. The energy bill will ensure the development of a more reliable energy supply and, in turn, drive economic growth and potentially create jobs.

Steel Tariffs. The imposition of tariffs on foreign steel has had a detrimental effect on our industry and our competitiveness. We use steel, among many ways, in making aluminum wire and cable products that we sell to utilities. Therefore, tariffs affect the cost of acquisition of raw materials. In today's economy, we simply cannot pass these higher prices along to consumers. As you know, a September 2003 report from the International Trade Commission found the steel tariffs cost American steel-consuming businesses $680 million in lost capital and jobs to date. As you have noted, Mr. Chairman, for every job in the U.S. steel industry, 59 jobs exist in American steel-consuming industries that are threatened by the steel tariffs. Therefore, we appreciate and support your position, Mr. Chairman, that the President should rescind the steel tariffs

by the end of the year. The National Electrical Manufacturers Association has also supported this position.

In conclusion, our industry, along with others in the manufacturing sector, faces unprecedented challenges in order to remain competitive in the international economy. However, with good and consistent tax, energy, and trade policies that allow us to make sound, long-term decisions, we will rise to meet these challenges. Thank you, Mr. Chairman and Congressman Shuster, for this opportunity to assist you in discussing issues affecting competitiveness in manufacturing.

[Mr. Yankovich's statement may be found in the appendix.]

Mr. SHUSTER. Thank you for your testimony, and I believe the Chairman and I both note that I think we have heard that the President is going to rescind the steer tariffs. He is going to be in Pittsburgh, I think this week, and I think they have come down—don't hold me to that, but I think that is what your belief is also, Mr. Chairman?

Chairman MANZULLO. That is the story.

Mr. SHUSTER. That is what I thought, so that looks like that is going to happen. As I mentioned, the energy bill is stymied in the Senate and couldn't guess what they are going to do over there. That is always the $64,000 question.

Chairman MANZULLO. I will defer to you for questions, but I have got one—New Pig—where did you get that name?

Mr. SHUSTER. Did you bring him a hat?

Mr. STAPELFELD. No, but I will see that he gets one. We are New Pig because there is a farmer in Lancaster that is already the Pig Corporation, and since he was before us, we had to become New Pig. But actually, the name refers to the first product that we ever made was called a pig absorbent sock, and the sock kind of lays down in grease and oil just like a pig does in mud. That is where it came from.

Chairman MANZULLO. All right.

Mr. SHUSTER. An interesting company, a great success story. The first question is a real broad question, and I think what I hear is, what I typically hear as I travel around the District or in Washington listening to business, it is basically to the Federal Government, get out of our way, stop taking our money, stop over-regulating us and let us do our job. And the second point is where the Federal Government can be helpful in trade and those things, that is where the Federal Government ought to be. They ought to be doing those types of things, negotiating those trade agreements.

And each of you had—some of you had a longer list of recommendations, but if you can just go down through the list here, two things that the Federal Government can do to help your businesses, or in your view, help business in America, what would be those two things that you would say, number one, number two. If you just want to kind of take a shot—anybody?

Mr. MCLANAHAN. Just picking up on some of the testimony by others, not particularly mine, but the accelerated depreciation. I think it could be targeted and focused in a way that would help American business. It should not be something that is available to foreign country manufacturers. It should be available only for U.S. produced goods. And this would foster a buy American program

and also foreign investment in businesses in this Country, developing their own businesses here, which would create manufacturing jobs. I think it is a shame that we are giving tax credits, basically, to foreign companies producing products that are shipped into this Country. That is one of the reasons why that when the Bush tax reduction plan went into effect, it didn't have the immediate boost to our economy that was anticipated. So it needs to be targeted and focused in that way. Thank you.

Mr. SHUSTER. Thank you.

Chairman MANZULLO. Let me address that. In an attempt to cure the foreign sales corporation extra territorial income tax problem that we had with the WTO, I introduced a bill that would solve the problem. The problem was caused by you can't have a policy whereby you have—it is cheaper on income tax to export than it is for domestic consumption. So we introduced a bill that was very simple, and that is if you manufacture in the United States, you can receive up to a 10 percent decrease in corporate income tax. That also would apply to pass-throughs such as LLC's, partnerships, sub-S, and proprietorships. And we ran into a big fight with people that wanted to make—wanted to have an international tax cut which would actually encourage American manufacturers to leave this Country, set up shop in China, manufacture their cheap stuff there, and then ship it back here, and thereby, that would lower the cost of their production for those imports.

So that came to a fight, and I spearheaded the fight on that, and we stopped that legislation at least for now. So we will pick it up again in January, but it is precisely what you are talking about, is rewarding American manufacturers for staying here.

Mr. MCLANAHAN. Absolutely.

Mr. SHUSTER. Thank you. Anybody else want to take a crack at that, one or two things that you would like to see the Federal Government—I know there was a number of suggestions made, but does it boil down to one or two things that you would like to see the Federal Government act on? Does anybody have a comment on that? It seems to me the tax policy is an area there was some—when you start talking about tariffs, I think it gets to be very difficult to impose any kind of tariff on it because then it just—well, just for the steel tariffs, a perfect example. The European Union is going to come back at us and target very specifically—I think, one of the things they were going to do was Harley Davidson Motorcycles because it was produced in Pennsylvania. They went to a couple of the states and found industries that they could attack there. So when you start talking about tariffs, I don't believe that is the answer, but I think through tax policy, through trade policy—we were sitting here talking about, I think somebody mentioned about environmental regulation four or five years, or seven years ago maybe it is now, the Kiota Treaty that was hailed by so many not in this Country. Fortunately, we didn't—the Senate didn't ratify that treaty, but what it did was punish the industrialized nations and raised their standard of environment, their environmental standards higher, and let these countries that were competing——.

Chairman MANZULLO. Except China and Mexico.

Mr. SHUSTER. Exactly, so that where we should be starting with them first, raising their standards, they can't overnight get to our standard, but we certainly can push them to over a period of time get to where we are so that we do have a level playing field. There were a couple of questions specific that I had. Tim, if you would put your banker's hat on for a second, as far as capital for new startups if a manufacturer, some young entrepreneur wanted to start in manufacturing, how difficult would it be for him to go to the bank and get a loan, and also, maybe through the equity markets, how difficult is that for——.

Mr. SISSLER. I think it is much more difficult now than it was—I think I see some contraction in the Small Business Administration, as an example, some cutting back. The SBA has always been a good way to help those startup companies get going. And I know we are losing our regional office in Pittsburgh, which was the closest, and some of those things, I think are happening. I think there is still money available out there, but I think the venture capitalist type piece of it, the risk part of it with the market and everything being the way it has been, it is tougher to get money now. It is tougher for startups.

Mr. SHUSTER. Is that through debt financing or is it through the equity markets?

Mr. SISSLER. The equity right now, you know, the return on your equity is so low, I think more people probably would take a chance if there were ways you could get to a capital market for a small businessman, but the SBA–504 is an example of that. That is a way you can get out and raise some money that way. I know ABCD has done a great job of acting as a conduit, doing some of those type of things. So I think, yes, there are ways of doing that, but I don't know if they are promoted as much.

Chairman MANZULLO. We have done two things in the Reauthorization of Small Business Act, and it has a new name. It is called the Small Business Reauthorization and Manufacture and Revitalization Act. We are trying to reverse what the SBA is doing because they pride themselves on huge amounts of low dollar loans, and many of those low dollar loans can actually be achieved through home equity financing at much more competitive rates. Plus we have doubled the amount of money that is going to be available in the 504, say, for leverage up to $4 million on it, and that should help out manufacturing.

Mr. SHUSTER. How do you also find dealing, in general, with the SBA, which you have dealt with them for years?

Mr. SISSLER. Well, historically, having the regional office in Pittsburgh was very good. I don't know how it is going to be now as that thing gets downsized. Anytime you get further away from the source point, the more difficult it is.

Mr. SHUSTER. Right.

Mr. SISSLER. And I don't know—I guess, probably, scaling down, and economies of scale, was there a rationale for doing it? But we have actually had a satellite operating through ABCD here, you know, where the people from Pittsburgh actually came into this market, and that helped us tremendously having that. I am hoping that is something that can continue.

Mr. SHUSTER. And generally, your experience with them has been pleasant?

