

OUR NATION OF BUILDERS: MANUFACTURING IN AMERICA

HEARING BEFORE THE SUBCOMMITTEE ON COMMERCE, MANUFACTURING, AND TRADE OF THE COMMITTEE ON ENERGY AND COMMERCE HOUSE OF REPRESENTATIVES ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

FEBRUARY 14, 2013

Serial No. 113-5



Printed for the use of the Committee on Energy and Commerce
energycommerce.house.gov

U.S. GOVERNMENT PRINTING OFFICE

79-769

WASHINGTON : 2014

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
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OUR NATION OF BUILDERS: MANUFACTURING IN AMERICA

THURSDAY, FEBRUARY 14, 2013

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COMMERCE, MANUFACTURING, AND
TRADE,
COMMITTEE ON ENERGY AND COMMERCE,
Washington, DC.

The subcommittee met, pursuant to call, at 10:03 a.m., in room 2322 of the Rayburn House Office Building, Hon. Lee Terry (chairman of the subcommittee) presiding.

Members present: Representatives Terry, Lance, Blackburn, Harper, Guthrie, McKinley, Bilirakis, Johnson, Barton, Upton (ex officio), Schakowsky, McNerney, Welch, Barrow, and Waxman (ex officio).

Staff present: Charlotte Baker, Press Secretary; Sean Bonyun, Communications Director; Howard Kirby, Legislative Clerk; Nick Magallanes, Policy Coordinator, CMT; Brian McCullough, Senior Professional Staff Member, CMT; Gib Mullan, Chief Counsel, CMT; Shannon Weinberg Taylor, Counsel, CMT; Michelle Ash, Democratic Chief Counsel; Will Wallace, Democratic Policy Analyst.

OPENING STATEMENT OF HON. LEE TERRY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mr. TERRY. Good morning, and start our hearing.

And Jan said it is OK that Henry is experienced enough to be able to take the lead right now.

So good morning, and Happy Valentine's Day. It is appropriate that we have this hearing on Valentine's Day because we expect it to be a real positive love fest and not some of the usual hearings that we may have in Congress, or at least the ones that people see on the news. We are here to celebrate American manufacturing.

But speaking of love fest, this is my 21st wedding anniversary as well. So as my wife is taking kids to school and getting ready for work, happy anniversary, honey. And by the way, I have got a 3D bust coming for you for Valentine's Day and our anniversary. And maybe she can put that on her nightstand and she can see me every night before bed. I am sure every woman out there is saying that is exactly what they want.

So with a subcommittee title of Commerce, Manufacturing, and Trade, our first hearing could have dealt with any number of issues. The agencies and subject matter within our jurisdictions are numerous and diverse, and they all have complex issues worthy of our discussion.

I would like to thank all of our witnesses here today traveling from all parts of our Nation to be here today to share their manufacturing experiences. And I have Mr. Holler from 3M. And now, while he is from Minnesota—one of their plants is in my district in Valley, Nebraska. They make respirators—masks—for all over the world and they employ over 500 people in my district. And so hopefully, today, Bob and some of the other witnesses can shed some light on why those chose where to manufacture.

So at this point, I am going to recognize myself for 5 minutes.

Today, we are going to start from square one by focusing on a sector which has undoubtedly served as a core building block in securing America's greatness, and that is our manufacturing.

Our goal is simple: to hear directly from the individuals most immediately affected by U.S. manufacturing policies—the manufacturers themselves—and gain a clearer understanding about what is right with American manufacturing today and what can be done to make it even better tomorrow.

We will hear from eight different business leaders representing a broad cross section of U.S. manufacturing, companies making everything from glass used for iPads and Smartphones, to respirator masks, to missile defense systems. My hope is that a wide range of ideas and perspectives will surface during the discussion that can, in a manner of speaking, “set the table” for more specific manufacturing topics that will be tackled down the road.

While today's discussion will likely be wide-ranging, subsequent hearings could focus on specific manufacturing sectors like autos, auto parts, pharmaceuticals, chemicals, energy, and steel.

Why have we chosen to kick off the 113th Congress with a series of hearings covering a topic as broad as the state of U.S. manufacturing? The bipartisan manufacturing showcase this morning, which highlighted 60 products from 20 different districts on this subcommittee, says it all.

In the districts represented on our subcommittee alone, manufacturing accounts for over 800,000 jobs, which pay an average of 77,000 nationally, according to NAM. In Nebraska alone, the manufacturing sector consists of over 37,000 jobs just in 2011.

One would think that given this morning's showcase and these impressive statistics that the United States was living up to the subtitle of our hearing, which is Our Nation's Builders. Unfortunately, with each passing year, this title becomes more representative of our past and less so of our future.

The domestic manufacturing sector was hit the hardest in terms of job losses during this Great Recession. While manufacturing jobs account for just $\frac{1}{10}$ of the Nation's jobs, this sector suffered $\frac{1}{3}$ of the Nation's job losses. To be clear, during a time of record unemployment, roughly 33 percent of the jobs lost were in the manufacturing sector. To paint an even starker picture of the state of U.S. manufacturing, the Information Technology and Innovation Foundation reported that the manufacturing sector suffered an average 3.1 percent-per-year decline from 2000 to 2011, resulting in an average job loss of nearly 1,300 jobs per day.

One answer could be working to create an environment where companies already here see it worth their while to expand here. We often talk about job creation, and President Obama devoted a sig-

nificant piece of his State of the Union to it, but what does job creation really mean? That is why you are here. We want companies manufacturing abroad to come to America, make investments in capital and take advantage of the most productive manufacturing labor workforce in the world because I truly believe that our labor is second to none.

According to the National Association of Manufacturers, on average, manufactures of all sizes spend over 14,000 per employee to comply with regulations. Even when taking into account environmental regulations alone, manufactures spend 7,200 per employee in regulatory compliance. No wonder it costs more to manufacture in the U.S.

I agree with the President. We need to focus here in Congress on how we attract more jobs to our shores. We need to ask how we can equip people with the skills needed for the jobs that will power the engine of job creation. Manufacturing doesn't just create jobs, it creates great, high-paying jobs and it creates jobs in other sectors. Manufacturing has one of the strongest multiplier effects in the economy. Every \$1 in direct spending produces an additional \$1.35 in indirect outputs.

But the benefits of manufacturing don't stop there. A strong manufacturing base is key to closing our trade deficit and to sustaining a U.S. economy that can be a leader in the global economy in the long term.

I look forward to hearing all of your testimony. At this time I yield back my 12 seconds and yield to the ranking member for 5 minutes.

[The prepared statement of Mr. Terry follows:]

PREPARED STATEMENT OF HON. LEE TERRY

Good Morning, and Happy Valentines Day. We expect a love-fest at our hearing and speaking of love-fest today is my 21st Wedding anniversary.

With a subcommittee title as broad as "Commerce," "Manufacturing," and "Trade," our first hearing could have dealt with any number of issues. The agencies and subject matter within our jurisdiction are as numerous as they are diverse—and all have complex issues worthy of being discussed before a Congressional committee.

I would like to thank all of our witnesses for traveling to Washington for this hearing. In particular, I would like to thank Bob Holler from 3M, for making the trip. 3M has a great manufacturing facility in Valley, Nebraska that employs over 500 people. Hopefully today, Bob and some of the other witnesses can shed some light on why those chose to manufacture here in the U.S.

Today, we are going to start from square one by focusing on a sector which has undoubtedly served as a core building block in securing America's greatness. Manufacturing.

Our goal is simple: to hear directly from the individuals most intimately Affected by U.S. manufacturing policies—the manufacturers themselves—and gain a clearer understanding about what is right with American manufacturing today and what can be done to make it better tomorrow.

We will hear from eight different business leaders representing a broad cross-section of U.S. manufacturing—companies making everything from the glass used for iPads and smartphones, to respirator masks and missile defense systems.

My hope is that a wide range of ideas and perspectives will surface during this discussion that can, in a matter of speaking, "set the table" for more specific manufacturing topics we will tackle down the road.

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In the districts represented on our subcommittee alone, manufacturing accounts for over 800,000 jobs, which pay an average wage of \$77,000 nationally according to the National Association of Manufacturers. In Nebraska alone, the manufacturing sector consisted of over 37,000 jobs in 2011.

One would think that given this morning's showcase and these impressive statistics that the United States was living up to the surtitle of our hearing series, "Our Nation of Builders." Unfortunately with each passing year, this title becomes more representative of our past and less so of our future.

The domestic manufacturing sector was hit the hardest in terms of job losses during the Great Recession. While manufacturing jobs account for just a tenth of the nation's jobs, this sector suffered a third of the nation's job losses. To be clear—during a time of record unemployment—roughly 33 percent of the jobs lost were in the manufacturing sector.

To paint an even starker picture of the state of U.S. manufacturing, the Information Technology & Innovation Foundation reported that the manufacturing sector suffered an average 3.1 percent per year decline for the 2000 to 2011 period, resulting in an average job loss of nearly 1,300 jobs per day.

We often talk about job creation—President Obama devoted a significant piece of his State of the Union to it—but what does job creation really mean?

One answer could be working to create an environment where companies already here see it worth their while to expand—and companies manufacturing abroad want to come to America, make investments in capital, and take advantage of the most productive manufacturing labor force in the world—because I truly believe that our labor force is second to none.

Another potential answer could be reigning in the costs of regulations. According to the National Association of Manufacturers, on average, manufacturers of all sizes spend over \$14,000 per employee to comply with regulations. Even when taking into account environmental regulations alone, manufacturers spend over \$7,200 per employee in regulatory compliance costs. No wonder it costs 20 percent more to manufacture in the U.S.

I agree with the president. We need to focus here in Congress on how we attract more jobs to our shores. We need to ask how we can equip people with the skills needed for the jobs that will power the engine of job creation.

Manufacturing doesn't just create jobs, it creates good, high-paying jobs, and it creates jobs in other sectors. Manufacturing has one of the strongest multipliers effects in the economy: every \$1 in direct spending produces an additional \$1.35 in indirect output. But the benefits of manufacturing don't stop there: a strong manufacturing base is key to closing our trade deficit and to sustaining a U.S. economy that can be a leader in the global economy for the long term.

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OPENING STATEMENT OF HON. JANICE D. SCHAKOWSKY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Ms. SCHAKOWSKY. Thank you so much, Mr. Terry, and I want to congratulate you on your new role as chairman of this wonderful subcommittee. I am pleased to serve as the ranking Democrat. I also want to thank you and all the staff that helped put together that wonderful display of manufacturing. And a special thank you to Michelle Ash and Will Wallace of the Democratic staff for helping make that happen.

Our subcommittee has oversight over many areas that are of critical importance to the American people—consumer protection, product and auto safety, travel and tourism, interstate and foreign commerce, privacy and trade in manufacturing, which is our focus today.

In this Congress I look forward to working with you, Mr. Chairman, to find areas where we can all advance the priorities of the American people. Manufacturing is a great place to start.

I am pleased to welcome as a witness Joe Block, the vice president of Block Steel, located in my district in Skokie, Illinois. Block Steel is great American success story founded in 1948 and is run today 65 years later by the descendents of the founders. They have about 60 employees, are a union shop with good wages and health benefits. As the country's largest aluminized steel distributor, they are a critical supplier to the automotive appliance and HVAC industries, and I am sure all of our witnesses could attest the sector has changed dramatically from the images that many of us still have of the giant factories with long assembly lines.

We are seeing major leaps in the area of advanced manufacturing where a skilled and educated workforce and groundbreaking technology play a key role. Like traditional manufacturing jobs, advanced manufacturing jobs are good jobs and can be filled by workers with a range of training. The growth of the industry is good news for building the middle class, a theme the President focused on earlier this week in the State of the Union Address.

And the industry is growing. After years of job losses, manufacturing is a bright spot as we come out of the Great Recession. In my State of Illinois, 40,000 new manufacturing jobs have been created since December 2009—one of the top five states in the country for growth in manufacturing jobs. More than half a million manufacturing jobs have been created nationwide since the end of 2009.

The manufacturing industry requires a few basic things including investment in innovation, good and reliable infrastructure, and an educated and skilled workforce that will fill the millions of good jobs that manufacturing can produce.

I am extremely concerned about proposed cuts to federal investments in these areas, including what we would see under sequestration. This hearing will give us the opportunity to examine more closely the successes and challenges the industry is facing, and I look forward to the testimony of our witnesses. And I certainly hope you will also help us understand how we can be better partners to help grow our manufacturing sector.

I would like to yield the balance of my time to my colleague, Mr. Welch.

Mr. WELCH. I think the ranking member.

I want to brag a little bit. We have got Mr. Saxton from JELD-WEN here, and JELD-WEN is a company with a national presence, but it has two facilities in Vermont and has been a great contributor to our Vermont economy. It is combining skilled manufacturing, creating very good jobs in a State that has lost a lot of jobs. We used to have a big machine tool industry in Springfield, Vermont, and we more or less have lost it. JELD-WEN has come and it is a manufacturing facility that has created 800 very good-paying jobs in Windsor County, which is where I am from. And I used to be a State Senator before I got demoted to Congress.

And so we are very proud of JELD-WEN, which combines very good manufacturing practices, high technology, good employee relationships, and energy efficiency. It uses certified wood. It makes

windows and doors that are tremendous in insulating homes, saving energy.

And we have had big debates about energy policy in this committee and they will continue, but there seems to be a good deal of bipartisan support for the notion that anything that creates good jobs and allows energy efficiency to save homeowners and building owners money is a really good thing.

So I really want to welcome Mr. Saxton and thank you for all of the good work JELD-WEN is doing in Vermont. Thank you.

Mr. TERRY. At this time I recognize the full committee chairman, Mr. Upton, for 5 minutes.

OPENING STATEMENT OF HON. FRED UPTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. UPTON. Well, again, congratulations, Mr. Chairman, for your first hearing. I was very impressed with the demonstration downstairs that many of us participate in.

You know, when Henry Ford built his first horseless carriage in Michigan, Michigan began its journey as the face of the American automobile manufacturing. We later supplied our military with vehicles during times of war and felt the burgeoning consumer demand that followed it. And we have experience the pains of a changing automobile industry, certainly over the last several decades that I am very pleased with the resurgence of manufacturing.

But much like the rest of the country, Michigan's economy is far more diversified now. Manufacturing, and not just auto-related, is still extremely important to our economy producing \$70 billion in output in 2011 and accounting for 16 percent of our State's GDP. In my own district, we have more than 660 manufacturers who employ 10 or more folks, accounting for nearly 50,000 of the jobs in my district.

Statewide, the manufacturing industry directly employs over a half a million Michiganders. And each of those jobs produces others upstream and downstream in Michigan and elsewhere. So we are pleased with this subcommittee and the hearing. And I would yield to the vice chair of the full committee, Ms. Blackburn, from Tennessee.

[The prepared statement of Mr. Upton follows:]

PREPARED STATEMENT OF HON. FRED UPTON

Thank you, Chairman Terry, for calling today's hearing, "Our Nation of Builders: Manufacturing in America." I am also encouraged by your plan to use the committee's jurisdiction to further examine manufacturing this Congress.

When Henry Ford built his first "horseless carriage" plant in my home state, Michigan began its journey as the face of American automobile manufacturing. We later supplied our military with vehicles during times of war and filled the burgeoning consumer demand that followed.

Michigan's economy is now far more diversified, but manufacturing—and not just auto-related manufacturing—is still extremely important to the state's economy, producing \$70 billion in output in 2011, and accounting for 16 percent of our state GDP. In my district alone, we have over 660 manufacturers who employ 10 or more workers, accounting for almost 50,000 jobs. Statewide, the manufacturing industry directly employs over a half million Michiganders, and each of those jobs produces others upstream and downstream, in Michigan and elsewhere.

According to University of Michigan, professor and American Enterprise Institute Scholar Dr. Mark Perry, the top 500 publicly traded U.S. manufacturers had \$6.01 trillion in revenue last year and would have been the world's third largest economy

if they were their own country. Our manufacturing sector has been resilient and is one of the few bright spots in our economic recovery that has been adding jobs. The benefits of building products in the U.S. are clear: higher average wages, increased innovation, and greater economic multiplier effects for the entire economy. There are many challenges facing American manufacturers today, but I am still confident manufacturing can lead the way. Anyone who came by our Manufacturing Showcase this morning and saw a sample of some of the broad range of products made in our members' districts—including the medical devices made by Stryker in my district—know our manufacturers still define what is “world-class.”

I am pleased we have such an excellent panel of witnesses that represent the voices of our constituents. I am anxious to hear how they assess our current economic situation and what policies they believe need to be addressed to improve our shared goal of expanding manufacturing.

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Mrs. BLACKBURN. Thank you, Mr. Chairman. I think we all want to welcome you. We are delighted that you are here and delighted to have bipartisan support for growing the manufacturing footprint in this country.

I do want to say that, today, we have welcomed Nissan North America, and they are located right there in my district and right outside of the district have a facility where they manufacture the Pathfinder, the Maxima, the Infiniti JX. Bodine Aluminum is also present with us today and they do an engine block that is in the Camry and the RAV4. So we are delighted with those.

Mr. Steiner, I welcome you. Your Gorilla Glass, which is a product that I have referenced more than once in this committee, is produced there in conjunction with work from Doerfer in Nashville and we appreciate that. And at this time, I yield to Mr. Barton of Texas.

Mr. BARTON. Thank you, Ms. Blackburn. I want to take my brief time to introduce to the committee Eric Meyers. He and his father, who is sitting behind him, have owned Oil City Iron Works in Corsicana, Texas, a foundry founded over 125 years ago. The first major oilfield west of the Mississippi was discovered in Corsicana in 1895. The first oral refinery west of the Mississippi, Magnolia Petroleum, now a part of ExxonMobil, shortly followed. The Meyers family have been providing through their foundry the basic building blocks for industrial might for America, as I said, for over 125 years.

Eric has got a master's degree and an undergraduate degree. He and his father have a company that has no debt. They provide over 250 good-paying jobs in Corsicana, Texas. In his spare time, Eric is the emergency manager for Navarro County which he self-funds. If there is a tornado within 100 miles, he is there. And 2 years ago we had a tornado in Rice, Texas. He was there before the Highway Patrol was there. So Eric, we welcome you and we look forward to your testimony.

With that, I want to yield to my good friend from New Jersey, Mr. Lance.

Mr. LANCE. Thank you, Mr. Barton. And congratulations to you, Chairman Terry, and thank you for giving me the opportunity to serve as vice chair of the subcommittee. And I look forward to working in a bipartisan fashion to generate new ideas and in-

creased regulatory efficiencies that will benefit our Nation's manufacturing sector.

I welcome those who have participated in the showcase from the area of New Jersey I represent: Ortho Clinical Diagnostics, a J&J affiliate in Raritan, New Jersey; Bihler of America, based in Phillipsburg, New Jersey, which works with J&J to create extremely small needles for sutures; Voltaix: Electronics Chemicals company, manufacturing specialty gases in Branchburg, New Jersey; All-State Legal, an engraving and stationery manufacturer in Cranford, New Jersey; and Kuhl Corporation, a third-generation commercial egg-washing manufacturer that opened its doors in Flemington, New Jersey, in 1909. I look forward to working with manufacturing operations throughout the Nation to determine how Congress can be a partner in future growth.

And I yield to Congressman Harper.

Mr. HARPER. Thank you, Mr. Lance.

And I am pleased to introduce Mr. Rick Yuse of Raytheon Company, who serves as the president of Raytheon Space and Airborne Systems, a division that is a leading provider of products that give military forces the most accurate and timely information on today's network-centric battlefield.

One product under his purview is Raytheon's active electronically scanned array, or AESA radar. These radars are an integral piece in the U.S. Military's tactical aircraft fleet, as well as a number of our foreign allies' aircraft. We have over 700 Mississippians who work at the Raytheon facility in Mississippi that are responsible for assembling these highly technological and life-saving radars. Raytheon takes advantage of Mississippi's track record of being business-friendly, its skilled and plentiful workforce, and its quality workforce training programs.

We look forward to hearing from you today, and we welcome you, Mr. Yuse, and appreciate you being here today.

And with that, I will yield to the gentleman from Kentucky, Mr. Guthrie.

Mr. TERRY. At this time, I have got to interrupt because you are out of time. So what we are going to do is go to 5 minutes over here and we will do a unanimous consent so the others can introduce. Fair? So I recognize the gentleman from California, the full committee ranking member, Mr. Waxman.

OPENING STATEMENT OF HON. HENRY A. WAXMAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. WAXMAN. Thank you very much, Mr. Chairman. And I want to congratulate you on your new chairmanship of the important subcommittee which is holding its very first hearing today.

I also want to welcome Ms. Schakowsky as the subcommittee's new Democratic ranking member. I look forward to working with both of you and our colleagues as we continue our oversight over interstate commerce and strive to ensure commonsense consumer protections for all Americans.

A strong manufacturing sector is vital to our identity as a nation. It is a source of countless scientific breakthroughs and is essential to maintaining our national defense capabilities. Manufacturing is

also a key building block for strong and stable middle class in this country.

In my home State of California, the manufacturing sector adds more than \$200 billion to the economy and employs more than 1.2 million people. In the Los Angeles area, particularly the South Bay region, this is one of the country's greatest centers of defense and aerospace manufacturing. And I have the great honor to have been elected to represent this area. It is also home to several promising manufacturers of energy efficiency technology.

This morning, I am proud to showcase examples of manufacturing from El Segundo in Redondo Beach in my district. NanoH2O displayed an industry-leading energy efficient reverse osmosis membrane that it has developed for desalinization purposes. Northrop Grumman displayed two aerospace products it is manufacturing for the Federal Government: the Navy's F/A-18 Super Hornet strike fighter and Nassau's James Webb Space Telescope.

And I am also pleased to recognize Mr. Yuse from Raytheon, who was centered in El Segundo, and Raytheon has facilities in Mississippi but it is headquartered in the South Bay. And we are pleased to have you with us.

Tuesday's State of the Union address reaffirmed the President's dedication to making the Nation a magnet for new jobs in manufacturing through the development of manufacturing innovation institutes. The President's proposals for targeted investments in education, infrastructure, and clean energy will also help grow the manufacturing sector.

There is one big threat to manufacturing looming on the horizon. For the health of the manufacturing sector and the economy as a whole, Congress should work to avert the massive arbitrary spending cuts set to take effect on March 1. The sequester should be replaced with a balanced, responsible deficit reduction plan. It is time we returned certainty and predictability to our manufacturers, small businesses, American families, and our entire economy.

Our manufacturing sector has accomplished great things. The U.S. can continue to be at the forefront of global manufacturing creating transformative technologies for years to come, but Congress must do its part. We can't expect our economy to rebound if we keep dragging the economy down with obstacles to growth, like the sequester.

I am looking forward to the testimony from our witnesses. I must apologize that there is another subcommittee meeting at the exact same time and I have to go down there to that subcommittee hearing as well. I will come back as soon as I am able to, but I want to welcome all of the—

Mr. TERRY. Henry, you actually have a little bit of time left. Our clock is off.

Mr. WAXMAN. Well—

Mr. TERRY. If you would like to yield—

Mr. WAXMAN [continuing]. Yes—

Mr. TERRY [continuing]. To Mr. Barrow.

Mr. WAXMAN. I do want to yield the balance of my time, which I assume is substantial, to Mr. Barrow from Georgia.

[The prepared statement of Mr. Waxman follows:]

PREPARED STATEMENT OF HON. HENRY A. WAXMAN

I want to thank Mr. Terry for holding this hearing and to congratulate him on his new chairmanship of this important Subcommittee. I also welcome Ms. Schakowsky as the Subcommittee's new Democratic Ranking Member. I look forward to working with both of you—and all of our colleagues—as we continue our oversight of interstate commerce and strive to ensure commonsense consumer protections for all Americans.

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In the Los Angeles area, the South Bay region is one of the country's greatest centers of defense and aerospace manufacturing, and I have the great honor of being elected to represent this area. It is also home to several promising manufacturers of energy efficiency technology. This morning, I was proud to showcase examples of manufacturing from El Segundo and Redondo Beach in my district. Nano H2O displayed an industry-leading, energy-efficient reverse osmosis membrane that it has developed for desalination purposes, and Northrop Grumman displayed two aerospace products it is manufacturing for the federal government: the Navy's F/A-18 Super Hornet strike fighter and NASA's James Webb Space Telescope.

This is something that President Obama and his Administration clearly recognize. The Obama Administration has a number of initiatives underway to bolster American manufacturing.

Tuesday's State of the Union address reaffirmed the President's dedication to making the nation a "magnet for new jobs and manufacturing" through the development of Manufacturing Innovation Institutes. The President's proposals for targeted, deficit-neutral investments in education, infrastructure, and clean energy will also help grow the manufacturing sector.

There is one big threat to manufacturing looming on the horizon. For the health of the manufacturing sector—and the economy as a whole—Congress should work to avert the massive, arbitrary spending cuts set to take effect on March 1. The sequester should be replaced with a balanced, responsible deficit reduction plan. It is time we return certainty and predictability to our manufacturers, small businesses, American families, and our entire economy.

Our manufacturing sector has accomplished great things. The U.S. can continue to be at the forefront of global manufacturing, creating transformative technologies for years to come—but Congress must do its part. We can't expect our economy to rebound if we keep dragging the economy down with obstacles to growth like the sequester.

I'm looking forward to the testimony of our witnesses.

Thank you.

Mr. BARROW. I thank the gentleman for yielding.

And I want to congratulate Mr. Terry on his being elected as chairman of the committee and thank him for holding this hearing on manufacturing in America.

Most folks agree that American manufacturing is good for our country, but American manufacturing is good for other countries as well. In my district, goods that are made in America are literally running the rest of the world.

Fram Renewable Fuels is doing just that. As one of the first wood-pellet producers and exporters in the southeast, they manufacture fuel that serves in place of coal to generate electricity to utility companies around the world. I had the honor of visiting Fram on a manufacturing tour of my district last fall, and I was impressed by the sophistication of their operation, which is responsible for exporting over 375,000 metric tons of wood pellets each year. I have seen the difference that they are making through manufacturing, and I look forward to the testimony of Fram's president,

Mr. Harold Arnold, as we examine how we can better support America's manufacturers and continue to be a "Nation of Builders."

And with that, Mr. Chairman, I yield back.

Mr. TERRY. Thank you, Mr. Barrow. The time has run out. I would ask unanimous consent for 2 additional minutes on the majority's side so that two members can introduce their guests.

Hearing none, we will have 2 minutes. And Mr. Guthrie, you are recognized for 1 minute.

Mr. GUTHRIE. Thank you, Mr. Chairman. I appreciate that.