Mr. SISSLER. Oh, it has been pleasant, yes.

Mr. SHUSTER. And I know from the Committee, we get people from other parts of the Country, hear horror stories on how difficult they are to deal with in some places of the Country. And it has always been my experience directly——.

Chairman MANZULLO. It all depends upon how it is—it depends on what the banks do in terms of how they leverage those loans.

Mr. SISSLER. And I think a lot of it has to do with the personnel, too. If you have the right people that understand the programs at both ends of the transaction, the SBA people, and the local conduit, and the banks, it is—I think, locally, we have been very fortunate. All of the financial institutions here have a pretty good understanding of how those programs work. And we have a great conduit through ABCD to work those things.

Mr. SHUSTER. That is a great segue into my next question about workforce. Ed, you mentioned about when you talked to those 750 CEO's, you had said workforce issues. I mean, I can think of several, but is it something specific or is that just from a broad brush?

Mr. SILVETTI. You know, generally, you know, training incumbent workers, those that are already working, I think it was Mr. Showalter who mentioned that he would support, and I would too, a tax credit for training incumbent workers. He also mentioned that is what industry does, that is what businesses do, they train their workers, and I agree with that. I think a program like the Federal Workforce Investment Act is good at dealing with individuals who are not in the workforce. It is very good dealing with individuals who have lost their jobs. I think what it doesn't address very well is the training of incumbent workers. And so in that regard, as Mr. Showalter suggested, I think we would support—I know we would support some sort of tax credit that would go to manufacturers, to businesses, who would train their incumbent workers in new skill sets so that they can remain competitive.

Mr. SHUSTER. And how is your—you administer the federal funds for workforce training?

Mr. SILVETTI. Yes, we do.

Mr. SHUSTER. And how has your interaction been with those federal agencies that you have to deal with?

Mr. SILVETTI. I think pretty positive—I mean, understanding that the Federal Workforce Investment Act administered through the Commonwealth's Department of Labor and Industry is, by its nature, pretty bureaucratic. And it does have a whole set of strict guidelines. That is why I mentioned in my testimony the issue of incumbent worker training. There are stipulations in that Act that require individuals who access training funds as incumbent workers that their wages must rise a significant amount within a short period of time, within six months. That is impossible, I think, to require a business person, to require a manufacturer, to pretty much guarantee that they are going to raise the wages of those employees who receive training funds. That is nonsense in our opinion, which is why I say I think a tax credit for industry to train their workers themselves is probably a better twist, at least in terms of incumbent worker training.

Mr. SHUSTER. Didn't we pass the Workforce——.

Chairman MANZULLO. Yes, that did pass.

Mr. SHUSTER. It was passed in the House. I don't know if it is stalled in the Senate.

Chairman MANZULLO. It is in the Senate, yes. Everything stalls in the Senate.

Mr. SHUSTER. And I think we put in there—you had mentioned about making it easier or taking some of the restrictions off. I think we tried to do that in the Workforce Investment Act, but once again, it is over in the Senate, this black hole.

Mr. SILVETTI. Yes. That flexibility is so important. I know that the original Act passed in '98 had some flexibility built in, but all it really said, in essence, was that you can go ahead and do certain things that are innovative, however, you know, if in the analysis you don't meet certain benchmarks, then you end up being penalized in terms of the amount of money available to do these sorts of things.

Mr. SHUSTER. Another question I had on export, any specifics—I know, Ben, you said you are exporting. Mike, you export. Is there any specific cases that you run across in difficulties with certain companies—I think it was Appleton, you had an unnamed Asian company that you dealt with. I wondered if you would let us know what country that is or specific things that you come across in trying to export, trying to sell your products in other countries?

Mr. STAPELFELD. I don't think our government makes it any harder for us to export than I see other countries trying to do the same here. Obviously, when the Foreign Sales Corp bit the dust last year, that made things tougher. That was a benefit, and with that gone, it sounds like we are beating the same drum. It goes back to what are you going to do about taxes, the tax policy. That was one that was very helpful from an exporting standpoint. If you are able to address that—it seems what is so difficult for you is that anytime you change something, you run into the World Trade Organization and how they view what you do.

Mr. SHUSTER. All right. Anybody else care to talk about any specific——.

Mr. MCLANAHAN. I don't find any particular problems with exporting at this point. Our shipments to China are done very simply. Surprisingly enough, the Chinese coal mining industry has a preference for American made products. They are going to use them to develop their own industry, certainly, and improve their coal mines. So we have no impediments to shipping into that country at this point. The only problems that we encounter are metrification. We have to metrify our equipment, which takes changes in drawings and fasteners and things of that sort, and our Country lags that by a considerable amount. It was supposed to be implemented back in the '90s and it never happened for political reasons. So we are out of step with the rest of the world from that standpoint.

Mr. SHUSTER. Do you have any concerns that the Chinese, for instance, are going to steal your intellectual property rights on those——.

Mr. MCLANAHAN. Oh, certainly. That is a risk that we all run whenever we do business in China. There is no intellectual prop-

erty laws that protect us, but we are willing to take that risk to create jobs here in this Country.

Mr. SHUSTER. All right. Do you have any other questions, Mr. Chairman?

Chairman MANZULLO. I have just got a couple of questions here. I guess I am intrigued by Mr. Stapelfeld's testimony is that he really wants to be left alone, doesn't want any government help and research. And I agree with that basic philosophy, because you would just rather have a tax cut as opposed to a bunch of bureaucrats in there trying to tell you how to retrain your people. In exchange for it, you keep bureaus and departments and everything going. But the question I wanted to ask you has to deal with this—was it your testimony that talked about this unnamed Asian?

Mr. STAPELFELD. No.

Chairman MANZULLO. Was this yours, Appleton's? You know, there are some remedies out there that are available. In the years chairing the WTO accord, there is Section 421 safeguards, which means as a result of China coming into the WTO in December 2001, there has been a huge surge in a particular commodity. Then you would have standing to file a complaint with the International Trade Commission. At least your company alone, or you join in with different organizations. There was just a ruling by the textile industry. There was a 421 action in the WTO that resulted in huge imports on Chinese braziers, and that is what it is. They found out there was dumping going on in this Country in just unusual amounts. And we can get relief under there. And because it is adjudicated by the International Trade Commission, it has a better opportunity to withstand the strictures of the WTO.

There is also Section 301 of the Trade Act. We got involved—Congressman Phil Anderson and I got involved with 13 Chinese companies that were dumping rotors and brake parts. He has a facility for brake parts, I think, in his Congressional District, and I do in McHenry, Illinois. We were able to get an ATC ruling interposing extreme restrictive tariffs retroactively because the Chinese companies were dumping in one of those areas. But it is like the mole game. We hit one company and then somebody else comes over there and they start selling the thing under them.

But there has been within the last two weeks retaliatory tariffs imposed on Chinese television sets. Believe it or not, we still manufacture some here. There is a place, I believe, in Mississippi, that has 1,200 employees, plus several Japanese firms, I think three, do some assembly in the United States. So we have to—when we are talking about fair trade, there are those tools, but its expense, we have to join in with like industries, or as with the tool and die folks—the molders, rather, they brought an action, an inquiry action, simply by asking the Ways and Means Committee to start an inquiry and the International Trade Commission got involved in that.

So there are all kinds of things that are going on. What I would be intrigued—what I am intrigued with is this Asian company. If you have a way to verify that they are, in fact, sequestering land without compensation, and taking trees from that, if you would put a statement like that on your letterhead, get that to Congressman Shuster, we can get the International Trade Commission to start

investigating that. Because what we have found is that when you deal with the Chinese, you have to be very vocal, very loud, and very visible on it. I am the Chairman of the American Chinese Parliamentary Exchange. I have been there three times, worked very closely with the Chinese Embassy almost on a weekly basis, dealing with sensitive issues like this, and I can tell you when something like this comes up, they are extremely sensitive, and sometimes you get a change in policy.

Mr. SHOWALTER. This is in Indonesia.

Chairman MANZULLO. It is in Indonesia? We had Blade Products that was in my district. They had sold three of those giant paper making machines to Indonesia on an XM loan. You know what happened there. When the government went down the tubes on it, they didn't take out risk insurance, and the company went bankrupt because of that. But we would be wiling to work with you on that. Get the letter to Congressman Shuster. The letter should be self—don't send a book, you know. Just a couple of pages that outlines the issue and that is enough to get the inquiry started.