It is my pleasure to introduce Mr. Jim Steiner. He is the vice president for Corning Special Materials and general manager of the Harrodsburg, Kentucky, plant that makes Gorilla Glass, which, if you don't know what it is, if you have an iPhone in your pocket or if you have an iPad in front of you, you are touching it every time you tap the glass to get to your areas you want to go to. And this product is emblematic of cooperation between a couple of great American innovators and where they always say good enough is never good enough. And we appreciate you being here. I have enjoyed touring your facility. It is a wonderful place.

I also point out in the room below, there is another manufacturer. The gateway to the Bourbon Trail is Clermont, Kentucky, and there is Jim Beam and you saw Booker's and Knob Creek down there and Basil Hayden and also Toyota, which is not in my district, a manufacturing plant, but they have a lot of parts suppliers down there as well. They are in Georgetown, Kentucky.

So with that, I yield to Mr. Bilirakis.

Mr. BILIRAKIS. Thank you. I appreciate it very much. Thank you, Mr. Chairman.

I would like to welcome and thank Mr. Jeff Smatsky at Zephyrhills Water for their appearance today. Mr. Smatsky serves as a factory manager at the Zephyrhills Water plant. It is in Zephyrhills, Florida, in my district, the 12th Congressional District of Florida. The 258 employees at the Zephyrhills plant produce both the Zephyrhills and the Nestlé Pure Life brands of bottled water in a variety of single-serve and bulk containers ranging from 8 ounces to 5-gallon water cooler containers, which are distributed to homes in Florida, offices in Florida, all across Florida.

Zephyrhills serves a valuable role in Pascoe County, a community that I represent in the Tampa Bay area in Florida as well, all of Florida. His testimony will shed light on the state of our economy and how we may be able to spur economic growth in this vital sector.

And I yield back, Mr. Chairman. Thank you.

Mr. TERRY. Thank you, Mr. Bilirakis. And all of our witnesses have been introduced by their sponsoring member.

So we will begin our testimony. Mr. Yuse, you have 5 minutes.

STATEMENTS OF RICK YUSE, PRESIDENT, SPACE AND AIRBORNE SYSTEMS, RAYTHEON COMPANY; JAMES R. STEINER, SENIOR VICE PRESIDENT, SPECIALTY MATERIALS, CORNING INCORPORATED; BOB HOLLER, DIRECTOR, GLOBAL RESPIRATORY PROTECTION BUSINESS, 3M; ERIC R. MEYERS, PRESIDENT, OIL CITY IRON WORKS; JEFF SMATSKY, FACTORY MANAGER, ZEPHYRHILLS; JOSEPH K. BLOCK, VICE PRESIDENT OF SALES, BLOCK STEEL CORPORATION; HAROLD ARNOLD, PRESIDENT, FRAM RENEWABLE FUELS; AND RON SAXTON, EXECUTIVE VICE PRESIDENT, JELD-WEN

STATEMENT OF RICK YUSE

Mr. YUSE. Good morning, and thank you, Chairman Terry, Ranking Member Schakowsky, and committee members. On behalf of his Raytheon constituents, I also want to thank Congressman Harper.

As president of Raytheon Company's Space and Airborne Systems business, I am honored to be here representing our company and discussing our contributions to America's manufacturing infrastructure. Thank you for the opportunity to share the many ways that Raytheon, and in particular, Forest, Mississippi, Consolidated Manufacturing Center contribute to America's national security, global competitiveness, and economic prosperity.

While my focus will be on Raytheon's Forest operations, I would be remiss if I failed to note Raytheon's manufacturing footprint covers many other States and our suppliers' operations expand that economic footprint even further.

As a member of the defense and aerospace industry, Raytheon proudly competes in a market that contributed \$218 billion in overall sales to the United States economy in 2012. Raytheon specializes in defense, homeland security, and related mission support services, providing state-of-the-art electronics, mission systems integration, and other capabilities in the areas of sensing; effects; command, control, communications, and intelligence; and cybersecurity. But more importantly, the work we do and the products we design and manufacture in places like Forest save lives and make the world a safer place.

Raytheon's ability to succeed in the global marketplace requires skilled, well-trained, and dedicated workforce; a stable fiscal, tax, and regulatory environment; and the ability to export our products to United States allies. In fact, as our domestic budget faces increased pressure, defense exports can help decrease costs and risks associated with technological advances for the U.S. military, support America's industrial base, and strengthen our balance of trade.

Our operation in Forest, Mississippi, contributes significantly to Raytheon's capability and reputation for manufacturing excellence. Our legacy in Mississippi stretches back to 1983 when we opened our doors in support of a single military radar program. Over the years, we have increased the scope and scale of our operations in Forest, expanded our facility, added jobs, and broadened the array of products built.

Today, we have over 700 employees in Forest. They are some of the most skilled laborers in the country. They work in a 340,000 square-foot state-of-the-art manufacturing space building sophisti-

cated airborne, ground-based radars, electronic warfare technology, and advanced communication systems for use by U.S. and allied war fighters.

Thanks to Forest, we have delivered more than 500 active electronically scanned arrays, or AESA radars, an industry first that we will soon celebrate with our Mississippi employees.

The AESA radar is used on our military fighter planes to greatly increase their ability to detect and track airborne targets. Its capabilities also allow our pilots to identify multiple targets at once. This technology provides game-changing performance and tactical advantages, enabling war fighters to accomplish their mission and return home safely to their families. This radar and the lives it protects are a source of tremendous pride for the Raytheon workers who build it. Our radars have logged more than 400,000 cumulative operational flight hours on Air Force, Navy, and Marine tactical aircraft.

Between 2004 and 2011, Raytheon ramped up its AESA production rates tenfold with a 100 percent on-time delivery rate in 2012. This efficiency supports our customers' growing needs and demonstrates our ability to further increase production and jobs as we win additional contracts. In particular, foreign sales of U.S. military aircraft are an important growth area for Raytheon, the industry, and our country. As of last year, three key military aircraft production lines, the C-17, the F-15, and the F-16 were being extended largely by international export demand. These foreign sales drive increased demand for radars built in Mississippi.

Whether driven by domestic or international sales, increased demand for Raytheon's products significantly enhances the economies of the United States and Mississippi. In 2012 Raytheon operations contributed over \$38 million in payroll to employees in the State. In most cases, our employees earned almost double the average annual Mississippi salary.

Mr. TERRY. Excuse me. Could you get to the conclusion?

Mr. YUSE. Beyond our employees, we estimate that Raytheon's overall economic activities generated more than 400 additional jobs. Much of our success in Forest also is tied to the quality of our local and regional suppliers, who range in size from small business to Fortune 100 corporations. In 2012, for example, we spent nearly \$6 million with 60 Mississippi suppliers.

Finally, I want to point out the strong partnership that Raytheon has established with the federal, state, and local officials who count on our Forest employees and the facility as their constituents. This partnership is vital to our manufacturing process.

Raytheon and the men and women of Forest, Mississippi, produce complex and cutting-edge technologies that protect our Nation, help our war fighters and their vital missions, and contribute to our Nation's economic prosperity. We are proud of these employees and their many accomplishments.

[The prepared statement of Mr. Yuse follows:]

**Testimony of Richard Yuse,
President, Space & Airborne Systems,
Raytheon Company**

**Before the
Committee on Energy and Commerce,
Subcommittee on Commerce, Manufacturing and Trade
United States House of Representatives**

February 14, 2013

Good morning, and thank you, Chairman Terry, Ranking Member Schakowsky, and committee members. On behalf of his Raytheon constituents, I also want to thank Congressman Harper.

As the president of Raytheon Company's Space and Airborne Systems business, I am honored to be here representing our company and discussing our contributions to America's manufacturing infrastructure. Thank you for the opportunity to share the many ways that Raytheon and, in particular, our Forest, Mississippi Consolidated Manufacturing Center contribute to America's national security, global competitiveness, and economic prosperity.

While my focus will be on Raytheon's Forest operations, I would be remiss if I failed to note that Raytheon's manufacturing footprint covers many other states, and our suppliers' operations expand that economic footprint even further.

As a member of the aerospace and defense industry, Raytheon proudly competes in a market that contributed \$218 billion in overall sales to the United

States economy in 2012. Raytheon specializes in defense, homeland security, and related mission support services, providing state-of-the-art electronics, mission systems integration and other capabilities in the areas of sensing; effects; command, control, communications, and intelligence; and cyber security. But more importantly, the work we do and the products we design and manufacture in places like Forest save lives and make the world a safer place.

Raytheon's ability to succeed in the global marketplace requires a skilled, well-trained, and dedicated workforce; a stable fiscal, tax, and regulatory environment; and the ability to export our products to United States allies. In fact, as our domestic budget faces increased pressure, defense exports can help decrease costs and risk associated with technological advances for the U.S. military; support America's industrial base; and strengthen our balance of trade.

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Today, we have over 700 employees in Forest. They are some of the most skilled laborers in the country. They work in 340,000 square feet of state-of-the-art

manufacturing space, building sophisticated airborne and ground-based radars, electronic warfare technology, and advanced communications systems for use by U.S. and allied warfighters.

Thanks to Forest, we have delivered more than 500 tactical Active Electronically Scanned Array (AESA) radars—an industry first that we will soon celebrate with our Mississippi employees.

The AESA radar is used on our military's fighter planes to greatly increase their ability to detect and track airborne targets. Its capabilities also allow our pilots to identify multiple targets at once. This technology provides game-changing performance and tactical advantages, enabling warfighters to accomplish their mission and return home safely to their families. This radar and the lives it protects are a source of tremendous pride for the Raytheon workers who build it. Our radars have logged more than 400,000 cumulative operational flight hours on Air Force, Navy, and Marine tactical aircraft.

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Whether driven by domestic or international sales, increased demand for Raytheon's products significantly enhances the economies of the United States and Mississippi. In 2012, Raytheon's operations contributed over \$38 million in payroll to employees in the state. In most cases, our employees earned almost double the average annual Mississippi salary. Beyond our employees, we estimate that Raytheon's overall economic activities generated more than 400 additional Mississippi jobs. Much of our success in Forest also is tied to the quality of our local and regional suppliers, who range in size from small businesses to Fortune 100 corporations. In 2012, for example, we spent nearly \$6 million with 60 Mississippi suppliers.

Beyond the products we manufacture, Raytheon is supporting the development of our nation's future technical talent pipeline. We have invested more than \$72 million in Science, Technology, Engineering and Mathematics (STEM) education through the company's flagship MathMovesU program. This program has touched the lives of more than 3,000,000 American students, teachers, and parents. Raytheon also awards \$2,000,000 in scholarships and grants annually, and we partner and collaborate with universities and other educational institutions on workforce development matters. We also are very proud that our employees are

active participants in their communities, contributing many hours as volunteers to the causes they support.

Finally, I want to point out the strong partnership that Raytheon has established with the federal, state, and local officials who count our Forest employees and the facility as their constituents. This partnership is vital to our manufacturing success.

Raytheon, and the men and women of Forest, Mississippi, produce complex and cutting-edge technologies that protect our nation; help our warfighters complete their vital missions; and contribute to our nation's economic prosperity. We are proud of these employees and their many accomplishments.

I thank you again for the opportunity to participate in this hearing and I am happy to answer any questions you may have for me.

Mr. TERRY. Thank you, Mr. Yuse. Appreciate your testimony. There are what we call the shot clocks, little monitors there on your desk. And it will turn to yellow at 1 minute left, so if you hit 1 minute and have a couple pages left, maybe skip a couple of them. We are really anxious to get to questions.

So at this time, Mr. Steiner, appreciate you. You are from Corning, representing Corning.

STATEMENT OF JAMES R. STEINER

Mr. STEINER. Chairman Terry and Ranking Member Schakowsky, thank you for the opportunity to be here today. My name is Jim Steiner. I am responsible for the Specialty Materials business at Corning. It includes our Corning Gorilla Glass business and our factory in Harrodsburg, Kentucky. But I would also like to thank you because we do have a small aerospace and defense business and you set me beside one of our customers today.

But I would also like to thank Congressman Guthrie, who represents our facility in Harrodsburg. He has personally witnessed the success of Gorilla Glass manufacturing, and we appreciate his interest and support.

Many of the members I notice are actively touching our product as we speak, so I thank you for also being a user of Gorilla Glass.

We have been in business for over 160 years. Corning was founded by the great-great-grandfather of Amo Houghton, who many of you served with here in Congress, and Amo sends his best.

Innovation and invention are keys to Corning's success over its long history. It includes the invention of many life-changing things like the catalytic converter, optical fiber, and glass for liquid crystal displays.

Today, I want to tell you the story of Gorilla Glass, an American success story. It is a good enough story that I shouldn't be able to screw it up. We invented in 1962 when Amo Houghton was our president a material we called Chemcor. It was a chemically strengthened glass we actually saw as a way to compete with the steel industry. It was a cool invention. The issue was we never really found any mass markets to commercialize it in, so it never became a success. In 2006 this small group in my division worked on taking the Chemcor base and inventing a new glass that could be used on mobile devices. In late 2006 we did a small development run, and once again, we thought we had a really cool invention but we needed a way to commercialize it.

Then, along came Steve Jobs and Apple. In early 2007, as Apple was approaching the launch of the iPhone, they had originally designed the phone with a plastic cover. And as Steve Jobs did the first exhibition of the iPhone, as he walked off the stage, he looked down at it and the plastic was scratched. So he told his team that he wanted to use glass and he took an active role in finding a solution. He called our chairman Wendell Weeks and he challenged us to provide a glass that he could use for the launch of the iPhone. Luckily, we had done this small development run and we had the invention. The challenge was we had to take that invention and commercialize it. And the iPhone was due to launch in 3 months.

So we went to our factory in Harrodsburg, Kentucky, and gave them 3 months to take a glass composition and develop the manu-

facturing process and make the initial shipments in May of 2007. Now, typically, for us a glass development will take years, even decades to go from invention to commercialization but we had 3 months this time. We challenged the Harrodsburg plant and they pulled it off. Now, this only happened because of a close working relationship with Apple and the opportunity to meet that timeline and launch on their product.

We got a very quick start in 2007. Our first year sales were 19 million, which sales for a new product in the first year of 19 million are quite significant. But we have grown significantly. We are now on over a billion devices out in the field. We have 33 different customers. And in 2012, I am happy to say, we broke \$1 billion in revenue. See what I mean? It is a tough story to screw up.

So our employment in Harrodsburg now is well over 400 jobs. We are running the factory full. Back in 2008 we got as low as about $\frac{1}{5}$ of our capacity, but the success of our work in Harrodsburg to bring up the manufacturing has allowed us to continue to invest in Harrodsburg. Last year, we started up two new melting tanks to make additional glass and we have invested over \$240 million in the Harrodsburg facility for new production capacity.

That success of Gorilla Glass has also allowed us to spend more in research and development in our Corning, New York, facilities. We have recently expanded our capabilities in Corning to do additional specialty flat glasses and have spent about \$200 million in capital in that facility, too. And we believe over 1,000 people in Corning are now supported by the success of the Gorilla business.

So our next product we are working on and we have invested in Harrodsburg is Willow Glass. This is Willow Glass. It is 100 micron thick glass, about the thickness of your human hair. It is a cool invention and now we are looking for where to commercialize that.

So I thank you for your support.

[The prepared statement of Mr. Steiner follows:]

**Summary Testimony by James Steiner, Senior Vice President for Corning Incorporated
House Energy and Commerce Subcommittee on Commerce,
Manufacturing, and Trade
February 14, 2013**

Corning Incorporated has been in business as an American manufacturer for over 160 years. We were founded in 1851 by Amory Houghton, the great-great-grandfather of Amo Houghton, Jr.

Corning's strategy for success is based on two key foundations. First, we invent and innovate with tenacity, consistently investing 10 percent of our sales in research, development & engineering (RD&E). Second, we drive down the cost of manufacturing through process engineering. Because of our commitment to RD&E, we have many life-changing discoveries to our credit. Our history of inventions have earned us the President's Technology Medal of Honor four times.

In 2006, we formed a small team of scientists and engineers to build on research we did in the 1960s to invent a new glass for use on mobile devices. We called the program the Gorilla program. But, we had no easy path to commercialize our invention.

Then along came Steve Jobs and Apple.

In early 2007, Apple had a technical problem. The plastic screen they used on the prototype for the new revolutionary iPhone was scratching with normal use. They needed a new more durable and aesthetic material for the iPhone's display. Steve Jobs challenged our CEO, Wendell Weeks, to provide a solution. To meet the timeline required to make the invention a success, we had to move to commercialization in just months. A typical successful Corning innovation can take more than a decade.

Apple decided to take a chance on Corning. By working closely with Apple, we were able to dramatically reduce the time from invention to full commercialization. We met Apple's requirements and successfully filled the order. The rest is history.

The iPhone was an enormous success. It transformed broadband Internet communications bringing the computing power of a PC to a mobile handheld device. This drove the demand for Corning® Gorilla® Glass. Other smartphone manufacturers follow Apple's lead. Today, Corning® Gorilla® Glass has been designed into approximately 1,000 products and more than a billion devices have been sold with Corning® Gorilla® Glass. Sales of Corning® Gorilla® Glass have surged from \$19 million in 2007 to \$1 billion in 2012.

We selected our Harrodsburg, Kentucky plant for the development and manufacture of Corning® Gorilla® Glass. It was the site for the development of Corning's very successful LCD glass business so we had the core manufacturing know-how in the facility. But, we needed new manufacturing equipment and increased capacity.

In 2010, we decided to invest \$180 million in the Harrodsburg facility. Since then we have invested another \$60 million in Harrodsburg and an additional \$200 million to expand global RD&E. Across Corning's corporate footprint, our relationship with Apple has created approximately 1,000 jobs in research and development, engineering, and manufacturing.

From a commercial point of view, we have learned about the importance of a partnership with a solid technology leader. Apple drove the initial demand for Corning® Gorilla® Glass and allowed us to prove the value of the product to a wider spectrum of customers. We have also learned how to move at a much faster pace to meet the requirements of today's dynamic industries.

From a policy perspective, we have learned about the importance of local and state incentives, intellectual property protection, pro-competitive tax reform, access to foreign markets, and the need for more spectrum.

Testimony by
James Steiner, Senior Vice President for Corning Incorporated
Before
House Energy and Commerce Subcommittee on Commerce,
Manufacturing, and Trade
February 14, 2013

Introduction

Thank you, Chairman Terry and Ranking Member Schakowsky, for the opportunity to appear before you today. My name is Jim Steiner. I am the Executive in Corning responsible for our world-class manufacturing facility in Harrodsburg, Kentucky that makes the revolutionary product branded as Corning® Gorilla® Glass.

I also want to thank Mr. Guthrie for his support for Corning and our Harrodsburg facility. He has witnessed the marvel of Corning® Gorilla® Glass manufacturing first hand, and we appreciate his interest and support.

Background on Corning

Let me give you a little background on Corning Incorporated to provide context. We have been in business as an American manufacturer for over 160 years. We were founded in 1851 by Amory Houghton, the great-great-grandfather of Amo Houghton, Jr. who served with many of you in the House for 18 years.

Corning's strategy for success is based on two key foundations. First, we invent and innovate with tenacity, consistently investing 10 percent of our sales in research, development & engineering (RD&E). Second, we manufacture efficiently. Invention is only valuable if you can successfully commercialize the product. So once we make a product discovery, we relentlessly drive down our cost of

manufacturing through process engineering. Today, we are the world's lowest-cost manufacturer for 80 percent of the products we make.

Simply put, invention, innovation, and low-cost manufacturing through process engineering are the keys to success in American manufacturing.

Because of our commitment to RD&E, we have many life-changing discoveries to our credit. In the 19th century, we invented the process to manufacture at low cost the glass envelope for Thomas Edison's light bulb. Lighting changed the world. Our most recent life changing inventions include the ceramic core of the catalytic converter that has removed 4 billion tons of harmful emissions from the atmosphere. Optical fiber that has enabled very high speed broadband communications to revolutionize the Internet. And, LCD glass that has provided the foundation for display technologies in a wide range of consumer electronics. Our history of inventions like these have earned us the President's National Medal of Technology and Innovation four times.

Corning® Gorilla® Glass

This history sets the context for Corning® Gorilla® Glass and the success of our Harrodsburg manufacturing facility.

In 1962 we invented a glass we called Chemcor. It never became a success for us because we failed to successfully commercialize it. In 2006, we formed a small team to take the foundations of the Chemcor work, and to invent a new glass for use on mobile devices. We called the program the Gorilla program. Again, we had no easy path to commercialization.

Then along came Steve Jobs and Apple. In early 2007, Apple had a technical problem. The plastic screen they used on the prototype for the new revolutionary iPhone was scratching with normal use. They needed a new more durable and aesthetic material for the iPhone's display. Standard glass -- called soda lime glass in the industry -- was a possibility, but it too had problems. It looked good, but it also scratched and had low damage resistance.

In early 2007, Steve Jobs challenged our CEO, Wendell Weeks, to provide a solution. To meet the timeline required to make the invention a success, we had to move to commercialization in just months. A typical successful Corning innovation can take more than a decade. Apple does not work on that slow pace. Apple decided to take a chance on Corning. They required that glass be delivered within three months of the first contact between our CEO's.

At the time, this appeared to be an impossible task. While we knew we could make the glass, we had never made it to the quality and scale needed to make it commercially viable. The development and engineering would normally take years. But, by working closely with Apple, we were able to dramatically reduce the time from invention to full commercialization. We met Apple's requirements and successfully filled the order.

The rest is history. The iPhone was an enormous success. It transformed broadband Internet communications bringing the computing power of a PC to a mobile handheld device. This drove the demand for Corning® Gorilla® Glass. Other smartphone manufacturers followed Apple's lead. Today, Corning® Gorilla® Glass has been designed into approximately 1,000 products and more than a billion devices have been sold with Corning® Gorilla® Glass. Sales of Corning® Gorilla® Glass have surged from \$19 million in 2007 to \$1 billion in 2012.

Harrodsburg Plant

We selected our Harrodsburg, Kentucky plant for the development and manufacture of Corning® Gorilla® Glass. It was the site for the development of Corning's very successful LCD glass business so we had the core manufacturing know-how in the facility. But, we needed new manufacturing equipment and increased capacity. Our factory had to respond at lightning pace to meet the initial order from Apple. As Steve Jobs challenged Corning, we challenged our Harrodsburg plant to deliver a new product at a record pace. And they responded and met the demand.

On August 3, 2010, we announced our decision to invest \$180 million in the Harrodsburg facility. We have since invested another \$60 million. Since the iPhone was first launched, we have increased employment in the facility to over 400 jobs. This growth also had a beneficial impact on our RD&E facilities in Corning, NY. Since the iPhone launched, we have invested an additional \$200 million to expand global RD&E. Across Corning's corporate footprint, our relationship with Apple has created approximately 1,000 jobs in research, development, engineering, and manufacturing.

The Future is Flexible

Even as the use of Corning® Gorilla® Glass grows, we are planning our next innovative glass product -- an ultra-slim flexible glass called "Willow™ Glass" -- for use in today's most-advanced displays as well as the smart surfaces of the future. This innovative product is now being manufactured in Harrodsburg to provide samples to customers for testing and product development, leading to an additional investment of \$48 million at our Harrodsburg facility.

The thinness and flexibility of Corning® Willow™ Glass has the potential to enable displays to be "wrapped" around a device or structure. Willow™ Glass will enable the industry to pursue high-temperature, continuous "roll-to-roll" processes, similar to that used to produce news print. Previously, this roll-to-roll process was not possible, but now it can be done. This enables large, thin, and low-cost displays to be used for revolutionary purposes like digital wallpaper in homes, schools and offices.

Moreover, Willow™ Glass will support thinner backplanes and color filters for both organic light emitting diodes (OLED) and liquid crystal displays (LCD) in high performance, portable devices such as smart phones, tablets, and notebook computers. This new, ultra-slim flexible glass will also help develop conformable (curved) displays for immersive viewing or mounting on non-flat surfaces. Willow™ Glass is formulated to perform exceptionally well for electronic components such as touch sensors, as well as leveraging glass's natural hermetic properties as a seal for OLED displays and other moisture and oxygen sensitive technologies.

Lessons Learned

We have learned many lessons from this experience with Corning® Gorilla® Glass, including commercial lessons and policy lessons.

From a commercial point of view, we have learned about the importance of a partnership with a solid technology leader. Apple drove the initial demand for Corning® Gorilla® Glass and allowed us to prove the value of the product to a wider spectrum of customers. We have also learned how to move at a much faster pace to meet the requirements of today's dynamic industries. This takes a combination of strong technical capabilities, flexible manufacturing, and the willingness of all of us in Corning to move fast and take more risk.

As a result of the partnership between Apple and Corning, our manufacturing facility in Harrodsburg, Kentucky is strong with a vibrant workforce of over 400 employees. Moreover, the Harrodsburg facility has cemented its role as a development center for flat-glass products, increasing its importance to our company. Throughout this effort, Apple has been a terrific customer, providing the economic incentive and encouragement for Corning to contribute important components to innovative new technologies like the iPhone. We are grateful to Apple for its leadership in consumer electronics and for its confidence in Corning as a partner.

From a policy perspective, we have learned a number of important lessons. The first policy lesson surrounds the importance of assistance from the state and local governments. To support our \$180 million expansion of the Harrodsburg facility, the Governor, the State of Kentucky, Mercer County, and the City of Harrodsburg collectively provided over \$5 million in incentives. Those incentives were tied to specific job growth and other conditions Corning agreed to meet. Since its inception, our Harrodsburg plant has expanded five times (1989, 1990, 1995, 1999-2002 and 2010-2011), and on each occasion the state and local governments have been steadfast partners working with us to achieve a successful outcome.

The second policy lesson is the importance of strong intellectual property protection. One important factor in siting our Corning® Gorilla® Glass development in Harrodsburg was the strength of U.S. patent law and trade secret protections. For manufacturers to invest in new products and facilities, they must have a reasonable expectation of return on their R&D and capital investment. We believe it is critical that the U.S. Government continue its support for American intellectual property. Specifically, we urge policy makers to maintain strong patent protections, enact a federal civil trade secret law, fund national protection from foreign cyber-attacks and misappropriation, and gain better IP enforcement abroad through international agreements.

The third policy lesson is that tax reform will be essential to the competitiveness of U.S. companies battling for market share around the globe. Although U.S. manufacturers often must make products close to the foreign markets they serve, many U.S. companies choose to manufacture in the United States when they can. The U.S. tax system should not discourage this investment strategy. In our view, the right reform will be one that provides a competitive corporate rate and competitive international tax system that avoids double taxation. We believe Chairman Camp's draft proposal on corporate tax reform provides a great step in this direction, and we are heartened by statements from Chairman Baucus and President Obama similarly recognizing the need for tax reform. We look forward to working with those leaders and other key policymakers on this critical matter.

The fourth policy lesson is the importance of access to global markets. Over 78 percent of Corning's sales go to foreign customers and our largest growth opportunities are markets outside the United States. Last year alone, our exports grew by 24 percent. Nearly all of the Corning® Gorilla® Glass made in Harrodsburg is exported. These exports are a tribute to Apple. To survive and prosper, Corning must be able to operate and grow domestically and internationally. We are reliant on the global trading system and that is why we support a rules-based trading system that ensures market access, encourages innovation, and embraces competition.

American companies increasingly face a host of trade barriers intended to spur local investment, R&D, and manufacturing. Many of these measures are not fully addressed by WTO disciplines. While there is no single solution to solve these complex and evolving trade distortive measures, we encourage policy makers to support efforts to increase U.S. exports and bring new disciplines to the challenges of forced localization and misappropriation of trade secrets.

The fifth policy lesson is the importance of wireless spectrum policy toward driving the demand for revolutionary technologies that have significant downstream effects. Increasingly, consumers want mobile broadband Internet services. These services drive the demand for bandwidth. Since Apple introduced the iPhone, the demand for wireless bandwidth has surged from 10 petabytes per month to over 1,200 petabytes per month today. Wireless networks struggle to keep up because of spectrum constraints.

We congratulate the Committee for its leadership in making more spectrum available through the passage of the legislation last year. And we congratulate Verizon, AT&T, and other telecommunications providers for investing the billions of dollars to build the powerful wireless networks to keep up with the demand driven by the iPhone and other smart mobile devices.

Conclusion: Success Requires Collaboration

We are grateful to Apple for taking a chance with Corning in the development, engineering, and manufacture of the Corning® Gorilla® Glass for the iPhone. It has yielded enormous benefits for the nation, driving invention, innovation, investment, and job creation in the United States. Similarly, we are grateful to wireless carriers like Verizon and AT&T for their network investment essential to making the iPhone and other smart mobile devices a commercial success.

Our experience has demonstrated that it is possible to successfully manufacture in the United States for export through rapid action to invent, to innovate, and to reduce cost through highly efficient

manufacturing. And, we have learned that commercial success requires close collaboration between and among American technology leaders.

As to public policy, we have learned that economic development incentives at the state and local level are very helpful in driving U.S. investment and job creation. We have also learned that IP protection, tax reform, trade, and spectrum policy at the federal level can have a significant impact on success in American manufacturing.

We look forward to working with this Committee and others to help forge and reinforce the policies that encourage innovation among U.S. companies.

Mr. TERRY. Thank you very much.

Mr. Holler from 3M, you are recognized for 5 minutes.

STATEMENT OF BOB HOLLER

Mr. HOLLER. Thank you. Good morning, Chairman Terry, Ranking Member Schakowsky, and members of the committee. My name is Bob Holler. I am the director of the Respiratory Protection Business of the Personal Safety Division for the 3M Company. The 3M Valley plant in Nebraska—

Mr. TERRY. Is your mic on or—

Mr. HOLLER. The 3M Valley plant in Nebraska is the primary manufacturing site for a complete range of 3M respiratory protective equipment, including disposable and reusable respirator protection and surgical masks, along with medical electrodes, patient warming plates, sorbent materials, hearing and eye protection.

As a manufacturer of personal protective equipment, one of our most pressing issues facing our Valley facility is making sure that America's workers are not only able to address the day-to-day safety needs, but also that our Nation is prepared to respond to threats and hazards that pose a risk to our country. This is an issue that the 3M Valley alone cannot address. It needs to be a shared responsibility with many stakeholders, both public and private, and today, I would like to focus on our roles.

The role of government is to own the leadership position in prevention, protection, mitigation, response, and recovery of national threats and hazards. They need to ensure that the proper protective equipment is integrated into the capabilities of protection response and recovery. Although the Nation has made great strides in preparing against threats and hazards, we feel the role of personal protective equipment is not being fully leveraged in national preparedness.

For example, the Pandemic and All-Hazards Preparedness Act is intended for us to improve our Nation's public health and medical preparedness and response capabilities for all emergencies. And the strategic intent is to advance countermeasures to diagnose, mitigate, prevent, or treat harm from any biological agent, toxin, chemical, radiological, or nuclear agent or agents whether naturally occurring, unintentional, or deliberate.

However, the definition of countermeasures is so narrow that it only recognizes FDA-cleared respiratory protection devices. FDA-cleared respirators only represent a small segment of the devices and the capacity to produce these devices is very limited. Plus, they do not provide protection against chemical, radiological, or nuclear agents.

3M feels the definition for countermeasures should be expanded to include the National Institute for Occupational Safety and Health-approved devices. And as such, the strategic direction would match its intent while also expanding the scope of products that would be available during an event. Additionally, if the definition is expanded, it could open up new opportunities and benefits to manufacturers to engage in developing technologies that may increase protection from many types of hazards.

Another key area that needs addressing centers on preparing and responding to an event. The time to secure personal protective

equipment for our responders and the general population is before, not after, an event. 3M has played a major role in providing PPE during many major events over the last 12 years from 9/11 to H1N1. And producing and delivering products during an event is extremely challenging from all aspects to the manufacturing process, to raw material availability, to capacity, and to who gets the products and when.

We have two recommendations. First, the government should work more closely with manufacturers on plans on how to ramp up production and delivery when an event occurs. The second, nations should secure and maintain a stockpile of product with necessary types of PPE that will be available to both responders and the civilian population. For example, prior to H1N1, the national stockpile of N-95 respirators was over 103 million, and the majority of these were shipped during that event. Today's N-95 stockpile by our reports sits only at 17 million.

As one of the world's largest designers and producers of PPE, 3M would like to work closely with all stakeholders in the mission to protect our Nation in preparing, responding to emergency events.

We thank the chairman and ranking member and the committee for the opportunity today to share these thoughts, and we look forward to continuing to dialogue with all on this important topic. Thank you.

[The prepared statement of Mr. Holler follows:]



Committee on Energy and Commerce

Subcommittee on Commerce, Manufacturing and Trade

Hearing on "Our Nation of Builders: Manufacturing in America"

February 14, 2013

Written Statement of Bob Holler

**Bob Holler, Global Respiratory Protection Business Director, 3M Occupational Health and
Environmental Safety**

Summary of Major Points:

- 3M has a majority of its manufacturing in the U.S., including operations in 28 U.S. states and 33,000 employees. In addition, 3M conducts over 60% of its worldwide R&D activities in the U.S.
- While its U.S. presence is strong, 3M is increasingly a global company. Specifically, in 2012, approximately two-thirds of 3M's sales were outside the United States. Accordingly, being able to compete successfully in the global marketplace is critical to 3M.
- 3M Valley in Nebraska is the primary global manufacturing site for a complete range of 3M respiratory protective equipment. 3M Valley is concerned about making sure that America's workers are not only able to address day-to-day safety needs, but also that our nation is prepared and ready to respond to threats and hazards that pose a risk to our country.
- While the U.S. has made strides in preparing our nation against threats and hazards, we feel that the role of personal protective equipment is not being maximized in national preparedness. For example, the Pandemic & All Hazards Preparedness Act (PAHPA) definition of a countermeasure is so narrow that it only recognizes a small segment of devices. The definition needs to be expanded to ensure it matches its intent, while also expanding the scope of products that would be available during an event.
- The U.S. must also better prepare for responding to an event. The government should work more closely with manufacturers on plans on how to ramp up production and delivery when events occur, and the nation should secure and maintain a stockpile of product with the necessary types of PPE that will be available to both the responders and the civilian population.

3M Company (“3M”) appreciates the opportunity to testify before the Committee on Energy and Commerce Subcommittee on Commerce, Manufacturing and Trade on “Our Nation of Builders: Manufacturing in America.”

3M is a U.S.-based employer and manufacturer established over a century ago in Minnesota. Today, 3M is one of the largest and most diversified technology companies in the world. We are a global company conducting the majority of our manufacturing and research activities in the United States while a majority of our sales are outside of the U.S.

As a materials supplier to nearly every sector in the economy, as well as a seller of finished consumer goods in many areas, the number of issues on which 3M could speak today is significant – from the need for corporate tax reform and the protection of intellectual property around the globe to investments in STEM education and an improved procedure coding system for the Medicare system. To highlight issues facing 3M Valley and the products manufactured there, my oral comments today will focus on ensuring that our workers and first responders have access to needed and appropriate protective equipment.

3M thanks the Committee for its interest in the issue facing U.S. manufacturers today and appreciates the consideration of our perspective in this important discussion.

Background on 3M

3M, formerly known as Minnesota Mining and Manufacturing, is an American company headquartered in St Paul, Minnesota. The company, created in 1902 by a small group of entrepreneurs, initially began as a small sandpaper product manufacturer. Today, 3M is one of the largest and most diversified technology companies in the world. 3M is home to such well-

known brands as Scotch, Scotch-Brite, Post-it®, Nexcare®, Filtrete®, Command®, and Thinsulate® and is composed of five business groups: Consumer, Electronics and Energy, Safety and Graphics, Health Care, and Industrial.

Ahead of their peers, 3M's founders insisted on a robust investment in R&D. Looking back, it is this early and consistent commitment to R&D that has been the main component of 3M's success. Today, 3M maintains over 40 different technology platforms. These diverse platforms allow 3M scientists to share and combine technologies from one business to another, creating unique, innovative solutions for its customers. The financial commitment to R&D equated to \$1.6 billion of R&D spending in 2011 and over \$7 billion during the past five years, and produced high quality jobs for 3900 researchers in the United States (and 7000 total worldwide). The results are equally impressive with 3M consistently being among the top recipients of patents annually, including 571 U.S. patents awarded in 2011 alone, and over 40,000 global patents and patent applications. Because of 3M's long-standing, ongoing focus on innovation, more than 32% of our sales in 2011 came from products developed in the last five years.

3M's worldwide sales in 2012 were nearly \$30 billion. 3M is one of the 30 companies on the Dow Jones Average and is a component of the Standard & Poor's 500 Index. Owned by millions of shareholders directly and indirectly through mutual funds, 3M has consistently delivered positive results to its owners. It has paid dividends to its shareholders every quarter since 1916. 3M paid dividends of \$1.6 billion in 2011 and a total of \$8.2 billion over the past five years. Most remarkably, for the last 55 consecutive years, annual dividends have consistently increased.

This success is attributable to the people of 3M. Generations of imaginative and industrious employees in all of its business sectors throughout the world have built 3M into a successful global company.

3M: Competing in A Highly Competitive Global Economy

3M is a U.S. company that manufactures and sells its products throughout the world. Headquartered in St. Paul, Minnesota, 3M has operations in 28 U.S. states, where approximately half of 3M's worldwide manufacturing operations are located. 3M employs approximately 33,000 individuals in the United States. In addition, 3M conducts more than 60% of its worldwide R&D activities in the United States.

While its U.S. presence is strong, 3M is increasingly a global company. 3M operates in more than 70 countries and sells products into more than 200 countries. In 2011, approximately two-thirds of 3M's sales were outside the United States, a percentage that is projected to rise in future years. In the current global economy, where international markets are growing faster than U.S. markets, being able to compete successfully in the global marketplace is critical to 3M.

3M Valley: Occupational Health and Environmental Safety

3M Valley in Nebraska is the primary global manufacturing site for a complete range of 3M respiratory protective equipment – including disposable and reusable respirator protection and surgical masks - along with medical electrodes, patient warming plates, sorbent materials, and hearing and eye protection.

As a manufacturer of personal protective equipment (PPEs), one of the most pressing issues for our 3M Valley facility is making sure that America's workers are not only able to address day-to-day safety needs, but also that our nation is prepared and ready to respond to threats and hazards that pose a risk to our country. This is not an issue that 3M Valley can address alone. National Preparedness is a shared responsibility between many stakeholders – public and private – and today I would like to focus on our respective roles.

The role of Government is to own the leadership position in prevention, protection, mitigation, response and recovery relative to national threats and hazards. They need to ensure that the proper protective equipment is integrated into the capabilities of protection, response, and recovery.

Although our nation has made great strides in preparing us against threats and hazards, we feel that the role of personal protective equipment is not being fully leveraged in national preparedness. For example, the Pandemic & All Hazards Preparedness Act (PAHPA) is intended to improve our nation's public health and medical preparedness and response capabilities for any emergency. To accomplish this goal, the PAHPA advances countermeasures to diagnose, mitigate, prevent, or treat harm from any biological agent or toxin, as well as any chemical, radiological, or nuclear agent, whether naturally occurring, unintentional or deliberate.

However, just as in Project Bioshield and the PREP Act, the definition of a countermeasure in the PAHPA is very narrow in that it only recognizes FDA cleared devices. FDA cleared respirators only represent a small segment of devices that are designed to serve a very narrow, targeted market – specifically, individuals working in an operating room or similar environment in which the wearer needs to be protected from spattering blood or body fluids. Accordingly, the capacity to produce these devices is very limited (which also leads to higher

costs) and, by definition, these devices do not provide protection against chemical, radiological, or nuclear agents.

3M feels the definition of countermeasure should be expanded to include National Institute for Occupational Safety and Health (NIOSH) approved devices. Such a definition would not only better ensure the intent and strategic goals of the legislation are achieved, but it would also expand the scope of products available during an event to protect first responders and the general public. Additionally, if the definition is expanded, it could also open up new opportunities and benefits for manufactures to engage in developing technologies that may increase protection from many types of hazards.

Another key area that should be addressed centers on preparing and responding to an event. The time to secure personal protective equipment for our responders and our general population is before and not after an event. 3M has played a major role in providing PPE during many major events over the last twelve years, from 9/11 to H1N1. Producing and delivering product during an event is extremely challenging from the manufacturing process, to raw material availability, to capacity, and to who gets what product and when.

We have two recommendations. First, the government should be working more closely with manufacturers on plans to ramp up production and delivery when events occur. Second, the nation should secure and maintain a stockpile of product with the necessary types of PPE that will be available to both the responders and the civilian population. For example, prior to H1N1, our national stockpile of N95 respirators was nearly 104 million. However, the majority of those were shipped during that event and today's N95 stockpile reportedly sits at only 17 million – an 81% reduction.

As one of world's largest designers and producers of PPEs, 3M would like to work closely with all stakeholders in our mission to protect our nation in preparing and responding to emergency events. We thank the Chairman, Ranking Member and the Committee for this opportunity today to share these thoughts. We look forward to continuing to dialogue with you all on this important topic.

Other Issues Facing 3M

As noted above, as a materials supplier to nearly every sector in the economy, as well as a seller of finished consumer goods in a number of areas, the number of issues on which 3M could speak today is significant – from the need for corporate tax reform and the protection of intellectual property around the globe to investments in STEM education and further driving quality outcomes in the healthcare sector. While I, as a representative of 3M OH&ES, am not an expert on the following issues facing the company and am not prepared to speak on any of them during the hearing, I submit the following information per the request of the committee on behalf of my 3M colleagues.

- **Corporate Tax Reform.** In an increasingly global marketplace, 3M's high effective tax rate is a competitive disadvantage. As the Committee knows, the US corporate tax rate is the highest tax rate of any major country. In some cases, the high US tax rate is mitigated by tax credits and deductions. These credits and deductions, however, often fail to adequately encourage the behavior they were designed to incentivize and often create competitive imbalances between US companies. Corporate tax reform is essential to ensure long-term competitiveness of American businesses and workers.

In addition, the Internal Revenue Code has not kept up with the rapidly changing international business environment. Virtually every developed country has responded to these changes by adopting tax systems that provide their domestic corporations the tools to compete in the global marketplace. Also, part of this new global reality is that nearly 50% of the world's largest public companies - and many of our competitors - are now based outside of U.S. and Western Europe. They can start with a competitive advantage in the marketplace because of the lower tax rates they enjoy.

3M believes that the U.S. could take a few key steps to address these competitive imbalances while simultaneously creating greater simplicity and predictability for its domestic corporations, including significantly lowering the corporate income tax rate and simplifying the system by eliminating many of the current complex and industry-specific corporate tax incentives. 3M also recommends adopting a territorial-like system for international earnings. The current worldwide base of the current international tax system adversely impacts the competitiveness of American businesses which operate overseas for business reasons, like 3M, relative to competitors that are based in jurisdictions that exempt foreign income.

- **Intellectual Property Protection.** Innovation is the life blood of 3M. The billions of dollars we spend annually on research and development lead directly to jobs in Minnesota and throughout the U.S. 3M's inventions are the growth engine for creating new businesses and expanding our existing businesses, which means high-wage, high-technology jobs for our researchers, the workers who manufacture our products, employees who market and sell our products, and thousands of other 3Mers across the U.S.

Protecting 3M's enormous investments in its unique technologies, products and processes has been one of our top priorities for over 100 years. We look to Congress and the Administration to help us

protect and defend intellectual property rights both at home and abroad. When our IP rights are violated, it translates in to lost R&D investments and the jobs those investments create. We urge Congress and the Administration to strengthen enforcement of IP protections in the United States, key countries and multilateral forums and raise awareness of and support for the value of innovation and IP around the globe.

- **An Educated Workforce.** From the start, 3M's founders insisted on a robust investment in innovation. Today, 3M maintains over 40 diverse technology platforms that allow 3M scientists to share and combine technologies from one business to another, creating unique, innovative solutions for its customers and for society generally. Over 32% of 2011 sales came from products developed in the last 5 years.

Our focus on innovation is an investment in high quality jobs for thousands of researchers in the United States, as well as the thousands of employees that support the manufacturing and sale of these technologies in the United States and around the world. To maintain our long-standing commitment to innovation and our global competitiveness, we rely on our most important resource – our employees. Highly educated professionals help us create the future of our company and other companies and help all of us create more jobs.

That is why 3M has long supported and contributed to investments in science, technology, engineering and math (STEM) education in our schools. We also strongly support efforts to reform our immigration system to allow American companies to retain those with advanced degrees in STEM fields to work in the U.S.

- **Healthcare Quality Improvement and Cost Reduction.** The Patient Protection and Affordable Care Act (ACA) includes provisions to reduce costs while fostering quality and effectiveness through reductions in potentially preventable hospital readmissions.

Appropriately crafted readmissions policies – for Medicare, Medicaid and other health programs and plans – can improve outcomes and yield significant reductions in unnecessary and costly expenditures. These policies must focus on care coordination for reducing potentially preventable readmissions and transparent and predictable payment incentives that reward improved outcomes.

The most easily identifiable ways to save money within public health care programs is by reducing costly and potentially preventable health care events – such as readmissions and complications. While the ACA began to take steps to tackle these issues, implementation of the provisions do not specifically tie the readmission incentive to a related initial admission. Additionally, while the types of readmissions tracked are limited, the financial impact of the policy impacts all hospital reimbursements. Plus, the efforts will be frustrated by cumbersome process and reporting measures that are not needed with an outcomes-based approach.

State programs, however, are boldly leading on these issues in response to more urgent state budget issues. States like Maryland, New York, and Texas are adopting payment systems that create clear financial incentives for providers to increase efficiency and improve quality outcomes. Examples include outcomes focused pay for performance programs that target a wider range of clinically-related readmissions than in PPACA and a more comprehensive set of health care acquired complications (HACs) than is currently tracked by Medicare.

Successful payment system reforms must be practical, transparent, clinically coherent, and identify opportunities for improvement that can be implemented today. A set of comprehensive tools need to be put in place to measure, monitor, compare and adjust

payment based on efficiency and quality care. 3M has provided input to states on designing such programs, including:

- **Maryland.** The Maryland Hospital Acquired Conditions (MHAC) initiative illustrates the value of a quality based payment system that targets potentially preventable events. The Maryland Health Services Cost Review Commission (HSCRC) established MHAC in 2009, adjusting state hospitals' inpatient rates based on their preventable complications performance. In a December 2012 *Health Affairs* article, it is reported that the frequency of hospital acquired complications (HACs) dropped statewide by 15.26% over two years, with an estimated cost savings of \$110.9 million over the two years. The article notes that, "Extrapolating these results, the Medicare fee-for-service program nationally would have saved \$1.3 billion over two years by implementing a similar hospital-acquired conditions program."
- **New York.** The New York Department of Health (NYDOH) has been profiling hospitals based on their potentially preventable complications since 2007. They recently began adjusting hospital payments based on their potentially preventable readmissions performance, saving \$47 million in 2010 and 2011. This program has been expanded to cover potentially preventable complications along with readmissions, and is now targeted to save \$51 million in 2011 and 2012. NYDOH also established a Medicaid payment redesign commission (http://www.health.ny.gov/health_care/medicaid/redesign/) that is reviewing adjusting payment rates based on other potentially preventable events.
- **Texas.** In January 2011, the Texas State Health and Human Services Commission began reporting hospital comparative performance with respect to potentially preventable readmissions. In June 2011, Texas passed comprehensive Medicaid quality based

payment legislation designed to improve quality outcomes and reduce costs resulting from potentially preventable events. The new legislation's quality based payment initiatives will extend to hospitals, managed care plans, ACOs, medical homes and nursing homes

- **Florida.** Florida began publicly reporting hospital readmission rates in July 2008 on the internet at <http://www.floridahealthfinder.gov/CompareCare/SelectChoice.aspx>. A consortium of 100 Florida hospitals led by the state hospital association reports decreases in readmissions from 8-14% in five major medical conditions over a two year period.
- **International Market Access.** Thousands of 3M jobs in the U.S. are tied to exports and the support of our international companies. As noted above, while we conduct the majority of our manufacturing and research activities in the U.S., nearly 70% of 3M sales were outside the U.S. in 2012. 3M exported over \$710 million from Minnesota alone in 2012 and \$108 million from Nebraska. The elimination of tariff and non-tariff barriers in foreign markets is critical to help us level the playing field for our exports in those growing markets. Initiatives to expand trade opportunities or eliminate barriers help boost U.S. exports to and engagement in these markets, thereby helping to maintain and grow jobs and investments for 3M at home.

Conclusion

We thank the Committee for the opportunity to share our perspective as an American employer interested in preserving and enhancing the global competitiveness of American manufacturing.

3M Valley looks forward to working with the Committee on ways to improve worker and first responder access to important safety equipment. As a U.S. based multinational company

that is contending with many foreign-based competitors every day around the globe, it is critical to craft a U.S. tax code that levels the playing field for U.S. based companies and encourages more investment, manufacturing and jobs in the U.S.

3M stands prepared to work with you in any way we can to support you on any of these important issues.

Mr. TERRY. Thank you, Mr. Holler.
And now Mr. Meyers from Oil City Iron Works.

STATEMENT OF ERIC R. MEYERS

Mr. MEYERS. Good morning. Chairman Terry, Ranking Member Schakowsky, and members of the subcommittee, and from my district, Congressman Barton, I want to thank you for the opportunity to testify before you today to discuss the opportunities and challenges facing our company in the foundry industry, as well as ways to make American metal casters and manufacturing more competitive in the global marketplace.

My name is Eric Meyers, President of Oil City Iron Works. I am a third generation Texas metal castor. We employ close to 250 folks there at our foundry. Our foundry has been in existence for 125 years with our family operating it close to 50 years. We manufacture thousands of different types of iron castings ranging in weight from 2 to 8,500 pounds for the energy, mining, agriculture, waterworks, and transportation sectors.

Metal castings are the foundation for all other manufacturing, and metal casters are a vital building block for every nation's economic wealth. Every sector from agriculture, construction, healthcare, mining, to automotive, aerospace, and defense relies on castings. In fact, 90 percent of all manufactured goods and capital equipment incorporate engineered castings into their makeup.

Oil City Iron Works supplies valves and pumps for power generation, gas turbine and compression parts, and general oilfield equipment parts to well-known companies such as Caterpillar, Halliburton, and FMC, as well as many other smaller ones.

During the State of the Union address, President Obama called for a variety of energy initiatives, including expedited oil and gas permitting and increased funding for infrastructure. As part of his energy agenda, the President should move to approve the building of the Keystone pipeline to bring oil from Canada to the Gulf Coast.

The growth in energy sector has provided significantly more work for Oil City and our industry, which has led to more jobs and lower domestic natural gas prices over the past few years. Establishing new stringent regulations on our energy sector will not only hinder foundries and domestic manufacturers but the long-term health of the economy and the prosperity of American workers.

Today, the U.S. metal casting industry is comprised of 2,000 facilities with 80 percent employing 100 workers or less. Our sector is truly one of small business. Unfortunately, over 300 foundries have shut their doors over the past 5 years. This reduction can be directly attributed to the recession, foreign competition, and onslaught of regulations. Our government has created barriers to competitiveness and making it harder than ever for the manufacturer in the United States.

There are a number of roadblocks that stand in the way of competitiveness and I am going to focus on just three key issues in my verbal comments today—number one, federal regulations. Unfortunately, over the past several years, we have not seen sensible and cost-beneficial regulation being proposed by EPA, OSHA, Department of Labor, and NLRB.

I want to highlight a proposed rule under development by OSHA of serious concern to the foundry industry. The Agency has submitted its proposed rule for crystalline silica sand to OMB for review that is expected to mandate extensive and costly engineering controls. We believe the best way to protect our workers is stronger enforcement of the current regulations.

A recent economic study reveals that the annual compliance cost of such a rule will likely reach \$5.5 billion for all industry sectors, including manufacturing, construction, and shipbuilding. The foundry industry is estimated to face compliance cost of roughly \$2 billion per year, and that is for engineering and ancillary costs alone. OSHA's potential new regulation would amount to about a 6 percent factor of U.S. foundry revenues for 2007, making our sector one of the most heavily impacted among all those affected. This regulatory cost burden would be very difficult for our industry to bear.

Number two, the shortage of skilled workers. Adding to the challenges of regulatory overreach is the fact that approximately hundreds of thousands of manufacturing jobs remain unfilled due to the lack of qualified applicants. Despite an unemployment rate hovering near 8 percent, manufacturers are still struggling to fill jobs. Foundries rely on a variety of skilled workers to maintain and grow their companies, including machinists, electricians, welders, and pattern makers. Many of these positions have taken a long time, as long as 7 months to years to fill.

For example, our Class A electrician position has been open for nearly 2 years with no qualified applicants. We have approached an area technical school to send graduating welders to us for possible employment. However, all of those graduates are already promised positions with other Texas-based companies. Currently, we are working with our local college to implement a certificate program for welding.