Mr. SHOWALTER. Okay. I appreciate that. Thank you.

Mr. SISSLER. Congressman Shuster?

Mr. SHUSTER. Yes.

Mr. SISSLER. Just a follow-up to the question you asked, what could Federal Government do to help, I think one simple thing is just at your level ensure that we are buying American made products at the Federal Government level.

Chairman MANZULLO. Well, that is the Buy American Act. It does apply to—it applies across the board. Unfortunately, it has been interpreted to be only 50.1 percent, and we succeeded in getting that increased from 50 to 65 percent for materials that are bought by the State Department and also with the Coast Guard. We found out that the Coast Guard in reconstructing some bridges, if one cent of state or local money was incorporated into federal money, they took the view that the Buy American Act did not apply and they were bringing in Japanese and Korean steel. And so I introduced an amendment on that, Congressman Shuster supported that, which now mandates that whenever you build a bridge in the United States, it has to be with U.S. steel, period, or you don't build it.

Those are the types of things that we can do. That does not impact the competitiveness such as with the steel tariff, but it says when the U.S. Government uses U.S. taxpayer dollars to build a U.S. product, at that point it should be with U.S. materials, because that makes it possible for the workers there to pay taxes in order to have the procurement going in the first place on it.

Mr. SHUSTER. I was involved in a heck of a fight last year with the New York City Metro Authority.

Chairman MANZULLO. Buses?

Mr. SHUSTER. No, the trains. In Lewistown, Pennsylvania, Standard Steel—they changed their name now—they are the only manufacturer in the United States that makes wheels for transit subway cars in the United States, and there is a French or a German, and then a Brazilian company, and we just had the battle. They wanted to buy a Brazilian wheel, which they were clearly dumping. They were $500 below cost. They did it one year, and

then the next year they got some business that year and raised it. But we had a heck of a fight trying to—and they eventually bought the wheels, U.S. made wheels. But you have that kind of stuff going on, dumping, and the New York City Transit Authority gets millions, probably billions of federal dollars, to help run that system.

Does anybody have anything else they would like to add before I have just one closing? Mr. Chairman? I appreciate everybody coming here today. This is extremely helpful. I believe that tax policy is the main vehicle where we can help business in this Country. I should say less tax policy, allowing businesses and individuals keeping more of their money, deciding how to spend it. They do that much better than the government.

But I also believe, as I said earlier, I don't think there is such a thing as free trade anymore in the world, except if you decide you are going to buy from a Wal-Mart in Blair County versus the Wal-Mart in Bedford County. That is the only place you don't have to come up against a tariff or some kind of regulation. But we need to make sure that the Federal Government, that our trade representative is out there fighting hard to make sure that it is fair trade, and we will address that quickly. I think we have let it lag for far, far too long.

But I believe here, locally, in the central Pennsylvania, I think there are great opportunities for us in the future working with the corridor that we have here, working with Penn State and some of the things that they are trying to develop, and what you gentlemen and your companies provided. So that is taking all of us working together, making sure that we are doing all the right things, not only from the federal level but, of course, state and local, make sure we are all pulling that wagon in the same direction. And I think because of our location in the United States, we have a great opportunity here in the future. I think was it ABC that had—one time your slogan, "Close enough to, but far enough way". I mean, we see Washington, D.C. and Baltimore growing this way, Philadelphia and Pittsburgh—we are in a great location to take advantage of a lot of the opportunities that are going to come our way.

Once again, I want to thank you for being here today, and if there is anything else you want to add to the record, feel free to do that. And one other point that I learned this morning at a breakfast. There is a company in Bedford that produces something that possibly, probably, can be used in Iraq, for the reconstruction of Iraq. So if there is any—if you have a product that you want to try to get into that mix in Iraq, the rebuilding of Iraq, or anywhere else that the Federal Government buys your product, feel free to contact our office. That is part of what we try to do is hook you up with the right government agency, or in this case, the right government agency in Iraq, to try to promote and sell your product over there.

So with that, I will go back to the Chairman.

Chairman MANZULLO. Well, I just want to thank you all for coming. I want to thank you for sending a superb Congressman to Washington. Congressman Shuster has been a tremendous source of knowledge on the Small Business Committee, a faithful attendee, and he really has the intentions of the Small Business

Community at heart. I can tell you that personally. I have had the pleasure to serve with two Congressman Shuster's. I was elected in November of 1992, and this is my first trip to Altoona, and your dad told me, because I love trains so much, is it the train museum that is here?

Mr. SHUSTER. Yes. The famous horseshoe car.

Chairman MANZULLO. But I don't have an opportunity to see it, so I am going to come back again to see that train museum.

Mr. SHUSTER. Well, we will welcome you back anytime and I appreciate you coming. I appreciate your leadership and your energy, running the Committee the way you do.

Chairman MANZULLO. Well, I appreciate it here. Why don't you go ahead and adjourn the Committee.

Mr. SHUSTER. And the hearing is adjourned.

[Whereupon, at 11:46 a.m., the Committee was adjourned.]

House Committee on Small Business

"Increasing the Competitiveness of U.S. Manufacturers "

December 1, 2003

Opening Statement of Chairman Donald Manzullo (IL-16), House Small Business Committee

Good morning and welcome. I want to start by saying how glad I am to be here with Rep. Bill Shuster. The people of the 9th District of Pennsylvania are lucky to have him. Rep. Shuster is a great advocate for manufacturers and small businesses in Washington. And he is a great ally in the fight to increase the competitiveness of manufacturers in Pennsylvania and in the U.S.

You all know why we're here—it's because despite our best efforts, manufacturing in the U.S. is in rough shape. And unless we do something about it, the effects will be catastrophic. Don't take my word for it, you can simply ask any one of the 2.8 million Americans who have lost their manufacturing jobs over the last 38 months.

The problem goes far deeper than jobs alone. It is crucial that this Congress foster an environment that keeps Americans working. Our continued prosperity depends on keeping Americans working. I along with many of my colleagues in the U.S. House of Representatives have been fighting to get our government to buy more American made goods, to give tax relief to domestic manufacturers, to stop foreign governments from manipulating their currencies, and to reduce the cost of health care and regulatory compliance to employers.

I want to thank Rep. Shuster again for making today possible and I look forward to hearing from all of today's witnesses.

Return to Hearing Summary

Return to Home Page of House Small Business Committee

The United States House of Representatives
Committee on Small Business
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Keeping the Manufacturing Sector Competitive

Mr. Chairman- First, Chairman Manzullo, let me begin by thanking you for being here today. It is a true privilege for me to welcome you to 9th District of Pennsylvania. We are pleased to have you join us for what will be a very informative hearing. I want to thank you for leading the fight in keeping our manufacturing sector strong.

I also would like to extend a very warm welcome to each of our witnesses who are joining us this morning. I appreciate your time and your willingness to share some of your experiences. We are very fortunate here in Blair County to have strong businesses and an active economic development community as displayed by the witnesses here today. Again, thank you.

We know that a strong and viable manufacturing sector is a critical aspect of out Nation's economic engine. Manufacturing accounts for 22% of the GDP and

contributes one-third of the economy's productivity growth. In Pennsylvania the manufacturing sector contributed $68 billion to the state's economy in 2001. Additionally, we know that manufacturing is responsible for increasing business activity and jobs in other sectors. It is not hard to see what an important role manufacturing plays and why it is essential that we work keep our manufacturing base here in United States competitive in the global market place.

Unfortunately, in recent years our manufacturing sector has suffered. The National Association of Manufacturers estimates that since July of 2000 the United States has lost nearly 2.8 million manufacturing jobs. That loss has been felt here in our state as well. From July 2000 to August of 2003 Pennsylvania has lost 143,400 jobs. Clearly, such a loss has impacted our state's economy and that is why discussions such as the one we are having today are so critical. We must work together to end this hemorrhaging of America's manufacturing jobs and create an economic environment that fosters growth and puts America's workers back to work.