Number three, tax policy. We need fair and competitive tax policies. Depreciation is an area of the tax law where uncertainty has significant impact on our capital expenditures and decisions. The difference is 50 percent bonus depreciation, 100 percent depreciation, and no bonus depreciation is substantial. The change in the tax law determines whether we purchased an asset this year or perhaps not at all or whether we hire additional workers.

In conclusion, Oil City understands and supports the need for reasonable regulations to protect the environment and workers' safety and health, but we also recognize that our industry and the entire manufacturing sector are facing unprecedented pressures in their efforts to remain competitive in the global economy. To continue manufacturing momentum and promote hiring, the United States needs not just improved economic conditions but also government policies that are more attuned to the realities of global competition. In this current economy it is clear that cost of ineffective regulations and increases in taxes dampen the economic growth and will continue to hold down job creation. For some foundries, it will be the final straw that destroys their whole business.

Thank you again for the opportunity to appear before you today, and I would be happy to respond to any questions.

[The prepared statement of Mr. Meyers follows:]



Oil City Iron Works, Inc.
814 S Main Street
Corsicana, TX 75151



“Our Nation of Builders: Manufacturing in America”

Testimony of

**Eric Meyers
President
Oil City Iron Works**

Before the

**Committee on Energy & Commerce
Subcommittee on Commerce, Manufacturing and Trade
U.S. House of Representatives**

February 14, 2013

**Summary for Testimony of
Eric Meyers - Oil City Iron Works, Inc.**

Background

Oil City Iron Works is a family-owned third generation manufacturing facility, employing over two hundred employees. Our foundry manufactures thousands of different types of iron castings for the energy, mining, agriculture, waterworks and transportation sectors. Our plant was established in Corsicana, Texas over 125 years ago at the start of the oil boom and is situated only two blocks from the site of the first oil well west of the Mississippi. The energy sector continues to play a dominant role in our business today. It is vital that we continue to expand access to our domestic energy supply in order to meet current needs for affordable energy, including the building of the Keystone XL Pipeline. Establishing new stringent regulations on the energy sector will hurt foundries, the long-term health of the U.S. economy and the prosperity of American workers.

Challenges to U.S. Foundry Industry

The U.S. metalcasting industry is comprised of 2,000 operating casting facilities, which is down from 2,336 five years ago. 80% of U.S. foundries employ 100 workers or less. Our industry is facing the most intense global competition in our history and significant challenges from the increasing costs associated with federal regulations and other actions by our government. Manufacturers like me face a 20% cost disadvantage in the United States. Access to affordable energy sources will help the foundry industry better compete against growing global competition and create more jobs. However, there are a number of roadblocks that stand in the way of our competitiveness including:

U.S. Tax Policies - We need competitive tax policies. Our ever-changing, often expiring, short-term changes to the tax laws make it increasingly difficult for foundries to do any long-term tax or financial planning. Depreciation is an area of the tax law where uncertainty has a significant impact on our capital expenditure decisions. The difference in 50% bonus depreciation, 100% bonus depreciation and no bonus depreciation is substantial. The change in the tax law determines whether we purchase an asset this year or perhaps not at all, or whether we hire additional workers.

Federal Regulations - While some regulations are necessary, the current regulatory system is out of balance and a significant impediment to the competitiveness and growth for our industry. We are alarmed by the wave of new regulations from a host of federal agencies. There also seems to be no recognition of the cumulative impact of these regulations. Despite greenhouse-gas emissions falling significantly in the U.S., EPA is imposing a suite of regulations on the utility sector over the next five years with little regard for their impact on manufacturers. OSHA has submitted its rule for crystalline silica to OMB that is expected to mandate extensive and costly engineering controls. The best way to protect workers is stronger enforcement of the existing standard. An economic analysis reveals that the annual compliance costs of the rule will likely reach \$5.5 billion for all industry sectors. The metalcasting industry is estimated to face compliance costs of roughly \$2 billion per year - making our sector one of the most heavily impacted industry sectors among all those affected.

Health Care - Our current healthcare insurer estimates that our premiums for the health care portion alone will increase nearly 13% in 2013. The implementation of the Affordable Care Act appears that will result in pushing everyone into a single payer government run health care system.

Shortage of Skilled Workers - Adding to the challenges of regulatory overreach is the fact that hundreds of thousands of manufacturing jobs remain unfilled due to the lack of qualified applicants. The Class A electrician position at our foundry has been vacant since June 2011, with no qualified applicants. We can't find welders or pattern makers. The skills gap threatens foundries' ability to grow.

Foreign Competition - Imported castings now comprise nearly 25% of the market, with more than a quarter of these imports coming from China.

Need for Infrastructure Investment - Our nation's transportation and water utility infrastructure system has reached the limits of its capacity. The need for investment far outpaces the amount of funding that is available at all levels of government.

Chairman Terry, Ranking Member Schakowsky and members of the Subcommittee, thank you for the opportunity to testify before you today to discuss the opportunities and challenges facing our company and the foundry industry, as well as ways to make American metalcasters and manufacturing more competitive in the global marketplace.

My name is Eric Meyers, President of Oil City Iron Works. I am a third generation Texas metalcaster employing over two hundred employees. Our metalcasting business has been in existence for over 125 years, with our family operating it for close to fifty years. Our foundry manufactures thousands of different types of iron castings ranging in weight from 2 to 8,500 pounds for the energy, mining, agriculture, waterworks and transportation sectors. Unfortunately, most of our castings were too big and heavy to carry to Washington, D.C. However, I have brought several pictures which are attached to my written testimony and here on the table that show some of the castings we supply to well-known companies such as Caterpillar, Halliburton and FMC, as well as smaller ones. These castings include: valves and pumps for power generation, gas turbine and compression parts, and general oilfield equipment parts.

Despite the overwhelming positive impact manufacturing has had moving the country out of the recession; the sector continues to face significant challenges. Our nation has created barriers to competitiveness and has made it harder to manufacture in the United States.

Background

In 1886, Oil City Iron Works was established in Corsicana, Texas at the start of the oil boom. In fact, our facility is just two blocks from the site of the first oil well west of the Mississippi. Since the turn of the century, the foundry has been primarily dedicated to the oil market and the energy sector continues to play an essential role in our business today.

In 1965, my grandfather purchased Oil City Iron Works. Then my father ran the operations and he later bought the foundry from my grandfather in 1987. I began working part-time at our company in 1992 during the summers and joined the foundry full-time in 2000 after graduating college. I subsequently became president in 2008. My grandfather and dad taught me not only to make quality castings, but underscored the need to invest in our employees and the plant. My dad is now partially retired, but still works closely with me on budgeting and major projects. I am an active member of the American Foundry Society (AFS), our industry's major trade and technical association, which is comprised of more than 8,500 members in every state in the country, as well as our Texas state Chapter.

In order to compete in the global marketplace, Oil City has continually invested in its employees, new equipment and technology, which has allowed us to reduce overall product costs, while consistently providing high quality parts. In our operation, we provide good paying blue collar jobs, health insurance and other benefits to our employees, whom we consider as members of our extended family. We are able to maintain a matching 401k program for our employees, as well as a scholarship program for every employee at \$2000 per semester per child.

The recession hit our company and industry hard, with dozens of foundries forced to shut their doors. Unfortunately, Oil City had to lay off nearly 80 employees when new orders dried up. We also saw some work go overseas where the same castings can be manufactured and fully machined for much lower prices. Because of the downturn in the economy, our company has worked especially hard to be conservative and proactive with all of our business decisions. This process has helped us recover and has provided us the means to rehire employees and return to our pre-recession workforce numbers. With an improving economy, we are cautiously looking to expand our operations for the future. However, I am reluctant to add new jobs given our concerns over increases in health care costs,

potential new federal regulations and growing tax bills that could adversely affect us.

Today's Oil City maintains a strong footing in the oil, gas, energy and power generation markets. In fact, the energy sector encompasses nearly 75 to 80% of our total business. My company and the foundry industry believes that America must continue to expand access to our domestic energy supply in order to meet current needs for affordable energy and shore up our energy security. Oil, natural gas and clean coal remain essential contributors to America's energy security. In addition, we strongly support the building of the Keystone XL Pipeline and urge the U.S. Department of State to approve the Presidential Permit necessary for this project to move forward.

The foundry industry supports an energy strategy that embraces all forms of domestic energy production, including nuclear power, hydropower, alternative fuels and renewable energy sources like wind energy and solar power. We are pleased to see the technological advancements in fracturing which have led to an abundance of natural gas production in the United States that is fundamentally changing the energy landscape. The result in the growth of all these sectors has provided more work for the foundry industry, more jobs, and consistently low domestic natural gas prices in what has known to be a historically volatile market.

To take advantage of the new energy boom, our foundry in recent years has made some new investments to accommodate for the demand of large castings in this important sector. As oil, general mining and natural gas continue to grow we anticipate that orders will continue to expand. Establishing new stringent regulations on the energy sector will hinder foundries, domestic manufacturers, the long-term health of the U.S. economy and the prosperity of American workers.

Background on Metalcasting Industry

The U.S. metalcasting industry is the sixth largest industry in America and the second largest supplier of castings in the world, after China. More than 90% of all manufactured goods and capital equipment use metal castings as engineered components or rely on castings for their manufacture. We produce both simple and complex components of infinite variety. From key components for aircrafts and automobiles to home appliances and surgical equipment, cast metal products are integral to our economy and our way of life.

The U.S. foundry industry is comprised of 2,000 operating casting facilities, which is down from 2,336 five years ago. Approximately 600 foundries produce iron and steel castings, while another 1,400 make aluminum, brass and bronze castings. The industry is widely dispersed throughout the country, with the highest geographic concentration of facilities in Alabama, Ohio, Pennsylvania, Indiana, Illinois, Michigan, California, Texas, and Wisconsin.

U.S. metalcasters ship cast products valued at more than \$20 billion annually and directly employ over 200,000 people. Our industry is dominated by small businesses, with over 80% of U.S. metalcasters employing 100 workers or less. In fact, many are still family-owned, like Oil City.

Castings are almost completely manufactured from recycled scrap materials. As a result, foundries take tens of thousands of old cars from our nation's highways and junkyards for use in the manufacture of our castings. Metalcasters produce more than 600 lbs of cast metal (aluminum, iron, steel, zinc and/or magnesium) for every vehicle on the road. Automobiles and other transportation equipment utilize 31% of all castings produced in the U.S. - including engine blocks, crankshafts, camshafts, cylinder heads, brake drums or calipers, intake manifolds, transmission housings, differential casings, U-joints, suspension parts, flywheels, engine mount brackets, front-wheel steering

knuckles, hydraulic valves, and a multitude of other castings.

Foundries are the mainstay of national defense. All sectors of the U.S. military are reliant on metal castings for jet fighters, ships, tanks, trucks, weapon systems and other vital components. In fact, the U.S. Department of Defense has established formal programs to convert fabricated components to single-piece castings, improving our military's ability to cost-effectively produce such equipment in the least amount of time.

Challenges Confronting Oil City Iron Works & US Foundries

Today, the metalcasting industry continues to face major roadblocks – by both the most intense global competition in our history and the increasing costs associated with new federal regulations and other actions by our government.

Based on a recent study conducted by the Manufacturers Alliance for Productivity and Innovation¹, it is 20% more expensive to manufacture in the U.S. compared to our nine trading partners. The primary driver of this cost differential is policy in the areas of regulation, taxes, and litigation. American metalcasters need sound policies in taxation, energy, labor, trade, health care, education, infrastructure and, certainly, regulation. Highlighted below are the key obstacles facing Oil City Iron Works and the foundry industry:

1. U.S. Tax Policy

We need competitive tax policies. Our ever-changing, often expiring, short-term changes to the tax laws make it increasingly difficult for foundries like mine to do any long-term tax, cash-flow or financial planning. These planning challenges are further compounded when tax laws are changed after the year has already begun, but are slated to take effect that same tax year.

¹ *Structural Costs of Manufacturing in the United States*, Jeremy Leonard, for the Manufacturing Institute and Manufacturers Alliance for Productivity and Innovation (MAPI) – 2011.

Depreciation is an area of the tax law where uncertainty has a significant impact on our capital expenditure decisions. The difference in 50% bonus depreciation, 100% bonus depreciation and no bonus depreciation is substantial and undoubtedly impacts our decisions. The difference in taxes can determine whether we purchase an asset this year, next year or perhaps not at all. It also impacts whether or not we will hire additional employees.

One of the most important tax incentives for Oil City and foundries is to invest in machinery and equipment to allow for faster cost recovery of the business property. Generally, small businesses are allowed to deduct the cost of capital expenditures over time according to depreciation schedules.

First, to help small businesses quickly recover the cost of capital outlays for qualifying personal property, qualifying foundries can elect to write off these expenditures in the year of acquisition instead of recovering the costs over time through depreciation. This expense election is commonly referred to as the "Section 179 election."

For 2010 and 2011, small businesses were allowed to expense up to \$500,000 of capital expenditures. In order to ensure the incentive was only available to small businesses, the maximum expense amount was gradually reduced once qualifying property placed in service during the year exceeded \$2,000,000. For 2012, the maximum write off amount was \$139,000 and subject to reduction once a taxpayer's aggregate expenditures exceed \$500,000. For 2013, the maximum expensing amount and phase-out threshold were scheduled to drop to \$25,000 and \$200,000, respectively.

The other incentive is commonly referred to as “bonus depreciation.” In previous legislation, Congress allowed businesses to more rapidly deduct capital expenditures by permitting an additional first-year write-off of 50% of the cost. For investments placed in service after September 8, 2010 and before December 31, 2011 (through December 31, 2012 for certain property), the law provided for 100% first-year depreciation.

In other words, the entire cost of qualifying property placed in service during that time frame can be written off, with no limitation. For the 2012 tax year, however, the law reverted back to allowing 50% additional first-year depreciation.

Over the past few years, we have averaged around \$2 million dollars in capital improvements for new molding, machining and add on processes equipment. We were able in large part to make these investments due to the tax advantages from the accelerated depreciation approved by Congress.

We currently have close to \$4 million in projects for which we are planning for 2013; however, much of this depends on the level of production for 2013, as well as how many new federal regulations will affect our capabilities to afford these planned projects.

We were pleased to see that the American Taxpayer Relief Act (ATRA), approved in early January, did extend the 50% bonus depreciation through the end of 2013. ATRA also included retroactive, as well as prospective amendments to the expensing election. Congress retroactively reinstated the \$500,000 limit for 2012 and prospectively continued the \$500,000 limit for 2013. In addition, the \$2 million annual investment limit was retroactively reinstated for 2012 and

prospectively continued for 2013. Unfortunately, we are still left with the uncertainty of whether the President and Congress will eliminate or extend these provisions for 2014 and beyond.

The on-again-off-again nature of these provisions, coupled with retroactive tax law changes, make long-term planning difficult, result in the filing of amended returns, and significantly increase the overall complexity. Future tax changes should be enacted with a presumption of permanency, except in rare situations in which there is an overriding and explicit policy reason for making provisions temporary.

2. Federal Regulations

While some regulations are necessary, the current regulatory system is out of balance and a significant impediment to the competitiveness and growth of my foundry and our industry.

Unfortunately, over the past several years, we have not seen sensible and cost-beneficial regulation being proposed by the government agencies. On the contrary, an aggressive effort by a wide variety of federal agencies continues to propose unworkable and excessive regulations with little regard for their impact on job creation and the economy.

In 2011, federal government agencies issued an unprecedented amount of costly final rules totaling 3,807, including 32 new major regulations (those costing over \$100 million). These new major rules will add \$10 billion annually in regulatory costs, along with \$6.6 billion in implementation costs. Thousands of more rules are in the pipeline. These additional costs will only add to the obstacles metalcasters face in creating jobs and expanding their businesses. Furthermore, we are frustrated with the continued use of costly one-size-fits-all type of regulations that are often ill-suited to small and medium-sized manufacturers. There are a number of measures that federal agencies can carry out, particularly related to improving the permit process and working with manufacturers when regulations are being written, that could significantly improve things.

OSHA Regulations - Foundries remain wary of the potential negative impact of three rules which are under development by the Occupational Safety and Health Administration (OSHA): crystalline silica, combustible dust and Injury Illness and Prevention Program. Of significant concern to the foundry industry is OSHA's development of a crystalline silica rulemaking. Foundries use large amounts of sand as part of the metal casting process.

Crystalline Silica: OSHA submitted for review its rule that would reduce, by half, the existing permissible exposure limit (PEL) for crystalline silica to the Office Management & Budget (OMB) on February 14, 2011. The proposed rule is expected to mandate extensive and costly engineering controls, as well as requiring employers to comply with a host of ancillary provisions.

Significant progress has been made in preventing silica-related diseases under existing regulations, making proposed changes unnecessary and overly burdensome. The best way to further reduce silica-related health effects and protect workers is stronger enforcement of the existing standard.

We believe the cost of this silica proposal would far exceed its benefits. OSHA has categorized the rule as economically significant - meaning it could cost \$100 million annually or more. An economic analysis performed by engineering and economic experts estimate that the annual compliance costs of the rule will likely reach \$5.5 billion for all industry sectors - manufacturing, construction, transportation, defense, and high-tech industries. The metalcasting industry would likely face estimated compliance costs of roughly \$2 billion per year - more than \$1.5 billion per year for engineering controls, and up to \$500 million per year for the ancillary requirements. A \$2 billion a year regulatory compliance cost would constitute about 7% of 2007 revenues for the foundry industry. It's a rare year when the foundry industry earns in pretax profits as much as 7%

of revenues; the total costs of this potential OSHA silica standard would thus exceed 100% of the industry's profits in most years.

These substantial costs for this rule alone make the foundry industry one of the most heavily impacted industry sectors among all those affected by the rule.

EPA Regulations - We are alarmed by a wave of new regulations that EPA is imposing on the utility sector over the next five years, despite greenhouse-gas emissions falling significantly in the U.S. As an energy-intensive industry, metalcasters are troubled by the increased electricity costs and reliability issues that will likely result from these new regulations.

U.S. foundries cannot produce castings without adequate and affordable supplies of natural gas and electricity. For many metalcasters energy is a key expense, only behind raw materials and labor in terms of costs of doing business. Melting is the most energy-intensive operation in metal casting operations, accounting for about 55% of the total energy use. Compared to other foundry sectors, energy costs are highest in iron foundries, such as Oil City, since the melt temperature is much higher for this metal. Continued access to affordable energy sources will help U.S. foundries better compete against growing global competition and allow us to keep and create more jobs.

Unfortunately, over the last two years, there are numerous specific examples of regulations and proposed rules by EPA that have a particularly burdensome impact on our industry, with little regard for their impact on job creation and the manufacturing supply chain. There also seems to be no recognition of the cumulative impact of these regulations.

Of particular concern are EPA's new Mercury and Air Toxics Standards for coal-fueled power plants, known as Utility MACT. The rule requires major overhauls at power plants around the country. It is forecasted to result in double digit electricity prices in about 30 states and threaten electric reliability.

On the heels of the Utility MACT, EPA proposed in March 2012 the first-ever greenhouse gas standards for power plants—a rule that will effectively ban any new coal-fired power plants in this country and could threaten existing coal-fired generation. The other major EPA regulations that will impact electric reliability include: Cross State Air Pollution Rule (CSAPR); the National Ambient Air Quality Standards (NAAQS) for ozone (to be proposed later this year), sulfur oxides, nitrogen dioxide, and particulate matter (finalized in Dec 2012); the Coal Combustion Residuals Rule; and the Cooling Water Intake Structure regulations.

According to a study conducted by NERA², the combined estimated costs of the 2012 EPA regulations (Utility MACT, Cross State Air Pollution Rule, Cooling Water Intake Rule, & Coal Ash Rule) is a staggering – \$127 billion. Since state laws allow the electric providers to pass all energy and environmental compliance costs through to the consumer, we expect our energy prices to increase substantially. Even a \$0.01/kWh increase in the cost of electricity imposes additional costs of nearly \$9 billion per year on domestic manufacturing facilities.

In addition, EPA has failed to consider the cumulative impact of its power sector regulations on grid reliability. In fact, no comprehensive study has been done to assess the effect on the price of electricity, jobs, reliability of electricity supply, and the overall economy. The Federal Energy

² *Potential Impacts of EPA Air, Coal Combustion Residuals, and Cooling Water Regulations*, National Economic Research Associates (NERA), September 2011.

Regulatory Commission (FERC) has questioned whether the compliance deadlines set forth in EPA's regulations are too expeditious to allow sufficient lead-time to replace retiring resources. So far, over 140 coal-fired electricity generating units in 19 states have announced they will retire by 2015. These retirements will create volatility within the electric grid if steps are not taken to balance the retirements with new capacity.

3. Shortage of Skilled Labor

Adding to the challenges of regulatory overreach is the fact that approximately hundreds of thousands of manufacturing jobs remain unfilled due to the lack of qualified applicants. Despite an unemployment rate hovering near 8%, manufacturers are struggling to fill jobs. Foundries rely on skilled workers to maintain and grow their companies. This skills gap threatens manufacturers' competitiveness and ability to invest in and expand their businesses.

Examples of our skilled labor positions include: Class A and Class B electricians, welders, CNC machinists, and pattern makers. Many of these positions have taken as long as seven months to fill. For example, our Class A electrician position has been open since June of 2011 with no qualified applicants. The pattern maker position took longer to fill due to the fact that there are no young people being introduced to the job opportunities in this field. Pattern making is an integral part of the casting process and a much needed position. Most experienced pattern makers are located in the northern portion of the country. The best southern foundries can hope for is an experienced pattern maker looking to move to a warmer climate. We have approached an area technical school to send graduating welders to us for possible employment; however, all those graduates are already promised positions with other Texas-based companies. Currently, we are working with our local college to implement a certificate program for welding. The foundry industry supports legislation, the America Works Act, recently introduced by Representatives Lou

Barletta (R-PA) and Brad Schneider (D-IL), which prioritizes federal workforce training funding toward these types of certifications and works towards streamlining federal training programs.

We are one of the first companies in our area to participate in the U. S. Citizenship and Immigration Services (USCIS) E-Verify program. Since 2006, Oil City has participated in this program to verify those individuals who may legally work in the United States. More and more companies in our area, including the employment agencies, are using E-Verify today because of our success with the program.

4. Health Care

Our company provides full healthcare benefits for all our employees, as well as dental and vision benefits. Our current healthcare insurer estimates our premiums for the health care portion alone will increase nearly 13% in 2013 -- this is in part due to the healthcare reform provisions implemented into law under the Patient Protection and Affordable Care Act. Keep in mind this is just our portion of the cost and does not include the costs for the employee to cover their spouse or children.

We shopped for competing plans, but every insurance provider that we approached quoted even higher premiums. We essentially had one choice -- pay 13% more for the same coverage or offer no coverage at all. The Patient Protection and Affordable Care Act is working as designed, not as its supporters said it would. It is raising costs while reducing options. It appears the end result will be to push everyone into a single payer government run health care system

5. Foreign Competition

Imported castings now comprise nearly 25% of the market, with more than a quarter of these imports coming from China where energy, labor, tax and material costs are substantially lower partly due in part to government subsidies. While we have begun to see some of the castings that

were sourced in China come back, primarily due to quality and uncertainty with lead times, China remains a threat due to our manufacturers. In order to remain a competitive industry, we must be able to compete at reasonable level. This simply means that we cannot sustain continuous tax increases and over regulations that kill manufacturing, otherwise the castings flooding our domestic market from overseas will continue to be a serious threat to American foundries and manufacturers.

6. Need for Infrastructure Investment

Our nation's transportation and water utility infrastructure system continues to age and reach the limits of its capacity. Lowering the cost of borrowing for infrastructure projects represents an important way to leverage local funding and help America rebuild its aging infrastructure. U.S. foundries can provide critical castings for these infrastructure projects.

Conclusion

Oil City understands and supports the need for reasonable regulations to protect the environment, worker safety and health. But we also recognize that our industry and the entire manufacturing sector are facing unprecedented pressures in their efforts to remain competitive in the global economy. To continue manufacturing momentum and promote hiring, the United States needs not just improved economic conditions, but also government policies more attuned to the realities of global competition.

The key is to find the balance between ensuring a safe and healthy workplace and allowing that workplace to compete in order to be able to continue to provide employment; that is where the current U.S. regulatory process is lacking.

The cumulative burden of a variety of new and proposed standards is nearing a tipping point. More than ever, it is critically important that we regulate only that which requires regulation, and only after a thorough vetting of potential benefits, impacts and costs of that regulation on businesses and the

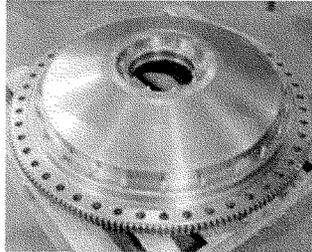
manufacturing supply chain. Pro-growth policies will make our nation a more competitive place to do business.

In this current economy, it is clear that cost-ineffective regulations and increases in taxes dampen economic growth and will continue to hold down job creation. For some foundries, it will be the final straw that destroys their whole business. Thank you again for the opportunity to appear before you today. I would be happy to respond to any questions.

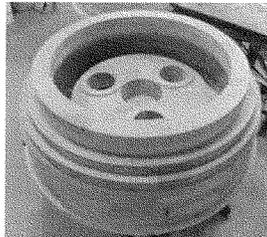
Attachment – Photos of Castings Produced by Oil City Iron Works

Oil City Iron Works – Corsicana, Texas

*Types of Iron Castings Produced by this Family-Owned Foundry
Range from 2 to 8,000 lbs. and all made from scrap metal.*



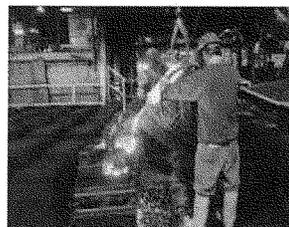
A large clutch plate casting used for energy exploration sector – weighs 1,264 lbs.



Wood pattern for a cover plate in the drive reduction housing for a gas turbine engine used by Solar Turbines.



**Bearing Retainer Ring Castings
(Weighing 29 lbs each)**



Pouring metal to produce iron castings.

Mr. TERRY. Thank you, Mr. Meyers.
Mr. Smatsky from Zephyrhills, Florida.

STATEMENT OF JEFF SMATSKY

Mr. SMATSKY. Thank you, Chairman Terry, Ranking Member Schakowsky. It is a pleasure to be here today. I assure you, I will honor my time commitments.

I would like to thank Congressman Bilirakis for his leadership in our district and to congratulate him on joining this prestigious committee.

I would also like to point out that there is an additional Nestlé Waters facility connected with spring sources located in Congresswoman Blackburn's district in Hohenwald, Tennessee. I would like to thank the Congresswoman for her support and friendship.