The good news is that the foundations for an economic recovery have laid and are beginning to take hold. The economic indicators from the last few months do show a changing tide. October's numbers indicate positive changes in the economic climate and that the Administration's Jobs and Growth agenda is working. The numbers show that the economy created 126,000 jobs in October. This is good news and a step in the right direction, but there is more work to do. We must continue to reduce the tax burden on our manufacturers and ensure that our businesses are competing on a level playing field by enforcing our nation's trade agreements. For, it is unrealistic to expect U.S. manufacturers to be able to compete internationally against nations who intentionally undervalue their currency in an effort to gain a competitive edge. Additionally, creating Associated Health plans to allow our small business to band together and offer their workers affordable healthcare should be a priority as well as limiting the endless bureaucratic red tape and regulation that they face. I look forward to continuing to work with

my colleagues in Congress, and our state and local officials to further our economic recovery.

I will now hand it over to our witnesses so we can hear directly from those in the field. Again, thank you for being here and I look forward to your testimony.

TESTIMONY

Presented to:

CONGRESSMAN DONALD MANZULLO, CHAIR
AND
CONGRESSMAN BILL SHUSTER, MEMBER

THE U.S HOUSE OF REPRESENTATIVES
SMALL BUSINESS COMMITTEE

"THE IMPORTANCE OF A COMPETITIVE MANUFACTURING BASE"

BLAIR COUNTY CONVENTION CENTER
DECEMBER 1, 2003

By:

TIMOTHY SISSLER – VICE CHAIR
THE ALTOONA BLAIR COUNTY DEVELOPMENT CORPORATION

Good morning. On behalf of the Board of Directors of the Altoona Blair County Development Corporation, I would like to thank you for the opportunity to provide some brief comments on this important topic. My name is Tim Sissler and I am Vice Chairman of the Altoona Blair County Development Corporation (ABCD). ABCD Corporation is a private non-profit certified industrial and economic development corporation.

For more than 55 years, we have served as a catalyst for comprehensive economic development in Blair County with an emphasis on a broader vision encompassing the entire I-99 Innovation Corridor. Through our business retention, attraction and expansion efforts, our overall goal remains "the development of an enhanced quality-of-life through greater employment opportunities for Blair County and throughout our region."

I will not use this time to list the many statistics that prove the critical role the manufacturing industry plays in our local, state, and national economy. We all know what those economic contributions are, especially when they are lost.

Blair County, like many parts of Pennsylvania and the nation, has a rich and valued history in manufacturing. The manufacturing industry has served as the backbone for wealth generation; however, this growth engine is losing steam and America's manufacturers face more monumental challenges, both domestic and international, than ever before. The sustainability of our manufacturing process and our future prosperity are threatened. Just a few short-year's ago, more than half of Blair County's economy was represented by the manufacturing sector. In 2002, only 18 percent of our economy is attributed to manufacturing. Nationally that number is even less.

Our primary message this morning is a simple one. In order for our regional and national economy to be competitive at a global level, it is essential that the production of goods and services remain a fundamental part of the overall economic equation.

While organizations like ABCD Corporation play a role in helping to facilitate economic expansion, the most important organizations are those firms that produce, manufacture and directly add to the economy through family-sustaining job creation. Those firms represented here today, know best the challenges facing their

operations. Their message and those of other manufacturing sector industries must be heard to help shape a modern policy environment reflective of a technologically advanced and global marketplace.

U.S. manufacturing has been the heart of a significant process that has generated economic growth and produced the highest standard of living in history. Today this complex process faces substantial challenges, which if not overcome, will ultimately lead to a decline in the living standards for future generations of Americans. We do not expect to hold on to the past nor do we encourage others to do so. We recognize that the nature of manufacturing is changing. In the United States, it has transformed from a heavy, labor intensive industrial base to an increasingly automated, safe and efficient environment.

We produce more with fewer employees, and the skill-sets of a modern factory worker are much different today than just a few short years ago. The term "jobless recovery" may fuel the GNP and corporate stock prices, but that phrase sounds viciously unsympathetic to those individuals displaced by this fundamental change in operations.

As manufacturers planned for and invested in capital equipment to increase efficiencies and output, low skilled production jobs were the first to move overseas. Watching this transformation take place, the experts said that new industrial segments would develop to fill the void. Profits made from this evolution would be put back into

research and development. This research would create new and better products and entire new industries would likely develop.

While fewer employees would be needed in a particular company, the modern manufacturing employee would earn much more and require advanced degrees and/or certifications. A new class of worker would be created. No longer defined as "blue collar" or "white collar," the modern worker will wear a "gold collar," symbolizing their ability to manage and operate the production operation.

In many cases, this has proven to be the case. Those manufactures that remain and those developing have firmly adopted this new operational paradigm. And their employees now wear a "gold collar." But what we fear most is that the next phase of off-shore emphasis will quickly transplant the higher skilled, more specialized employment sector that directly and indirectly supports the manufacturing industry.

Evidence of this happening is already clear. Support centers, research, and advanced material development are increasingly finding a home in other countries. Our nation and region alike are training many people from all parts of the globe, providing them with skills needed to ultimately help contribute to their home country's overall competitive advantage.

Our nation must then compete in that global market place. This cycle has been continuing now for a number of years. And based on

university enrollment statistics, the trend shows signs of only increasing in the years to come.

While we believe in free trade, we also believe in a level and fair global playing field. Our country insists on the highest standards for workplace safety, environmental protection, human rights, and we demand wages that reflect an employee's worth, skill and ability to sustain a family. Along with those standards go the costs associated with them including continuously escalating healthcare expense. The U.S. manufacturing sector is increasingly required to compete against countries that do not share those beliefs and standards.

So, if you agree with our primary message, that the production of goods and services must remain a fundamental part of our nation's overall equation, we must then also look at creating policies that help level this global playing field.

Such policies should not be punitive in nature, but rather provide incentives to raise the standards for all businesses, in all industry sectors, in all countries. Those policies should serve to protect the environment where there are abuses, and protect the worker where they are exploited. They should help monitor global business practices and enforce the highest standards of production possible that in turn will produce the best quality product possible. The consumer then can feel confident that the price paid for that product reflects the highest standards of production possible.

ABCD Corporation will continue to work with our existing businesses across all sectors. In the economic development process, the expansion of a region's existing business base accounts for approximately 75 to 80% of its economic development growth. Ensuring that these businesses remain competitive and can do business on a global basis is an operational priority. But we need strong partners at the state and, especially, the federal level. We need firm policies to support an open, but also fair global market place.

Again, on behalf of ABCD Corporation and our Board of Directors, I thank you for this opportunity, and we will remain available to assist in any future discussions on this important topic.

TESTIMONY

Presented to:

CONGRESSMAN DONALD MANZULLO, CHAIR
AND
CONGRESSMAN BILL SHUSTER, MEMBER

THE U.S. HOUSE OF REPRESENTATIVES
SMALL BUSINESS COMMITTEE

BLAIR COUNTY CONVENTION CENTER
DECEMBER 1, 2003

By:

DANIEL B. HOOVER, PRESIDENT/CEO
ROARING SPRING BLANK BOOK COMPANY

FOUNDED 1887

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Roaring Spring

BLANK BOOK COMPANY
Manufacturers of School Stationery

740 SPANG STREET, ROARING SPRING, PA 166

NOV 2 3 2005

To: Congressman Bill Shuster

From: Daniel Hoover, President Roaring Spring Blank Book Co.

Re: Issues Impacting U.S. Manufacturers' Competitiveness

The Roaring Spring Blank Book Co. operates three (3) different manufacturing divisions, Roaring Spring Paper Products, Spring Cove Container and Roaring Spring Water. Combined these divisions employ 400, 350 of which are in Blair County. Based on the generally accepted model that for each manufacturing job approx. 2 additional jobs are supported, our Companies impact on Blair County is 1000 jobs. All three (3) divisions have been faced with the following competitive issues:

-Health Care costs which have been escalating at 15-20% annually for 3-5 years. These costs are now larger than pre-tax profitability in all divisions.

-The impact health care costs have on Workers Comp is also escalating that category of expenses. Additionally Pa. Workers Comp regulations in general place a larger burden on Pa. Companies from a competitive perspective.

-The impact of Federal regulations in general are a growing burden, in particular, OSHA and FMLA increase the cost of doing business in the U.S.

Roaring Spring Paper Products and Spring Cove Container have been substantially impacted by foreign competition.

-Spring Cove Container has lost 3 major customers that have closed or drastically reduced their operations and moved them out of the Country.