Zephyrhills brand spring water was established in 1964, is one of five regional spring brands for Nestlé Waters North America. It is the primary brand produced and manufactured at our factory in Zephyrhills, Florida.

The Zephyrhills spring water comes from natural springs located in the Zephyrhills area, as well as other carefully selected spring sources across Florida. Today, 70 percent of what Americans drink either comes in a can, in a bottle, or another container. We take pride in producing healthful beverage bottles in Zephyrhills, Florida. We produce the Zephyrhills natural spring water, Nestlé Pure Life purified water, along with Deer Park spring water, which is also bottled out of our sister factory in Madison County, Florida.

At Zephyrhills, we are proud to not only produce great quality bottled water, but as well as have great quality jobs. A couple statistics about our factory: our plant was built in 1990. We employ 258 full-time employees. We also additionally bring on 30 seasonal employees to cover peak season demands. The plant produces Zephyrhills and Nestlé Pure Life in single-serve containers, as well as the 5-gallon water cooler containers, which are distributed to homes and offices across Florida. Our spring water is piped to the factory and in some cases tankard, at which point it goes through a state-of-the-art multifaceted, multistage quality process and ends with the hygienically sealed bottle that ensures food safety and quality in the marketplace.

Preforms, which come from our sister factory in Madison County, are made into bottles in our blow molders. They are then filled, capped, labeled, packed, wrapped, palletized, wrapped again, prepared for shipment, all within the four walls of our facility. Across Florida, Nestlé Waters employs 1,000 people with an annual payroll of \$42 million. We spend an additional \$80 million with Florida-based business partners, compete in engagement activities as well as distribution networks. Incidentally, Madison County plant was the first lead-certified factory in the State of Florida.

Our company is committed to both understanding water resources and share that understanding with the community. Our showcase partnership in Zephyrhills is with Crystal Springs Preserve. This 525-acre nonprofit sanctuary has been restored to its natural spring habitat and houses an educational facility, which is visited by more than 35,000 students annually. Last month, we just launched a traveling science center with the Crystal Springs

Preserve. It is called Water Ventures. It is really cool. It is a 53-foot semi trailer that has been customized to provide a museum-quality-like platform for water education and encouraging positive stewardship to Florida's diverse watersheds.

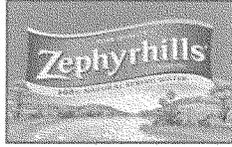
Bottled water has the lightest environmental footprint of any packaged beverage. We are intensely focused on lightening that footprint even further. We want and need our bottles back so that we can achieve cradle-to-cradle recycling and reuse. And we made a commitment to be the bottled water industry leader at 60 percent recycling rate for all plastic bottles nationwide.

Mr. Chairman, you may not always hear from the industry representatives who are generally pleased with how they are regulated by the Federal Government, but bottled water is one such industry. Under the jurisdiction of the FDA, bottled water is one of the most regulated food products in the country. For example, every day, every line across 29 facilities throughout the United States, our product is tested, quality inspected at least 200 times to ensure that we meet and exceed FDA requirements and our own internal quality standards. The FDA regulations are even stronger since the enactment of the Food Safety Modernization Act, and we feel that we and the rest of the industry are regulated appropriately and in accordance with all laws and the high standards of our consumers.

One area where we are not currently regulated at a federal level where we may be able to find some bipartisan compromise is with the issue of labeling and consumer's right to know. We believe that Americans have the right to know where their water is from and what is in it. In recent years, there has been an effort by some in Congress to introduce one federal standard for bottled water labeling and transparency and we have in our industry association looked forward to working with this committee on ideas for such a legislative approach.

In closing, I would like to thank you again, Chairman Terry, Ranking Member Schakowsky, as well as Congressman Bilirakis and the committee members for your attention today. We applaud your leadership in assessing the current climate for manufacturing in America today and finding ways to improve it. Thank you.

[The prepared statement of Mr. Smatsky follows:]



**TESTIMONY OF
JEFF SMATSKY
FACTORY MANAGER
ZEPHYRHILLS NATURAL SPRING WATER**

**BEFORE THE HOUSE SUBCOMMITTEE
ON COMMERCE, MANUFACTURING AND TRADE
"OUR NATION OF BUILDERS: MANUFACTURING IN AMERICA"
FEBRUARY 14, 2013**

Thank you – Chairman Terry, Ranking Member Schakowsky.

It is a great pleasure to be here with you today. I would like to thank you for calling this hearing and allowing us to testify.

I would like to thank Congressman Bilirakis for his leadership in our district, and to congratulate him on joining this prestigious committee.

I want to also point out that there is another Nestlé Waters manufacturing facility connected with spring sources located in Congresswoman Blackburn's district in Sweetwater Falls, Tennessee, and we would like to thank the Congresswoman for her support and friendship as well.

[Overview of Zephyrhills and Nestlé Waters North America](#)

Zephyrhills brand natural spring water was established in 1964, and is one of the five high-quality regional spring water brands of the Nestlé Waters North America family, and the primary product manufactured and shipped from our plant in Zephyrhills, Florida.

With 36 years of experience promoting healthy hydration, Nestlé Waters North America traces its roots in the U.S. market to 1976. Since then, the company has grown to \$4.2 billion in U.S. and Canada sales, and from 10 employees to 7,500 U.S. employees, a payroll of \$514 million, including benefits and profit sharing, and a total of 29 bottling facilities, 62 branch locations, and eight administrative offices across the U.S. and Canada. Our plants are clean, smokestack-free operations, and we utilize a rapidly renewable resource in an environmentally sound way.

Footprint in Florida: Tens of thousands of years ago, Florida was under water. As sea levels lowered, its mineral-rich limestone bedrock remained, creating a natural filter for groundwater to flow through. Today, the Zephyrhills brand bottled water comes from natural springs located in the Zephyrhills area and other carefully selected spring sources in Florida.

In an era when 70% of what Americans drink comes in a can, bottle, or other container, we take pride in producing healthful bottled beverages in Florida such as Zephyrhills brand natural spring water, and Nestlé Pure Life brand purified water,

along with Deer Park brand spring water, which is bottled at our sister plant in Madison County.

Our factory in Zephyrhills was originally built in 1990 as a 100,000 square foot facility, and has undergone renovations and expansions three times to become the modern 600,000 square foot facility we operate today.

The 258 employees at the Zephyrhills plant produce both the Zephyrhills and Nestlé Pure Life brands in a variety of single-serve and bulk containers, ranging from 8 oz. to our 5-gallon “water cooler” containers, which are distributed to homes and offices across Florida.

Water is piped to the facility or tankered to the plant from our nearby springs, where it undergoes a state-of-the art, multi-step quality process that ends with a hygienically sealed bottle that ensures safety and quality.

Our showcase partnership in Zephyrhills is with the Crystal Springs Preserve. This 525-acre non-profit sanctuary has been restored to its natural Florida habitat and houses an educational facility which is visited by 25,000 students annually through our partnership.

I’m proud to say that last month, we launched a new traveling science center with the Crystal Springs Preserve. It is called WaterVentures, and is a 53 foot semi-trailer

that has been customized to provide a museum-quality platform for educational outreach programs to schools and communities throughout Florida. The exhibits will focus on water education encourage positive stewardship of Florida's diverse watersheds through a variety of inquiry based activities.

Managing for sustainability – If all the water in North America fit into a glass, the water used to make bottled water would be less than a drop. Selecting spring sources is a careful, thorough process.

All told, my company manages nearly 14,000 acres of natural watershed area around our 50 spring sites. At the sites, we carefully monitor water levels to ensure that they're being replenished—striving to manage our spring sources not just for today, but for generations to come

Reducing our Environmental Footprint: A recent lifecycle analysis concluded that bottled water has the lightest environmental footprint of all packaged beverages, and we are intensely focused on lightening that footprint even further. We also want our bottles back so we can achieve “cradle-to-cradle” recycling and reuse, and have made a bold commitment to lead the bottled water industry to a 60% recycling rate for plastic bottles nationwide.

Jobs and the Economy: At Zephyrhills, we are not only proud to produce quality bottled water, but quality jobs as well. Here are some of the statistics that might be most relevant for the Subcommittee.

- We currently employ 258 full time employees and an additional 30 seasonal workers at peak times.
- Across Florida, Nestlé Waters employs nearly 1,000 people with an annual payroll of \$42 million.
- We also spend \$80 million per year with Florida-based business partners, community engagement activities, and distribution networks. This trend is replicated nationally when you consider that we employ 7,400 Americans across the country.

Current Regulatory Oversight

How we are regulated: Mr. Chairman, you may not always hear from industry representatives who are generally pleased with how they are regulated by the federal government, but bottled water is one such industry. Under the jurisdiction of the Food and Drug Administration bottled water is one of the most regulated food products in the country. Each day, for example, we test our bottling lines 200 times to ensure our products meet or exceed FDA requirements and our own internal quality standards – some of which are more stringent than the EPA’s standards for tap water. FDA regulations are even tougher since the enactment of the Food Safety Modernization Act (FSMA). We feel that we – and the rest of industry - are regulated appropriately and in accordance with all laws and the highest standards for our consumers.

In the past there have been some efforts to transfer regulatory authority of bottled water to the EPA, which regulates public water sources. For many reasons, we, and the industry as a whole, do not agree with this approach. But most simply, from the standpoint of quality, the Safe Drinking Water Act requires that FDA regulations for bottled water must be at least as protective of human health as those imposed by EPA for municipal drinking water. And as a packaged food product, we believe we should be regulated by the federal agency with the most experience and expertise in food and beverage production.

Potential Improvements Could Ensure Uniform Quality and Consumer Information

One area where we are not currently regulated at the federal level where we may be able to find some bipartisan, bi-cameral compromise is with the issue of labeling and consumer right-to-know. We firmly believe that Americans have a right to know where their water comes from and what's in it.

I am proud to say that Nestlé Waters leads the bottled water industry in testing and reporting on the quality of our products. We print our sources and water type on our labels and we provide a telephone number and the address to our company's website, where—since 2005—we have made quality reports publicly available for all of our bottled water brands.

We believe consumers should have that information, regardless of where they purchase a bottle of water in the United States, and believe that Congress and the FDA could help ensure this through a “one best way” federal solution. The current patchwork of state regulations not only allows for uncertainty, but could end up in conflicting sets of rules that impede our ability to get our products to market through our efficient, high-speed manufacturing and distribution network.

In recent years, there has been a concerted effort by some in Congress to introduce one federal standard for bottle water labeling and transparency and we and our industry association look forward to working with members of this committee on ideas for such a legislative approach.

In closing, I would again like to thank you, Chairman Terry and Ranking Member Schakowsky, as well as Congressman Bilirakis, and the Committee members for your attention today. We applaud your leadership in assessing the current climate for manufacturing in America today and trying to find ways to improve it.

My colleagues and I are available for any questions and are happy to submit any additional materials to the record.

Mr. TERRY. Thank you.

And Mr. Block from Block Steel, who is Jan's witness today. Thank you for coming from Chicago.

STATEMENT OF JOSEPH K. BLOCK

Mr. BLOCK. Thank you, Chairman Terry, Ranking Member Schakowsky, distinguished members of the subcommittee. I really appreciate being here today because I think my company has a fantastic story to tell.

We have been in business since 1948. That is 65 years. We are in our 65th year. And the story of our company, I believe, especially post-World War II, tracks a lot of the issues that are happening with American manufacturing. I would like to talk a little bit about my company, and while I do, I hope this illuminates some of the issues that are not only specific to Block Steel Corporation but in general to those small- to medium-sized U.S. manufacturers. I think with the knowledge of these issues and an understanding of their ramifications, public policy can be fashioned which more effectively supports the growth and sustainability of U.S. manufacturing, especially for the smaller and medium-sized businesses such as Block Steel Corporation.

Block Steel Corp. represents a great American success story, and for the past 65 years, we have adapted to the changes which have occurred in the manufacturing base in the United States. Located in Congressman Schakowsky's district—we were actually previously on the west side of Chicago—we began by supplying a lot of the companies that today don't even exist, such as Zenith Electric, who made television sets, Sunbeam Appliance, and a company called the Hurley Electric Company, which was—their product was Thor washing machines, and they were actually the first company to produce an electric washer that we know today. Although there is a little bit of debate about who was the first.

Those companies really don't exist anymore. In fact, at one time in the '70s, Zenith Electric was our largest customer. This is for those of us that don't remember of a certain age, television sets used to be big steel boxes and used a lot of material. And how we have adapted to those changes and that the change in our customer base I think represents some of the changes that have occurred to American manufacturing over the years. Certainly, televisions today are not produced with a quantity of steel, and to the best of my knowledge, they are not produced even in the United States anymore.

We made a decision in the '60s and early '70s based upon the request of one of our customers to get into a product called aluminized steel. Aluminized steel is aluminum-coated sheet steel. I have a piece of it here and I can show it to you. And it is used primarily in HVAC, automotive applications. It is used in any application where heat and corrosion resistance is needed. We have become the premier supplier of aluminized steel in the United States and really in North America, and we are really known worldwide for that product.

What I think is interesting is that we are in the middle of a supply chain, so we buy from the mills which produce steel and then we sell to manufacturers which use that steel to make a product,

whether it is an automobile or a fireplace or an appliance. So we see both sides of some of the arguments which have to do with trade.

I would like to really quickly quote—this is from Thomas J. Gibson, and he is the president of the American Iron and Steel Institute. Now, I don't agree entirely with what he says but I think it points out some of the issues that we all have to deal with because there is a real dichotomy in dealing with what side of the equation you are on with trade in manufacturing. He was responding to President Obama's speech the other night and he said, "We need to recognize the massive trade imbalance we have with China and the fact that China operates with a built-in competitive advantage by undervaluing its currency. China has at least 200 million tons of excess production capacity in steel that is almost double the size of our entire domestic industry. The President needs to take action to address the import surge we are facing in steel, including declaring China a currency manipulator and working with Congress to pass a tougher trade enforcement legislation like the ENFORCE Act." Really quick, there is two sides to that story. Manufacturers want cheap steel wherever they can get it but the steel mills want protection so that they obviously can protect their market.

Thank you.

[The prepared statement of Mr. Block follows:]

Testimony of Joseph K. Block
Vice President & Principal, Block Steel Corp.
Hearing on "Our Nation of Builders: Manufacturing in America" House
Subcommittee on Commerce, Manufacturing and Trade Rayburn HOB Room 2322
February 14, 2013

Dear Chairman Terry, Ranking Member Schakowsky, and Distinguished Members of the Subcommittee,

My name is Joseph Block, and I appreciate this opportunity to present my company, Block Steel Corp., a steel service center in Skokie, Illinois, and discuss Block's success and the role it has played in United States manufacturing over the past 65 years. In doing so I hope to illuminate some of the issues specific to Block Steel Corp. and in general those of small to medium size US manufacturers. With knowledge of these issues and an understanding of their ramifications, public policy can be fashioned which more effectively supports both the growth and sustainability of U.S. manufacturing, especially for the smaller and medium sized business such as Block Steel Corp.

Block Steel Corp. represents a great American success story, and for the past 65 years Block's history tracks the core of manufacturing in the Midwest, if not the whole of the USA, and demonstrates the flexibility and innovation necessary to compete in a changed manufacturing environment.

Introduction to Block Steel Corp.

Block Steel Corp's origin begins with a scrap cart on the streets of Chicago. Beginning in the late 1930's and into the WW2 years, my grandfather Albert Block, collected scrap on the streets and alleyways of Chicago, to be sold to scrap dealers. It

was certainly a difficult way to earn a living, but in that time period manufacturers were much less efficient than today and produced an abundance of scrap. This presented a great opportunity to source material.

During his daily walks through the city, Albert gained extensive knowledge as to what products were being produced that created all this scrap. He made contacts and grew relationships with the manufacturers and came to understand what steel they needed to produce their products. He realized that scrap collected at one manufacturer, could be used in production by another manufacturer. With the money he had saved from his scrap cart business, he bought a yard where the scrap he collected could be inspected and sorted. This sorted material could then be sold to the manufacturer. During this time, Albert was also able to gain contacts with the steel producers, and learn what steel mill made what products.

In 1948, with his son, my father Harvey Block, and son in law, my uncle Oscar Wolfson, they founded Block Steel Corp. Production and office employees were hired from the local community. It was decided from the onset that employees would be treated like extended family and good wages with health benefits were provided for all employees from the beginning. A building was bought, and steel-processing equipment was installed to cut the steel to exact dimensions customers would need. These included slitters, which cut wide coils of steel to narrower coils, and shears, which cut close tolerance sheets, or blanks, to a specific size.

Located on the west side of the Chicago area, Block Steel Corp. was positioned to supply many of the manufacturing companies in the burgeoning post WW2

economy. These included manufacturers of home appliances such as Thor Washing Machine (Hurley Electric Laundry Equipment Company), General Electric/Hotpoint (washers, dryers, stoves and ranges), Sunbeam Appliance (toasters, irons etc.), and Zenith Electronics (televisions, radios). Continuing to expand on the relationships developed over the years, Block Steel Corp. began to source directly from the steel mills of the Chicago area. The steel, usually of less than prime quality, was brought to Block Steel Corp. where it would be inspected and sorted and processed as required to create a prime quality product. This is at its core the function of a steel service center.

Function of a Steel Service Center

The need for this supply chain is created by the differential between the lead times to produce steel by the mills, and the product manufacturers whose production process requires constant fluctuation of material needs in time, quantity and quality.

The production of steel is a large complex industrial process involving large quantities of material. Because this process is generally on such a grand scale, the mills want to ideally produce and sell as much tonnage as possible with their facilities, as well as ship it as soon as it is ready. Further, because of many functional variables, lead-time from an order to a mill and production by that mill of the finished steel product can be highly fluid. Manufacturers on the other hand generally need steel in very specific quantities and very specific times to match their production. The mills are unable to provide that level of service. Thus the need for Block Steel Corp. and steel service centers, who on one end can deal with the mills

and their needs by providing an outlet for the mills production, then on the other end control the outflow of material to support the needs of manufacturers.

Block Steel's Introduction to Aluminized Steel

During its early years Block Steel Corp. was a general line steel service center, sourcing and stocking many grades and types of steel, essentially whatever we knew could be sold to the local manufacturers. And, because of our business philosophy of treating both employees and customers as 'family', we were able to prosper and build up a very loyal customer base. Our customers actually looked for opportunities where they could do more business with us, and those strong relationships helped forge Block's direction for the future.

Albert died in 1963, but the core philosophy of our family company remained. Under Harvey's direction and with our dedicated employees and strong customer relationships, Block Steel's growth was maintained. Beginning in the 1960's at the behest of our customers, Block Steel Corp. began to stock and provide aluminized steel. This was a relatively new steel product at the time, combining the strength of steel with the corrosion resistance and/or the heat reflectivity of aluminum. Aluminized steel Type 1 is a lower cost alternative to stainless steel in some applications, as well as the primary material in other applications. Aluminized Type 1 was ideal for products such as toasters, ranges, dryers and the like. Eventually the benefits of aluminized steel Type 1 began to be seen by the HVAC, baking, fireplace, BBQ, and especially the automotive industries.

There is a second type of aluminized steel called Type 2, which is primarily designed for corrosion resistance applications only. This is used in roofing, insulation and culvert applications.

With the addition aluminized steel, and being one of the first service centers in the U.S. to begin carrying aluminized steel, Block Steel Corp. began to differentiate from the other service centers.

Strategic Direction

By the end of the 1970's I became active at Block Steel Corp. and following the growth of demand for aluminized, we made three strategic decisions which would become elemental to the future of Block Steel Corp.

First, we decided to focus on aluminized steel. Today, Block Steel Corp. is the largest independent distributor of aluminized steel in North America. We are known not only in the USA, but also throughout the world as the service center for aluminized steel.

Second, by anticipating the quality and efficiency trends in manufacturing, particularly in the automotive industry, we made the decision to stock exclusively prime material and institute quality control systems to become the highest quality supplier possible to our customers.

Third, we expanded into our present facility in Skokie, Illinois. This was our largest capital expansion since our founding, and we moved from a 40,000 square foot building to our present 160,000 square feet. We added the most up to date

processing equipment to meet the increased demands of the marketplace, including new slitters (coil to coil) and cut to length leveling lines (coil to sheets or blanks). At the time of our move to Skokie, our yearly sales were approximately \$15 million.

The customer base of Block Steel Corp. in the 1980's began to look different than it was in the 1960's. As an example using the customers mentioned above, many of those stopped producing in the Chicago area. The reasons for this are varied from company to company. Hurley no longer exists, General Electric/Hotpoint moved production to Louisville then eventually to Mexico, Sunbeam today exists as a brand name only with products contract produced offshore, and although the same for Zenith, the technological change from tube technology to flat screen has eliminated the need for large quantities of steel.

This move for manufacturers to find lower cost production whether it is lower labor rates or tax incentives has pushed some US manufacturing overseas, to Mexico or to 'lower cost' states. Technological changes can obsolete products. These trends have accelerated in the past 25 years and would impact Block Steel Corp. and the economy as a whole in a negative way.

Adapting to Changes in Manufacturing

Block Steel Corp. has been particularly adept at adapting to these industry changes. This has been accomplished in a number of ways including the use of contract facilities which expands our geographic range, a focus on selling to high quality well managed companies, developing long term sustainable supply contracts, and by increasing our export business. Block Steel developed a strong mission statement,

titled "Building Blocks to the Future: Continuous Improvement, Innovation, Quality and Service". While this really reflected what we were already doing, it brought a company wide understanding of our principals to all our stakeholders, from employees to suppliers and customers. We expanded our focus on the automotive sector, and became TS-16949 quality system registered. Block currently supplies to a cross section of the automotive manufacturers and suppliers. Block Steel Corp. also does extensive export business to Mexico, Middle East, South America, and China. Besides our Skokie facility and headquarters, we store and process material at 5 locations across the USA. Our contract facility in Houston is particularly positioned to service our Mexican export market. Block continued to grow and thrive, hitting peak sales of approximately \$75 million in 2007.

The Recession

From the 4th quarter of 2008 into the 1st quarter of 2009 our business dropped over 45%, or to approximately \$40 million annualized sales. The depth and suddenness of this decline was devastating. This was one of the most critical time periods in our history. What was perhaps most frustrating about that situation was that it was out of our control. We lost business not because of bad business practices on our part, but due to critical components of our economic system failing, dragging us down with it. We were forced to downsize for the first time in our history, and it was heartbreaking. However, due to the dedication and hard work of our employees and the rebound of the automobile industry, due in part to the federal bailout, we were able to survive and regain our growth. From a philosophical viewpoint I am torn on

the auto industry bailout, but there can be no denying it helped save my company and many others as well as thousands of jobs. Today we have recovered, and in the last 2 years have hired 10 new employees. We are on the cusp of another expansion, and may be hiring to support full around the clock production as the housing market recovers. Block has rebounded to approximately \$60 million in annual sales.

The Future

Ultimately the aggregate demand for aluminized steel is a function of demand for products produced by the manufacturers and generally bought by consumers. In the aluminized steel market today our customers make vehicles and vehicle parts especially heat shields and exhaust and exhaust related components, small engines, major and small appliances, hot water heaters, HVAC units especially heating units, baking pans, BBQs, fireplaces, industrial ovens and paint lines, gas and oil field pipe insulation and many small parts and brackets used across industries.

Many of the non-automotive industries are strongly dependent on new housing units. The maintenance of these industries as viable in the USA is critical to maintaining demand for aluminized steel, and hence the health of my company as well as the steel industry in general. The un-sustainability of the housing and credit markets in 2008 must be understood, and we need sensible regulations and oversight to guard against a reoccurrence.

Block Steel Corp. has been a private, family run business since inception, and a good measure of our success can be tied to our internal company practices. With a total of approximately 60 employees, Block treats employees like family. Many of our

present employees are from the same families who were our original employees! I represent the 3rd generation of the Block family, and we have employees who represent the 3rd generation of their families to work at Block Steel Corp. It has always been our practice to provide employees with extensive health insurance as well as retirement plans. Although all costs are of great importance to us, we feel that a mission of a great company is not only to be profitable at all costs. We have a dedication to our community and feel part of that mission is to provide employees with sustainable living wage with good health care. Block Steel Corp. has resisted the race to the bottom in wages and benefits.

This has put great competitive pressure on us to provide the superior service in our industry. We survive not by being the absolute lowest cost, (although we are always competitive), but being, flexible, innovative and the best at what we do. And we do that having a dedicated and secure work force. Good wages and security supplies our employees with the means to buy the products our customers make.

Recommendations

I believe that a 'race' to find the lowest cost wages or the lowest taxes is ultimately unsustainable and takes away from true innovation. This drives manufacturing from the USA. For manufacturing to survive the focus should be on being the best at what you do and innovation.

Perhaps the best way to phrase it is the need for a level playing field. No company wants to have excessive costs whether they are taxes or regulatory requirements, but if all companies have similar costs in that regard, they can then compete on

innovation, better products and better business practices. Small to medium size companies can not move as easily as large corporations to the lowest tax area, or chase after the worlds lowest wage and benefit rates. Manufacturers should not be rewarded for cutting benefits and not paying taxes, but instead be rewarded for building a better product or providing a better service and providing good jobs. A simplified and fairer tax code will in the long run benefit a strong sustainable manufacturing base. Regulatory standards should be harmonized across markets, both in the USA and as much as feasible worldwide.

Summary

In talking with many of our customers, from both small stamping operations to largest public companies there is universal agreement for the need to be a country of makers. Manufacturing is of great importance to the U.S.A. and obviously to Block Steel Corp. Beyond knowing how to build things, actually building things produces good jobs and a builds a sustainable and yet flexible infrastructure of economic vitality. In summary, to help maintain and grow Block Steel Corp. and the great American manufacturing base I see a need for the following basic general policies:

- 1) A fair, simplified and equitable tax code.
- 2) Regulations, both environmental and safety, on manufacturing industries that are harmonized across the country, and as much as feasible across the globe.
- 3) Support and encouragement of education in manufacturing and technological skills

- 4) Health care with costs for industry harmonized across the USA.
- 5) Regulations and oversight of financial markets to help avoid a repeat of 2008.

Attached please find some economic data as provided by our industry trade group, the MSCI. This shows the general impact of the service center industry on the economy broken down to the country, Illinois and my House District (Illinois 9th).

I wish to sincerely thank the committee members for taking the time to receive my testimony and gain an understanding of my company, and I look forward to Congress working together to develop policies that support not only my industry specifically, but manufacturing in general.