-Roaring Spring Paper Products has been supplying converted paper products to the School and Office Supply Industry for 117 years. Our

prices landed in the U.S. to be below our variable material and labor cost. For this to be feasible even considering the fact that foreign companies pay a fraction of the wage rate, supply little or no fringe benefits and are faced with practically no Government regulation; there must be other subsidizing factors at the point of manufacture. While China is certainly a significant participant in our industry, there are large volumes coming from India, Indonesia, Brazil, and Mexico as well. To survive all U.S. manufacturers are importing themselves including our Company. Without the use of current import costing in several key product categories and customers, our Company would face the loss of 30% or more of our current business.

I have been involved with our Company for 30 years and believe strongly that manufacturing has been the backbone of the U.S. economy throughout our history. It literally has been the stimulus for the explosion in our standard of living and wealth over the past two centuries. I believe we are on the cusp of losing our world manufacturing leadership and the associated positive impacts it has yielded our great nation. I am sure the solutions will be difficult and complicated, but can we ignore them any longer?

Sincerely,

Daniel B. Hoover

Daniel B. Hoover
President/CEO

Manufacturing Our Escape from the Third World

Most of you agree that a Secretary of Manufacturing would be good for the country. Your suggestions ranged from cutting down on imports by various means to forcing other countries (somehow) to comply with fair trade practices. Others suggested a cap on top management salaries and federal help in terms of research and development. Unfortunately, it looks like President Bush has buried the idea in the Commerce Department.

As I noted last month, the country has Secretaries of Agriculture, Labor, Energy, Education, Defense, Health and Welfare, Treasury and Commerce, among others. In very real and very clear ways, manufacturing pays for all of them. It's time the rest of the country recognized that fact.

The President has a lot on his mind. There's a war on and we've got terrorist issues and all sorts of economic worries like health insurance, unemployment and competitiveness in the world. Yet, manufacturing is key to all of these issues. We know this. The problem is the rest of the country has come to believe that the United States can survive and thrive on the manufacturing successes of other countries — like China and various Third World nations.

China's trade imbalance with us was more than $103 billion last year. Through August of this year we owed them $77 billion. So this year's negative balance with the People's Republic alone may total more than $116 billion. Now, that is not a huge percentage of our $10 trillion-plus economy — just one-tenth of one percent. The issue is what's in that imbalance; the bulk of it is in manufactured goods. We don't, yet, buy Chinese insurance or bank with the Bank of China.

Further, our total trade imbalance is running at nearly five times the Chinese share, on the way to half a trillion dollars a year — again mostly manufactured goods. We don't buy much insurance or use banking services from Mexico or India either — yet.

These are excellent examples of why we need a Secretary of Manufacturing. The reports about job losses in key manufacturing over the past few years hover around 2 million. Just clearing the air, refining the debate about what damages our own producer sector is suffering, would be a huge help.

Economists note that the Yuan is undervalued by as much as 40%, giving the People's Republic a huge price advantage on the international scene. Price advantage? Well, who'd a thunk it? Only last month, a Chinese steel maker began dismantling the former J & L steel plant on the Cuyahoga River in Cleveland for shipment to China. They bought the whole plant. Reports are also circulating that the Chinese are negotiating with American iron ore companies to reopen an iron ore mine in Michigan and ship ore to China. Macabre? Yes, but true. This begs a question: why them and no longer us? Labor costs? Regulations? Subsidies? Good questions for the new Secretary.

Ideas about how we can continue to encourage China's and other countries' entry into the world of manufacturing and free enterprise and international trade, while at the same time keeping the playing field fair and level for our own citizens, would be another major task for the new cabinet secretary. And let's get this argument out of the way now: the inspiration for this is recognition of importance, not a call for protectionism.

Americans have been the world's leaders in manufacturing innovation for generations. Production successes built this country into the envy of the rest of the world. Without those successes, we are Third World. That crucial and basic sector of our huge economy seems to be in danger, according to manufacturing managers, union leaders and economists across the land. They need and deserve a voice at the top of the government in Washington — for the good of us all.

Feel free to send a copy of this to the White House and Congress. Nothing should stop an idea whose time has come.

George Weimer

George Weimer, contributing editor
weimerg4@yahoo.com

TESTIMONY OF EDWARD M. SILVETTI, EXECUTIVE DIRECTOR, SOUTHERN ALLEGHENIES PLANNING AND DEVELOPMENT COMMISSION

BEFORE THE SMALL BUSINESS COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES
THE HONORABLE DON MANZULLO, CHAIRMAN

BLAIR COUNTY CONVENTION CENTER
December 1, 2003

Chairman Manzullo, I appreciate the opportunity to testify today before the Small Business Committee, and I offer a special note of appreciation for the invitation to do so by the Honorable Congressman Bill Shuster, who represents the Ninth Congressional District of Pennsylvania, which, along with the 12th Congressional District, encompasses the regional six- county Southern Alleghenies Planning and Development Commission.

I appreciate also the timeliness of this invitation because those of us involved in economic development have become increasingly frustrated with the loss of jobs, particularly manufacturing jobs, in our region. And I know this loss of jobs is not unique to our region. As I travel around the Commonwealth, as well as several neighboring states, I am embarrassed to admit relief that other areas are sharing our economic pain of job losses. Losing local jobs becomes very personal, and it is frustrating, especially for those of us involved in economic development. For every economic step forward in helping to create jobs we nevertheless suffer two steps backwards, and so continue to lose jobs so important to the economic vitality of our regional economy. This is probably best typified by a "snippet" of information in the local newspaper, the Altoona Mirror, over the Thanksgiving Holiday weekend, making note that SKF, the world's largest bearing manufacturer, recently opened yet another plant in China, this one in Shanghai, to produce deep groove ball bearings. While this company is Swedish based, it has a local connection with an SKF plant located in Altoona, but scheduled to close in 2004. The result will be a layoff of 250 manufacturing jobs, and high paying manufacturing jobs at that. The fact that this is SKF's fifth joint venture in China since 1995, in my opinion, speaks directly to the issue before this Committee today. Unfortunately, the impending SKF plant closing in Altoona is only the most recent loss to the regional economy.

- Since 2000, there has been a severe net loss of manufacturing and related jobs in the Southern Alleghenies Region. Commonwealth of PA economic analysts project that job losses will continue in nearly all manufacturing sectors

- Retraining of dislocated workers is preferred, but many simply want to find another job that pays a family-sustaining wage. The continued loss of manufacturing jobs makes this doubly difficult. Within the six-counties Southern Alleghenies Workforce Investment Area, over 430 dislocated workers have received vouchers to attend training programs in the last three years. Over $3,250,000 has been obligated to cover the cost of the training accounts for these dislocated workers, with an average award of over $7,000.

Inasmuch as the Small Business Committee is interested in producing a skilled workforce, I will tell you that within the Southern Alleghenies Workforce Investment Area, increased training focus into the future will be given to three industry clusters: Healthcare, Construction and Building, and High-Tech. These clusters, and the industries that make them up, comprise over 30% of the region's employment. Projections promise continued growth within these sectors, and those so employed can earn family sustaining wages.

I wanted also to provide today a brief overview of some of the business climate and entrepreneurial facts of our six-county Southern Alleghenies Region.

Our Southern Alleghenies region is predominately rural but includes two small Metropolitan Statistical Areas, these being centered in Altoona and Johnstown. Not wanting to give a overly gloomy perspective, the region continues a modest recovery from a long period of economic restructuring that began in the 1970s, continued in the 1980s, and now has given way to some new manufacturing and emerging service and technical industry strengths. The region's economy is perhaps more greatly diversified than ever before. In fact, unemployment numbers more aligned with Commonwealth of Pennsylvania averages than in earlier decades when declines were precipitous and recoveries slow.

As with the Commonwealth of Pennsylvania as a whole, the demographic pool is older than the average population of the United States and is increasing in the concentration of older citizens. This demographic is unlikely to change in the foreseeable future. And, of course, this presents another special set of economic issues that impact entrepreneurship levels and worker retraining.

Unfortunately, business formation rates in our six-county region are very low. The entrepreneurial business formation rate for the six-county region is only 55% of the national average. This highlights the general weakness of the region in many of the nation's fastest growing and most actively entrepreneurial focused industries, including: business and professional services, computer-related services, data processing and information services, graphic design firms, employment agencies, engineering firms, management consulting firms, and research firms. Not only is the region lagging in what are often considered "new" high tech industries, but that there are also gaps among a wide range of business and professional service industries that require higher educational and technical - but not always highly specialized - skill sets.

Because of the region's cyclical history of economic decline and recovery, the reliance on manufacturing jobs has been great. Our workforce is generally skilled to meet the needs of the region's traditional industries. The result is that when a manufacturing job is lost, the effect is acute because the workforce is not skilled to meet the demand of new industries, and further, due to the low business start-up rate, the new industry jobs are simply not available.

For the last two years, Southern Alleghenies Planning & Development Commission, in partnership with other economic development agencies in the Commonwealth of Pennsylvania, has spoken directly with over 750 Chief Executive Officers of companies based in the region.

This is what they have told us:

- Over 50% of the executives said that applying and financing new technology was of great concern to them if they were to remain competitive in the global marketplace.

- Half of the Chief Executive Officers said that business taxes were the single greatest liability affecting their businesses' ability to operate competitively in Pennsylvania and the United States.

- The greatest expressed concern of CEOs relative to operating their businesses last year were issues related to their workforce. Healthcare costs were second. In 2003 the top issue became healthcare costs, followed by workforce issues.

  This issue of healthcare is only getting worse. With each new labor contract, with each new year, it seems that employers are requiring, not requesting, requiring their employees to pick up a greater share of their healthcare insurance premiums along with greater co-pays for covered health services. This in turn erodes available disposable income of our workers who already earn less per household and per capita than others in the Commonwealth.

  Most employers have reported a 30 to 50 percent increase in their costs to provide healthcare coverage for their employees. All employers have reported that radical steps were taken to address the cost issue. Some employers have reduced the quality of coverage, and others are now covering only the employees rather than dependents. Some have been forced to eliminate healthcare coverage from their employment package all-together, and all have shifted more of the financial burden onto the employee. All employers have expressed a great reluctance to treat their employees in such a manner, but yet they have no options. Many have reported they have lost long-term, valuable employees as a result.

- The ability to pay competitive wages tops the reasons for employers' inability to retain employees. Paradoxically, in order for manufacturers to compete with foreign competition, no more than 45% of their product costs can be labor costs, with the balance being raw materials and other inputs. On the other hand, to keep a well-trained, valuable employee, businesses must be able to pay competitive wages. I am at a loss to suggest a middle ground.

I don't want to represent to the Committee that our area is without resources. Rather, I want to convey that we have similar issues impacting our economy that are not unlike those affecting the country as a whole. Efforts by the Southern Alleghenies Commission and the other economic development agencies that work to create an atmosphere conducive to job growth have achieved some success. Southern Alleghenies Planning & Development Commission is currently working with over 160 different businesses.

I offer the following statistics from the last five years:

While there has indeed been a net loss of manufacturing, 56 manufacturers had job growth in the last several years totaling 3,661 full time jobs.

Some 23 service companies had job growth totaling 1,119 full time jobs.

12 wholesale companies had job growth totaling 101 full time jobs.
SAP&DC business clients created a total of 4,011 new full time jobs in the last five years.

I did want to end my testimony by offering some suggestions that again come from my agency's discussions with the region's business leaders:

Provide training funds for incumbent workers that do not have all the strings attached, such as new job creation or the increase in wage rates, but simply to help them remain competitive.

Provide a basic level of healthcare coverage on a national level that can then be enhanced by employers.

Foreign trade policies must be evaluated to determine the effects on domestic small businesses, not just large corporations.

Offer better incentives for foreign business investment in the United States.

Offer tax incentives for products 100% made in the United States.

Offer more technical and financial assistance to provide businesses with market development help in order to remain competitive. Southern Alleghenies Commission business clients are fairing better than many businesses that do not receive our business consulting services.

Chairman Manzullo and Honorable Members of the Small Business Committee, I again thank you for the opportunity to be here today. I would be more than happy to try to answer any questions you might have about helping to stem the erosion of our region's economic vitality.

CONGRESSIONAL HEARING
BLAIR COUNTY CONVENTION CENTER
DECEMBER 1, 2003

Comments by Michael W. McLanahan, President & CEO, McLanahan Corporation, Hollidaysburg, PA.

Topic: Issues Impacting U.S. Manufacturers Competitiveness, presented to Congressman Don Manzullo, Chairman, House Small Business Committee.

Congressman Bill Shuster, Member, House Small Business Committee.

Dear Congressmen:

My name is Mike McLanahan, President/CEO of McLanahan Corporation – a 168 year old family-owned small business – here today representing 165 loyal, rdworking, American employees.

Your invitation to present my opinions concerning Issues Impacting Manufacturer's Competitiveness is very much appreciated. The issue of competitiveness as I see it, boils down to creation of jobs for small businesses in Pennsylvania and the rest of the country. For too long local, state and federal governments have created a landscape for manufacturing filled with obstacles that have caused us to lose jobs overseas. One of the main goals or objectives we have is to make a profit. Without profit there is no reason to exist – no reason to face the financial risks we encounter in our journey across that landscape. Jobs will only be created if profit is made. Unfortunately Congress has seen to it that business, especially small business, has a great deal of difficulty making a profit; however, once made, high taxes take away that incentive to succeed. There are many potholes and land mines erected by government in that landscape that I described earlier but I can only deal with one or two in the time allotted.

McLanahan Corporation is a manufacturer of equipment used in the mining industry. One of the main markets for our business is the Coal Industry. The thrust of government regulations in the mining industry and in coal specifically seems to be

aimed at destroying our ability to compete in the World Market. McLanahan Corporation, itself, needs low cost energy to be competitive and it needs the coal mining industry to succeed because we need it as a customer for our products and services. It should be noted that we pay 10 times the cost of wages and fringe benefits as compared to our Chinese competitors.

Currently the coal industry provides over 50% of the electric energy generated in this country. However, building a coal fired power plant takes more than a decade just to get through government regulations, with no guarantee that final approval will be given even if all regulations are met. Coal mining is considered by the media to be a dirty, hazardous job, yet in fact, it is one of our safest industries. Coal can be mined economically, transported efficiently, burned cleanly, and delivered to customers at low cost. All of this creates hundreds of thousands of jobs, billions of dollars for the economy and a broader tax base. Please note, one ton of eastern coal costs about $20.00 on average and has the same energy value as three barrels of imported oil costing $96.00. Strategically we have more than 300 years of reserves of coal in the ground. This would ensure our energy independence if we are allowed to use it to the fullest advantage.

In contrast, the coal industry in Australia and China is booming because of significant government support. We, as a company, must go where our market potential is greatest, therefore we have opened an office in Australia and are considering our options in China. At the same time our employment here has dropped nearly 10% because mining, per se, is declining due to governmental roadblocks.

In talking about strategic energy needs, let's just take a minute or so to look at the Strategic Oil Reserve. A few years back, in a political move, President Clinton drew from the Strategic Oil Reserve. A little known fact is, that because we have not built a refinery in this country in 25 years and because the few remaining refineries were running at 95% of capacity, that "strategic" oil had to be shipped offshore to be refined. Just how "strategic" is that? By the end of this decade we will be importing

more than 65% of our oil needs, much of it from politically unstable countries, many controlled by governments having the avowed intention of destroying us. Even a small hiccup would be a national disaster.

For a time it appeared that the natural gas industry would supply the nation's low cost energy needs. However, because users were chasing a limited resource, the law of supply and demand kicked in, more than doubling the price of natural gas in just one year. With more gas-fired power plants being built or about to come on line the cost of this energy source will be driven higher and availability will be reduced. Increasing natural gas supplies in this country is severely restricted by government regulation affecting exploration, drilling and pipe-line construction.

Gentlemen, in conclusion, let me urge you to pass a National Energy Policy as soon as possible, to be followed with a National Mineral Policy. Without both this country will continue to export jobs. There are many other issues that I would like to have addressed such as taxation, health care costs, legal reform, education; however, my time is limited. Thank you for your consideration.