2012 Economic Contribution of the Metals Service Industry

Illinois Congressional District 9

	Jobs	Wages	Economic Impact
Direct Impacts			
Primary Producers	1,242	\$110,655,500	\$807,193,900
Metals Service Centers	668	\$56,379,300	\$119,603,200
Other Fabricators and Processors	96	\$6,650,700	\$24,743,800
Total Direct Impacts	2,006	\$173,685,500	\$951,540,900
Supplier Impacts			
Agriculture	2	\$27,300	\$211,500
Mining	21	\$1,976,900	\$5,926,900
Construction	48	\$2,976,600	\$6,868,700
Manufacturing	215	\$17,170,600	\$72,087,100
Transportation & Communication	269	\$20,531,900	\$66,845,400
Wholesaling	189	\$16,509,300	\$34,852,300
Retailing	13	\$417,600	\$847,700
Finance, Insurance & Real Estate	255	\$17,188,700	\$61,661,500
Travel & Entertainment	144	\$3,708,200	\$10,177,400
Business and Personal Services	1,222	\$88,147,600	\$161,273,000
Government	19	\$1,660,100	\$2,995,300
Other	-	\$-	\$-
Total Supplier Impacts	3,192	\$170,317,800	\$423,746,800
Induced Impacts			
Agriculture	13	\$684,300	\$2,312,500
Mining	4	\$342,900	\$864,100
Construction	21	\$1,239,700	\$2,743,400
Manufacturing	134	\$10,931,400	\$77,790,400
Transportation & Communication	126	\$9,055,400	\$31,286,000
Wholesaling	111	\$9,510,500	\$20,008,400
Retailing	598	\$18,811,300	\$38,937,800
Finance, Insurance & Real Estate	527	\$30,675,500	\$147,152,100
Travel & Entertainment	537	\$12,580,300	\$34,023,000
Business and Personal Services	1,993	\$113,773,400	\$207,804,200
Government	19	\$1,554,600	\$3,591,900
Other	100	\$1,517,700	\$3,714,700
Total Induced Impacts	4,178	\$210,477,000	\$570,228,600

This report was produced for the Metals Service Center Institute by John Dunham and Associates as a component of the 2012 study, *Economic Impact of the Metals Service Industry (2012)*.

2012 Economic Contribution of the Metals Service Industry

Illinois

Direct Impacts	Jobs	Wages	Economic Impact
Primary Producers	13,510	\$1,203,429,400	\$8,778,604,100
Metals Service Centers	25,660	\$2,166,398,800	\$4,595,803,500
Other Fabricators and Processors	7,106	\$493,804,600	\$1,837,193,900
Total Direct Impacts	46,276	\$3,863,632,700	\$15,211,601,500

Supplier Impacts	Jobs	Wages	Economic Impact
Agriculture	95	\$1,689,600	\$13,097,800
Mining	885	\$84,956,400	\$254,700,300
Construction	1,295	\$81,588,700	\$188,079,700
Manufacturing	4,630	\$370,374,200	\$1,554,942,600
Transportation & Communication	8,175	\$625,029,000	\$2,034,866,300
Wholesaling	4,144	\$363,081,500	\$266,490,300
Retailing	234	\$8,962,400	\$16,364,200
Finance, Insurance & Real Estate	5,271	\$356,921,400	\$1,277,165,100
Travel & Entertainment	2,510	\$64,748,700	\$177,708,900
Business and Personal Services	17,848	\$1,287,577,600	\$2,355,726,300
Government	934	\$84,655,300	\$152,741,900
Other	-	\$-	\$-
Total Supplier Impacts	46,016	\$3,327,774,800	\$8,791,863,400

Induced Impacts	Jobs	Wages	Economic Impact
Agriculture	797	\$42,369,300	\$143,189,000
Mining	144	\$14,737,200	\$37,133,900
Construction	568	\$33,945,300	\$75,119,600
Manufacturing	2,884	\$235,793,100	\$1,677,964,700
Transportation & Communication	3,834	\$275,659,100	\$952,390,100
Wholesaling	2,438	\$209,160,800	\$440,034,300
Retailing	11,526	\$363,153,000	\$751,694,900
Finance, Insurance & Real Estate	10,912	\$635,367,200	\$3,047,889,300
Travel & Entertainment	9,360	\$216,173,600	\$594,080,900
Business and Personal Services	29,102	\$1,661,896,200	\$3,035,411,100
Government	955	\$79,276,300	\$183,165,400
Other	1,724	\$26,203,300	\$64,135,800
Total Induced Impacts	74,219	\$3,793,734,600	\$11,002,208,800

Fiscal Impacts

Federal Taxes	\$3,149,469,500
State Taxes	\$2,564,809,300
Total Taxes	\$5,714,278,800

This report was produced for the Metals Service Center Institute by John Dunham and Associates as a component of the 2012 study Economic Impact of the Metals Service Industry (2012).

2012 Economic Contribution of the Metals Service Industry

The United States of America

Direct Impacts	Jobs	Wages	Consumer Impact
Primary Producers	228,400	\$21,263,132,800	\$157,004,979,500
Metals Service Centers	191,400	\$15,031,696,200	\$31,896,193,800
Other Fabricators and Processors	127,300	\$8,922,347,000	\$40,146,165,200
Total Direct Impacts	547,100	\$45,217,176,000	\$229,147,338,400

Supplier Impacts	Jobs	Wages	Consumer Impact
Agriculture	3,219	\$105,429,800	\$374,673,200
Mining	50,257	\$5,268,568,000	\$20,463,191,400
Construction	26,598	\$1,406,479,500	\$3,508,295,500
Manufacturing	77,837	\$6,206,879,000	\$32,357,328,700
Transportation & Communication	125,029	\$9,599,018,700	\$32,623,485,800
Wholesaling	75,775	\$5,954,769,200	\$12,635,522,300
Retailing	3,894	\$129,553,500	\$268,189,300
Finance, Insurance & Real Estate	69,066	\$3,898,812,400	\$14,681,426,600
Travel & Entertainment	35,214	\$833,413,000	\$2,344,146,100
Business and Personal Services	270,799	\$15,950,820,500	\$29,961,485,900
Government	14,928	\$1,285,139,200	\$3,328,753,600
Other	-	\$-	\$-
Total Supplier Impacts	752,612	\$50,438,882,800	\$152,506,498,300

Induced Impacts	Jobs	Wages	Consumer Impact
Agriculture	25,215	\$703,496,800	\$2,842,988,700
Mining	5,784	\$612,879,900	\$1,764,120,200
Construction	10,227	\$543,429,200	\$1,311,729,400
Manufacturing	51,824	\$3,827,224,800	\$28,055,485,300
Transportation & Communication	59,902	\$4,221,758,500	\$15,147,967,200
Wholesaling	36,691	\$2,883,398,300	\$6,118,330,000
Retailing	185,793	\$5,795,076,900	\$12,226,366,200
Finance, Insurance & Real Estate	170,249	\$8,633,167,100	\$46,602,861,000
Travel & Entertainment	155,640	\$3,442,471,600	\$9,774,102,200
Business and Personal Services	439,377	\$23,455,242,200	\$43,022,982,400
Government	15,869	\$1,259,861,500	\$3,286,101,200
Other	30,722	\$423,285,900	\$982,973,000
Total Induced Impacts	1,187,294	\$55,800,992,700	\$171,136,006,600

Fiscal Impacts	Jobs	Wages	Consumer Impact
Federal Taxes		\$36,920,993,100	
State Taxes		\$27,690,115,200	
Total Taxes		\$64,611,108,300	

This report was produced for the Metals Service Center Institute by John Dunham and Associates as a component of the 2012 study *Economic Impact of the Metals Service Industry (2012)*.

Mr. TERRY. Perfect timing.

Mr. BLOCK. All right.

Mr. TERRY. Thank you very much. And by the way, Mr. Block and others, we are actually contemplating a steel-only hearing—

Mr. BLOCK. Great.

Mr. TERRY [continuing]. So we could work through those issues.

Mr. Arnold, appreciate you here from Fram Renewable Fuels.

STATEMENT OF HAROLD ARNOLD

Mr. ARNOLD. Glad to be here. Thank you very much for inviting me.

Fram is a small company in South Georgia. We make wood pellets. Wood pellets are wood fiber that has been dried and compressed into a pellet form, and the purpose of doing this is to enhance transportation and logistics of it and increasing the energy density when it is burned. The uses of wood pellets are for the residential stove and heating market. Mostly, that market is in the upper Midwest and the Northeast in the United States. Combined heat and power plants in Europe use wood pellets extensively where they generate heat for communities or large office complexes and a little bit of electricity and provide steam for industrial off-takers and then large-scale power generation in Europe, wood pellets can be used as a renewable fuel component to displace coal. And because of treaty obligations, they have to have an increasing amount of renewable fuel in their fuel mix every year.

Because of the Kyoto Treaty and other obligations that they have such as the 20/20/20 target—20 percent reduction in greenhouse gases, they are looking for 20 percent of the mix from renewable fuels, and 20 percent from improved energy efficiency—wood pellets are a low-cost form in this. And what they have found there in markets such as the U.K. is that you can base load your power grid with wood pellets whereas intermittent sources—very good sources with cheap fuel like solar and wind, you can't base load.

We manufacture in America. We have Appling County pellets in Baxley, Georgia. We employ 40 people there, original investment about \$25 million. That mill originally had a design capacity of 130,000 tons. We have recently expanded that by another 100,000 tons up to 230. February of last year we constructed a joint venture operation in Lumber City, Georgia, where we can produce another 120 or 125,000 tons, a \$10 million investment, and created 14 or 15 jobs there.

We have just broken ground on a new plant to be constructed in Hazlehurst, Georgia, in two phases. The first phase will employ 62 people, produce 300,000 tons per year, and then it will be expanded later, another \$30 million investment with two additional lines and increase employment by about another 20 people in that. We do aggregate pellets from other very small producers in Georgia, and we expect to export over 450,000 tons this year and we expect to double that next year.

The foreign market is the demand that Fram feeds. That demand—the U.S. exported about a million-and-a-half tons in 2012. We expect that to grow to over 12 million tons in the next 10 years. So it is an area with tremendous growth in it.

We have been helped by various government programs that are in place. The USDA rural loan guarantees were very helpful to us in establishing our plants. We have availed those. The Investment and Production Tax Credits, of course, are very helpful to us. Port infrastructure in the U.S. is somewhat lacking, and the work that the Corps of Engineers is doing to improve that with dredging is very important to us and, you know, in budget constraints, hopefully, they get enough to keep the channels open so we keep the ships going in and out.

Thank you very much for inviting me up to tell our little story of our little company. We expect the global demand for the products that we are making to increase. The U.S. can be at the forefront in this and develop many things as we go along. And we are just on the edge of raw materials coming from bio sources that is going to really help in a lot of ways. Companies like Bridgestone are making tires now entirely from plant matter, and we will see a lot of things like this develop out of our industry as things move along. So this is a great country to be in and a great town to be in in the forest industry.

[The prepared statement of Mr. Arnold follows:]



A NATION OF BUILDERS: MANUFACTURING IN AMERICA

SUBCOMMITTEE ON COMMERCE, MANUFACTURING, AND TRADE

United States House of Representatives

February 14, 2013

Submitted by Harold Arnold

Fram Renewable Fuels, L.L.C.

President

Summary

Fram Renewable Fuels, L.L.C., was one of the first wood pellet producers and exporters in the Southeast United States. Our wood pellets are made of 100% virgin wood that has been dried and compressed into pellet form. These pellets are then exported to Europe where they are used in the place of coal to generate electricity. The European Union's decision to implement a progressive renewable energy policy presents a great opportunity for rapid growth in the U.S. wood pellet industry.

Fram currently exports over 300,000 metric tons of wood pellets to Europe annually and will increase to more than 1 million tons being exported to Europe in 2015. We, in the U.S., are unique in that our wood resources are proven sustainable and have been in proven forest management programs for decades. There is an expectation, by the industry, that the U.S. will export over 12 million tons (per year) of wood pellets to Europe by 2020. This presents a great opportunity that is also a great responsibility for a young, developing renewable energy market.

Fram recognizes and applauds the U.S. government for supporting businesses that increase American exports. We are a part of the USDA small business loan guarantee program allowing us to secure financial support for expansions to increase our productivity. The financial component of our operations, like many within the industry, has the ability to make or break our business as a whole. Support in the form of production and investment tax credits as well as small business loan programs are necessary and helpful to ensure the U.S. remains a leader in the renewable energy market abroad. In addition to that, timely attention to issues at American ports is vitally important as we work to get the most economic shipping rates. The adoption and extension of programs and policy like the above will help this developing market continue to grow.

Introduction

Fram Renewable Fuels, L.L.C.(Fram) respectfully submits this testimony to the “Our Nation of Builders: Manufacturing in America” hearing of the House Subcommittee on Commerce, Manufacturing and Trade.

As one of the first large scale producers and exporters of wood pellets in the Southeast, Fram has gained valuable experience through the development of this new renewable energy market. This exciting new market offers great opportunities for expansion of the U.S. wood pellet production industry, and with that opportunity comes much responsibility.

What are Wood Pellets?

Wood pellets are a made of 100% virgin wood fiber that has been dried and compressed into the pellet form. The reasons for processing this material into the pellet form are increased energy density and logistical optimization. Wood pellets are made by utilizing wood residuals, sawdust and chips, from various wood processing mills, or by using whole trees that are chipped and then processed into wood pellets. Fram’s wood pellets are manufactured from sawmill residuals from approximately 25 sawmills in the areas surrounding the processing plant. Wood pellets are available in two main quality groups. Residential wood pellets are often smaller in diameter, produce less ash and are a light golden tan color. Industrial wood pellets are larger in diameter, can produce up to 1.5% ash and are often a darker brown color. Fram focuses on industrial grade wood pellets, but also has the capability to produce a small volume of residential grade pellets for the European residential market. Once processed, these wood pellets are shipped across the Atlantic Ocean in approximately 25,000 metric ton vessels and burned in the place of coal at various power stations in Europe.

Who Uses Wood Pellets?

Wood pellets are used for three main purposes around the world. First, they are used by homeowners on a residential scale to burn in a wood pellet stove to generate heat to warm homes. These high quality, residential pellets are typically sold in bags at local retail stores and big box retailers. Second, some pellets are used in combined heat and power plants (CHP) or boilers. These plants produce a small amount of power but also provide heat for urban homes, buildings or small cities. CHP systems have allowed industrial facilities and building owners to save money on energy costs and reduce the environmental impacts of fossil fuel use. Third is the use of wood pellets for electricity generation. In this use, wood pellets are purchased by large power stations and burned in the place of coal to reduce carbon emissions that cause global warming. The largest users of wood pellets are currently the large scale European power generators.

Why Use Wood Pellets?

When the European Union signed the Kyoto Protocol, the decision was made to begin work on an energy policy that would reduce greenhouse gas emission and be in compliance with the agreed targets. In March 2007, the European Union set forth its path toward the future through the “20-20-20 Targets”. The three key objectives for this policy are: 1. a 20% reduction in greenhouse gas emissions from 1990 levels; 2. raising the share of EU energy produced from renewable resources to 20%; 3. a 20% improvement in the EU’s energy efficiency. Of these, the most important to Fram is the requirement that 20% of EU energy is produced by renewable resources by 2020. This provides a great opportunity for the growth of the wood pellet industry

in the United States and is one of the major factors in the rapid growth in the European renewable energy market. Wood pellets are recognized by many in the industry as the lowest cost, most quickly deployable renewable resource available today for base load power. Because of the EU's 20% renewable target, Fram, and the wood pellet industry have an opportunity to supply the major power stations in the EU with wood pellet fuel for many years to come.

Manufacturing in America

Currently Fram manages wood pellet activities for several production facilities in Southeast Georgia, and is responsible for exporting over 375,000 metric tons of wood pellets annually. As a result of Fram locating in this area, there are approximately 55 local people that are employed in Fram's wood pellet mills. In addition to direct jobs, Fram's locating its production plants in southeast Georgia has proven to be an economic stimulus for existing logging crews, logistics companies, and local businesses. In an effort to merge seamlessly into a predominately pulp and paper area, Fram developed strategies to make our wood pellet business complement the existing forestry related businesses already located in the area.

Once formed in 2005, Fram began planning what would later be known as Appling County Pellets (ACP). As part of our due diligence process, we literally searched the entire eastern seaboard from South Florida to the maritime provinces of Canada looking for the most optimal area to locate this wood pellet plant. Then we realized what we had in Southeast Georgia. Why would we locate thousands of miles away, when we are living in the wood basket of the world? So the decision was made and Fram decided to position its first pellet plant in a small agricultural town in the heart of Southeast Georgia called Baxley.

Appling County Pellets, LLC (ACP) was operational in late 2007, employing approximately 40 people directly and another 400 indirectly throughout various parts of the supply chain. From logging, to trucking to administrative and contract labor needs, Appling County Pellets further enhances the economic well being of Baxley as well as many of the surrounding communities. An investment of over \$25 million was made to build ACP on a 25 acre site in Sweetwater Industrial Park and little did we know at the time that this plant was just the beginning of our journey in this market. Appling County Pellets underwent an expansion in 2010 to increase production capacity to 230,000 metric tons annually. Over time, ACP's operations are becoming more efficient and productive. In being such, we have recently broken daily, weekly and monthly production records that were thought to be at the apex of production capabilities. We strive to continue breaking records and increasing productivity.

In recognizing the growth in the European residential market, Fram was able to take a position in a company that could produce residential quality wood pellets, Telfair Forest Products (TFP). This facility is located in Lumber City, Georgia, whose name even seems to be an indication of the need for wood processing facilities. The investment at TFP totaled over \$10 million resulting in production capacity of 120,000 metric tons of high quality residential grade wood pellets annually. Since February 2012 this facility has added 14 positions to handle wood pellet operations for Fram. In such a small, close-knit community all jobs are very much appreciated and sought after by local citizens. Surrounding truckers and area raw material suppliers enjoy a stable market for continued business with a company they have confidence in.

In 2009 various other small pellet producers in Southeast Georgia recognized an opportunity to partner with Fram to create 8 additional jobs, produce roughly 45,000 metrics tons and be a part of Fram's portfolio of producers. These operators appreciate the chance to produce

wood pellets on a scale they are comfortable with, as well as having a reputable, experienced company like Fram to handle marketing and logistics is a major benefit to their businesses.

Our next wood pellet facility will be Hazlehurst Wood Pellets, LLC (HWP), located in Jeff Davis County. This wood pellet plant will be a two phase project with phase one currently under construction. The first phase of this project will employ over 50 people and require a \$60 million investment. Phase two will employ an additional 25 people and an additional \$30 million in investment. In total this facility will have a major impact not only on Hazlehurst but on all surrounding counties. Indirectly over 400 jobs will be retained or created in the various parts of the wood pellet supply chain. Investment and job creation of this magnitude is not a common occurrence in such small towns in Southeast Georgia. Thus we have received overwhelming support from the community and local officials to help get this project off the ground. It is with their continued efforts that we strive forward with our vision to be one of the most significant wood pellet exporters from the United States.

Foreign Markets

The most overarching explanation for Fram's export success is progressive European renewable energy policy. Over 4 million tons of wood pellets were imported into the EU in 2012. The United States supplied over 1.5 million tons of those pellets and is expected to supply 12 million tons by year 2020. The 20 % renewable energy target mentioned previously drives the demand for wood pellets in Europe to conservative estimates of 40 million tons in the year 2020. This great opportunity requires that the U.S. act quickly to ensure our position as global leader of industrial wood pellet production stays intact.

Helpful U.S. Government Support

Fram is most appreciative of the support the U.S. government has provided to help businesses in emerging and difficult markets. The U.S. wood pellet industry is a mystery to many in the financial sector, as well as being capital intensive early in the construction process. Therein is a great opportunity for the U.S. government to provide support in the form of loan guarantee programs. Investment and production tax credits are also great ways for the U.S. government to continue to encourage small businesses to grow in manufacturing.

The ports through which we export this product must be maintained in order to receive vessels that provide the most economical shipping rates. Timely attention to issues concerning channel depths and dredging is essential for our export activities to continue such rapid growth.

Ultimately, it is the financial component of a business that allows for growth or, on the other hand, can cause its demise. Great programs like the ones referenced above as well as timely attention to port issues can offer companies that would like to take a part in this rapidly growing renewable energy market a fair chance.

Conclusion

Fram thanks the subcommittee for the invitation to provide this testimony and is excited about the great opportunity we have to increase exports from the U.S. Southeast. Global demand for renewable energy will continue to rise and it should be a priority for the United States to be at the forefront of that movement. Wood pellet resources from the United States have the capability to make a significant positive economic, social and environmental contribution within the renewable energy market. Through government cooperation, support and encouragement the

U.S. wood pellet industry will continue to be a global leader in production and export of renewable energy.

Mr. TERRY. Well, thank you. I have asked for a wood pellet grill, so I am with you.

Mr. Saxton, I appreciate you being here today, JELD-WEN.

STATEMENT OF RON SAXTON

Mr. SAXTON. Thank you, Mr. Chairman, Ranking Member Schakowsky, members of the subcommittee, and especially Congressman Welch for the opportunity to testify today.

My name is Ron Saxton and I am an executive vice president of JELD-WEN. And I also serve on the board of the Window and Door Manufacturers Association and the Executive Committee of the National Association of Manufacturers.

JELD-WEN began in 1960 in Klamath Falls, Oregon, and is now one of the world's leading manufacturers of windows and doors. JELD-WEN employees 20,000 people across more than 100 locations in the Americas, Europe, Asia, and Australia. In the United States, JELD-WEN manufacturers in 17 states and employs approximately 9,000 people. Vermont is an example of our commitment to U.S. market. As Congressman Welch knows, we employ over 800 people there in two of our facilities in Ludlow and North Springfield.

Well before the term sustainability was popular, JELD-WEN adopted an ethos that the efficient use of our natural resources was a critical aspect of manufacturing. One example of our sustainability ethic at work is a facility where we utilize wood waste from our window framing manufacturing plant to create door skin products in a neighboring facility.

While JELD-WEN sells products into both commercial and home remodeling markets, our strength as a company and job creator is intimately tied to the new housing construction market. With the steep decline in housing starts, the last 6 years have been very challenging for everyone in the housing industry. The slow, steady recovery in housing is having a positive impact on our bottom line, and we are hiring again, almost 1,000 people in the last year.

However, as you are well aware, what you do in Washington can have a positive or disruptive impact on our industry. Consistency and predictability with regard to housing, finance, and regulatory policy are necessary, and I would like to highlight some energy efficiency policies that have significant impact on JELD-WEN and our industry.

In remodeling, doors and windows are very important products. They are important to manufacturers like JELD-WEN, but they are also an important part of the U.S. energy debate. To illustrate this, consider that much of the existing housing stock in the United States uses single-pane windows manufactured prior to the late 1970s. If America focused on replacing the almost 1 billion single-pane windows in older homes with new energy efficient windows, we could avoid the need for literally dozens of new power plants. Clearly, JELD-WEN would benefit, but a broad commitment to improving the energy efficiency of existing housing would be a boon to American employers and consumers well beyond window and door companies.

The not-too-distant past shows how government action can move markets. In 2009 at the height of the housing collapse, Congress

passed a significant 2-year tax incentive for energy-efficient residential products, including windows. The enhanced 25-C tax incentive attracted consumers to energy-efficient products and saved jobs across the sector from manufacturers to distributors to installers. In addition to providing a bridge to better times, it locked in energy savings for years to come.

Recent bipartisan efforts to utilize incentives beyond the tax code have been led by members of this committee, most notably Representatives Welch and McKinley. We hope you will continue with those efforts in the 113th Congress. A good energy policy is also a good job strategy. However, misaligned energy policy, even if well-intentioned, can hamstring growth.

JELD-WEN has been an ENERGY STAR partner since 1998 and past Partner of the Year in both the United States and the Canadian ENERGY STAR programs. As such, we are very concerned that recently proposed changes to that program relative to our products are a mistake for consumers and homeowners, as well as manufacturers. ENERGY STAR for windows has been a phenomenally successful program. For decades, it has pointed the consumer toward the best and most cost-effective energy-saving products. Through active collaboration with industry, the program has offered a voluntary and informative system that has promoted energy efficiency, consumer economic benefit, and encouraged manufacturing in the United States.

Today, the EPA is considering changing the criteria for ENERGY STAR-rated windows to a point where there is no realistic cost-effectiveness for consumers, and we fear the long-respected program will become irrelevant. We are working diligently with EPA to fix the issue but a standard that does not recognize a balance of cost-effectiveness with energy efficiency threatens to dramatically and negatively impact an extraordinarily popular and effective program.

In closing, I want to reiterate just two points. First, a stable, strong housing construction market is important to all of us, from my son and daughter-in-law looking to buy their first home to companies like JELD-WEN that supply materials for home construction. Second, there is an important and constructive role that the government can play in energy efficiency, but if programs like EPA's ENERGY STAR program are pushed beyond the standards that consumers recognize, those programs marginalize benefits to everyone.

I thank the Committee for your time and attention.

[The prepared statement of Mr. Saxton follows:]



JELD-WEN, Inc.
 1500 SW 1st Ave.
 Suite 1100
 Portland, OR
 97201 USA
 503-478-4469 Tel
 503-478-4369 Fax
 www.jeld-wen.com
 RELIABILITY for real life™

Testimony of Ron Saxton
 Executive Vice President and Secretary
 JELD-WEN, inc.
 Before the US House of Representatives
 Committee on Energy & Commerce
 Subcommittee on Commerce, Manufacturing and Trade

SUMMARY

Introduction - JELD-WEN, inc., a 50 plus year old company headquartered in Klamath Falls, Oregon, is one of the biggest window and door companies in the world with 20,000 employees across more than 100 locations in the Americas, Europe, Asia and Australia. In the US, JELD-WEN manufactures building products in 17 states, including two door facilities in Ludlow and North Springfield, Vermont. In the US, JELD-WEN employs approximately 9,000 people, with over 800 of those employees in Vermont.

Manufacturing Philosophy: Close to markets and sustainable - JELD-WEN is committed to manufacturing products close to our markets. When JELD-WEN first began, manufacturing close to markets where we sold our products made good economic sense as it saved money on product handling, shipping and customer service. Now, it not only makes good economic sense, but good environmental sense as it helps us minimize fuel consumption and reduce greenhouse gas emissions in shipping. JELD-WEN is very proud of the fact that we manufacture long lasting, energy saving windows and doors and utilize recycled waste materials, certified wood and environmentally friendly practices in our manufacturing processes. Our philosophy has always been that sustainability is good business and is a critical aspect of our manufacturing.

Impact of Housing Sector Downturn on JELD-WEN - JELD-WEN's primary market and job creation strengths are tied to the new housing construction market. New home construction creates both manufacturing jobs and construction jobs here in the U.S. While it has been a difficult 6 years for everyone in the housing industry, we do believe the future of manufacturing, particularly in our sector, is bright. The slow, but steady recovery in the housing market is already having a positive impact on our bottom line and we are hiring again.

What Happens in Washington Matters – The actions of Congress can literally make or break the manufacturing sector. Consistency and predictability with regard to housing policy, finance policy and regulatory policy are necessary to allow not just manufacturing companies like JELD-WEN, but also consumers, successfully plan for the future. Energy policy, in particular, significantly affects our industry, and products like ours that save energy need to be an important part of that policymaking exercise. Programs that encourage energy efficiency, like EPA's ENERGY STAR program, are key for our industry, but we have concerns about the direction that that program is going where it may end up causing more harm than good. Also, policies that encourage a stable, strong housing construction market are important for all of us, for first time home buyers and for companies like JELD-WEN that supply materials for home construction.



JELD-WEN, INC.
1500 SW 1st Ave
Suite 1100
Portland, OR
97201 USA
503 478-4400 Tel
503 478-4469 Fax
www.jeld-wen.com
RELIABILITY *the way life*

Testimony of Ron Saxton
Executive Vice President and Secretary
JELD-WEN, inc.
Before the US House of Representatives
Committee on Energy & Commerce
Subcommittee on Commerce, Manufacturing and Trade

February 14, 2013

Thank you, Mr. Chairman, Ranking Member Schakowsky, members of the Subcommittee and especially Congressman Welch for the opportunity to testify today. My name is Ron Saxton and I am an Executive Vice President of JELD-WEN, Inc. and also serve on the Board of the Window and Door Manufacturers Association and the Executive Committee of the National Association of Manufacturers.

I am pleased to be able to share my views today on the current state of manufacturing in the United States from the perspective of a 50 plus year old manufacturing company started in the western United States that has been able to grow into one of the biggest window and door producers in the world.

JELD- WEN began as a small millwork company in Klamath Falls, Oregon and now operates as one of the world's leading manufacturers of windows and doors. JELD-WEN has 20,000 employees across more than 100 locations in the Americas, Europe, Asia and Australia. In the US, JELD-WEN manufactures building products in 17 states and employs approximately 9,000 people. In the state of Vermont, we have over 800 employees in two door facilities in Ludlow and North Springfield.

The company's extensive product offerings include windows, exterior doors, interior doors and related building products that are sold globally through multiple distribution channels, including retail home centers, wholesale distributors and building products dealers.

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JELD-WEN has been an ENERGY STAR Partner since 1998 and been awarded "Partner of the Year" in both the U.S. and Canadian ENERGY STAR programs.

From the beginning, JELD-WEN has made a commitment to manufacture products close to our markets and we continue to do so. The United States is our largest market and our home. In the early days, manufacturing close to markets where we sold our products made good economic sense as it saved money on handling, shipping and customer service. Now, it not only makes good economic sense, but good environmental sense as it helps us minimize fuel consumption and reduce greenhouse gas emissions in shipping. JELD-WEN is very proud of the fact that we design and produce long lasting, energy saving windows and doors and, where possible, utilizes recycled waste materials, certified wood, and environmentally friendly practices in our manufacturing processes. Our philosophy has always been that sustainability is good business.

Well before the term "sustainability" was popular, JELD WEN adopted an ethos that sustainability, or the efficient use of our natural resources, was a critical aspect of our manufacturing. For instance, one of our most integrated operations produces windows and doors, utilizing wood shavings from our window frame manufacturing to create our doorskin products in a neighboring facility. This facility has been using that sustainable technique for decades. Essentially, we use a waste product from one application to create a valuable, beautiful product next door. We pursue sustainability not because of any government mandate, but because it makes good business sense.

Vermont is an example of our commitment to the US market. As I mentioned earlier, our two facilities employ over 800 workers in the state in one of the country's largest concentrations of door industry jobs. The doors we manufacture in Vermont supply the New England building products market. We have had the pleasure of having Rep. Welch visit our Vermont operations and appreciate the great work he has done on our behalf.

While JELD-WEN sells product into commercial applications and is a leader in products for home remodeling, our strength as a company and a job creator is also intimately tied to the new housing construction market. New home construction creates both manufacturing jobs and construction jobs here in the U.S.

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It has been a difficult 6 years for everyone in the housing industry - builders, suppliers and consumers. JELD-WEN has worked incredibly hard to maintain our excellent and dedicated workforce and supply high quality, energy efficient and affordable products, but it has been a struggle with the steep decline in housing starts.

What is the future of manufacturing in the United States? We see a great future – the slow, but steady recovery in the housing market is already having a positive impact on our bottom line and we are hiring again. However, as you are well aware and has been repeated over and over again by manufacturing and other types of American businesses, what is done here in Washington can have a positive or disruptive impact on our industry.

Consistency and predictability with regard to housing policy, finance policy and regulatory policy are necessary to allow not just manufacturing companies like JELD-WEN, but also consumers, to plan for the future. While we, at JELD WEN, have thoughts on how to improve housing starts, I want to use my short time today to highlight a couple policies that have significant impact on JELD-WEN and our industry in the energy efficiency area.

Our focus is on selling residential doors and windows for both remodeling and new construction. In the remodeling arena, energy efficient doors and windows are very important products. They are important to companies like JELD-WEN that manufacture and sell them, but they are also an important part of the U.S. energy debate. To illustrate this, consider that much of the existing housing stock in the United States uses single pane windows manufactured prior to the late 1970's. The need for, literally, dozens of new power plants could be avoided if America was more focused on replacing the almost one billion single pane windows in older homes with new, modern energy efficient windows. Combine that with the number of American manufacturing jobs, American shipping jobs and American installation jobs created by such an initiative and very smart American energy policy could also create economic opportunity. Clearly, JELD-WEN would benefit from such a program, but a broad commitment to improving the energy efficiency of existing housing would be a boon to American employers and consumers well beyond window and door companies. Indeed, the not too distant past shows how government action can move markets.

In 2009, at the height of the housing collapse, Congress passed a significant two-year tax incentive for a certain class of very energy efficient residential windows. At a time when the housing construction market was

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severely contracting, this incentive attracted consumers to energy efficient products. It made consumers take a second look, not just at windows, but at other energy efficient elements of the home envelope like insulation, and appliances like furnaces. That incentive allowed the market to refocus on the remodeling and rehabilitation market. It allowed manufacturers like JELD WEN to save jobs that otherwise would have been lost because of the dramatically reduced demand for housing. While it was one small part of a very large and controversial bill, the 25c tax incentive served to both preserve jobs and allow for an important bridge to better times. We also note that bipartisan efforts in the 112th Congress to utilize incentives beyond the tax code have been led by members of this committee, most notably Representatives Welch and McKinley. We hope that you will continue that effort in the 113th Congress.

A good energy policy is also a good jobs strategy; however, misaligned energy policy, even if well intentioned, can hamstring growth and diminish job creation. Having been an ENERGY STAR partner and strong supporter of the program for many years, JELD-WEN is very concerned that recently proposed changes to that program, relative to our products, are a mistake for consumers and homeowners, as well as manufacturers.

ENERGY STAR for windows has been a phenomenally successful program within the Department of Energy and now the EPA. For decades, it has pointed the consumer toward the best and most cost-effective energy saving products for the home. Through active collaboration with industry, the federal program has offered a voluntary and informative system that has promoted energy efficiency, consumer economic benefit, and encouraged manufacturing in the United States. In short, it has emerged as a government program the American people trust and American manufacturers and distributors actively promote.

Today, the EPA is considering changing the criteria for ENERGY STAR rated windows to a point where there is no realistic cost-effectiveness for consumers, and we fear the program will become irrelevant at best. We are concerned that the agency has become enamored with pushing technological advancements for products that make no sense for consumers. If that is correct, a long-respected consumer guide to sensible energy efficient products could be lost. We are working diligently with the EPA to fix this issue, but a standard that does not recognize a

Administration

balance of cost effectiveness with energy efficiency threatens to dramatically and negatively impact an extraordinarily popular and effective voluntary program.

Good energy policy also requires collaboration between the private sector and government. In 2011, the Governor of Oregon and the legislature were working on a bill to enable K-12 schools across the state to access low interest financing for school building energy efficiency retrofits. The Governor and members of the legislature approached JELD-WEN, the largest private manufacturer in the State, and sought out our expertise in energy efficiency product manufacturing, building envelope technologies and the construction market to help them make sure the proposed program would get the most bang for the public buck, improve the learning and teaching environment in the school buildings and create economic benefit to the State. Again, there was no mandate, and we didn't offer our help and advice just because we thought we could sell more windows, but because we saw a good policy that we were happy to help make even better.

In closing, I want to reiterate just two points: First, a stable strong housing construction market is important for all of us, from my son looking to buy his first home, to companies like JELD-WEN that supply materials for home construction. Second, there is an important and constructive role that the government can play in energy efficiency if done with a light hand. EPA's ENERGY STAR program for windows has the potential to be a very positive factor in both our country's energy and construction policies, but EPA is currently focused on an approach that will both diminish national energy conservation goals and do great harm to construction, and therefore manufacturing, activity.

I thank Congressman Welch for this invitation and for his support of JELD-WEN in Vermont and I thank the committee for listening to my testimony.

Mr. TERRY. Well, thank you very much. Appreciate all of your testimony. It has been very insightful.

And I will recognize myself for the first question because I get to.

But what I am curious—and several of you have put it into your testimony, but I want to highlight that, so what I want each to do—eight of us in 4½ minutes—to be able to just say one, two, maybe three things that if someone came to you and said we need you to expand your production, give me one of the things that you would worry that would be a barrier or something that we can do that would really make it easier for that to happen.

Mr. Yuse, we will start with you since you just sat there the longest.

Mr. YUSE. Thank you. I appreciate that.

The top of my list would be reforms and the tax codes and regulations. The best way for us to expand our manufacturing and product base is to become more affordable. Over the years, we have had numerous affordability programs. We have been able to drop the product prices. We have been able to drop or hold steady our labor rates. We need to go look at the other aspects of cost which affect our competitiveness in the marketplace.

Mr. STEINER. So I would just quickly answer that to focus on U.S. tax rates. When we expanded Gorilla Glass, we had the choice to expand in the U.S., Korea, Taiwan, or Japan, and higher U.S. tax rates make it more difficult to justify an expansion.

Mr. TERRY. Mr. Holler?

Mr. HOLLER. Illuminating my comments to the area of preparedness for an epidemic or a safety hazard, I think it would be close coordination with the government on what areas and what types of products we would need to expand our capacity so that way we are working in concert to make sure we are addressing the right products for the events that we need to prepare for in the future.

Mr. TERRY. Good point.

Mr. Meyers?

Mr. MEYERS. Thank you. For us in our industry, obviously, uncertainty with regulations is a huge issue with us and it plays a major role in what we do as far as expansions and what we look at. I echo the gentleman to my right. And tax codes are very important to us, as well for all small manufacturers because that uncertainty as well will either ultimately decide on whether we expand or whether we do not.

Mr. SMATSKY. I don't think we have a barrier that exists with our company today. I think the challenge that we faced is getting our consumers and folks out in the communities to switch to that healthier lifestyle and consumer more water, quite honestly.

Mr. TERRY. OK.

Mr. Block?

Mr. BLOCK. Probably the barriers that I would see to us would be certainly taxes are always an issue, not necessarily the particular level of taxes for myself, but to see a fair and simplified and more equitable tax code across the Nation so that there is more of a level playing field, I think that would be fairly important.

I also would like to see harmonization of, you know, environmental or regulatory issues so that there isn't a competition nec-

essarily between States to who can be the least regulatory or even if possible or to the amount feasible worldwide to a degree so that there is a harmonization of regulatory issues that gives pretty much a level playing field.

Mr. TERRY. Thank you.

Mr. Arnold?

Mr. ARNOLD. I would say number one is access to capital. At 21 years old I could walk in a bank—I inherited that I guess from my father and grandfather—but it was much easier to borrow capital than it is today. It is very, very difficult and time-consuming and you need a raft of legal counsel, accounting, and all to make those things happen.

The second thing would be in an export business access to a sufficient port infrastructure and keeping the channels and waterways open. Those are things we can't do. We can build a manufacturing plant, but we can't do those things.

Mr. TERRY. Interesting.

Mr. Saxton?

Mr. SAXTON. If the market gives us the opportunity to expand, there are no barriers that are going to stop us. The one concern that we do have, which one of the previous witnesses mentioned, is the labor force. As I said, we hired 1,000 new workers in the last year and we are continuing to expand, and the reality is that with high unemployment rates we have been very surprised how hard it is to hire qualified workers in many places.

Mr. TERRY. That is an interesting mention. I have actually heard that from other manufacturers in Omaha, one that had five welding positions open for months and they couldn't get them filled. So I appreciate that.

The ranking member is now recognized for 5 minutes.

Ms. SCHAKOWSKY. Let me just follow up on that. How many of you have found it hard to fill slots with qualified workers? Can you just raise your hand? We have an issue here that I think our committee ought to definitely explore—

Mr. TERRY. That is seven of the eight raised their hands.

Ms. SCHAKOWSKY. Yes. And who didn't? Was it Mr. Holler?

Mr. TERRY. The—

Ms. SCHAKOWSKY. So you are able to hire?

Mr. HOLLER. Within my limited scope with 3M. I really can't speak for the whole company.

Ms. SCHAKOWSKY. OK.

Mr. HOLLER. But oftentimes, we have many candidates for different roles at 3M and we are known as an innovative company and oftentimes can attract many good employees.

Ms. SCHAKOWSKY. Let me also continue along the line of workers and talk to my friend and neighbor and business in my district, Mr. Block.

We know that global competition in manufacturing is far more intense today than it was 3 decades ago, the result in advances of transportation and communication and increasingly free flow of international trade. And consumers have benefited from that with lower prices on many everyday products and multinational firms have benefited from various savings related to cost of labor. But the impact of globalization on smaller manufacturers and American

workers is far more uneven. You mentioned even playing field a couple of times. So in your testimony you mentioned the un-sustainability of the race by businesses to find the lowest cost wages or lowest taxes around the world and you called for a level playing field to help ensure that companies large and small compete on innovation, better products, better business practices instead of on cutting wages and benefits. And I wondered if you could elaborate on this recommendation and how you believe it might help American manufacturing workers.

Mr. BLOCK. Sure. I think that part of it stems—

Ms. SCHAKOWSKY. Put your mike on. Yes.

Mr. BLOCK. You know, part of it stems from how our company was founded and how we deal with our employees. And ever since the inception of our company, we treat our employees like family. We have always paid very good wages and we have always created a situation where they have had pretty good health benefits. And when we see situations where new competition comes into areas whether it would be from overseas or whether it would be in other locations, and they start up businesses with a much lower cost structure—perhaps they do have those wages or they don't provide those health benefits—it really creates an unlevel playing field to a degree. And that is why, from our point of view, we don't want to be a race to the bottom. We don't want to have to survive by cutting benefits, by cutting wages to my employees. I know when I was—if I can expand on this—

Ms. SCHAKOWSKY. Yes, go ahead. Sure.

Mr. BLOCK [continuing]. But I know a lot of us when I was growing up, I always thought that America, the land of opportunity, things would always get better, and there was always an opportunity for advancement. And it just kills me today personally when I see workers who have worked for 20, 30, 40 years having to deal with having their wages cut, having to have to deal with their benefits cut. And I am not naive. I understand that we live in a world in which there is competition for labor and there is competition for resources. But is it fair that the United States should have to follow the lead of whether it would be Asian countries or whatever countries it is that we have to bring our wages down to match that? Would it not be better if we put in place leveling the playing field that they eventually would have to bring their wages up or their healthcare costs or whatever the case may be?

And that troubles me because these consumers who are having their wages cut are the very people who buy the products that I certainly supply to the marketplace, the cars, the appliances, or whatever, or houses, as the case may be.

Ms. SCHAKOWSKY. Thank you. That was kind of Henry Ford's idea that he wanted his workers to be able to buy his cars.

I wanted to talk about the uncertainty from current fiscal policy because we are facing so many issues right now. And I just wondered, you know, with the idea, for example, Mr. Yuse, of sequestration, which would affect your business. It seems to me it would—actually, let me just ask you. Would it be correct to say that sequester would threaten economic harm to the aerospace industry?

Mr. YUSE. Well, first off, let me say that, you know, we share the concerns expressed by the Secretary of Defense and the Joint Chiefs regarding the impact of sequestration should it be implemented. And yes, we are concerned about the impact on the business if indiscriminate budget cuts are made. It is difficult for us right now to anticipate the level or the exact mechanism by which those cuts will be implemented, so the exact impact to any program or any facility is difficult for us to predict. But if you take large quantities of funding out of the system, it will have an impact.

Ms. SCHAKOWSKY. So the lack of predictability itself is a problem, though, is it not?

Mr. YUSE. Yes. And the uncertainty is absolutely problematic.

Ms. SCHAKOWSKY. Can I ask just one raise of hands? Raise your hand if you feel that your business would be better off in 2013 if there were greater certainty on predictability right now in the outlook for fiscal policy. OK. Thank you.

Mr. TERRY. All right. Thank you.

Mr. Barton, you are recognized.

Mr. BARTON. I love to be recognized, Mr. Chairman. Thank you.

I want to ask—since Mr. Meyers is my friend and from my district and he is in the oil patch—what his view is on the competitiveness as related to natural gas prices in the United States. Does that help your industry or hurt your industry?

Mr. MEYERS. Well, thank you, Congressman Barton. Obviously, the competitiveness in the industry has been a benefit to most metal casters because we have seen quite an increase in products going out to the energy sector. One of the things that we do face with the natural gas industry and its increasing competitiveness is also a competitiveness for some of our raw products, one being sand. That is a big issue for us in Texas in foundries and metal casters. But I think overall, if you look at the increase in energy, specifically natural gas and oil, that increase has been beneficial to us in manufacturing not only just for foundry corporations or companies but also across the board to people producing machines for other various reasons.

Mr. BARTON. As a fuel source, though, do you use a lot of natural gas in your foundry? Is that a base load fuel for your foundry?

Mr. MEYERS. We use some natural gas, but primarily, it is all electric-run.

Mr. BARTON. Electric.

Mr. MEYERS. So in a tangible way, the natural gas prices do affect our operations because of the energy costs. We have seen energy costs maintain a pretty stable level for the past year-and-a-half, but some forecasts are now starting to trend up. So that will be an issue as we move through this year and the next year and some of our contracts are 6- to 8-month contracts begin to expire and we move forward on new contract negotiations.

Mr. BARTON. Well, I will ask Mr. Steiner of Corning the same thing. What I am trying to get at is the fact that we have used hydraulic fracturing and horizontal drilling in our shale formations and drop natural gas prices so that they are the lowest in the world, I am told that that helps our competitiveness in our base manufacturing sector because of the lower natural gas prices. Have you found that to be the case, Mr. Steiner?

Mr. STEINER. Yes, it takes a lot of energy to melt sand at 1,200 degrees, so our melting units are both natural gas and electric-fired so that the competitiveness of natural gas certainly helps us.

Mr. BARTON. OK. I am going to switch gears a little bit with Mr. Arnold. My first question is just kind of serendipitous, but when I saw Fram, I thought oil filters. Is your company related at all to the Fram oil filter company?

Mr. ARNOLD. No, sir, we are not. One of our investors is Norwegian roots, and Fram in the Norwegian language means onward and upward.

Mr. BARTON. Oh.

Mr. ARNOLD. And it is also the name of a wooden polar exploration vessel that is in a museum in Oslo that was near and dear to his heart. He used the word Fram in many of his companies.

Mr. BARTON. OK. Now, my friends on the minority side, on the Democrat side, are always talking about green jobs and how great green jobs are. I am not anti-green job. I think I have finally seen an example of a green energy company that actually makes a little sense, and that is yours.

Mr. ARNOLD. Thank you.

Mr. BARTON. You know, from what little bit I was able to gather from your testimony, your company takes wood and makes it into pellets and sells the pellets for fuel. Is that right?

Mr. ARNOLD. That is correct.

Mr. BARTON. Now, what percent of your market is residential in the United States versus exported overseas for base load power plants in Europe?

Mr. ARNOLD. One hundred percent of our market is export. Early on in the formation of our company, we were a participant in the domestic market, but logistically, we are too far removed from the Northeast where the concentration of residences with wood pellet stoves is. It is actually more economical for us to ship into Europe than it is to ship into Maine.

Mr. BARTON. I want the subcommittee to understand this. We don't have cap-and-trade in the United States so we are using natural gas and coal and nuclear for our base load power plants pretty much. But in Europe, they do. But it is more competitive to pelletize wood in the United States, ship it to Europe, use it as a base load fuel source in spite of the fact that your BTU content as compared to coal is not all that good, but because you are renewable, you get credit in Europe and we are burning wood pellets just like we used to burn wood here in the United States for transportation on the railroad. So it is kind of odd that we are doing it that way, but it is good for you and your company and the people in Georgia. Are there a lot of companies like yours that are springing up to do that?

Mr. ARNOLD. There is a growing number of companies, but to make it clear on what is going on there is the European utilities are required to use a renewable fuel by government dictate. And it is not more economical to them than using coal.

Mr. BARTON. I understand.

Mr. ARNOLD. But it is—

Mr. BARTON. And they are mandated to do it so it is helping us.

Mr. ARNOLD. It is helping us.

Mr. BARTON. Their mandate in Europe is creating green jobs in the United States.

Mr. ARNOLD. It is creating green jobs and also there is an evolution going on in the technology. We are building our third mill now, and each one of them is great improvements in technology and efficiency, which will lower the cost of it and eventually will help you guys.

Mr. BARTON. I am all for a renewable fuel mandate in Europe.

Mr. ARNOLD. Yes.

Mr. TERRY. All right. Mr. McNerney from California, you are now recognized for 5 minutes.

Mr. MCNERNEY. Well, thank you, Mr. Chairman.

You know, I spent about 10 years in manufacturing before coming to Congress, and so I found this to be a very interesting panel and I appreciate your coming out here and talking to us.

I have a couple of observations. Mr. Smatsky, I really appreciated your comments on the cradle-to-cradle philosophy, and that is adopted. Could you explain what that means a little bit and maybe give us a hint of how you think that could be more widely adopted in the United States?

Mr. SMATSKY. Yes, thank you for the question.

The cradle-to-cradle philosophy is really about recycling and reuse and getting the bottle back. About 27 percent across the United States currently today have recycle programs, so we need to develop the recycling aspect to get the bottles back. Currently, right now, we are working on recycled PET bottles that we are introducing into the California marketplace, as well as in our Deer Park spring water brand.

Mr. MCNERNEY. OK. Thank you.

Mr. Meyers, I found your comments about the lack of appropriately trained workers to be concerning as did the ranking member and other members of this subcommittee. And it sounds like you have taken steps in your company to help ensure that you are going to have those workers that you need. Do you see that as the way education is going to be going in this country where the private sector has to take a more strong step, a more strong active role in providing for educated workers? Or do you think the public education system is going to be able to step up and provide that service?

Mr. MEYERS. OK. Well, thank you. First of all, that is correct. I do believe that the private sector is pushing technical trade training, and that is very obvious when you look at our sector and any manufacturing job in specific. It is just not something that is pushed at the local level or through public schools, so we were proactive in that in approaching our local college there to look at technical trade programs. And as we talked to other foundries throughout the country, they are basically doing the same thing if not just for the lack of skilled workers or tradesmen, simply because in our State we look at the competition with other sectors. For us it is very difficult because a lot of our skilled workers and tradesmen will either go to work in an oil field or in areas such as higher-level manufacturing in the aerospace or defense. So it is very hard. And either way you look at it, it is very competitive for

the workforce, and we are not seeing the increases in the workforce that we need.

Mr. MCNERNEY. Well, thank you.

Mr. Yuse, I know Raytheon has made significant contributions towards STEM education—science, technology, engineering, and mathematics. Could you elaborate a little bit on the direction that Raytheon is moving and how that could be replicated by smaller companies?

Mr. YUSE. Absolutely. So as an engineering company, we are very concerned with the decline in interest in science, technology, engineering, and mathematics. Our industry is very dependent on a robust source of engineers and scientists for us to deliver the kind of innovation and technology the country needs. We have created a series of programs at a variety of levels—both the local, state, and at the university levels—for encouraging younger folks to go into that field of work.

Mr. MCNERNEY. Have you found that program to be effective?

Mr. YUSE. Yes, we have. We have found we had over the years now spent in excess of \$72 million promoting STEM in a variety of different venues up to and including with the Smithsonian Institute. I would encourage companies across the board, but particularly those who are very dependent on high-skilled workers, to look into doing similar types of activities because we do find that the younger folks, when they get into it, really start to become interested in it. And I think that is very important for the future of our country and for our national security. And I would encourage the Congress to look into programs that could accomplish the same thing.

Mr. MCNERNEY. So somehow, Congress might be able to give incentives to smaller companies to getting engaged in the way that the larger companies like Raytheon—

Mr. YUSE. Smaller companies, school districts, teachers. There are a variety of different ways. I think communications to younger folks is a major factor. The more they know about it, I think the more interest that can be generated. It is for the high-tech industry a decline in interest in STEM is a concern for the country.

Mr. TERRY. Thank you.

Mr. MCNERNEY. Thank you, Mr. Chairman.

Mr. TERRY. I recognize the vice chairman of the committee, Mr. Lance.

Mr. LANCE. Thank you, Mr. Chairman.

To the panel in general, to what extent does the fact that the Chinese currency does not float freely have an impact on your manufacturing? Mr. Block?

Mr. BLOCK. I think it is certainly a big problem, and you know, in my industry, which is the steel industry—

Mr. LANCE. Yes.

Mr. BLOCK [continuing]. The whole China situation is certainly very complex. But just a few statistics, raw steel production in China, they have excess capacity of something around 200 million tons of excess capacity to produce steel. And we don't even really know for sure because the steel industry in China is very fragmented. But there is an estimate today that 50 to 70 percent of the world's productive capacity to produce steel is in China. And what

that creates is, obviously, on a global scale huge market manipulation in theory because if the Chinese decide to go at a policy to just produce steel at a crazy rate and sell it on the world market, it will drive prices down, which may or may not be good, depending upon which side of the supply chain you are on, but it certainly would not be good for the American steel industry.

Mr. LANCE. Thank you. Is your company—is it called Block Steel or is it Inland Steel?

Mr. BLOCK. Block Steel.