Michael W. McLanahan
President & CEO
McLanahan Corporation
Hollidaysburg, PA

TESTIMONY

Presented to:

CONGRESSMAN DONALD MANZULLO, CHAIR
AND
CONGRESSMAN BILL SHUSTER, MEMBER

THE U.S. HOUSE OF REPRESENTATIVES
SMALL BUSINESS COMMITTEE

"THE IMPORTANCE OF A COMPETITIVE MANUFACTURING BASE"

By:

Ben Stapelfeld
NEW PIG CORPORATION

Good morning. My name is Ben Stapelfeld and I am Chairman of the Board of New Pig Corporation. We manufacture and distribute industrial maintenance and environmental cleaning products. Our commitment to the manufacturing base of the United States is multi-faceted, and its health is of primary importance to us. We are manufacturers. We buy from manufacturers. But most importantly the largest segment of our customer base is manufacturing.

In 2003 New Pig Corporation will sell to over 50,000 sites domestically. In addition, we will sell in 70 foreign countries to approximately 7,500 end user customers. Since our inception in 1985, our domestic manufacturing base has been shrinking and shifting. In our early years this fact was merely a statistic to read on the back pages of the "Economist." We were small, the size of the market was huge, our products were new and competition was non-existent. Growth was not an issue.

Eighteen years later the market is mature, competition is abundant and the size of the market is smaller. To New Pig the shrinking manufacturing base is no longer an insignificant statistic in the back

of a magazine. Over the last decade we have seen over 78,000 sites in the U.S. close, including 28,944 of our active-buying customer sites, and 7,945 of those sites had over 100 employees. Growth now means fighting for a larger piece of a smaller pie. Eventually, the pieces become smaller also.

These are statistics that indicate why manufacturing is important to a little company in central Pennsylvania. We are far less qualified to expound on the larger question of importance to the overall U.S. economy. And, quite frankly, we have no answers as to how to stem the shifting tide. But we do have some thoughts on the relationship of business and government in general.

Business needs government to do for them what they cannot do, and to stop doing for them what business is far better qualified to do for themselves. An example of the latter would be the "THE MANUFACTURING TECHNOLOGY COMPETITIVENESS ACT OF 2003" recently introduced by Congressman Ehlers of Michigan. This Act establishes programs to build partnerships among higher education institutions, businesses, states and other partners to the tune

of $184 million. Frankly, Congressman Manzullo and Congressman Shuster, New Pig wishes Congress would just save our money. We don't need Federal help partnering with universities or other businesses. We don't need you to do our research. We don't need program upon program that funds fellowships and technology partnership centers. We don't need elaborate training programs. All of these things are our job. That is what business does.

All we need is a profit motive and a level playing field. Do for us those things that only government can do to achieve that end. To promote growth, government needs to establish sound fiscal and monetary policies that foster commerce, instead of competing with business for the same capital that would promote growth. We need government to approach tax policy in a manner, which allows business to compete on a global level.

I'll bore you with one more statistic. The United States makes up approximately 5 percent of the world's population; it transacts approximately 15 percent of the world's business; it has 70 percent of the world's lawyers. It is time for Congress to stop running from tort

reform. For if tort reform is not addressed, it will be more than just manufacturing leaving our shores.

Help do something about the over-regulated business climate that exists in our country. Nations that are burdened by needless regulations and stymied by a growing bureaucracy are always less competitive in the global market.

Instead of another federal program that cannot be measured, look to the local level and help efforts that have already stood the test of time. ABCD Corporation has half a century of helping manufacturers and businesses like New Pig. Literally, dozens of businesses in Blair County would not exist or would not be the size they are if it were not for their assistance. Knock down the roadblocks that impede them from helping us.

We need our government to represent us on the world stage. We need you to ensure that "Free Trade" is in fact "Fair Trade."

I would like to thank you for this opportunity and remain confident that given a level playing field American business will do its part in creating wealth for our society.

Introduction

My name is Rick Fantini; I hold the position of Vice President of Operations for Appleton. Appleton is a major producer of high-value added paper grades; Appleton's sales are $850 million; approximately $75 million in sales are generated outside of the United States. Appleton has manufacturing operations in three states, Pennsylvania, Ohio and Wisconsin, distribution centers in seven states and sales offices across the nation. We currently compete in four major businesses, carbonless papers, performance packaging, security papers and thermal papers. We face competition from a myriad of competitors, domestic as well as foreign producers. My remarks will provide background on the paper industry to provide context for recommendations, address the impact of foreign competition on the paper industry, some personal observations of why a strong manufacturing base is critical to our country and recommended policy changes that should be evaluated and addressed by Congress.

Before I begin my remarks, I would like to thank Congressman Manzullo and Congressman Schuster for holding these Hearings on the very critical issue of U.S. manufacturing competitiveness in a global economy. Other than our war against terrorism I cannot think of a more important issue

that our country needs to address. Failure to deal with the erosion of our manufacturing base will have dire implications for our future way-of-life.

Paper Industry

The North American market accounts for about one-third of the worldwide purchases of paper and paperboard products. Per capita use of paper products far exceeds that in other parts of the world. However, the North American market is also a mature market. Overall demand for paper products in North America has been described as stagnant.

Other major markets include Western Europe and Asia. Demand increased in both areas particularly in Asia. In general, demand can be expected to increase most rapidly in developing countries and economies.

Pulp and paper manufacturing is a cyclical industry. New capacity is very expensive to add, takes several years to bring on-line, and has tended to come on-line in large blocks as several competitors attempt to be the first to meet growing demand. The result has been periods of good times, when demand caught up to supply, and periods of bad times, when capacity exceeded demand because of new mill / machine additions.

The two biggest issues facing the paper industry today is technology substitution and the flood of cheap imports. The combination of these two factors has resulted in prices well below levels necessary to make an

adequate return on invested capital. Unfortunately, many companies have reported significant losses over the last three years.

Significant fundamental economic changes have occurred in the past ten years, which has negatively impacted the paper industry. Ten years ago the U.S. paper industry had the following general characteristics:

- The U.S. economy was healthy.
- Demand for paper products was increasing. While some paper grades were facing competition from competing materials and other media, the "paperless society" had failed to materialize.
- Capital spending was strong and increasing; capacity was being added.
- Production and market share was fragmented among many companies.
- **Exports of paper and paperboard (not including newsprint) exceeded imports.**

The situation has changed:

- The U.S. and other world economies slumped, beginning in 2000.
- A global supply-demand imbalance became apparent in mid-1990s. Demand was waning and competition from competing materials and media was increasing. Electronic media began to affect demand.

Over-capacity was being addressed through plant and machine shutdowns.

- Consolidation – mergers and acquisitions – became a driving factor as companies sought to gain market share and rationalize assets.
- Capital spending was significantly reduced.
- **Foreign competition – globalization – became a major factor, with imports of paper and paperboard exceeding exports. Imports have captured 90% of increased U.S. demand since 1997.**
- **The U.S. trade deficit with respect to paper, paperboard and converted products has consistently expanded during recent years, climbing from 5.7 million tons in 1999 to 6.9 million tons in 2002, an increase of 20%.**

The above factors has resulted in a significant number of mill closures and corresponding job losses. Since 1997, 72 mills have been closed; in the 2001 – 2002 time period, a total of 40 mills and 104 paper or paperboard machines were permanently closed. Unless fundamental changes are made, this trend will continue.

An Unfair Competitive Landscape

As I stated, the paper industry is being negatively impacted by two major factors, technological substitution and the flood of cheap imports.

Technological substitution must be addressed by the industry through innovation; I personally believe that government should not assist an industry, which fails to innovative in order to compete with technological advances. However, the issue of cheap imports requires a cooperative solution between industry and government. I am not advocating a protectionist view of severely limiting imports through high tariffs; however, some fundamental changes need to be made if our industry is going to be competitive in a global market. The fact is free trade is not currently fair in the paper industry for a number or reasons. The lack of a level playing field is demonstrated by one of our Asian competitors:

- We spend tens of millions of dollars to meet federal and state environmental regulations (the industry spends billions), our Asian competitor does not have to spend the same type of resources to meet environmental requirements. Obviously, this increases our cost base.
- We spend millions of dollars to ensure the health and safety of our workers. Our Asian competitor is not required to make such investments.
- Our Asian competitor enjoys lower fiber costs for many reasons; some natural and some unnatural. The seizure of land from private owners would not be tolerated in this country. Many of these seizures

involved human rights abuses. This company also receives hidden fiber subsidies through the free-use of land.