Mr. LANCE. Block Steel.

Mr. BLOCK. You are thinking probably of Joseph Block?

Mr. LANCE. Yes.

Mr. BLOCK. It is not related.

Mr. LANCE. Not related.

Mr. BLOCK. But he was the chairman of Inland Steel.

Mr. LANCE. But that was in the Middle West, was it not?

Mr. BLOCK. Correct. Inland Steel was actually in—well, the remnant of Inland Steel is still there. It is owned by ArcelorMittal now.

Mr. LANCE. Yes.

Mr. BLOCK. Yes.

Mr. LANCE. Thank you.

And to the panel in general on an issue that had been raised earlier, we are going to be engaged in a reform I hope this year on corporate tax policy, Ways and Means more so than E and C, but certainly an important issue to us all. What would you suggest as we try to have a better corporate tax system in this country? Yes, sir?

Mr. YUSE. In general, American businesses pay among the highest corporate tax rates in the world.

Mr. LANCE. Yes, sir.

Mr. YUSE. We compete internationally. International sales are of a benefit to our customers and to the economy in general. The higher tax rates cause us to be less competitive in the international marketplace. So anything that could be done to reduce overall tax rates and make U.S. products more competitive in the marketplace would be very helpful.

Mr. LANCE. Yes.

Mr. YUSE. It would also be very helpful to have that coupled with a substantial research and development incentive—

Mr. LANCE. Yes.

Mr. YUSE [continuing]. Which is also common internationally.

Mr. LANCE. And of course, certainty in that area, making sure the R&D portion is permanent—

Mr. YUSE. Correct.

Mr. LANCE [continuing]. And does not have to be extended periodically by the Congress.

Mr. YUSE. Absolutely.

Mr. LANCE. A final question to the panel. Manufacturing's future needs, besides your current concerns, what do you think might be the next big thing to confound growth in your industries and what challenges are you likely to face looking forward in the next 5 to 10 years or even 10 to 20 years?

Mr. YUSE. So as we try to deal with the potential for budget cuts, we have been focused on international sales. International sales, as

I mentioned a few minutes ago, benefit this country in a number of ways. A lot of development can go on in those programs that our U.S. customers can take advantage of. The bulk of the jobs are here in the U.S. They are not overseas, at least in my industry, which tends to offset some of the earlier discussions today. So I do believe that, you know, the ability to expedite international sales in my industry is a stabilizing influence going forward.

One of the things we see competing internationally is that we compete not only with companies, but we compete with countries. So it would be very helpful to get congressional and administrative advocacy for the promotion of international sales. That would be a big help. Fully fund all of the international security assistance programs, which enable U.S. allies to make the purchases of the systems that they need. And then finally, streamline the armed sale process in general. I know that is something that has been talked about recently. It can be a lengthy process. Anything that can be done to expedite that would help this entire situation and boost manufacturing in the U.S.

Mr. LANCE. Thank you. My time is expired.

Thank you, Mr. Chairman.

Mr. TERRY. Thank you.

And now we would recognize the gentleman from Georgia, Mr. Barrow.

Mr. BARROW. Thank you, Mr. Chairman.

Mr. Arnold, I want to follow up on some of the leads that were opened up by my friend Mr. Barton from Texas because he talked about one of two trends we have discussed today that I think provide an object lesson. Each provides an object lesson in the tension for the debate between folks that say we ought to put mandates out in front of technology in the blind hope that technology will catch up to the mandates on the one hand, and folks who think no, we ought to invest in technology. Put the technology out in front of the mandates and the mandates will take care of themselves.

He brought up one of these trends, the fact that Europe has imposed conditions on the marketplace that are not market-based at all. They have imposed mandates on the marketplace and say you have got to go do something you are not doing now. And the unintended consequence of that is at the cost of European utility consumers, we are investing in research and development here in this country where the raw materials to meet that artificial mandate can be found and where it is stimulating research and development in your area, not exactly I ought to think they contemplated but that is what is happening as a result of that approach to put the mandate out in front of the technology. The nearest available technology may be in America. We may be benefiting from it in the 12th District of Georgia as a result of what is going on there at their expense but not the expense of our utility consumers.

Likewise, we talked about what is going on with fracking, the fact that there has been an explosion in a traditional source of energy but it has been inaccessible to us because of our inability to get to it because of our technology. But what is happening now? If you listen to Ted Nordhaus and folks at the Breakthrough Institute, they will tell you this is a direct pay off of 35 years of invest-

ment in very basic research that has only come into fruition now, stuff that was started during the Carter years.

So what is happening in natural gas is the payoff of an investment in technology ahead of mandates. Without cap-and-trade, we have achieved tremendous reductions in CO₂ and we have exploded the available natural gas to our consumers because we invested in technology, not mandates.

Now, that is a lead-in to what I want to ask you. What do you think we ought to be doing in the area of research and development? How can government help encourage and incentivize manufacturers to invest in research that will provide a long-term payout? What do you think ought to be our priorities in that area?

Mr. ARNOLD. I think the priorities in that area should be a very broad base, putting as much research and development money in small amounts into as many different companies as you can to foster as many ideas out there, because out of there will come the one that will pay off in the beginning. As Thomas Edison said, he has found 1,000 different ways not to make a light bulb. That is what we have to have in this country to keep bringing new technology to the forefront. There will have to be some pull in some technologies in some markets to get people involved, but we also need a lot of research and development and it needs to be academic tied to industry sponsorship in some way. But it doesn't need to be giant block grants from Department of Energy or anybody else that goes to one segment of one industry to one company where success or failure has used up all of that money. It can be used in many, many different places in my opinion.

Mr. BARROW. My friend Tom Fanning, the head of the Southern Company, is fond of describing sort of an S curve in which you can get from research. There is a small amount that is spent at the most basic level, the most basic pure research. We don't know where it is going to lead. Then, there is a tremendous amount of money in the high part of the S curve in which folks are researching how to develop a lead, something that has come out of basic research. And then there is the deployment phase where it levels off again where you are just trying to deploy something that you have got ready to go in the marketplace. His position is that the government ought to confine its investments or its incentives at the most basic level possible where the highest payoff will be from investing in that very basic research where there is very little support that you can get from the private sector to get the kind of breakthroughs that you will need. But the private sector is good at taking off with that. What do you think about that? Is that a model that we should build on?

Mr. ARNOLD. I personally think that is a very good model to build on, and that is the kind of things that we look for is reading some research paper where somebody has stumbled across an idea and then I can take that idea and improve our processes or come up with a completely different business model out of that.

Mr. BARROW. I think of the difference between investing in something like DHARMA where they are doing incredibly basic research on the one hand and the payoffs you get from that, as opposed to investing in a development or deployment strategy for a big old outfit like Solyndra. I can't help but think that the biggest payoff

is investing at the front end of that S curve, where there is the least amount of outside money that is available through private sources to lead to the kind of development and breakthroughs that private sector knows what to do with once they have got it. But it is very hard for them to provide that kind of support. That sort of seems to me to be sort of a good object lesson.

Mr. ARNOLD. I would agree with that approach.

Mr. BARROW. Thank you, Mr. Arnold.

No further questions.

Mr. TERRY. Thank you.

Mr. Harper is recognized for 5 minutes.

Mr. HARPER. Thank you, Mr. Chairman. And thank each of you for taking the time out of I know what is a very busy schedule for each of you to be here and to shed a little light on your businesses and make us perhaps think outside of the box and to give us some ideas to go forward on how we can make it more conducive to do your business and how we can create and grow jobs in this country, and that is a great thing and we congratulate you on the successes that you have had.

And Mr. Yuse, we are certainly glad to have you here, and I remember the very first time that I came into almost official contact with Raytheon in my district was when I was running, and you had a great advocate there in Forest, Mississippi, Mayor Chambers, who just went on and on about the impact that you had as a company there in east central Mississippi. And you know, I have been there for Veterans Day event and, you know, the workforce, the team there is exceptional and you should be very, very proud of what is there and what you see.

But how is that support of your local and state government officials, what has that meant to you in Forest, Mississippi?

Mr. YUSE. Well, thank you for the kind words. We are very, very proud of the facility and the workforce there. We have an excellent working relationship with all levels of the government in Mississippi from local, state, up through this level. And it has gone a long way in helping us work with various agencies. We are on a number of statewide initiatives to do everything from expand the use of broadband technology to energy initiatives. The workforce is very, very involved in community service. They put in a lot of time on a regular basis and I think that goes a long way to building community spirit, which helps us work with the community when we need to go do something with the facility or find people or expand the facility. So in general, the working environment has been extremely beneficial to the success of our operation there, and I thank you for it.

Mr. HARPER. Well, we are delighted to have you there and look forward to working together for many years on that. And you mentioned earlier in your testimony that with us as a country having one of the highest corporate tax rates, you mentioned that as something if you could see done—you talked about tax codes and regulations earlier. If our corporate tax rates were reduced to a level where we were one of the lowest and not highest, what would you see as the benefits that would come from that and how quickly would we realize the benefits after a change was made?

Mr. YUSE. I think the change would be quite quick. The primary effect would be we would be much more competitive very quickly in the international marketplace where we are competing with companies that do have lower corporate tax rates. And I think that is the primary factor there. And there is a large potential for foreign sales but we have to be able to compete. We have to have, as I said, advocacy from the United States Government. We have to have affordable prices, and we have to have the ability to export the technology. In many cases, foreign companies, you know, can sell technology that we are not allowed to export out of the U.S. Those are kind of the three things that tend to limit our ability.

Mr. HARPER. You mentioned also the regulatory burdens that are there. What area of regulation are you referring to when you say that we need to look at improving, you said, the tax code and obviously regulations? Would that be in the area of the export regulations you just referred to?

Mr. YUSE. That would be one area just, you know, general reporting on, you know, a variety of different business processes. We might want to take a look and see how those are being used. Anything that is being used and is meaningful, I am happy to do it.

Mr. HARPER. Great.

Mr. YUSE. If it is not being used, maybe we ought to think about it.

Mr. HARPER. Again, thank you all for being here.

With that, I yield back.

Mr. TERRY. Mr. Guthrie, you are recognized for 5 minutes.

Mr. GUTHRIE. Hey, thank you, Mr. Chairman. Thanks.

And to be a witness for Mr. Barton's question, actually my family has an aluminum foundry and we are gas. And so it has made us tremendously competitive compared to people that we are competing with in other countries. And you know, it is all about inputs and how much input costs. And any time we do mandates and things here that raise the price of energy, it will go counter to bringing manufacturing jobs back to the country. It is just a fact of—that is our competitive advantage in Kentucky, particularly with coal. We have cheap electricity and it has made us a competitive State.

But a question with Mr. Steiner, I think we heard the other night in the State of the Union about the tax credits that incentivize people to send jobs overseas. One thing that does is our tax rate, so if we want to lower our tax rate, it will bring jobs back as well.

Mr. Steiner, you are in Kentucky. Obviously, I know you are there because of the great working employees that are there. But I know the iPhone isn't necessarily completely assembled in the United States—

Mr. STEINER. Correct.

Mr. GUTHRIE [continuing]. And so why are you competitive in Kentucky and what decision-making did you—I know you got a great workforce, but I am interested to know why you chose to manufacture it here.

Mr. STEINER. So at Corning we always start with an invention and then what allows us to compete is a very efficient process. So we spent a lot of our R&D dollars on process efficiency. And the

process we use in Kentucky allows us to compete worldwide. But we are hampered by the effective tax rate. A dollar of income out of Harrodsburg is about 39 percent and our effective tax rate as a company is 21 percent. So it is much lower in other areas of the world.

Mr. GUTHRIE. So——

Mr. STEINER. So we have to offset the tax rate difference with a much more efficient process.

Mr. GUTHRIE. But if you had a lower tax rate, you would still strive to be more efficient just because of competition——

Mr. STEINER. Absolutely.

Mr. GUTHRIE. Yes, so that would——

Mr. STEINER. You always compete with the process first.

Mr. GUTHRIE. Always compete with the process. But your process is energy-intensive.

Mr. STEINER. It is. And our process again in Harrodsburg, labor, batch materials, and energy are the three major cost components so——

Mr. GUTHRIE. What do you think that drives your energy costs——

Mr. STEINER. Reduction in energy costs certainly helps us.

Mr. GUTHRIE. And anything that drives up energy costs makes you less competitive.

Mr. STEINER. Makes us less competitive and that is an advantage we have over other areas of the world——

Mr. GUTHRIE. Yes.

Mr. STEINER [continuing]. In Kentucky.

Mr. GUTHRIE. And not specifically in Kentucky, but yes, as a country as well, most parts of the country.

Mr. STEINER. Correct.

Mr. GUTHRIE. So with the trade agreements that we are talking about, there is the Transpacific and the European. What are your issues with that and what——

Mr. STEINER. So again, about 78 percent of what we make we export. In the case of Gorilla Glass, virtually every square foot that is made in Kentucky gets exported outside of the U.S. because industry, as Mr. Block said, to make televisions don't exist in the U.S. yet. So to keep access to global markets is vital to us because we are basically an export company.

Mr. GUTHRIE. Yes. That is what is interesting to note about what you do is you are not making for the—well, eventually, the products come back for the American——

Mr. STEINER. Many of the products come back.

Mr. GUTHRIE. Many of them come back but you are not just here making for the domestic market; you are actually exporting and find yourself competitive. But anything that we do here—well, what kind of things could we do to make it better? I know the tax rate, we don't want to affect energy rates.

Mr. STEINER. Access to foreign markets is quite important. The other issue that is very important for us is IP protection. Again, we compete because we invent first and then reinvent a process. It is important to have U.S.-style IP protection all over the world, not just in patent law but in trade secrets. It is a little easier to enforce patents because we can look at a product and tell whether

or not it has used our glass composition. Trade secrets is a more difficult issue from us because somebody could copy our manufacturing process, but since you don't have access to it outside the U.S., you may not know that. So we need fair enforcement all around the world in both patent law and trade secret.

Mr. GUTHRIE. Is some of your decision to manufacture here is to protect your intellectual property?

Mr. STEINER. So we feel more comfortable certainly with our situation in the U.S. A lot of our industries are in China and that is a constant discussion in Corning of how do we protect ourselves outside the U.S. like we can within?

Mr. GUTHRIE. Well, you are great employer and we really appreciate what you do for that community. It is several big industries. A lot of it is driven by energy costs and we really appreciate what you do. And I actually just picked you guys up in redistricting, so I have been very blessed to represent you and look forward to working with you.

Mr. STEINER. Thanks. And we appreciate your support.

Mr. GUTHRIE. Thanks.

I yield back.

Mr. TERRY. Thank you.

And Mr. McKinley, you are now recognized for 5 minutes.

Mr. MCKINLEY. Thank you, Mr. Chairman. And thank you for assembling the meeting prior to this with the displays and also for this panel that we have.

I guess I am taking a little bit more of a cynical approach perhaps. I have been here 2 years in Congress. Years ago, before going to college, I worked on an assembly line. My brother was in the steel industry working in the mills, and I have seen the demise of the industry in our area. In northern West Virginia, we have lost 30,000 steel worker jobs. They have been lost in part primarily because of, I believe, government interaction, government intrusion, government regulations. And I have heard you talk a little bit about that. I have heard a lot of love coming from the side of the table from people that say they have your best interests at heart, and I would think that the manufacturing all should be very robust given all the love that you are getting from the side of the table.

But we have heard comments made about the sequester. We have had 2 votes on the sequester. We are trying to avoid in the sequester but we can't get the other side of the aisle to support us on that. Oh, they will say they are concerned about it, but we have given them the votes and they don't take them.

So I am concerned about it. I am concerned about where we are going to go with us. I listened to that initial polling and I thought it was a very good question that the chairman came up with, and it was just Joe Hanson. It certainly wasn't scientific. But when he mentioned tax code and regulations, that is more than all the other combined, the issues that were raised. Tax code and regulation. But yet, we can't get the people on certain areas of our Congress to accept that. They think it is more of what we have been doing for the last 4 years in Congress, more regulation, more government intrusion, more taxes, higher energy costs. Is that the direction? Is that what you are telling us now? I would like to make sure we are—should we be going in that—do you really think the last 4

years is the best direction we could go if we are going to make manufacturing all that it can be where we have American exceptionalism again in our manufacturing? Is this the direction we should continue?

Or what would you suggest to wake up Members of Congress to understand what it is like to see a demise and struggle within the manufacturing business? Can you give us some direction on where you might give it to us? I heard you say tax code and regulation but EPA and OSHA, regulatory, tax policy, ObamaCare, I have heard how that is affecting businesses all over. The sequestration, R&D, energy costs, what should we be doing, not just sweet talk but actual what can we do? What should we do if we are going to reverse manufacturing in the demise? Can a few of you give me some good examples?

Mr. MEYERS. Thank you for the question. You asked what Congress should do, and honestly, for our industry, the regulations and taxing, healthcare, everything that we see coming down the pipeline is becoming more burdensome. What you could do is stop.

Mr. MCKINLEY. Thank you.

Mr. MEYERS. You could stop. That would allow us to be the manufacturing engine that drives this country and let us get back to work.

Mr. MCKINLEY. But why don't you think that people are hearing that? It is so basic. Get government off our backs. Free up—I hear it time and time again. Manufacturing will get back if we just back off, but the Congress doesn't seem to want to back off. It thinks it is going in the right direction by becoming more intrusive in your workplace. How do you do it? What are we missing here? Why aren't people listening to you?

Mr. MEYERS. Well, basically, we have been vocal for years, and why that has not reached Congress is beyond us. But I think when you look at the jobs lost and how our entire manufacturing sector continues to struggle, you know, when is it going to be too late? When we are all out of business? So I appreciate the opportunity to be here and express our issues of not only my company but our industry and manufacturers in general.

Mr. MCKINLEY. Thank you. Any others in the time remaining? Yes, sir.

Mr. ARNOLD. It is not so much the regulation as it is the unknown, as Congressman Waxman talked about. You know, gridlock and arguing from both sides is a necessary part of the government process. We need that. But when something is enacted, get to it, then, on specifically what we have got to do about that. We have had the ObamaCare for 2 years now. The only thing I have seen out of that—we provide hospitalization for our employees. Our insurance cost just went up 20 percent a year for the last 2 years. And yet, it is not even enacted yet, but the anticipation of that, the unknown, the insurance companies have had to respond that way. So what we need is swift action.

I talked for a second about the dredging of the entrance to the channel in Brunswick. The Corps of Engineers has been working on that for 4 years. They don't get the allocation of the money to be able to do that completely at one time. So it is piecemeal and it fills right back in. We are in a world where we have to respond

to market conditions immediately and government is not responding as quickly.

Mr. MCKINLEY. Thank you.

Mr. TERRY. Thank you very much.

Mr. Johnson from Ohio, you are recognized for 5 minutes.

Mr. JOHNSON. Well, thank you, Mr. Chairman. I too appreciate the opportunity for today's hearing and the demonstration of products that we saw earlier. I have several manufacturers from Ohio that displayed their wares, Thermo Fisher and their orbital mixer, Quanex and their window efficient linings, and of course, Magnum Magnetics, one of the few companies that provides flexible magnets to consumers and businesses.

I had a line of questions here but I want to take just a second because we have asked you guys a lot of questions and you have been very gracious to give us your opinion. One of the issues that came out in the State of the Union that has been alluded to here several times is the President's insistence that cap-and-trade is still on the table. Climate control is still a big issue. It probably doesn't come as a surprise to you in eastern and southeastern Ohio where we have a wealth of oil and natural gas and the prosperity that that is bringing to our region and to America's ability to become more energy independent and secure, the vast amounts of coal that we have that provide reliable and affordable energy. That is a big issue. And because of where we are located, manufacturing is a big deal. We are in a manufacturing corridor.

And I talked to businesses every single day that are saying, Bill, we are in jeopardy of having to lay off our people because we simply cannot keep pace with these rising energy costs as coal-fired power plants shut down, as energy costs go up. As the tax burden and regulations continue to drive up our cost of doing business, we are not going to be here.

So let me just ask—you have been polled a couple times now so for the sake of time, let me just ask one final polling question in my time. How many of you believe that additional climate control regulations coming out of the Federal Government that are going to drive up your cost of operations, including driving up the cost of the energy that it takes to run your operations, how many of you think that is going to have a negative impact on your ability to grow and expand and hire and innovate within your companies? How many of you think that is going to have a negative impact?

The rest of you don't think it is going to or are you just silent? I have got to ask.

Mr. HOLLER. For me it is just beyond the scope of my responsibility.

Mr. JOHNSON. Mr. Yuse, you don't think climate control regulations are going to have an effect on your business?

Mr. YUSE. So I guess, in my opinion it depends on how they are implemented exactly.

Mr. JOHNSON. I qualified that. They are going to raise operating costs; they are going to raise the cost of reliable, affordable energy. It was very specific, because that is what is happening with the shutdown of the coal industry, the elimination of coal-fired power plants, and the attack on hydraulic fracturing and our ability to go

after fossil fuels. That is going to affect your operating costs. Is that going to affect your business?

Mr. YUSE. Well, let me just say that anything that impacts operating costs will theoretically have a negative effect.

Mr. JOHNSON. I realize this is a politically charged question because it is one that the President is very interested in pursuing. I can see the stares and the why are you putting me in this position to have to answer this. Well, folks, I am going to tell you. You folks are the ones that help us determine what the agenda is and how we fight these battles. If you don't want to see increased operating costs, if you don't want to see your electricity rates go up, then I would simply encourage you, speak out. Speak out in your industries. Speak out when you come here. Let the American people hear what it is doing to manufacturing.

Do you know why we can't stand up a nuclear power plant in America anymore? It is not because of technology. It is not because of permitting. It is because of what David McKinley talked about earlier. It is because we don't manufacture the kind of steel here anymore to enclose nuclear reactors. We have to buy that overseas. And you have got other industries that are in jeopardy of being closed down because of onerous climate control regulations. So I would just encourage you, don't be bashful. You want us to help your industry and spur many fracturing? Give us a voice with the American people.

Thank you, Mr. Chairman. I yield back.

Mr. TERRY. The gentleman from Florida, Mr. Bilirakis.

Mr. BILIRAKIS. Thank you, Mr. Chairman. I appreciate it very much. Thank you for giving me the opportunity to serve on this committee as well. This is an outstanding hearing.

Mr. TERRY. As long as you continue to think that way.

Mr. BILIRAKIS. Thank you. I will. I promise you. This has been outstanding.

Now, I want to focus also on the regulation and the overlapping regulation or overregulation as well. And I want to ask Mr. Smatsky a question. Your testimony briefly touched on how your company and business is regulated by the FDA but has faced the possibility of also being regulated by the EPA. Can you further explain how your business operations would possibly be impacted by adjusting to a new regulatory scheme? Must you also comply with the sets of state and local regulations? Do your federal regulations again conflict or overlap with these state and local regulations? Because that is what I keep hearing in my district and all over the State of Florida. And then what is it going to cost you to comply with these over-burdensome regulations in my opinion? That is my question. Thank you.

Mr. SMATSKY. Thank you for the question.

In terms of the FDA regulations, they are of the highest standards to protect the consumers. So we feel as a food manufacturer, it is in our best interest to go with the highest-level standards, which is above and beyond the EPA. I can't recall the second question that you asked me as well.

Mr. BILIRAKIS. Well, in other words, do the state and local regulations in general conflict with each other? Do federal regulations

ever conflict—and I believe they do—and overlap with state and local regulations?

Mr. SMATSKY. They do, Congressman, although I just don't have enough data at this point in time. I would have to get back to you to further answer that question to give you more clarity. So I am happy to submit anything for the record.

Mr. BILIRAKIS. Yes, what does it cost you? I would like to hear from other members of the panel as well, anyone that once to jump in. Thank you. Anyone else want to? Mr. Block?

Mr. BLOCK. Well, we don't really do any particular hot processes or have any issues with the regulatory environment ourselves. Certainly, our customers do. But I am not knowledgeable enough to directly answer that question for my customers and for what they do. Obviously, the mills themselves have certain issues with regulatory situations. I know, Mr. Johnson, I am not sure which district you cover. I think—

Mr. JOHNSON. Ohio 6, all along the Ohio River.

Mr. BLOCK. Oh, OK. But like AK Steel, which is in southwest Ohio, has had environmental issues which has impacted them.

They are difficult issues. I don't know if you want me to expand on this or not, but I might be going off on a tangent here and that might not be a good thing.

Mr. BILIRAKIS. Well, give me a specific example of how you face overlapping regulation.

Mr. BLOCK. Well, we personally don't, to be honest with you. I mean my business is relatively—it is complex and it is details, but in the actual factory, it is relatively simple. So we really don't deal with regulations that impact us directly.

Mr. BILIRAKIS. OK. I have one other question, Mr. Chairman.

Can you please describe—and this is for the entire panel—how your manufacturing enterprises fit within the domestic economy? And then how do you impact other businesses and sectors up and down the supply chains? Anyone want to jump in?

Mr. MEYERS. Well, obviously, with the casting industry, our products are used throughout the U.S. and primarily domestic. And what we see as the beginning user of the beginning process with castings is it is a cascading effect all the way across the entire supply chain.

So I want to go back real quickly to what you are asking about regulations and the overlapping. Fortunately, in the great State of Texas, we have regulatory issues that are pro-business not only from the fact of the areas that they come, but our agencies in the State of taxes work with businesses. They are not coming down against us but they work with us to help us maintain goals and achievements that we need to look at as far as environmental or safety. So I think that when you talk about overlapping regulations, you know, it is more of a regulatory-friendly issue in helping our manufacturers and not constantly bombarding us with regulations and issues that we simply can't do.

Mr. BILIRAKIS. Very good.

Mr. Chairman, I would like to yield back the rest of time.

Mr. TERRY. Thank you.

Mr. BILIRAKIS. Thank you very much.

Mr. TERRY. And so there is no more questions to be asked of you here at the panel, but that doesn't mean that we won't submit questions to you. You or your representatives probably already know that or have been briefed that we have the opportunity. And I have several questions that were kind of prompted from your testimony and answers to questions. So be looking forward to receiving your answers to those.

And to all the members, I remind you that you have 10 business days to submit questions for the record and ask the witnesses to respond promptly.

And then, I want to mention that the manufacturers' showcase will open again for an hour after this hearing. And I want to thank all of their help for the showcase, our clerk, Kimberly Howard; our press secretary, Charlotte Baker; and Caroline Ferguson from the committee.

Now, thank you. You guys were awesome, great testimony and feedback, exactly what we were looking for. So thank you for being here today. And we are adjourned.

[Whereupon, at 12:17 p.m., the subcommittee was adjourned.]