- This Asian competitor enjoys the benefits of modern technology without having to pay for it. This company has defaulted on loans amounting to billions of dollars. This company would not be operating today if it was located in the United States.
- This Asian competitor pays it workers at rates that don't even come close to the minimum standards that have been established in the United States.

The Necessity For A Strong Manufacturing Base

I do not think it is hyperbole to state that the erosion of the United States' manufacturing base has important implications for the size and quality of middle-class America, which will eventually impact the quality-of-life for all Americans. A significant and stable middle-class has been crucial to the political stability of our country. A significant middle-class has also allowed for the enactment of pro-growth economic policies. The erosion of our manufacturing base will erode the size and quality of our middle-class, which will ultimately erode our political stability. If you think I am overstating the issue, I would ask you to think about the "democracies" in Mexico and South America. I believe that the periods of political instability

in these countries is a direct result of economic policy, which failed to develop a substantial middle-class. Many of these countries are now trying to correct this situation by increasing the size and diversity of their manufacturing base. We are now in a worldwide battle for manufacturing jobs, which we must win if we are to preserve a way-of-life that we cherish and the rest of the World strives to attain.

Recommendations

In order to address the above issues I recommended that Congress evaluate and act upon the following economic policies in order to enhance our manufacturing base. These policies are intended to spur new investment, provide incentives for retraining employees and address the most egregious inequities caused by free trade.

- Enact a lower tax rate for manufacturers.
- Allow for full and immediate depreciation of capital investments that are made to meet environmental regulations.
- Allow for accelerated depreciation (25% per year) for manufacturing capital investments.
- Provide a tax credit for incremental hiring of manufacturing employees.

- Provide a tax credit (dollar for dollar) for retraining manufacturing employees to operate new and rebuilt equipment.
- Institute an environmental tariff for goods that are produced without meeting minimum environmental standards.
- Institute a health and safety tariff for goods that are produced without meeting minimum health and safety standards.
- Institute a buy American policy for federal government purchases through specifications which require products be produced in a manner that is consistent with public policy.

Thank you very much for giving me the time and opportunity to speak at this Hearing. I hope you will find these remarks helpful in thinking through this very complex issue.

House Committee on Small Business

"Issues Impacting U.S. Manufacturers' Competitiveness"
December 1, 2003

Prepared Remarks of Mr. William Yankovich,
Plant Manager, General Cable
Altoona, Pennsylvania

Good morning, Mr. Chairman, Congressman Shuster and Members of the Committee. My name is Bill Yankovich, and I serve as General Cable's Manager of our manufacturing facility in Altoona, Pennsylvania.

We are a FORTUNE 1000 company that is a leading global developer and manufacturer in the wire and cable industry. Our industry is estimated to have had $58 billion in sales in 2002. We sell over 11,500 copper, aluminum and fiber optic wire and cable products. We believe this represents the most diversified product line of any U.S. manufacturer. We manufacture our product lines in 28 facilities and sell our products worldwide through our operations in North America, Europe and Oceania. We employ some 6000 employees worldwide most of whom are employed in the U.S. and approximately 75 percent of our sales are in North America.

Our operations are divided into three main segments: energy, industrial and specialty and communications. Our energy cable products include low-, medium- and high-voltage power distribution and power transmission products for overhead and buried applications. Our industrial and specialty wire and cable products conduct electrical current for industrial, commercial and residential power and control applications. Our communications wire and cable products transmit low-voltage signals for voice, data, video and control applications.

I appreciate the opportunity to appear before you today to discuss issues impacting the competitiveness of U.S. manufacturers. I also appreciate, Mr. Chairman, your leadership in highlighting the need for a strong manufacturing base in the United States. We agree with you that we cannot have a prosperous economy and rising standards of living for all Americans without a vigorous manufacturing sector. U.S. manufacturers have and will continue to lead the way in innovation, productivity and international trade. The current early stage of economic recovery is encouraging, although our industry still has very substantial excess manufacturing capacity and pressures which constrain our growth and productivity. There is no question that we still need policies that help reduce business costs in today's internationally competitive environment.

The areas I would like to focus on in my testimony today include:

1) The importance of certainty and permanence in the tax code;

2) The vital need for passage of the energy bill; and

3) The impact of steel tariffs on our industry.

THE TAX CODE

In 2001, and again in 2003, Congress recognized the importance of broad-based tax relief to stimulate economic growth and job creation. The tax cuts of 2001 and 2003 have provided more certainty in tax policy as well as spurring an economic recovery that has the potential to stimulate business investment and job creation. We particularly appreciate the additional depreciation allowance in this year's bill that will provide powerful incentives for business investment in all electrical products.

However, if tax cuts are temporary, as is the depreciation allowance, that may weaken the positive effect the changes could have on economic growth. It is just common sense -- if Congress makes tax relief permanent, individuals and businesses are able to make long-term investments and spending plans that grow the economy and jobs, as well as our industry.

Temporary tax breaks can result in erratic investment cycles that are dependent upon government action rather than sound business calculations. For example, temporary tax breaks might cause firms to buy equipment sooner rather than later but then such investment might dry up when the tax break ended. Companies -- quite rationally -- would delay buying equipment until the next economic downturn when they might expect another tax break. Instead of a reactive, constantly changing tax policy, we support the Administration's efforts to provide a more certain investment and job friendly tax environment. Locking in the lower tax rates will ensure that the economic benefit of the 2001 and 2003 tax changes is sustained.

THE ENERGY BILL

A national energy policy is essential to ensuring sustainable economic growth in manufacturing and our industry. After 39 months of job losses in the manufacturing sector, the economy is finally starting to recover, but we still see soft conditions in our industry. In addition, high energy costs continue to be a drag on the economy and particularly on our industry. The failure to pass an energy bill prevents our company from contributing to a better energy transmission and distribution system and limits our ability to benefit from better energy policy.

The energy bill was perhaps the most important measure for our industry this year. According to a survey by the National Association of Manufacturers, 92 percent of small and medium sized manufacturers supported passage of this comprehensive energy legislation.

One third of our business is in energy cables that we sell to utilities. After last summer's significant power outages in the U.S., Canada and Europe, we all are well aware of the need to upgrade the power transmission infrastructure used by electric utilities throughout the country.

One of our largest customers serves the New York City area. The energy bill had essential provisions regarding electrical grid reliability designed to avoid the type of blackouts we experienced last summer. The energy bill included much needed mandatory and enforceable transmission reliability standards. Currently compliance with reliability standards is voluntary and utilities may fail to make investments that are required to assure a robust electric grid.

In addition, since America's manufacturing sector uses about one third of all energy consumed in the U.S., the manufacturing sector itself is vitally dependent upon affordable and reliable energy. At a time when we are facing relentless global competition, we need to find ways to reduce domestic costs for business. Lower energy costs are essential for global competitiveness in our industry as well as our entire economy.

Every minute that Congress fails to pass this essential legislation is costing us jobs and revenue in the manufacturing sector, as well as costing your constituents. Mr. Chairman and Congressman Shuster, we appreciate your support for the energy bill. Any opportunity to pass this bill in your remaining days in session next week or early next session would provide our industry with the best tools to contribute to a continued economic recovery. The energy bill will ensure the development of a more reliable energy supply and in turn drive economic growth and potentially create jobs.

STEEL TARIFFS

The imposition of tariffs on foreign steel has had a detrimental effect on our industry and our competitiveness. We use steel, among many ways, in making aluminum wire and cable products that we sell to utilities. Therefore, tariffs affect the cost of acquisition of raw materials. In today's economy, we simply cannot pass these higher prices along to consumers. As you know, a September 2003 report from the International Trade Commission found the steel tariffs cost American steel-consuming businesses $680 million in lost capital and jobs to date. As you have noted Mr. Chairman, for every job in the U.S. steel industry, 59 jobs exist in American steel-consuming industries that are threatened by the steel tariffs. Therefore, we appreciate and support your position Mr. Chairman, that the President should rescind the steel tariffs by the end of the year. The National Electrical Manufacturers Association has also supported this position.

CONCLUSION

Our industry, along with others in the manufacturing sector, face unprecedented challenges in order to remain competitive in the international economy. However, with good and consistent tax, energy and trade policies that allow us to make sound, long term decisions, we will rise to meet these challenges. Thank you Mr. Chairman, Congressman Shuster, and Members of the Committee, for this opportunity to assist you in discussing issues affecting competitiveness in manufacturing.

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